

BROADMOOR HUNTINGTON HARBOUR COMMUNITY ASSOCIATION
TOWN HALL MEETING -- ROOF ISSUE
Options to Replace Aging Roofs

A building's roof is its primary protection from rain incursion and structural damage. If a roof fails, the structure can be severely compromised. Based on (i) the findings of AWS Consultants (an independent roof survey company), (ii) a comprehensive inspection by Lang Roofing of each individual unit's roof along with detailed pictures, (iii) the 2014 Reserve Study Report provided by Association Reserves, (iv) the fact that 47 roof leaks have been reported in the last two years (during drought conditions), (v) the huge expenses associated with five roof leaks due to the November 2014 storm, and (vi) observations from an actual tear-off and re-roofing of a building on Bordeaux, there can be no doubt that Broadmoor's roofs have exceeded their useful life. As homeowners we are all faced with replacing the roofs of all 32 residential buildings within the complex as soon as financially possible. Eventually the garage buildings will also have to be re-roofed.

After obtaining quotes from five different roofing companies, the association chose Lang Roofing to re-roof the Bordeaux building. Based on the actual costs of that job, the board is now able to project the cost of re-roofing the entire complex at between \$3 million and \$3.3 million. This equates to between \$12,300 and \$13,500 for each of the 244 units in Broadmoor.

Through operating efficiencies and relentlessly watching the bottom line, in the past three years this board has been able to increase general reserves from \$350,000 at the beginning of 2012 to over \$950,000 at the present. Despite those efforts, the most recent reserve study indicates that Broadmoor is only 17% funded. And the amount currently in our roofing reserves is sufficient to re-roof only two buildings.

Since a sinking reserve was not funded for roof replacement over the past 37 years, how will each homeowner fund his or her \$12,300 to \$13,500 share of the cost of re-roofing? The options available to us are limited and appear to be as follows:

A. Patch Where Needed; No Dues Increase; No Special Assessment; Re-roof the complex over the next 15-18 years as funds become available. This is the laissez-faire approach -- try to fix leaks to the extent possible as they arise and are reported, hoping the costs of repairs and the resulting interior damages can be covered by our annual operating budget; and then re-roof two or three buildings each year as reserve funds accumulate. According to all reliable sources this is not a viable option. Keep in mind that over the past year 47 roof leaks were reported and this was during a period of drought conditions with little rain. One leak during the November 2 rain cost the association nearly \$11,000 for repairs and damages. Five other buildings reported significant leaks during the most recent rains in December; our roofing company recommends re-roofing portions of those units at a cost of approximately \$100,000. Imagine the extent of leaks and damage if we have several years of heavy rain seasons. Over the next 15-18 years, the cost of repairs could add 30 to 40% to the total cost of re-roofing, a terrible waste of association funds.

Advantages:

- No further increase in monthly assessments for roofing.

Disadvantages:

- Roofs are already at the end of useful lives.
- At current rate of reserve funding, it would take up to 18 years to completely re-roof the complex, exposing the association to significant recurring costs due to leak repairs and damages during that extended time period.
- Labor and materials costs to re-roof will increase due to inflation, raising the entire project cost even higher.
- Loss of labor efficiency and savings from using a dedicated work crew on a continuous basis to re-roof the complex one building after another. Loss of economies of scale for purchase of bulk material orders that could be realized during a continuous roofing project.
- ***We cannot take 15-18 years to re-roof this complex.***

B. Increase Monthly Assessments. Last September monthly assessments were increased 20% with 100% of that increase going into the roofing reserve account. If assessments are increased an additional 20% in September 2015, the additional \$81 per unit per month would add \$19,764 per month (or \$237,168 per year) to

the roof reserves. That amount plus the \$21,500 per month currently going into roof reserves would total \$41,265 per month added to roof reserves starting in September 2015. At the reserve rate of \$41,265 per month, it would still take nearly 7 years thereafter to complete the roofing project. The association would face significant financial exposure for roof leaks during that extended time period.

Advantages:

- Re-roofing project would be completed in seven years versus Option A's 15-18 years.
- No financial impact on general reserves (currently at almost \$1,000,000), which would not be touched other than the roofing reserve account.

Disadvantages:

- Roofs are already at the end of useful lives.
- It would still take seven years to completely re-roof the complex, exposing the association to significant recurring costs due to leak repairs and damages during that extended time period.
- Labor and materials costs to re-roof will increase due to inflation, raising the entire project cost even higher.
- Loss of labor efficiency and savings from using a dedicated work crew on a continuous basis to re-roof the complex one building after another. Loss of economies of scale for purchase of bulk material orders that could be realized during a continuous roofing project.

C. Obtain a Seven-Year Association Loan; Payback of Loan from Special Assessment. The association could obtain a \$2.5 million loan at an adjustable interest rate for 7 years, currently about 4% to 4.5%. (The remaining \$800,000 balance needed to pay for the re-roofing would come out of existing general reserves.) In order to fund such a loan, lenders require a majority of homeowners to approve a special assessment to pay back the loan. A seven year loan would require monthly payments by the association of approximately \$34,750. The bank would require the association to commit the entire \$21,500 currently going into monthly roofing reserves plus approve a special monthly assessment for the balance ($\$34,750 - \$21,500 = \$13,250$). The required special assessment would be \$54.30 per unit per month for seven years, but could possibly go higher if interest rates adjust upwards during the loan period. The cost of interest over the

seven years would raise the total cost of the re-roofing project by approximately \$420,000.

Advantages:

- The re-roofing project would run continuously, furnishing the association up to a 10% discount from the contractor due to operating efficiencies from using a dedicated work crew assigned to this project and economies of scale for bulk material orders.
- Complex would be totally re-roofed within three years, minimizing exposure for leak repairs and damages.
- The \$54.30 monthly special assessment would be lower than raising monthly assessments 20% again in September 2015.

Disadvantages:

- Cost of borrowing money would add \$420,000 or more to the total cost of the re-roofing project.
- In addition to using the \$200,000 in current roof reserves, the association would have to "tap" into its general reserves to pay for the balance not funded by the loan (\$600,000).
- At the end of seven years when the loan is paid off, general reserves will need to be replenished to restore the \$600,000 "borrowed" for the roofing project. That will require continuing the special assessment for about 1-1/2 more years beyond the seven year loan period until the association's general reserves are restored.

D. Impose a Seven-Year Capital Assessment of \$12,300 to \$13,500. This would require approval of a majority of homeowners to impose an additional \$93 per month special assessment for seven-years. This amount plus the \$67 assessment increase last September, would generate \$3.3 million over seven years. This would raise total assessments to \$499 per month. Even at \$499, Broadmoor's homeowner assessments would be less than many other upscale associations in the area. At the end of the end of the special assessment period, monthly dues could be returned to \$406 per month.

Advantages:

- Re-roofing project would take seven years to complete.

- No financial impact on general reserves (currently at almost \$1,000,000), which would not be touched other than the roofing reserve account.

Disadvantages:

- Roofs are already at the end of useful lives.
- It would still take seven years to completely re-roof the complex, exposing the association to significant recurring costs due to leak repairs and damages during that extended time period.
- Labor and materials costs to re-roof will increase due to inflation, raising the entire project cost even higher.
- Loss of labor efficiency and savings from using a dedicated work crew on a continuous basis to re-roof the complex one building after another. Loss of economies of scale for purchase of bulk material orders that could be realized during a continuous roofing project.

None of these options is pleasant but all of us as homeowners must face the reality that Broadmoor was built in the late 70's, is now approaching 40 years in age. Much of the infrastructure, not just roofs, needs replacement or rebuilding. During the past three decades of primarily "repair as needed" operations, we have been fortunate to have had very low association dues. But with an aging complex the association can no longer maintain that philosophy. It is time to face the fact that we all must begin to deal with the replacement of not only the roofs, but vehicle gates, sea walls, lighting, awnings, streets and many other amenities.

2014 Broadmoor Board of Directors

FUTURE MATERIAL [DO NOT PRINT NOW]

[When the membrane beneath the tiles is old, worn, brittle, cracked, torn or compromised the wood frame beneath it starts to absorb both termite damage and water damage. During the Bordeaux re-roofing almost 25% of that building's plywood sheathing and 18 structural companion beams had to be bolted in alongside existing framework due to water and termite damage. The original frame was severely compromised.]

[Might be able to realize discounts in labor and materials due to continuous operation of dedicated work crew assigned solely to Broadmoor's job. Materials can be ordered in greater quantity.]