



December 2008

Dear Marriott's Aruba Ocean Club Owner,

The Aruba Ocean Club (AOC) Board of Directors approved the 2009 budget and maintenance fee, which unfortunately represents a significant increase over 2008 – an extremely difficult year for the Association, which is forecasted to end 2008 with a substantial deficit in its operating fund. Key items contributing to this operating deficit are the same uncontrollable expenses which drive the increase in the 2009 budget.

In 2008, Aruba utility rates increased our costs by more than 43% for electricity and 22% for water and sewer. In addition, inflation on Aruba is averaging more than 8%, while the rate of inflation has exceeded 10% since the beginning of the 3<sup>rd</sup> quarter of 2008. Consequently, we have experienced substantial increases in labor cost, as well as in most goods and supplies which are needed to operate the resort on a daily basis. Furthermore, although Hurricane Omar had little visibility in the U.S., the extensive winds and rain created water intrusion and unbudgeted cleaning and repair expenses, which are estimated between \$85,000 and \$110,000 and will put additional strain on the Association's operating fund; particularly as they are expected to fall short of our current insurance deductible, which equals 1% of the total building value.

**As a result of the above, Annual Maintenance Fees for 2009 will be \$1,186.02 for a 1 bedroom and \$1,595.64 for a 2 bedroom. In addition to the base maintenance fee, a 1-bedroom Owner will be assessed \$71.02 for 2008 Utility and Storm Deficit Recovery costs and a 2-bedroom Owner will be assessed a deficit recovery of \$101.96.**

During the past two years, the AOC Board of Directors communicated the need for refurbishment assessments in 2009 and 2010 through various newsletters. We have been able to keep the refurbishment assessment amounts within ranges quoted to all Owners. However, in order to limit the financial impact to our Owners and still complete the refurbishment by winter of 2009, we have decided to bill the first Refurbishment Assessment in April 2009, while the second Refurbishment Assessment will be included in the 2010 maintenance fee billing. **The April Refurbishment Assessment will be \$492.30 for a 1 bedroom and \$639.25 for a 2 bedroom unit.**

**Updated Cost Allocation:** In 2008, the AOC Board reviewed the allocation details for shared labor and services between the Marriott hotel, Marriott's Aruba Ocean Club and Marriott's Aruba Surf Club resorts. As a result of this review and an evaluation of owner feedback, a decision was made to proceed with dedicated Aruba Ocean Club General Manager, Administrative Assistant and Director of Finance positions. Although this represents a material change to the cost structure of AOC, the Board felt the additional expense was justified by the complexity of operating the resort at a consistent, annual occupancy of approximately 95%.

**Revenue:** In 2008, AOC received revenues from palapas rentals, parking, lobby computer kiosks, the AOC web site, as well as from vendor desks in the lobby. However, revenues fell short against the performance of prior years. Your Board of Directors is continuing to look for new ideas to enhance revenues and welcomes any ideas owners might have to achieve this.

**Main drivers for the 2009 Budget:**

- **Utilities:** As mentioned above, electricity rates increased by more than 43%, and water rates increased by more than 22% in 2008. Although electricity and water consumption have been reduced by 5.6% and 1.3%, respectively, rate increases far exceeded the impact of the reduction in consumption. In 2009, the utility rates are budgeted to increase 15.5% for electricity and 14.9% for water.
- **Housekeeping:** An increase in contract labor rates of almost 12% combined with laundry utility surcharges have resulted in an increase of more than 26% in housekeeping costs. In 2009, reduced tidy revenues (due to lower occupancy resulting from the planned refurbishment), and a 3.1% increase in hourly labor rates are the key drivers to the housekeeping budget increase.
- **Activities:** Our pool towel service has also seen more than a 16% increase in costs as a result of utilities surcharges for 2008. In addition, palapas revenues decreased in 2008, resulting from a general desire by Aruba Ocean Club ownership to stop renting palapas to Aruba Surf Club owners and guest.
- **Administration:** As mentioned above, Aruba Ocean Club added dedicated General Manager, Administrative Assistant and Director of Finance positions to the leadership team in 2008. The resort now carries 100% of the resulting expenses from these roles versus 25% Admin expenses shared with Aruba Surf Club in previous years.
- **Utility and Storm Deficit Recovery:** This one-time expense offsets the 2008 year-end operating fund shortfall, driven by unforeseen utility cost increases, as well as from some water intrusion related expenses due to Hurricane Omar.

- **Reserves:** The increase in the Residential Reserve Fund contributions are needed to offset recent increases in local sales tax, Aruba service tax, customs duties, overseas shipping and international construction costs. These cost factors increased by almost 50% during the past 3 years, relative to prior years. Additional funding of the Reserve is necessary to maintain the resort at current high level of standards we all expect. Furthermore, the resort is now 9 years old, and it will be necessary to replace villa furniture, appliances and to refurbish our building façade. While the Association has and will continue to work with MVCI to ensure all construction and product warranties are honored by the developer and manufacturer, the combination of high occupancy, a tropical climate, trade winds and salt air have unfortunately resulted in a reduction of the normal life expectancy of some specific assets. The following assets have recently been replaced and/or are currently under review for replacement:

- Replacement of the Main Building flat roof is scheduled to be completed no later than the end of the second week of December 2008. Upon completion of this work, all roofs will have a manufacturer's and installer's warranty that protects the roof integrity for the next decade. MVCI is paying more than 43% of the total roof replacement cost, including the prorated value related to the 5-year period the concrete skeleton and roof of the current AOC building sat idle and MVCI's 12.2% share resulting from its ownership of the commercial areas in the AOC building.
- We have replaced all but 10 of our failed windows at no cost. While the manufacturer has provided replacement windows under their warranty, MVCI has paid for all shipping, tax and installation costs for these replacement windows.
- In 2008, we upgraded our corridor HVAC system to capture and recycle lost, conditioned air from villa bathroom exhaust fans, which will reduce future energy consumption.
- In 2008, the main pool and pump rooms were completely refurbished, including new pumps, filtration, pool and rock resurfacing.
- The villa and façade refurbishment is scheduled to begin in July of 2009 and is expected to be completed by December 2009. The main lobby and corridors will have a completely new look, while all villa interiors, including bathrooms, will be updated. The Ocean Club will essentially be new inside and out. Most importantly, your vacation investment will be enhanced and protected for the long term.

Marriott Vacation Club International, our Management Company, is working side by side with your Board of Directors to ensure we continue to provide the vacation experience at Aruba Ocean Club each of us expects, while providing the best short-term and long-term value for each individual owner. In their efforts to assist the Association, Marriott has committed in excess of \$2,000,000 in financial support during the next two years, which effectively reduces total 2009 and 2010 maintenance fees by approximately \$180 per week.

**The breakdown of the 2009 Maintenance Fee on your billing statement is as follows:**

	<u>1 Bedroom</u>	<u>2 Bedroom</u>
<b>2009 Maintenance Fee</b> (Annual Operating & Reserve)	1,186.02	1,595.64
Utility and Storm Deficit Recovery from 2008 **	<u>71.02</u>	<u>101.96</u>
<b>Total</b>	<b>1,257.04</b>	<b>1,697.60</b>

\*\* The Deficit Recovery for the 2009 billing is for one year only.

Your input has been very valuable to the Board of Directors in setting the strategy for Marriott's Aruba Ocean Club. We have heard loud and clear from the Owners that we must have a Resort that meets our needs and expectations for now and the future. We can and will make this our priority. I hope that you agree with our financial plan and can assure you that your Board of Directors will continue to manage and reduce expenses at every opportunity.

You may call toll-free at 800-443-4391 or e-mail [owner.services@vacationclub.com](mailto:owner.services@vacationclub.com), if you have any questions about the Special Assessments or your 2009 Maintenance Fee statement.

Sincerely,

Melissa Pericolosi  
Treasurer