

WINDIN SALES

CASE STUDY

The Right Crew on Board

WINDIN SAILS COA

Association: Windin Sails Condo Association

Units: 200

Buildings: 20

Year Transitioned: 1990

Market Unit Price : \$475,000

Regular Monthly HOA Fees: \$207

Last Reserve Study: 2019

Project Scope: Roofing and Siding

Known Issues: Age, water infiltration

Owners are responsible for: Decks and Skylights

Projected Cost: \$4.5M

Start Date: ASAP

Project Duration: Phased over 24 Months

Reserves: \$2M

Lawsuits: One bogus slip and fall

Rentals: 33

Delinquencies: 24 units past 60 days | 2 Units in Foreclosure

Do the bylaws permit a loan: Yes, but with a majority vote

Insurance up to date: Policy up for renewal in the next month

Work Flow...

1. RESERVE STUDY
2. LEGAL DISCUSSION
3. REVIEW OF FINANCIALS
4. BID/SPEC PREPARATION
5. FINANCIAL DISCUSSION
6. CONTRACTS
7. FINALIZE FINANCING
8. CONSTRUCTION OVERSIGHT
9. CONSTRUCTION

A Board's Engineer

THE ARCHITECT & ENGINEER

Where to Begin...



Proper Planning - When Do We Start Planning for a Project?

Start **SOONER** than you'd think!

- It is extremely important to update and maintain reserve/replacement funding prior to the start of the project.
- Engineer/architect should be involved in the initial planning of any significant Capital Improvement Project. They will provide independent guidance on scope of work.
- Engage the Bank to weigh financing vs. special assessment or a combo thereof.
- Engage your attorney to ensure you have all parties involved and are working in accordance with your bylaws.
- Get owner buyin!
- Consult with your Insurance!



Proper Planning

- Change orders and scope creep can exceed project budgets and create financial hardships on the Owner
- Bidding projects without performing an evaluation or having specifications and construction documents prepared by none professionals or using generic specifications /details are a common cause.

Specs, Bid Package & Review

SPECS & BID PACKAGE

- Clear specifications and request for proposal for all contractors to abide by.
- Goal of an RFP is to receive an “Apples to Apples” comparison.
- Issue the RFP to 3-5 contractors to get a range of pricing and expertise.
- Minimize extra’s and identify potential surprises before construction begins so that pricing can be obtained during the competitive bid phase, not when the contractor has you over a barrel!

REVIEW

- Pre-Bid meeting with contractors to ensure that all have a clear understanding of the site conditions and scope of work.
- Carefully review the bids, look for outliers where Contractor may have misinterpreted the intent
- Provide the board/manager/owner with unbiased comparison of bids received.
- Assist in developing a budget for any Unit Price Work as well as a Contingency to cover any unforeseen issues that may arise
- Put all the pieces of the puzzle together!

Construction

- Contractor Deposits : First Draw on the Loan!
- Have Association's Attorney Prepare Contract!!!!
- Have a clear payment schedule defined from the beginning in the specifications and RFP & incorporate into the Contract
- If necessary require bonding
- Confirmation by a Professional that can provide certification that work has been completed or materials have been delivered to site.

Quality Control | Construction Oversight



- Engage Professional to perform Construction Observation and Administration services to confirm that work is being completed in accordance with the project specifications.
- Independent Professional to provide payment certification that invoiced amounts match invoiced work.
- Independent Professional to confirm with payment certification that work has been done properly before payments are released!

Construction Administration & Observation

TAKE AWAY: Hire and engage the right professional for the right job

- The cost of having professional oversight vs. not having oversight. From a bankers perspective!
- Identifying what is the Managers responsibility vs. the Project Managers responsibility vs. Township Official vs. Contractor
- **MANAGER** : Property Manager should serve as a key point of contact to assist in the flow of information between the board and residents and the project team.
- **ATTORNEY** : Attorney should be tasked to cover legal aspects including contract, insurance requirements, liquidated damages, etc.
- **DESIGN PROFESSIONAL** : should be tasked with performing evaluations, development of repair/replacement program, budget estimates, specifications, bidding, construction observations.

Communication

Problem:

- Lack of communication and project management leads to confusion, project delays, lack of accountability.

Solution:

- Clear documented communication must be maintained throughout the entire process (protects all parties involved)
- Have a clearly defined schedule
- Schedule regular project meetings, have Project Manager provide weekly progress summaries
- All issues, concerns, setbacks and delays must be passed along to Manager and Board as soon as they arise with detailed documentation.

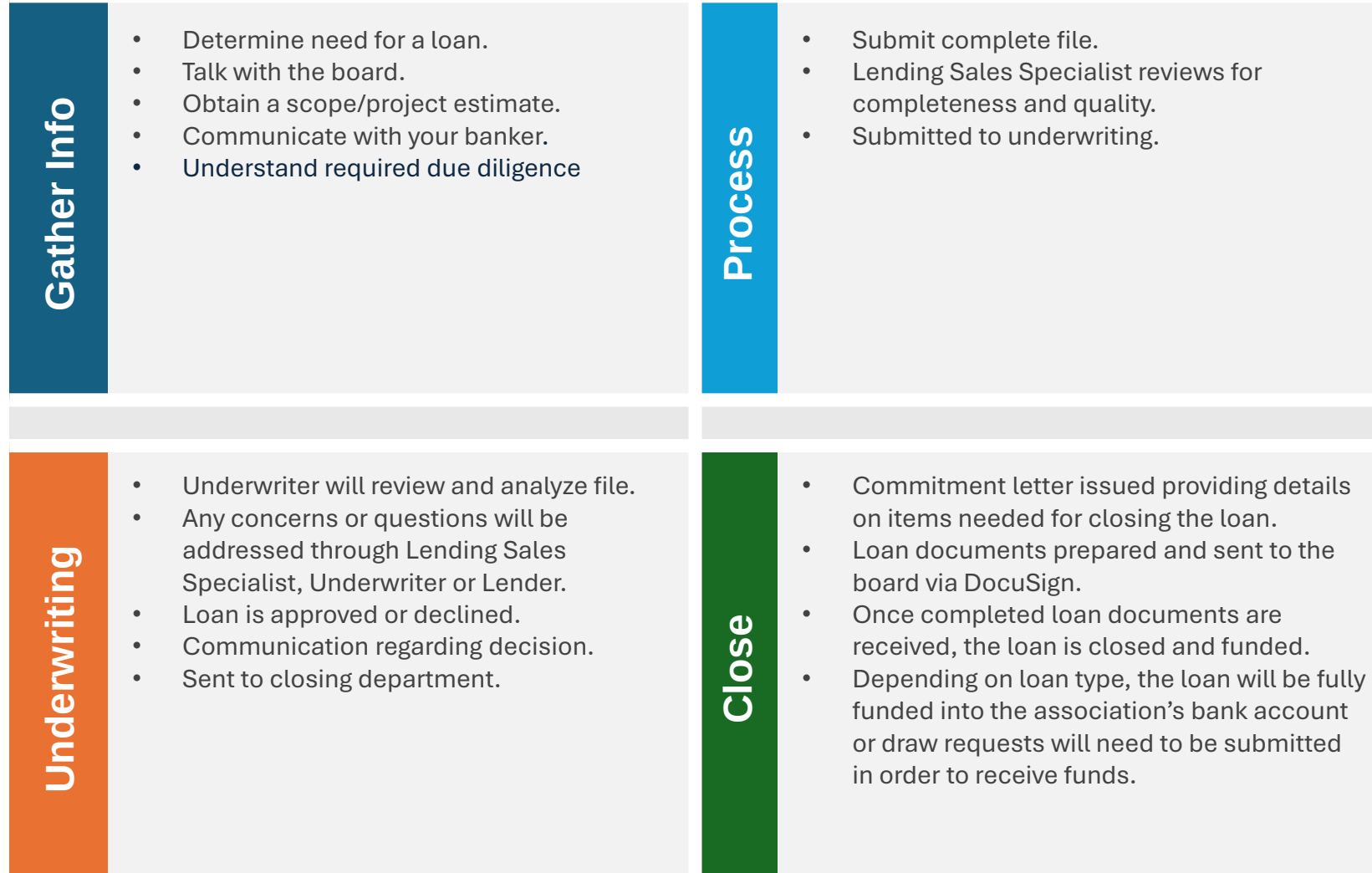


A Board's Fuel Source

THE BANK

Lifecycle of a Loan

Understanding the Process



Top 5 Questions Regarding Loans

Clearing Up the Confusion of an HOA Loan



What is the collateral for the loan?

Am I (board member) responsible personally for repayment of this loan?

What happens if my neighbors don't pay their portion of the loan?

What happens if the HOA is in litigation?

Why do delinquency rates matter?

What Can a Loan do?

Benefits of Financing

1	Liquidity	• The ability to leverage cash can benefit the association by having the liquidity needed in the event of emergencies.
2	Happy Homeowners	• Improved homeowner morale when the community is repaired and updated.
3	Finished Projects	• Work is done all at once and not in phases. • Helps keep labor and material costs from rising and avoids contractors needing to be onsite for extended periods of time.
4	Curb Appeal	• Curb appeal for prospective buyers. • Well maintained and well-funded communities will have a better opportunity to compete than those communities that are not.
5	Homeowner Options	• Benefits those residents who may not have the ability to produce their portion of a special assessment upfront. • Loans are made to the association as a corporation, not individual homeowners, which means no homeowner guarantors and individual homeowner liens.

A Board's Safety Net

THE INSURANCE

Insurance Review

RENEWAL SITUATION – MAKING THE BEST OF A COMPROMISED SITUATION

- Claims have been filed for previous water damage occurrences and slip & fall; insurance carrier wants to know why these occurrence won't happen again
- Certain infrastructure items are the focus of insurance companies – roofs in particular
 - Some carriers issuing non-renewal for roofs more than 20 years old
 - Actual Cash Value Settlements imposed for roofing – Subsequent issue with Fannie/Freddie
- Competitive insurance companies look to write better than average accounts
 - A “competitive” insurance policy is most likely your single largest budget item. A non-renewal premium could be 300% - 500% more, with considerably higher deductibles

CONSIDERATIONS DURING THE COURSE OF THE PROJECT

- Association must maintain comprehensive coverage – bank will want to see the policy and endorsements before approving loan
- Bank sees lawsuit for slip and fall – want verification that it is being covered
- Is the appropriate risk transfer in place –
 - Is there a signed contract in place?
 - What Additional Insured, Hold Harmless and Indemnity Clauses are agreed upon, if any?
- Depending on scope of project, is other insurance required to fully protect association?