

Renovation Rollout Q&A

Following are comments, questions and answers regarding the Renovation plans. Some of the topics were from the presentations during the June 30th Renovation Rollout event at the pool, others from the Blog and emails to committee members.

Question(s): How does the vote work? When will the vote be held? How long will it be open and when will it close? When will the results be known?

Answer(s): For the association to take out a loan, approval from 2/3 of the owners is required. Ballots are mailed to each owner and should be received by the time the July issue of Terrace Topics is distributed. Ballots were also handed out at the June 30th Renovation Rollout event and are available from committee members. The election (for or against the loan) runs until September 10th. Ballots must be received by mail or fax by 5pm on Friday, September 7th, 2012. Ballots can also be hand carried to the Inspector of Elections at the September board meeting on Monday, September 10th. Details are on the ballot. If a quorum is achieved (50% of the total available votes) then the election will be held. If a quorum is not achieved, the election will be held at the next regular board meeting on October 8th.

Question: What oversight is in place to ensure funds are appropriated correctly and the work is completed properly?

Answer: The bank is in total control of the payments for the work. The scope of work is defined in the loan documents. The price for the contracts is fixed, with a contingency fund for wood replacement and other building repairs. Anything not pre-approved in the scope will not be paid. A complete set of specifications and drawings have been created by the Architect and Lighting Designer. The Architect is also the Project Manager and will be overseeing the project with on-site inspections several times a week.

The Construction Committee will review all invoices along with the Project Manager before passing them to the board. The board will approve invoices to be sent to the bank for payment. Payments will be made directly to the vendors. The Construction Committee will be inspecting the work and meeting with the General Contractor and Project Manager each week.

Question: This project has been presented as an all-or-nothing project. Why is that?

Answer: First – the majority of our assets are in such poor condition that replacement is necessary. The Reserve Study confirms that the expected lifespan (useful life) of our siding, roofs and lights are up in 2013 or shortly thereafter. A detailed inspection completed by a 3rd party in 2004 confirmed replacement of these assets was needed then. A detailed inspection completed by our current Project Manager confirms replacement is needed.

Second – each asset which is in need a replacement is a liability until it is replaced. We must either replace these assets or have the cash on hand to replace them in order to qualify for a loan. Simply, the banks will not loan us money to do half the job unless we have the cash on hand to complete the other half.

Consider that if we borrowed enough to pay for new siding, but not new roofs – if the roofs start to fail we would be unable to fund their replacement without an emergency special assessment, and that could lead to a high rate of delinquencies and the possibility of the association defaulting on its loan payments, hence a liability to the bank.

The same goes for the ground work - if we pay for new siding but not to remove excess soil, fix the drainage and replace the irrigation system; water and moisture will still be affecting the walls of the building, causing the same damage we just repaired.

Third - once we get a loan, we cannot take out another or add to it.

Therefore - if it needs to be replaced and is a liability until it is replaced, we either need to replace it or have the money on hand to replace it if we want to qualify for a loan.

Question: How does the loan work?

Answer: The loan is a construction loan. Construction loans are very different than home loans. There is no single payment or set amount. Funds are made available for a set period of time for construction expenses. When that period is over, the term loan (payback) begins for the amount of funds used.

In our case, the time period allowed for construction is 18 months. Funds are available for the association to “draw” from during that period to pay for the pre-approved work. The loan is classified as a line-of-credit during that time. We pay interest on the funds used up to that point each month during this period.

When the construction period ends (at the end of 18 months) we must then begin paying back the amount borrowed. Again, in our case, this amount is up to \$8 million. The term of the loan is 13.5 years. The rate is fixed during the draw period and for the first 10 years of the term at 5.25%. At the end of 10 years (of the term), after the majority of the principle is paid down, the rate adjust and then resets for the remaining 3.5 years. The adjusted rate has a ceiling of 8.5%, therefore even in the worst case scenario our average interest rate for the entire term of the loan will be 5.43%. This rate is significantly better than the proposals from the other five banks.

In order to lock in this low rate, we need to approve the loan before rates increase. We do not expect rates to move anytime this year.

Question: (From discussion on the blog) ...Is there a backup plan?

Answer: (by Dede D'Alessandro) One point for clarification; it's not a question of if we can afford \$8 Million Dollars of work (roughly \$28,500/homeowner), it's a question of how do we pay for \$8 Million Dollars of work?

Doing away with the loan doesn't lower the price tag. We are stuck with \$8 Million Dollars of work that has to be done, with or without the loan, period. There wasn't a bunch of unnecessary items stuffed into the loan – doing away with the loan won't lower won't cut down the work to \$4 Million (for example). There really isn't anything that can be cut without affecting Fire Life Safety Code and Structural Integrity of our buildings, even if it doesn't seem necessary. Even the new house numbers comply with current City Fire Code while the old ones don't (too small, hard for firemen to see, wrong location on the street side). And by the way, we got those on Clearance (about \$3 each) and no extra charge to install since the old numbers have to come down anyway during renovation!

Cutting an item from the loan, voting “No” on the loan, or Abstaining from voting doesn't make the work go away – it would still have to be done. Let's say lights could be cut from the loan, they would still have to be replaced (thru raised dues or a dreaded Special Assessment).

Abstaining from voting or voting “No” simply means the HOA can't take out a loan to finance the renovations for us to spread the pain out over 15 years. It means we all have to individually finance \$8 Million Dollars (about \$28,500 each) worth of work NOW. A lot of people don't have enough equity/can't qualify for their own financing or can't afford \$795 dues. I'm sad to say I've been on a fixed income (medically retired) since 1997 and can't swing an SA or \$795 dues.

The loan just “spreads out the financial pain” by letting us get renovated now and pay for it over 15 years (HOA dues go up to about \$495) instead of raising dues to \$795 and being under construction for years. The Loan is “cheaper” in the long run because of the \$ that will be spent in emergency maintenance is more than the interest paid on the loan. Plus our equity will go up about \$40,000 immediately instead of decreasing (per the local realtors).

Moral of the story: The workload won't change with/without the loan, the loan just eases the pain on the wallet for the next 10 years.

FYI For all items in the scope of work, we tried to think outside of the box. Among other things we looked at:

- 1) Cheaper brands with the same quality,
- 2) Code/Safety/Title 24 (Green/energy efficient) compliance,
- 3) Looks/style,
- 4) Long Term impact (life span, future maintenance etc),
- 5) Why the old component failed and is there a better material (like Hardie instead of Wood siding), and

6) While we're at it - little ways to improve life in NT. Back to lights as an example: Many Tall light poles will be replaced with Bollards (the lights that are about 3' tall) which are cheaper and provide adequate light. Added Bonus: All new lights are Energy Efficient (cheap to operate), and they are Dark Sky Compliant, which means you won't have that annoying light shining in your bedroom window at night. We even took into account the impact of lighting on the wildlife in the meadow.

Response to answer: Dede, a very easy to understand explanation of the rationale for supporting a loan option – thank you. Particularly important is your reference to the cost of the loan (i.e., interest) being less than the anticipated cost to continue to chase down maintenance of failing assets over time, which will necessitate increased dues or assessments. Also, the immediate benefit of assurance that the long term viability of the property (due to fully funded renovation) cannot be understated. I truly believe that this will be reflected immediately in our values and salability. It goes without saying that prudent use of the loan funds will be of the highest priority for the Board as the project is implemented. We have a professional project manager to help ensure that this is the case.

-David Brantley

Comment: (on the blog) It's a shame that votes aren't being cast in sealed envelopes to be opened and counted by a neutral person, or at least by two people from opposing sides, so that the question of the validity of the votes doesn't come up.

Response: The association designated an Inspector of Elections to receive and handle the ballots, as we have done in previous elections. This election does not meet the criteria for the double-blind secret ballot. The double-blind election procedures are reserved for (and required for): special assessments, election or removal of directors, amendments to governing documents or the grant of exclusive use of common area property. Therefore the ballots must be open, with a simple Yes or No vote. Ballots can be mailed, faxed, or brought to the election meeting.

Question: Regarding foreclosed units - Is the loan (if it is passed) designed to carry those obligations even if the property is now bank owned?

Answer: The loan is to the association. It is not tied to any individual units. The funds used for the project will be paid back through our regular income, which is generated by monthly dues (assessments).

Regardless if we pay for the renovations and maintenance with dues and special assessments, or by taking out a loan and paying the loan back with dues, the financial impact on the homeowners is the same. We all must contribute to renovate the entire complex. No units are excluded, regardless of their status. We all pay equally. That is how our CC&R's are set up. Keep in mind that owners only own the inside of their units. The association is responsible for the outside. So even if a bank owns a particular unit, the association owns the outside walls, the roof, gas lines, irrigation, etc..

If any homeowner becomes delinquent, the collection policy is enforced, the same as it is now. When we have units that are not paying, the rest of us have to cover their share. We plan for delinquencies in the budget. Note that we never stop going after the funds, even if we write the balance off our books.

The good news is that most of our old AR is clearing up. There are only three units on the list with large balances. Two of those units are reportedly in the process of being sold. Two others already sold and have come off the list. We are in pretty good shape as far as our AR goes. It improves every quarter.

Looking forward, as dues rise, it is conceivable that a few more homeowners may have trouble. That is why we are trying to give everyone as much notice as possible and keep the dues increases as low as possible. With the loan option, we can limit dues increases to \$425 next year and \$495 in 2014. That is 18 months notice of a \$100 increase. We would then be able to hold dues at that level for several years.

Without the loan, dues will increase much faster and continue to rise until they reach at least \$795 a month, or the equivalent in emergency special assessments. The fact is that there is over \$8 million worth of work to do in Newport Terrace. How we pay for it and over what time period will have a major impact on residents' ability to stay current with their dues. I personally do not believe that the majority of the owners can afford dues over \$500 a month and/or special assessments on top of higher dues. I know very few people who could write a check for \$28,000 today in this complex.

Unfortunately, the state of the complex being what it is, we have no choice but to renovate, and the least expensive and quickest method to do so is through a loan.

Question: What happens if the loan is not approved by the membership?

Answer: One of the points which I know we did not get across during the presentations is that we are faced with a great deal of maintenance and painting expenses if we are not able to complete the building renovations in the next year or so. We are facing \$500,000 in wood repairs/replacement and painting cost just to minimize water intrusion issues and to protect the wood in its current state. Those costs would drain most all of our available renovation funds next year, and then we would still need another year to accumulate enough funds to complete the last three buildings on top. I don't expect we will be able to touch what we have in reserves (\$1 Million today) once the Reserve Study is updated with the actual replacement cost for all assets at the end of their lifespan. Even with raising dues the maximum of 20% a year beginning in 2013, we may not be able to re-start the building renovations until 2015, and the pace would be very slow.

The membership could opt for a special assessment to fund the renovations quicker (which would also require voter approval and an upfront payment). We would still have the option to try for voter approval for the loan again, however the cost of the renovations and the interest rates on the loan are expected to rise the longer we wait.

Regarding the Renovation Plan

Comment (on the blog): We have a board member who uses this forum (the blog) to express his concerns to the broader membership about the preferred path the board majority has proposed for addressing the very serious issue of how best to move this association forward on the topic of renovating our complex. Yet no substantive basis is provided by Mr. Gilmore to support his notion that the proposed path is flawed - he only states that it is the wrong way to go. In my view, throwing out unsubstantiated hyperbole regarding such an important community decision is irresponsible at best, and at worst, could have a detrimental effect on the outcome of this critically important decision. Thus, I can only surmise that Mr. Gilmore's motivation for disagreement is political in nature, rather than substantive. As a similar example, there was a resident who spoke at one of the meetings on Saturday that raised concerns regarding his theory of conflicts of interest and past accounting improprieties, etc., without any factual basis to support his comments. Although anyone can express whatever concerns they wish, I believe we all have a duty to express our concerns responsibly, in a manner that refrains from unsubstantiated hyperbole that serves no other purpose than to stir the pot, and cast doubt and fear over an issue. Frankly, I don't appreciate my investment being politicized. We all have too much at stake. If Mr. Gilmore has other ideas, I agree they should be (have been) presented and evaluated. I know that the board has analyzed several alternatives. After exhaustive research and analysis, they have arrived at a preferred option. After hearing the presentation Saturday, I made my decision and handed in my ballot. Others will consider the proposed approach and make their decisions. Hopefully, folks will base their decisions on substance rather than the rhetoric of a limited number of vocal opponents.

David Brantley

Question: Did all Board members have the opportunity to provide input on this project?

Answer: YES! The project has been in the works for years, beginning back in 2004. The renovations began in 2008 and were halted in 2010 to regroup and develop a more precise, fiscally viable approach. The process of writing the draft scope, interviewing architects and vendors, reviewing plans, specs, drawings, etc. has been a long and time consuming process involving many committee members and volunteers, including past and current board members. There have been countless opportunities for residents and board members alike to be involved and provide input along the way.

The information leading up to today has been widely distributed. Detail reports were printed in Terrace Topics 8 times since October of 2010, and a detail financial report was published in December of 2009 which accurately forecasted the cost of the renovations and outlined the challenges we were facing.

All current board members have been repeatedly asked to attend committee meetings, to meet one-on-one to review details of the project and proposals from vendors, and updated at each monthly board meeting. All documents, drawings, specifications

and pertinent communications were emailed to each board member for review and most were printed in the monthly board packets as well.

Special meetings were held to give board members the opportunity to sit down together to discuss the information and ask questions as a group. All specs and drawings are stored in the cart room and have been available to all board members for review since receipt. Committee members have been and are still available to discuss the details and answer questions.

All of the communications, data, specs, drawings, etc.. is available for review, including copies of the emails which were sent to ALL board members, the meeting dates and who attended, and which of the board members spent time reviewing the renovation plans with committee members, asked questions and provided input. Here is a summary of the data-points:

The Architects Specifications document was emailed to the board on December 16th, 2011 and the drawings were emailed to the board on December 22, 2011. A special Board meeting held at the pool to review specs and drawings on January 7th, 2012. The drawings and binder have been available for review since received and currently reside in the cart room.

The Lighting Package was emailed to the board on February 12, 2012. The lighting drawings and specs have been available for review since received and currently reside in the cart room. The Lighting Package including the RFP (Request for Proposal) was included in Executive Session book, June 2012 - Pages 115 to 133.

There were Job walks with the General Contractors on March 23rd and the Lighting Contractors on May 4th.

An email requesting an appointment to review the details of the renovation plans was sent to all board members on May 20th, 2012. This email was initiated as one or more board members had not yet made any attempt to sit with the committee to review or discuss the renovation plans, nor had any communications been received from said board member(s). In that email, a special board meeting was scheduled for June 23rd for one last chance to review the data before it was presented. Here is an excerpt: "...The committee request the board members attend the preview on June 23rd from 10AM to Noon, and of course you are requested to be present ALL DAY on June 30th, from 10AM to 8 PM...Please either arrange to meet with me (Ross Minion) one-on-one or let me know what day (Monday – Thursday) works for the board to meet together the week of the 4th. The June 23rd meeting was attended by 4 out of 5 board members.

These items are in addition to the countless committee meetings which any board member could have participated in with 4 days notice AND the monthly board meetings.

If YOU have questions, please call, email or join us in the cart room Saturday mornings or Wednesday evenings.

Question: Is there a Performance Bond included in the proposal for the upcoming siding and building project?

Answer: We have discussed the idea of having a performance bond applied to this project. In discussions with the Project Manager / Architect, Construction Committee members, our Management Company and legal counsel, we believe there is no need to proceed with a performance bond. The reasons are as follows:

- 1) We are only paying as work is completed, inspected and approved. There will be no prepayments of any kind. We are creating a payment schedule so the General Contractors (GC's) can be paid in increments instead of waiting until the entire project is completed. The project manager (PM) and Construction Committee members will be inspecting the work weekly.
- 2) Performance bonds add considerable expense to the job. Given that we do not believe we are at financial risk if the contractor pulls out, we do not believe it is appropriate to add this cost to the job. Even if we do have a problem with a GC, there are several waiting to take their place and we can change at any time. The specs are very specific, so if the work is not satisfactory we do not have to pay until corrections are made and the work passes our inspection.
- 3) The GC's which have been invited to bid are experienced, trusted companies which our PM has a great deal of experience with.

QUOTES

The pool looks great and I love the sport court! In my opinion, it is worth spending the money to make our community look better. Again, it's only my humble opinion. Shannan Lee

...for whatever reason, NT is in need of major repair Let's call it 'hitting the reset button' for NT.
My suggestion is that NT pursue all repairs with the approach of doing it big, doing it once, and doing it right. Norb Puff

Very well stated Norbert, I am on the same boat, This complex is in dire need of a full makeover. It needs to be done quickly and completely, not the way it was getting "done" by CPR, taking forever. Dealing with having my building torn up for weeks on end would surely piss me off! The only way to do this is to get the loan. We all will have to "suck it up", but that's life, and we have to deal with it. In the long run, the places will look brand new and the property values will increase. As it stands now, I feel as though I am living in Santa Ana. Let's move forward! Mark Powell

This is an opportunity to make our homes more valuable, livable, and marketable, if you so desire. The loan rates are most attractive. While I do not always agree with the Board, this is the most common sense approach to making our property pristine again... Earl H. Miller
