

PDM UTILITY CORP.

Annual Meeting of Members

April 22, 2006

The Annual Meeting of Members of PDM Utility Corp., a nonprofit corporation duly organized under the laws of the Commonwealth of Puerto Rico (herein the "Corporation") was held in Palmas del Mar, Humacao, Puerto Rico, on April 22, 2006 at 3:00 p.m. pursuant to Notice of Annual Meeting of the Members of the Corporation dated March 22, 2006.

CALL MEETING TO ORDER

Mr. James D. Shanks, President of the Board of Directors, called the meeting to order, welcomed all present and asked the Acting Secretary, Mr. Antonio Maldonado, if there was quorum.

Mr. Maldonado, reported that quorum was established with fifty five point twenty seven percent (55.27%) of the voting members present or by proxy. Mr. Maldonado noted that quorum consists of members present and/or proxies entitled to fifty five percent (55%) of the total vote of the Corporation.

ROLL CALL OF DIRECTORS

Mr. Shanks introduced himself as President of the Palmas del Mar Utility Corporation, the Board Members and the guests who were present. He introduced the following members of the Board: Mr. Luis Lomba, Treasurer; Mr. Antonio Maldonado, Director; Mr. Luis Rodríguez, Vice President; Mr. Edd Siler, Director; Mr. David Suson, Director. Mr. Shanks informed that Mr. Julio Bagué, the Secretary of the Board of Directors was excused from the Annual Meeting and stated that in his absence, Mr. Maldonado would act as Secretary. He also introduced Ms. Wanda M. Gerena, Accounting Director, Ms. Nelly Arroyo, Human Resources Manager and Carmen Rosich, representing PDMU auditing firm Ernst & Young.

Mr. Shanks proceeded to inform the assembly that even though the rate reduction approved by the Public Service Commission on June 1, 2004 was passed to the subscribers, PRASA made a significant increase in their rate that PDMU had to pass through to the subscribers. However, Mr. Shanks clarified to the subscribers that PDMU is actively working on this matter in order to reduce the impact of the rate increase to them.

APPROVAL OF THE MINUTES OF THE LAST ANNUAL MEETING

Annual Meeting of Members – April 2, 2005

Mr. Maldonado indicated that the minutes of the annual meeting of April 2, 2005 were circulated with the Notice of Meeting dated March 22, 2006. The minutes should then be considered as read and recommended to proceed with the approval of the minutes. Consequently, Mr. Lawrence Perry (Beach Village 88) made a motion to approve the minutes as presented. Mr. Michael Ratner (Fairlakes 627) seconded the motion, hearing no opposition the motion was unanimously adopted.

ELECTION OF DIRECTORS

The President announced that this year there is the election of one Type "A" Director which is elected by the Type "A" members present or by proxy and four Type "B" Directors which are appointed by Palmas del Mar Properties Inc. (PDMPI) in accordance with the By-Laws.

The four Type "B" Directors appointed by PDMPI are: Messrs. James D. Shanks, Luis Rodríguez, David Suson and Edd Siler.

The President reported that in accordance with the By-Laws, the nominations committee unanimously nominated Mr. Gabriel A. Espasas to serve for a three year term which expires at the annual meeting in 2009. He then asked if there were any other additional nominations from the floor. Having none, a motion was presented by Mr. Walter Fournier (San Marcos 23) ratifying the nomination of Mr. Espasas. Mr. Jaime Morgan, President of PDMPI seconded the motion, hearing no opposition the motion was unanimously approved.

Mr. Maldonado then read the results of the election as follows:

- 226 votes by proxy and 11 votes from the floor in favor

Mr. Shanks congratulated the new Director.

APPOINTMENT OF ERNST & YOUNG

Mr. Shanks proceeded with the ratification of the appointment of Ernst & Young as independent certified public accountants for fiscal year ending December 31, 2006. Mr. Reynaldo Encarnación, (Palmanova Plaza 202) made a motion ratifying the appointment of Ernst & Young as independents certified public accounts for fiscal year ending December 31, 2006. Mr. Néctor Robles (Crescent Beach 198) seconded the motion, hearing no opposition the motion was unanimously approved.

Mr. Maldonado then read the results of the ratification process as follows:

- 226 votes by proxy in favor

PRESIDENT'S REPORT

Mr. Maldonado stated that the President's Report was circulated in the package that was sent to all members with the Notice of Meeting dated March 22, 2006. Mr. Shanks proceeded to clarify a statement made by him in the President's Report regarding the water well that is currently under evaluation. He amended the last sentence of the last paragraph on page no. 1 as follows: "The results show the well will produce ample water that we could treat to serve as a back-up for water supply for Palmas users." Then, Mr. Maldonado indicated that the report should be considered as read, and recommended to proceed with the approval of the President's Report. Mr. Perry made a motion to approve the President's Report as amended. Mr. Carlos García (Palmas Reales 31) seconded the motion. Hearing no opposition the report was unanimously approved. The revised version of the President's Report attached as Annex A will be an integral part of these minutes.

TREASURER'S REPORT

Mr. Luis Lomba stated that the Treasurer's Report was circulated in the package that was sent to all members with the Notice of Meeting dated March 22, 2006. The report should then be considered as read, and recommended to proceed with the approval of the Treasurer's Report. Mr. Maldonado made a motion to approve the Treasurer's Report as presented. Mr. Siler seconded the motion, hearing no opposition the report was unanimously approved. The report attached as Annex B will be an integral part of these minutes.

NEW BUSINESS

Mr. Perry brought to the attention of the Board his concern regarding the PDMU operations due to the retirement of the former General Manager, Eng. Heriberto Silva. Mr. Shanks informed Mr. Perry that just after the retirement of Eng. Silva, the Board of Directors started the recruitment process to find a replacement. In the interim, Mr. Edd Siler took over the operations of the organization as Acting General Manager since March 1, 2006.

According to Mr. Shanks, the Board of Directors evaluated the qualifications of two candidates for the general manager's position during a recent meeting. Mr. Shanks informed that after the evaluation, it was agreed by majority of votes to present an employment offer to Mr. Reynaldo Encarnación as Executive Director/General Manager of the organization and he accepted.

Mr. Perry inquired about an issue with the Public Service Commission that was mentioned during a recent delegate meeting. Mr. Shanks explained that as part of the process to find an executive director/general manager, there was not unanimity among the Board of Directors in terms of the election. Mr. Shanks is of the opinion that the dispute triggered some concerns about the directorship of the Board among the Type A Directors, who therefore, filed a complaint before the Public Service Commission.

Mr. Lomba mentioned that in light of the announcement made by Mr. Shanks regarding the general manager's position, Type A Directors are forced to state for record purposes, that they had to go to the court because they understood that the Type B Directors had not followed proper procedures in offering employment to the general manager and in determining the compensation package to be offered to the candidate.

According to Mr. Lomba, the court ordered that a meeting be held to address these matters and as a result of said meeting substantial reduction in the compensation package of the general manager's position was achieved. However, Mr. Lomba informed that the Type A Directors are not in agreement with the appointed general manager for several reasons:

- a. Any general manager of the corporation should have the consent of the representatives of the subscribers on the Board because PDMU was created to serve the subscribers and no one else.
- b. The election of the general manager was only because of the master developer majority representation on the Board.

Mr. Lomba stated that based on the aforementioned reasons, the Type A Directors requested that the Public Service Commission amend the franchise so that the subscribers choose all the directors of the Board and not the master developer who has a super majority in the voting rights.

Mr. Shanks proceeded to inform the subscribers that during the recruitment process of the general manager's position, the Board had two or three meetings. According to Mr. Shanks, it was clear from the first meeting that there was not unanimity among the Directors, even though all the matters related to compensation were discussed. Mr. Shanks indicated that once the courthouse made a determination, the court directive was followed. During the meeting ordered by the court, the Board unanimously approved the compensation package. As a matter of fact, Mr. Shanks stated, the motion to approve the compensation package was seconded by Mr. Lomba. Furthermore, Mr. Shanks stated that the responsibilities of the general manager's position were unanimously approved by the Board of Directors. However, Mr. Shanks clarified that there was not agreement on the position's qualifications. Therefore, after a voting process the decision was four votes in favor and three votes against Mr. Encarnación's qualifications. Mr. Shanks indicated that this is one of the very rare occasions where the Board has not had 100% agreement since 2004.

Mr. Perry expressed that he could not understand what the conflict was about and argued that if the selected person is qualified what is the problem. Mr. Shanks expressed his concurrence with Mr. Perry's comment and indicated the following:

- a. Both candidates are engineers,
- b. One candidate has extensive experience in the public sector and the other, Mr. Encarnación, has extensive experience in the business world running multinational corporations,
- c. Mr. Encarnación is a Palmas homeowner and the other candidate is not,
- d. The Board acted according to the By-Laws.

Mr. Suson pointed out that there was significant discussion about the candidates' qualifications among the Board of Directors. It was unanimously agreed by Type A and Type B Directors that the better qualified candidate was Mr. Encarnación. However, according to Mr. Suson there were some questions and other issues that were brought up by the Directors, but it was clearly established and unanimously agreed that Mr. Encarnación was better qualified for the position.

Mr. Rafael Méndez, Fairlakes 672, asked the Board of Directors about the status of their request to disconnect Lake J from the Zero Discharge Permit of PDMU. Mr. Méndez explained that Lake J is a private lake that belongs to Fairlakes, but has been used by PDMU to discharge its effluent from the Wastewater Treatment Plant (WWTP). According to Mr. Méndez, Lake J had an algae bloom about two or three years ago. Mr. Méndez stated that according to information obtained from an independent consultant, the algae bloom was caused generally by phosphorous levels in the water. Mr. Méndez indicated that they were informed that the lake was disconnected and that a petition for such disconnection from the Zero Discharge Permit is in progress; however he stated that the mechanism used to disconnect the lake is not in place allowing the discharge of the WWTP effluent into the lake.

Mr. Maldonado indicated that a lake management committee was created to deal with the algae bloom problem that occurred in the Fairlakes' lake. According to Mr. Maldonado, PDMU has been monitoring and treating the lakes to avoid algae bloom or anything that could be harmful to the environment. Mr. Maldonado stated that PDMU also carried insurance coverage for algae bloom in case it is determined that PDMU causes the problem. The insurance will not cover damages caused by others. According to Mr. Maldonado, that policy limitation originated the disagreement among the Fairlakes Regime and PDMU.

According to Mr. Maldonado, during a meeting held on January 2006, pollution insurance coverage for PDMU was requested to the owners of the lake. However, the owners of the lakes were not able to reach an agreement among themselves on the insurance coverage requested. Then, a letter was issued by Fairlakes requesting the disconnection of the lake from the permit. Mr. Maldonado indicated that the Environmental Quality Board was notified and the process was initiated to disconnect Lake J from the discharge permit.

Mr. Shanks clarified that PDMU has been monitoring the phosphorous, nitrogen and dissolved oxygen levels in the lake as well as in the effluent of the WWTP. According to Mr. Shanks, most of them are below the detectable level; therefore he indicated that the Board is confident that the effluent of the WWTP was not the source of the problem. Mr. Shanks clarified that PDMU offered, from an operational standpoint, to install dissolved oxygen bubblers in the lake, fish farming to prevent the algae bloom and to clean any algae bloom that could occurs. However, the final resolution from the owners of the lake was to disconnect and change the PDMU permit accordingly.

Mr. Ismael Rodríguez (Shell Castle Club 2) asked for information regarding a statement in the President's Report that establishes that the capacity of the treatment plant is 1.2MGP, however there is information that the Environmental Quality Board (EQB) has approved a permit to treat 1.3MGP. Mr. Shanks clarified that the permit issued by the EQB allows PDMU to treat up to 1.3MGP, even though the plant currently does not have that capability. Furthermore, he stated that the plant is currently treating 400,000 gallon a day; therefore there is plenty of capacity to assure the connection of those developers

that contributed certain amounts of money in order to have capacity to be able to build their units in Palmas del Mar.

Mr. I. Rodríguez brought to the attention of the Board of Directors a discrepancy between note No. 8 and paragraph No. 3 of the opinion letter. Ms. Carmen Rosich, representative of Ernst & Young, confirmed that the discrepancy is due to an error and clarified that paragraph No. 3 of the opinion letter belongs to Note No. 9. Mr. Shanks requested Ms. Rosich issue a revised version of the document.

Mr. Méndez, recommended that the Palmas del Mar community should conserve water, but emphasized that this should be done all the time and not only during drought seasons. The following alternatives were presented by Mr. Méndez:

- use of aerators in faucets and make this aerator part of the requirements to all new construction,
- limiting the use of water during drought seasons and bill excess consumption at a higher rate,

Furthermore, Mr. Méndez recommended that if the negotiations with the Puerto Rico Aqueduct and Sewer Authority in an effort to obtain a better water rate are not resolved favorably to PDMU, the Board should evaluate other alternatives to find water to supply the community.

Mr. Shanks concurred with Mr. Méndez's opinion and also suggested that the proposed conservation methods should be evaluated.

Mr. Daniel Vasse, Sunrise B22, expressed his concern regarding the rationing program that PDMU used during the drought season. According to Mr. Vasse, PDMU shut off the water from 6:00 pm to 6:00 am. Mr. Vasse recommended changing the schedule from 10:00 pm to 10:00 am in order to minimize the negative impact on the business, especially those located at the highest areas of Palmas. Mr. Shanks indicated that the recommendation is a good one and will be then evaluated by PDMU management from an operational point of view.

Mr. José Morales (Crescent Beach 225) expressed his concern about approving new hook ups to the system without having enough water for the people currently living in Palmas. Mr. Shanks explained that the new hook ups are not causing any problem nor are they the reason PDMU has periodic water shortages. According to Mr. Shanks, there is plenty of water in the PDMU tanks and the Río Blanco reservoir, but that water supply issues are caused by such things as breakdowns, motors burned up and line breakages. It is in those cases that PDMU has to enter into water rationing for short periods (one or two days) using the reserve tanks. Furthermore, Mr. Shanks indicated that according to a study conducted by an independent engineer of one of the largest firms in Puerto Rico, the standard water storage on the island is one day and PDMU currently has three days of water storage capacity.

Mr. Gordon MacDonald (San Miguel Island 73) addressed an issued related to the ownership of the sewer pump station next to the marina area. Mr. Shanks stated that the current position of the Board of Directors is that the pump station does not belong to PDMU and that the Board hasn't decided yet to take over the operation of the pump. Mr. Gabriel Espasas (Harbor View 42) indicated that according to his recollection, the pump station belongs to PDMU. Mr. García, former General Manager of PDMU, concurs with Mr. Espasas' recollection and recommended the Board of Directors to analyze and resolve the issue.

Mr. Ratner expressed his concern regarding the elimination of Lake J from the permit and its impact over the discharge capacity of the WWTP. Mr. Shanks explained that the Board of Directors is looking at some other lakes to expand and make them part of the permit. Furthermore, Mr. Morgan stated that in the event that Palmas develops the Mandarin Hotel, the expansion of the golf course will be necessary as well as the irrigation system that use the effluent of the WWTP.

Messrs. Shanks and Morgan advised Mr. Ratner that the lakes in Palmas del Mar do not have copper compounds as he was told. Mr. Shanks explained that the process and the chemicals used in the

treatment plant are in compliance with the Environmental Protection Agency regulations, including the monitoring program.

Mr. Néctor Robles CB198, expressed to the Board of Directors his concern regarding the possibility of losing the franchise due to the litigation process in progress. He mentioned that he knows Mr. Lomba since 1989 and acknowledged that Mr. Lomba is representing the good interest of the community, but recommended that the Board of Directors should negotiate more and try to reach an agreement among them. Mr. Robles, who has been litigating for over 36 years, expressed that in a litigation process there is always a winner; but there is always a nominal loser even those who win.

Mr. Shanks then introduced Mr. Encarnación to the subscribers. Mr. Encarnación expressed his satisfaction for having the opportunity to address the subscribers and moreover for having the opportunity to manage PDMU. According to Mr. Encarnación, as part of his plans after his retirement, he was considering making Palmas his full time residence. However, since his retirement he began to receive job offers from the government as well as the private sector. Mr. Encarnación indicated that he accepted the PDMU offer because he can continue with his plans remain in Palmas on a full time basis as a resident and is fully committed to the community, but his decision has nothing to do with the compensation package presented by the Board. According to Mr. Encarnación, he denied job offers with compensation packages three times higher than the offer extended by PDMU. Furthermore, Mr. Encarnación expressed that he is a firm believer in good planning, open communication and team work because that is really what makes organizations, communities and countries live right and be among the best.

Ms. Rita Molinelly (Palmanova Plaza 134) expressed that in her opinion, the preoccupation of the subscribers is that the homeowners of Palmas del Mar Association should have the majority vote in the organization.

ADJOURNMENT

Mr. Carlos García made a motion to adjourn. Hearing no opposition, the motion was unanimously approved and the meeting was adjourned at 4:10pm.

Submitted by:

Antonio Maldonado
Acting Secretary

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Enclosures