

DRAFT
MINUTES
The Chesterfield Cooperative
Annual Meeting of Shareholders
May 5, 2008

Call to Order

Board president Genie Grohman called the meeting to order at 7:00 PM. Board members Chris Plante (treasurer) and Bill Bramble (secretary) were also present. Mr. Tilton reported that the 680,097 shares represented in person and by proxy represented a quorum for voting on business items.

Approval of Minutes

The minutes from the May 14, 2007, shareholders meeting were amended to reflect that a majority of the shareholders had been interested in exploring the installation of sound-insulated doors at the entrance to each unit. The minutes were approved as amended.

Election of Board Member

Bill Bramble was unopposed in seeking reelection to the board and he was reelected for another three-year term.

Secretary's Report

Mr. Bramble provided the following information about follow-up actions taken on questions and suggestions from last year's meeting:

- Request for the creation of a roof deck.
Action: The Board had explored the issue and learned that the creation of a roof deck area for residents was not feasible because DC code would require the availability of two exits, and only one currently exists.
- Request for more laundry carts for resident use.
Action: Additional laundry carts had been purchased and provided.
- Request for action to reduce second-hand smoke in the building, possibly by the inclusion of a restriction on smoking in the proprietary leases for new shareholders.
Action: The board had determined that restricting smoking in units would require a change to the corporation's bylaws. The board agreed to explore this issue. In a later discussion, the board decided to take a straw poll of the shareholders to get more input on this issue.

Mr. Bramble also reported on additional actions taken by the board since last year's meeting:

- Issued memo clarifying shareholder responsibility for pipe-related repairs.
- Repaired the squeaking elevator doors.
- Negotiated a lease with T-Mobile for new cellular telephone transmitters that will bring in \$25,000 per year in revenue.
- Negotiated new roof lease terms for AT&T and collected six years of back payments for electricity for its antenna installations.
- Solicited contracts for a new company to perform HVAC and convactor maintenance services and selected a new provider, Complete Building Services.
- Solicited shareholder input on the Sroka Design proposal and approved a final design plan for the building renovation.
- Hired a contractor to remove asbestos from the boiler room in anticipation of a boiler replacement project.
- Updated the capital improvement and long-term financing plans.

Building Renovation Project

Skip Sroka, of Sroka Design, provided an update on the progress of the project and the plans to complete the work. Several shareholders expressed dissatisfaction with the pace of the work and the interruptions in the work. Sroka explained the unanticipated problems that have arisen and how they are being handled. He stated that after a permit was received from the DC government to proceed with the relocation of some fire alarm system components, the hallway renovation would be completed in about 8 weeks, the lobby in about 10 weeks. Completion of punch list items would require additional time. In response to a question on the cost of the delays and interruptions, Sroka and Grohman reminded everyone that the work is being done under a fixed-price contract.

Several members said that there had been insufficient communication on the progress of the renovation project, and, more generally, on board meetings and actions.

Action: Ms. Grohman stated that the design committee would begin providing weekly updates on the status of the renovation. Mr. Bramble apologized for not posting the minutes from the last two board meetings. Ms. Grohman and Mr. Bramble said the board will try to post its minutes on the list-serve in a timelier manner.

Several shareholders asked questions about the final design plans. Decorating committee member Tricia Messerschmitt and Ms. Grohman explained several aspects of the plans that had been decided based on the input from shareholders. Grohman noted that most of the feedback had been positive on all aspects of the plans.

One specific item of interest concerned the choice of hardware for the unit doors, and Ms. Messerschmitt reported that a final decision has not yet been made. There was a spirited discussion about whether to include peepholes, which were not included in the original design. The majority of shareholders present expressed a strong preference for having peepholes, and Mr. Sroka, Ms. Messerschmitt, and Ms. Grohman said they would take this into consideration. Mr. Sroka noted that peepholes are one source of noise from hallways, so that there can be a tradeoff between noise reduction—a goal strongly requested by several shareholders on the design plans—and having peepholes. He explained, however, that peephole design can affect noise transmission from the hallways. Ms. Messerschmitt also reported, in connection with the issue of noise, that the original plan for a tile design in the elevator “lobby” on each floor had been scrapped because that would increase noise in the hallways, especially for residents of the 08 units. Instead, it was decided that that area of the hallways will be carpeted like the rest of the hallways.

A question was raised about the possibility of adding insulation to the doors or reducing sound transmission from the hallways in some other way. Mr. Sroka outlined some possibilities, which Ms. Grohman and Ms. Messerschmitt said would be considered. A question was also raised about adding a strip at the bottom of the doors; Mr. Sroka and the board said this will be considered, noting, however, that it might be difficult to find a strip that would not interfere with the doors’ closing. [After the meeting, Mr. Sroka reported to the board that insulation cannot be injected in the unit doors because they have a honeycomb construction.]

A shareholder asked whether the management company thought the fire alarm system should be replaced. Mr. Tilton stated that the alarm system was fully functional, and did not need to be replaced, and that if the cooperative wanted to replace the fire alarm system it would probably have to upgrade various components of the building’s electrical system at significant cost.

A shareholder expressed concern about decreased security in and around the building as a result of the renovation project, and about the possibility of homeless people hanging around harassing residents and camping out under the front awning. She asked if exterior lighting could be increased. Mr. Bramble stated that the lighting in the rear parking lot was upgraded two years ago. Mr. Plante stated that there were no homeless people camping in front of the building and if any arrived, they would be asked to leave.

Two shareholders expressed concern that workers were leaving rear doors propped open in the evening and one said that visitors were sometimes arriving at her apartment unannounced.

Action: Ms. Grohman stated that the contractor would be instructed to secure all entrances at the end of the work day and that resident manager Vance Garnett ensure this was done.

One shareholder suggested that contractors not be allowed to use the 20-minute parking spot in the rear of the building because the rear door was serving as the main entrance and vehicles sometimes parked close to the entrance. He preferred that contractors use other residents' parking spaces or find parking on the street. Ms. Grohman stated that some residents who owned parking spaces did not wish to have contractors using them, and that the board had to respect their wishes. With several ongoing projects (asbestos removal in the boiler room, the interior design project, and renovations in two units) there was a high demand for a parking. Mr. Garnett said he had a difficult juggling act coordinating the parking of up to 8 contractor vehicles per day, but that he would try to keep the 20-minute parking space free as much as he could.

Update on the Cooperative's Capital Improvements and Financing Plans

Mr. Plante reviewed the cooperative's finances in recent years and the current projections. Since 2005, the building had replaced or refurbished numerous building components, with a few projects remaining. The total cost of all capital improvements between 2005 and 2015 was estimated at 2.3 million dollars. In 2006 the cooperative refinanced a line of credit under a fixed rate mortgage with a balloon payment due in 2015. After this payment, the building would have 200K in reserves and would have paid off the mortgage.

Mr. Plante noted that the board had approved a budget for fiscal 2009 (which begins July 1, 2008) with a reduction of about 6 percent in total assessments, and that this budget would keep the building on track to pay for all capital improvements. He added that the board anticipated small increases in the non-mortgage and non-reserve part of the assessment over the coming years, as projected in the cooperative's financial plan.

A shareholder asked if any new asbestos removal projects were going to be necessary. Mr. Tilton stated that there was more asbestos around the building's hot water pipes, but that the asbestos in the boiler room was the last of the exposed asbestos that required removal.

A question was raised about whether the 200K that was projected to remain in reserves in 2015 would be sufficient. Mr. Tilton stated that the building was currently contributing 169K per year into reserves. He stated that Tilton Bernstein normally recommended that buildings without reserve studies contribute between 1 and 2K per unit per year, and that the Chesterfield was above this range. Therefore, in his opinion, the building was putting sufficient money into reserves. He stated that if the building continued to fund reserves in this manner, the cooperative would be able to fund a lot of capital projects.

A question was raised about the decision to lower the assessment for shareholders this year rather than paying additional principal on the underlying mortgage. Finance chair Vin Byrne explained that the terms of the loan did not permit prepayment of principal earlier than 8.5 years, and that the whole note would be due in 10 years.

New Issues Raised by Shareholders

- Building ventilation. In response to a question about this issue, which was raised last year, Mr. Tilton said that an evaluation of building ventilation had been wrapped into the project to replace the boiler. It would be examined as part of that engineering study because it would be less expensive and more efficient to commission two efforts as a single project.
- Convector maintenance: In response to a question, Ms. Grohman stated that it had been delayed until the renovation project was further along.
- Digital television conversion and building antenna: Mr. Plante noted that converting the building antenna would cost in excess of \$10,000. He said that a new antenna would work better, but that, although he used the building antenna, he did not know how many other people would use it. A show of hands among those present at the meeting indicated that only Mr. Plante and Ms. Gray used the building antenna.
- Identification of water pipes: Several shareholders noted recurring problems when plumbers cannot identify and turn off the correct valves for given pipes. Mr. Tilton said that the water valves were not tagged properly in the basement and that Mr. Garnett had experienced continuous issues with turning off the valves to the tiers. He said he would have a plumber come in specifically and only to tag all the pipes.

Discussion of Lease Restrictions

As background to the discussion, Ms. Grohman reminded shareholders that four documents govern the cooperative – the articles of incorporation, the proprietary lease, the bylaws, and the house rules. The articles of incorporation cannot be changed; the proprietary lease can be changed only prospectively, that is, only for new shareholders; the bylaws can be changed a vote of the majority of all shares in the cooperative; and the house rules can be changed by the board. She noted that the house rules cannot conflict with any of the other documents.

Ms. Grohman stated that, in connection with a review of all known versions of the house rules (which will be reviewed in creating an electronic up-to-date version), it was discovered that there was a conflict about lease restrictions between the house rules and the bylaws. The house rules stated that a shareholder could not

lease an apartment for less than one year, but the bylaws permitted a 6-month lease and a lease once per year of less than 6 months. It had been determined that the house rules would have to be changed to conform to the bylaws.

Ms. Grohman requested input from shareholders about whether there was interest in changing the portion of the bylaws dealing with leasing restrictions. For example, the cooperative could change the minimum lease term to one year or two years, require that a unit be lived in for a year or two before a shareholder could rent it, or require that only 20% (or any other percentage) of the units be leased. Ms. Grohman noted that increased rental restrictions might improve the quality of life in the building (with fewer renters), but that fewer restrictions would make the units easier to sell.

In response to a question about a past committee that had been appointed to work on the bylaws, Ms. Grohman reported that the committee had begun its work but then ceased functioning because everyone was too busy. Since the biggest thing that needed attention was the lease issue, the board decided to tackle that first: hence, this discussion.

There was a wide-ranging discussion of the issues involved in have more restrictive lease provisions. One goal is to discourage investor owners because the turnover of sublessees was hard on the building. Moreover, many sublessees in this area were college students, who tended to be noisier than other residents.

In response to a question about the current percentage of investor owners, Ms. Grohman said that was difficult to define, because there are several units owned by a nonresident but occupied by someone who was family member of the owner and was not paying rent. In response to a request, Ms. Grohman said the board would provide a breakdown of units by status (owner occupied, not owner occupied and not rented, and rented).

In response to a question about differential fees for resident owners and subleases, Mr. Bramble said past consultations with the cooperative's attorneys had indicated that the building could not create different classes of shareholders, so shareholders could not be charged different fees depending on whether they were nonresidents.

One shareholder stated that he did not think there was a co-op in the city that had a rental policy as "liberal" on leasing restrictions as the Chesterfield's, and he noted that one of the cooperative's previous lawyers had had no reservations about refusing to approve shareholders' requests to sublet their apartments and that the board had been careful in the past to carefully apply existing leasing restrictions.

A shareholder commented that it would be reasonable to mandate a statutory provision that the cooperative could never be allowed to fall below a mandatory

minimum level of owner-occupied units and that if people wanted to rent their units and it would cause the building to exceed the limit, they could be placed on a waiting list.

Another shareholder proposed that the cooperative could require a buyer to live in a unit for two years before subleasing. Some shareholders supported this suggestion, and others supported the previous shareholder's suggestion that the cooperative have a maximum percentage of units that were subleased, such as around 33%. Having such a restriction would avoid lender's denying mortgages because the building does not have "enough" owner-occupied units.

A shareholder suggested that before the cooperative make a decision on any new leasing restrictions, the ramifications of those options should be closely examined. He stated that a couple of residents in the building had taken overseas assignments, and that a maximum percentage approach might force some of them to sell their units. Ms. Grohman suggested that such shareholders could be grandfathered in under a percentage policy. Mr. Byrne stated that there were ramifications to any change in policy that should be considered before it was carried out.

A shareholder suggested that the minimum percentage be set at 25% to allow some "fudge factor".

Another shareholder stated that she was afraid of imposing any new kinds of restrictions on shareholders because she was afraid it would be intimidating to young prospective buyers who might be interested in purchasing her small apartment. Mr. Bramble stated that a requirement for someone to live in a unit for a year or two before renting it would not discourage short term owner-residents. Another shareholder stated that if someone had to live in a unit before leasing, it would not penalize young buyers.

A shareholder expressed concern that there could be unintended consequences from additional lease restrictions. Banks would not want to lend if the cooperative had too many renters, but the cooperative should keep restrictions to an absolute minimum. One restriction he could agree on was making sure the building did not go above the absolute maximum for maintaining a nonprofit cooperative status. Otherwise, he resented anyone telling him what to do with his unit. He especially opposed smoking restrictions, and did not feel the cooperative should try to tell him what to do in his own home.

Given the wide range of views expressed and the number of shareholders not present in person, Ms. Grohman suggested that the board take a straw poll of the membership to get a sense of members' preferences. It would not be wise to invest a lot of money to draw up formal proposal without first exploring the membership's opinion on the various options.

Action: The board agreed to conduct a straw poll of the shareholders on the possibility of lease restrictions.

Action: The board also agreed to conduct a straw poll of members' views on and smoking restrictions.

New Business

A shareholder asked for an update on the status of the vacant nursing home next door. No updates were available.

A shareholder asked about the possibility of exploring the installation of low-flush toilets in the building. Mr. Tilton responded that water is relatively cheap, and the cooperative would get more benefit from encouraging the conservation of electricity and natural gas.

A shareholder asked for an update on the renovation of the Giant grocery store across the street. Ms. Grohman stated that the newspaper had indicated Giant would be submitting final plans for the renovation during the summer of 2008 and hoped to have plans approved by end of the calendar year.

There being no further business, the meeting was adjourned.