Pursuant to notice previously given, a regular meeting of the Board of Directors of The Greens at Leisure World II was held in Community Room # 3, 15115 Interlachen Drive, Silver Spring, Maryland 20906 on Wednesday, May 25, 2016.

Directors Present: Jane Hughes, President; Stephen Ostrow, Vice President; Stan Hertzbach, Treasurer; Paul Spiegel, Secretary; Barbara Kaze, Director; and Phil Marks, Director.

Director Absent: Al Lukas, Director.

LWMC: Kevin Flannery, General Manager of Leisure World of Maryland; Lynn House, Community Manager; Perla Alvarez, Assistant Community Manager; and Cal Thompson, Building Engineer.

I. Call to Order: President Hughes called the meeting to order at 9:05 a.m.

II. Adoption of Agenda: The agenda was adopted.

III. Consent Agenda:

A. Approval of Minutes:

Approval of Minutes: General Resolution # 16-59, 5/25/16: The Board approves the minutes of the April 27, 2016 regular and executive meeting. Motion passed unanimously.

B. Executive Session:

Executive Session: General Resolution # 16-60, 5/25/16: The Board shall meet in Executive Session in the same place immediately following the regular meeting for updates on contractor and building legal matters, as authorized by section 11-109.1 (a) (4) of the Maryland Condominium Act. Motion passed unanimously.
C. New Landscape Committee Member:

**New Landscape Committee Member: General Resolution # 16-61, 5/25/16:** The Board approves Yuan Yuan Chiu as a member of the Landscape Committee. Motion passed unanimously.

IV. Residents’ Forum:

A. Dewberry- Pet Waiver:

**Dewberry-Pet Waiver: Special Resolution # 16-1, 5/25/16:** The Board grants the request of Mr. & Mrs. James Dewberry to keep an elderly dog exceeding the weight limit in a unit which they intend to purchase. Motion passed unanimously.

B. Open House Request:

**Open House Request: Special Resolution # 16-2, 5/25/16:** The Board approves the request of the owners of unit 4-224 to host an open house on Saturday, June 4 and Sunday, June 5, 2016. Motion passed with all in favor, except Ostrow abstained.

C. Leisure World Advisory Committee Nomination:

**Leisure World Advisory Committee Nomination: General Resolution # 16-62, 5/25/16:** The Board recommends that the Board of the Leisure World Community Corporation (LWCC) approves the appointment of Seymour Harnik as a member of the LWCC Tennis Advisory Committee. Motion passed unanimously.

V. Reports:


B. *Management Reports:* Kevin Flannery and Lynn House discussed respectively Leisure World and Greens II activities.

**Storage Unit 53 Foundation Wall Waterproofing: General Resolution # 16-63, 5/25/16:** The Board authorizes the Community Manager to proceed with Consolidated Waterproofing Services (CWS) proposal Option C: Excavation & Blindside Waterproofing, dated May 26, 2016, in an amount not to exceed $64,500, and authorizes $10,000 for Engineering and Technical Consultants (ETC), both to be charged to the Replacement Reserve Foundation Account (# 6900.08). Motion passed unanimously.
VI. General Business:

A. Activities Committee: Transfer of Funds:

**Activities Committee: Transfer of Funds: General Resolution 16-64, 5/25/16:** The Board approves the recommendation from the Activities Committee to transfer $1,500.00 from the Activities Committee Program Account (# 6401.1), to the Committee’s Sandy Spring Account (# 11-133765-01) to help with the cost of using student servers at the dinners and to defray the cost of the activities. Motion passed unanimously.

B. Culbertson: Change Order Building 4 Façade:

**Culbertson: Change Order Building 4 Façade: General Resolution # 16-65, 5/25/16:** The Board approves the change order number # 001 sheet for the Culbertson Building 4 Façade Project, dated April 26, 2016, reducing the contract amount to $1,233,298.27. Motion passed unanimously.

C. Recommendation from the Ad Hoc Replacement Reserve Committee:

**Recommendation from the Ad Hoc Replacement Reserve Committee: General Resolution # 16-66, 5/25/16:** The Board approves the May 25, 2016 recommendations of the Ad Hoc Replacement Reserve Committee. (attached). Motion passed unanimously.

VII. Postponement of Executive Session: The Executive Session was postponed.

VIII. Adjournment: The meeting was adjourned at 12:00 noon.

Attest:

Paul M. Spiegel, Secretary

Perla M. Alvarez, Asst. Community Mgr. and Recording Secretary
TO: Mutual 20B Board of Directors          DATE: May 25, 2016
FROM: Ad Hoc Replacement Reserve Study Committee (Cheryl Prejean Greaux, Phil Marks,
      Stephen Ostrow, Edward Walper, and Stan Hertzbach, Chair)
RE: Final Report and Recommendations

Background:
Community Manager Lynn House and Chair Stan Hertzbach had a phone conference with Bill
Scrivens of Miller-Dodson several weeks ago to discuss some of our previous inquiries and requests
related to the FY 2015 Replacement Reserve Report. We learned that M-D can give us the inventory
as a spreadsheet, but they do not have software to allow us to explore “what-if” scenarios with that
data. In addition, M-D does not have a way to summarize entire projects, such as a redecorating
project, as one inventory item, and also keep track of its components.

Changing the minimum cost of items covered by the RR changes the inventory. Mr. Scrivens said
that changes to the inventory would constitute a Level 3 Replacement Reserve Report Update,
which typically may have inventory changes, schedule changes, and new financial input data. The
standard cost is $800, but depends on the number of changes. He would do it himself, and charge
us less if the time required was small. Significantly, a Level 3 update does not include a site visit,
and does not extend the recommended time for a new Level 2 RR Study.

Recommendations:
The Ad Hoc Replacement Reserve Committee met Friday 13 May to discuss a Level 3 update of the
current RR Study. After a brief discussion, we came to the unanimous decision that a Level 3 update
would not be worth the time and money (up to $800).

Instead, the Committee recommends:
(1) that the Board not contract with M-D for a Level 3 update of the current RR Study Report,
(2) that the Board accept the FY 2015 Replacement Reserve Report in its current form, as
revised March 14, 2016,
(3) that the Board accept the "Policy Recommendations" in the September 25, 2015 Ad Hoc
Committee Report,
(4) that the Board and Management administer Reserve projects guided by our September 2015
report, including the Policy Recommendations.

One consequence of these recommendations is that the valuation exclusion will be considered to
have been increased to $5,000. The cost of replacing concrete wheel stops, and the cost of minor
sprinkler system repairs, will be charged to the appropriate maintenance accounts. Recent
experience with these costs should be used to guide changes in these maintenance accounts when
drafting the 2017 operating budget.

Management and the Board should review and adjust the RR plan and funding annually. Future RR
updates should be coordinated with our budget cycle, and should incorporate the ad hoc committee
recommendations. The Montgomery County CCOC says community management consensus favors
an independent review at least every three years. Miller-Dodson advises that the RR Study be
updated every three to five years, or after a major replacement project. The ad hoc committee
suggests that an update be considered upon completion of our first roof replacement.
TO: Mutual 20B Board of Directors
FROM: Ad Hoc Replacement Reserve Study Committee
RE: First Interim Report – To be considered for 2016 budget discussions

Background and Committee Membership:
At the August 19, 2015 Board meeting, the Board appointed Steve Ostrow, Phil Marks, and Stan Hertzbach (Chair) to an Ad Hoc Replacement Reserve Committee, to review the Miller-Dodson (M-D) Replacement Reserve (RR) Study dated August 14, 2015. They met August 26 to discuss preliminary ideas and the addition of members of the Budget & Finance and Buildings & Grounds committees. Ed Walper and Cheryl Greaux from Budget & Finance joined the next week. Phil Yaffee and Larry Kehoe of Buildings & Grounds volunteered and provided input, but have not been able to attend regularly. The committee has met once a week.

Policy Recommendations:
The committee recommends that the Board adopt the following Policies.

Annual contributions to the Replacement Reserve should be made according to a plan that allows the Mutual to make required near-term replacements, and that is expected to build adequate reserves for future replacements, without a need for special assessments, or sudden very large increases in the annual condo fee.

The Minimum Replacement Reserve balance at the end of each fiscal year should be $1,000,000, and we should not plan any project we expect to reduce the Replacement Reserve Balance to less than $750,000 during a fiscal year. These numbers should be indexed to inflation. (The $1M figure is very close to the value recommended by M-D.)

The minimum cost of items covered by the Replacement Reserve should be $5,000. Replacement of lower cost items that are part of a larger project, including redecorating projects, can be covered as part of the larger project. These larger projects should be named and their details described in the RR Study.
Notes: (1) The $1,500 annual allowance for replacement of 15 $100 concrete wheel stops should be deleted from the RR, and budgeted as maintenance.
(2) The $7,500 allowance every 5 years for sprinkler pipe repair should be removed from the RR, and budgeted as maintenance, based on recent repairs. If a major portion of the sprinkler system needs replacement, it might be considered a reserve expense.

Cost estimates in the Replacement Reserve should be inclusive. Examples of costs to be included are expert consultants, engineering costs (specifications, bidding, project oversight, etc.), access to the buildings for work (boom lift, swing stage, boatswain’s chair, etc.), cranes (if required to place large components on a roof).

Inflation should be included in projections, but we do not have enough information to make specific recommendations now.
Overview of the Replacement Reserve Study:

The costs discussed in the remainder of this report are rounded to make it easier to follow, and the effects of inflation are not included.

At first glance, the recommendations of (M-D) are frightening; advising that our contribution to the Replacement Reserve (RR) be increased almost 50%, immediately. The recommendations are also encouraging because they advise that, after three years with the 50% increase, the RR contribution could be reduced to slightly below our current contribution.

A closer look shows that the RR Study schedules replacements in the four years from now through 2019 which are projected to cost on average $1,840,000 per year, 67% above our current contribution. Similarly, the replacements scheduled for the four years 2020 through 2023 are projected to cost on average $307,000 per year. Such concentrated spending in the early years of the RR Study is why M-D advises a 50% increase in RR contributions.

However, the total replacement cost from now through 2023 is projected to be $8,588,000, an average of “only" $1,073,500 per year, which is within a few percent of our current annual RR contribution. This suggests that, with careful planning, we might be able to avoid that sudden large increase in the RR contribution (and in condo fees). In order to complete the most urgent projects (which include the most expensive) in the early years, we would have to defer many less urgent replacements to later years. We would also need funds for smaller routine replacements in those early years.

Major High Priority Replacements:
The committee identified the following major near-term high priority replacements:

- Roof Replacement $2,030,000 Building #3
- Roof Replacement $2,030,000 Building #4
- Elevators $550,000 Building #3 (3 elevators)
- Elevators $600,000 Building #4 (3 elevators and fire panel)
- Foundation Repairs $280,000 Both buildings
- Garage Floor Repairs $475,000 Both buildings, including sealant
- Smoke Alarm Upgrades $140,000 Both buildings

Everyone is familiar with the roof and elevator replacements. Smoke alarm upgrades are to comply with new laws effective 1/1/2018. Foundation and garage repairs address problems we learned about in the past six months. The costs shown are estimates from our consulting engineers. The roof replacements are too expensive to be done in consecutive years.

The list above excludes redecorating projects, (such as lobbies, party rooms, and hallways), which would be postponed until 2021 and following years. It also excludes in excess of one million dollars of smaller cost replacements, normally postponed until they are needed.
The major repairs could be done on one of many schedules. Three examples are shown below.

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Schedule A</th>
<th>Schedule B</th>
<th>Schedule C</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>Bldg #3 Roof</td>
<td>Foundations, Garages</td>
<td>Foundations, Bldg #3 Roof</td>
</tr>
<tr>
<td>2017</td>
<td>Foundations, Garages, Smoke Alarms</td>
<td>Bldg #3 Roof, Smoke Alarms</td>
<td>Garages, Smoke Alarms</td>
</tr>
<tr>
<td>2018</td>
<td>Bldg #3 Elevators</td>
<td>No Large Projects</td>
<td>Bldg #3 Elevators</td>
</tr>
<tr>
<td>2019</td>
<td>Bldg #4 Roof</td>
<td>Bldg #4 Roof</td>
<td>Bldg #4 Roof</td>
</tr>
<tr>
<td>2020</td>
<td>Bldg #4 Elevators</td>
<td>Bldg #3 &amp; #4 Elevators</td>
<td>Bldg #4 Elevators</td>
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</tbody>
</table>

Note that these schedules span 5 of the 8 years considered. The total of the above major replacement costs is $6,105,000. If our RR balance at the end of 2015 were $2,000,000, and if our RR contribution were not increased above the 2015 amount in years 2016 through 2020, we could complete all the above replacements, and have somewhat more than our goal of the $1M minimum left in the RR. However, the additional funds would not be sufficient to do the numerous smaller cost replacements anywhere near their expected schedule.

**Significant uncertainties:**

1. We have just received the report on mold in our storage rooms, but we currently have no idea of the likely cost of the recommended remediation plan, but that must be done soon.

2. The evaluation of warranty repairs for the Bldg #3 façade is incomplete. We do not know what repairs will be required, or their cost, or how long it will take to reach agreement with the previous contractor and engineers on payment and schedule. We do not know how repairs will affect the schedule for Bldg #3 roof work.

**Recommendations for 2016**

In the plan presented here, the high priority projects are scheduled first, and other projects are delayed. Delay of redecorating projects can be questioned, because our responsibility for the buildings includes their appearance. In excess of one million dollars of smaller replacements will be postponed until they are needed. When they are needed, they must be done. Some may require replacement next year. A good fraction will surely require replacement by 2020.

It is imperative that we increase the RR contribution in 2016, because of the postponed projects that will be required, and for flexibility in scheduling the urgent projects. We recommend that the **2016 RR contribution be increased above the 2015 level by a minimum of $100,000, and by up to $200,000, as long as that does not result in a condo fee increase much greater than the 5.37% increase in the draft budget.** The draft 2016 budget has a RR increase of $179,010, which is 95% of the overall budget increase. Raising the RR increase from $179,010 to $200,000, would raise the condo fee increase from 5.37% to 5.98%.

We prefer that the condo fee not increase more than in the past two years, which were 5.31% and 5.42%. For reference, a budget change of $100,000 would change condo fees by 2.88%, corresponding to an average of $18.12 per month per unit.