

VILLAGE GREEN

NATIONAL HISTORIC LANDMARK

TOWN HALL MEETING REPORT OCTOBER 2, 2010 AT 10:00 A.M. PROPOSED SPECIAL ASSESSMENT 2010

MEETING OVERVIEW

The board presented their opinions and reasons why a special assessment is needed. The audience was encouraged to listen to all information presented and hold all questions until the end of the presentation.

BACKGROUND

Director Ben Ginsburg noted that regular assessments pay for regular operating expenses such as landscaping and tree care, trash collection, and general maintenance. Regular assessments also pay for some infrastructure repairs. Regular assessments, however, have been inadequate to cover both regular operating needs and long-term infrastructure repair and replacement needs, leading to deferred maintenance over the past several years. Reserves have been spent down and the association has been unable to complete necessary work.

The Board of Directors has been studying the problem of deferred maintenance and has several sources of information. A reserve study is produced by Association Reserves, Inc. every 3 years, with annual updates every year. The reserve study provides an analysis of the remaining useful life of our common area components, estimates the replacement costs, analyzes the current state of our reserves, and proposes a funding plan in order to have adequate funds available to do the work. In addition, Gafcon was hired 2 years ago to do a comprehensive study, including an on-site inspection and a written report with cost estimates and a prioritization of the work that needs to be completed. Our former manager also made recommendations on our short- and long-term repair and replacement needs. All of these sources of information have been taken into account.

Our highest priority projects include the correction of a soil subsidence problem affecting two residential buildings. The board has consulted a soils engineer and a civil engineer, and is preparing to hire a project manager in connection with that problem. Also included in our highest priority projects are those components whose failure would result in water intrusion: roofs, water service pipes, and sewers. Water intrusion, if unchecked, leads to mold and wood rot and costs then increase tremendously. In addition, it is a health and safety concern.

RESERVE STUDY

Will Simons, project manager with Association Reserves, Inc., gave a presentation on the reserve study. ARI was formed in 1986 and serves common interest real estate developments worldwide. ARI is an industry leader in volume and experience. Each reserve study is tailored to the particular homeowners association.

What is a reserve study? Reserves studies are required by the California Civil Code and are an analysis of an association's ability to pay for projected major common area repair and replacement needs. A reserve study includes a physical inspection and a financial analysis. A reserve study provides estimates of the typical useful life of common area components, the remaining useful life of those components, and replacement costs. Estimated replacement costs are determined by the association's history, vendor estimates and ARI's pricing guide.

Mr. Simons stated that an association's monthly allocation from the operating fund to the reserve fund should be approximately 40 to 50% of the monthly operating budget.

In addition to being a legal requirement, a reserve study helps an association project its future major common area repair and replacement needs so as to enable the association to plan for the projected costs and avoid surprises, schedule work, and maintain property values.

ARI's reserve study history with the Village Green: 1990, 1995, 2007, 2008, 2009, 2010, 2011. The most recent site visit was May 29, 2009.

ARI's Impression of the Village Green

Mr. Simons stated his impression that the Village Green is a historic, unique development with major infrastructure repair and replacement needs.

ARI discussed the common area components, including walkways, irrigation, well refurbishment, plumbing & sewers, electrical wiring, exterior painting, roofing, soil subsidence, concrete repairs and brick serpentine wall repairs). Charts and graphs showing the association's declining reserve fund (2007-2011) were presented and discussed. ARI noted that the association's reserves are currently below 10% of a fully funded position and that anything below 30% is a weak financial position. ARI recommended a \$60,000 monthly contribution from the operating fund to the reserve fund for fiscal year 2010 and \$65,000 for fiscal year 2011, followed by 5% increases in each of the next 8 years, and 2% increases thereafter. The current monthly contribution is \$46,855.

ARI's special assessment recommendation is as follows:

- 2011: \$7,548,000 total (averaging \$12,000/unit)
- 2012: \$5,032,000 total (averaging \$8,000/unit)
- 2013: \$2,516,000 total (averaging \$4,000/unit)

This plan would fund approximately \$8,000,000 in repair/replacement projects in 2011 and will reduce over time. ARI presented a 30yr cash flow chart explaining the targeted fully funded balance amounts recommended compared to the current funding plan.

ARI's Final Impressions

- Major changes are needed ASAP
- Impending projects are critical and should not be deferred any longer
- Expenses will not disappear and impact the following:
 - Monthly contributions
 - Bank Loan
 - Special Assessments
 - Declining property values

Homeowner Questions Regarding the Reserve Study Presentation

1. Would ARI’s proposed 5% increase be going into reserves or is it an increase of regular assessments?
The 5% figure refers to ARI’s proposed increase in the contribution from the operating fund to the reserve fund after 2012.
2. Is there documentation re impact of declining property values? *No*
3. Is the Board proposing that Village Green adopt ARI’s funding plan? *The board’s special assessment proposal is smaller in amount and more limited in scope.*
4. Does the reserve study review each building individually; how are the cost estimates determined? *No. ARI performs a limited site inspection every 3 years, and also relies on industry standards in determining remaining useful life of major components. Cost estimates are based on our recent contracts as well as database of local construction costs.*
5. Why not schedule repairs separately and just do a few buildings at a time? *ARI does not recommend this approach. ARI Recommends consolidating repairs.*
6. What would be the impact of a bank loan? *ARI does not get involved in financing options.*
7. What if ARI’s special assessment recommendations are not affordable? *ARI tried to ease burden over a 3yr period.*

BOARD’S PROPOSED SPECIAL ASSESSMENT

The board’s proposal is outlined in the September 23, 2010 letter to homeowners. The board’s proposal is more modest than the reserve study recommendation and includes:

- Replacement of all residential and garage roofs (approx. \$3,054,000)
- Stabilization of 2 buildings that have experienced soil subsidence (approx. \$800,000)
- Water service repiping (approx. \$786,000)
- Impacted sewer replacement (approx. \$504,000)

As reflected in this list, water intrusion projects are some of the highest priority projects. Many roofs have already exceeded their useful life. Roof replacement is estimated at over \$3 million and is the most expensive of these projects.

The board recommends a special assessment payable monthly for the next 10 years in the amount of 20% of each owner’s current regular monthly assessment. The special assessment would be allocated to owners using the same allocation formula as the regular monthly assessments. Following are examples of typical increases for one-bedroom, townhouse, and three-bedroom units:

<u>Current Dues</u>	<u>Special Assessment</u>
\$345	\$69
\$434	\$87
\$524	\$105

The total cost of these 4 projects over the next 10 yrs is \$5,145,900 and the total amount of special assessments expected to be collected (reduced by 10% to account for non-collectibles and lump sum prepayment discounts) is \$5,220,000. Special assessment funds will be placed in a separate account and must be used exclusively for the four stated projects, and excess can be used only for other common area repair projects.

The board received several comments and inquiries from homeowners prior to the Town Hall Meeting, including the following:

1. Will regular assessments also increase in 2011?
Answer: *The Board has not yet completed the 2011 budget. We expect that the owners' approval of the Board's special assessment would make an increase in regular assessments unnecessary for 2011.*
2. Will a lump sum payment be available and will a discount apply?
Answer: *Yes. The proposal will include a lump sum prepayment option at a discount.*
3. Are delinquencies targeted, properties foreclosed and owners taken to small claims court?
Answer: *Yes. There is currently approx. \$225,000 in accumulated delinquencies. The amount has increased in recent years due to the failing economy. The association has proceeded with foreclosures, which are discussed in executive session, and has sued some owners in court. The association also has made greater efforts in working with owners to commit to payment plans. The board will continue to make efforts.*
4. Why not delay the special assessment until 2012 when the economy is better?
Answer: *Our repair and replacement needs will not wait for the economy to improve, and we cannot wait any longer to put a funding plan in place. There is no certainty that the economy will improve by 2012.*
5. Another homeowner inquired why the board waited until now to address the sinking buildings.

Director Steven Keylon discussed the Mills Act program. The Mills Act is a tool that helps owners of historic properties to maintain their properties by reducing property taxes. We submitted an application in May 2010. If we are approved, approximately 70-75% of homeowners will receive a reduction in their property taxes, totaling approximately \$600,000/yr. The amount of the tax break depends on the purchase price. For more information go to <http://www.preservation.lacity.org/node/464>
third item from the bottom of the page is a link to a tax adjustment worksheet.

Next Steps. The audience was informed about the special Board meeting to be held on Monday, October 4, 2010 to finalize the special assessment proposal and discuss the next steps for the voting process. Owners will receive the ballot proposal and secret ballots by mail and will have 30 days to return the ballots, which will be handled by our election inspectors (still in place from the 2010 annual election). During that 30-day period, additional meetings will be held in the clubhouse to inform the owners and answer questions.

OWNERS' COMMENTS AND QUESTIONS

1. Jean Perry – Court 5: Please clarify how to calculate the proposed 20% special assessment. **Answer:** *If your regular assessment is \$345/month, the special assessment would be \$69/month for 10 years.*
2. Jenny Davidson – Court 16: The board's proposal is so limited in scope compared to ARI's, would we be throwing our money away? What are the implications for VG? **Answer:** *Taking care of these four items will stabilize our infrastructure. We will continue to chip away at other reserve work by trimming down our operating budget and moving excess funds to reserves.*
3. Feliza Kohn – Court 7: New owner. Never hears about delinquencies or treasury report. Does not feel that creative solutions are being pursued by the board. **Answer:** *The association has proceeded with foreclosures, which are discussed in executive session, and has sued some owners in court. The association also has made greater efforts in working with owners to commit to payment plans. The board will continue to make efforts. The Board will find ways to publicize those efforts in the future so as to reassure owners.*
4. Melanee Newkirk – West Circle: Recommends that owners get a condo blue book and research the legalities re special assessments. **Answer:** *The Board is working closely with the association's attorneys in designing the special assessment proposal and conducting the election by mail.*
5. Reba Glover – Court 1: Notice was received on Monday and owners were not given enough time. Recommends another town hall meeting. **Answer:** *Other meetings will now be held in the clubhouse to provide opportunity for further discussion during the 30-day voting period.*
6. Diane Rhodes – Court 1: Concerned about passing on an increase to a new owner. **Answer:** *New owners will have to consider the amount of a special assessment, if approved by the owners, in determining whether they can afford to own at Village Green.*
7. L. Fafarman – Court 4: Believes that our assessments are high compared to other condos. Is the re-pipe project [fully] funded? **Answer:** *A) We believe the VG dues are in line with other condos of the same size, age and condition. B) The re-piping project has been funded on a year-to-year basis, based on funds allocated by each Board from the following year's budget. Currently it is not fully-funded.*
8. Cynthia Singleton – Court 15: Concerned about the amount of deferred maintenance and believes that since the special assessment is for common area repairs, it should be the same amount for all owners regardless of unit size or number of bedrooms. Also, costs will escalate over the years, and would like to know the exact contract amounts for the repairs. **Answer:** *Assessments are allocated to owners according to the formula set forth in section 7.2 of our CC&R's. We have cost estimates based on recent contracts for similar work, but do not have signed contracts for all of the proposed projects. During*

inflationary times, estimated costs would be expected to escalate dramatically. However, in the current economic climate, we do not assume that costs will increase dramatically.

9. Amy Dawes – Court 13: Concerned about the priorities set for work to be done. Needs clarification for what is re-piping? This seems to be a small amount compared to the cost of the roofing project. **Answer:** *Re-piping is the term we have used for the replacement of galvanized steel hot and cold water supply lines inside the residential buildings with copper pipes. Many buildings have been re-piped in the past several years, but other buildings remain to be done and we do not currently have the funds to re-pipe those buildings.*

10. D. Dumas – Court 3: Believes that replacement of the irrigation system should be one of our highest priorities and asks how many courts need irrigation system replacement. Why haven't specific bids been received for the proposed work? **Answer:** *A) The Board looked at all of the recommendations from Gafcon, Association Reserves Inc, and our manager to select those projects which have greatest payback for our limited funding. All of the recommenders said that water intrusion cure and prevention projects provide the greatest payback for our limited dollars, so the Board selected those projects. The irrigation system replacement project was not recommended as top priority, and no bids have been requested as it is a lower priority and we are not seeking the funding to pay for that project now.*

11. Joanna Woods-Marsden – Court 15: Suggests a revised payment plan over a 20yr. period in consideration of people on a fixed income or whose incomes have diminished. **Answer:** *We do not think that it is wise to take 20 years to complete the 4 projects outlined in the scope of this special assessment.*

12. Barbara Dyson – Court 7: Concerned about having to pay a special assessment in addition to our regular assessment, and concerned that ordinary repairs are not being completed. How are our regular assessments being spent? **Answer:** *Please advise the office if your work orders or other repairs are not completed. The Village Green maintenance crew and outside contractors perform repair and maintenance work throughout the property. Our regular assessments also pay for other contracted services, including landscaping and tree maintenance, patrol, trash collection, etc. Typical monthly work done: Storm drain cleaning will be completed in October, building overhang replacement for buildings #27 & #32, garage inspections completed, 104 parking citations issued and processed, 2 vehicles towed, Center Green Benches inspected and painted on a six-month basis, 28 trees were treated, trimmed, or replaced based on our arborist's instructions, 10 work order painting projects were completed, 5 work order plumbing projects were completed, 7 work order electrical project were completed, locks installed on trash area gates, water damage due to sewer backup repaired in ct 5. Please ask to see a copy of our budget to see the full scope of what is being done with our regular assessments.*

13. Bill Chapelle – Court 6: Would appreciate more advance notice of the Town Hall meeting. Concerned about the long-term effect of the needed repairs.

14. Judy Bershak – 33 yrs at VG: Believes that most recent sales at the Village Green have been short sales in which nobody wins. Stated that she has copper pipes and loves them
15. Angee Gates – Court 2: Would the special assessment be transferred to a new owner? If the special assessment is paid and full and the Board later determines that more money is needed, would the owners have to pay another special assessment? **Answer:** *The special assessment would be payable monthly by whoever owns the unit at the time, unless the full amount is prepaid in a lump sum, in which case no further payments would be required for that unit. The Board hopes that this special assessment not only will make it possible to complete the four projects identified in the proposal, but also will allow us to use regular assessment income that otherwise would be allocated to these projects for other needed repairs. Any future special assessment would require the owners' approval as required by law.*
16. Nat Hutton – Court 11: What is the current balance of our reserve fund? Requests that the Board provide a strategic 10-year plan in advance. **Answer:** *As of September 30, our cash reserves were \$499,710. We project that our reserves will be approximately \$200,000 at the end of the year due to reserve work to be completed before the year's end. The former manager prepared a 10-year plan of recommended work, but we have been unable to keep current with the plan due to lack of funds.*
17. Lucy Fried – Court 13: Thanked the board for doing what previous boards did not do. She is on a fixed income and although it is not enough, it is time to address these issues-- we should ask ourselves, "What legacy will we leave to the next generation?" Can the board find a way to focus on delinquencies? **Answer:** *Regarding delinquencies: see #3 above.*
18. Luther Henderson – Court 2 & 9: Also recommends a strategic plan and requests that the board pursue a bank loan as an option. **Answer:** *Banks loan money to community associations on a cash flow basis, not on the property value. Since we are operating on a nearly break-even basis, we would need a special assessment in the amount of the loan (plus interest) to secure a loan.*

*A \$6.0 million HOA loan at 5% for 10 years requires a monthly loan payment of \$63,639. That means that each owner will have to pay on average **\$101/month** above their current assessments. Over all, the Association would pay \$7,636,680 for the \$6 million loan. That amounts to 27% more in interest in order to have all the money up front and complete the work sooner.*

*To raise the same amount of money (\$6.0 million over 10 years) without a loan, each owner would have to pay **\$79/month** above his current assessments.*

In this period of relative flat inflation, it is not clear that we could realize 27% savings by completing the work sooner. If, for any project we see that a significant savings can be had by doing it all at once (the roofs, for example) we can take out a loan for the amount of that project as long as the special assessment is in place. Also, if we complete a project before the necessary funds have been collected (the soil subsidence, for example)

we can secure a loan for the amount of that project (as long as the special assessment is in place).

Whether or not we take out a loan, we need a special assessment either way. Banks loan to HOAs against their cash flow, not the property value. Once the special assessment has been passed, our financial position will be strong enough to secure any loan if needed or desirable to realize cost savings.

19. Bernie Altman – Court 6: Was not satisfied with ARI’s knowledge/presentation about Village Green. He congratulated Sherri Giles on the fantastic job that she has always done as our assistant manager and that she is now doing as our interim general manager.