

WELCOME!

EACH MEMBER SHOULD HAVE PICKED UP COPIES OF THE AGENDA FOR TODAY'S MEETING AND THE DRAFT MINUTES FOR THE FEB 28, 2019 ANNUAL MEMBERS MEETING AND DEC 10, 2019 SPECIAL MEMBERS MEETING. (COPIES ARE AVAILABLE IN THE LOBBY)



Vintage Grand Condominium Association Inc

Annual Members Meeting

January 27, 2020

Please sit near the front
of the room to better
view the presentation

Agenda

1. **Procedural Items from Agenda**
 - Call to Order
 - Determination of a Quorum
 - Proper Meeting Notice
 - Approval of Minutes
2. **Introductions**
3. **Officers' Reports**
 - 2019 Financial Report
 - 2019 Plans and Accomplishments
 - 2020 Plans
 - Building Remediation Project
 - Construction Loan Research
4. **Announce Member Votes on Proposed Amendments**
5. **Questions from Members**
6. **Adjournment**

This presentation
will be available
on the website
tomorrow

Introductions

▶ Board of Directors

- ▶ *Dave Carter, Karen Domaratzki, Joseph Gianino, Joe Joseph and Jackie Vizzi*

▶ Other Owner Volunteers

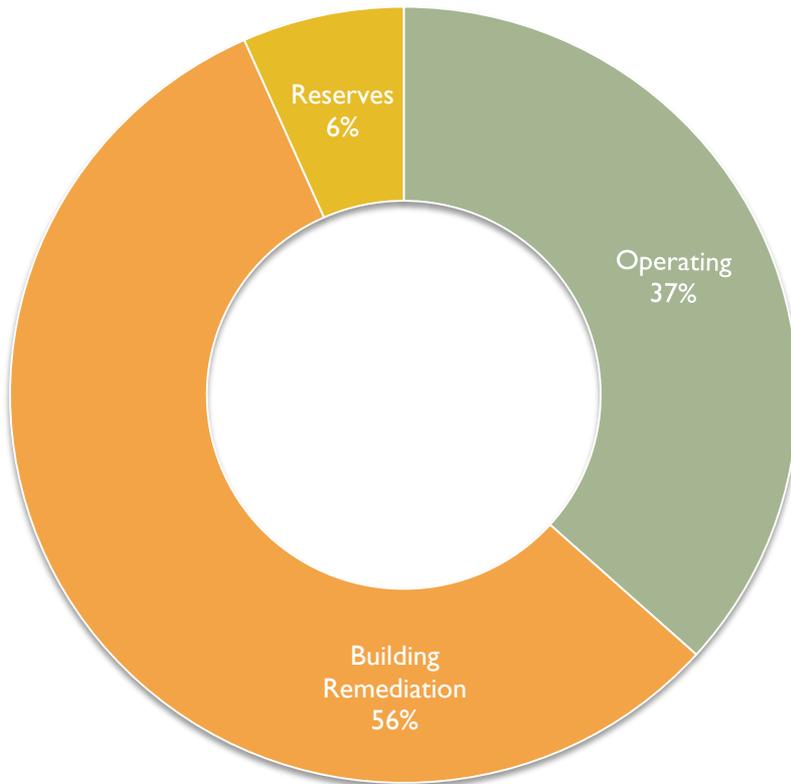
- ▶ Fines Hearing Committee: *Charles Bugatti, Mary Kehoe and Mick Tomlin*
- ▶ Social Group: *Nancy Carter, Bob and Eileen Kraus*
- ▶ Governing Document Update/Rewrite: *Grant Girard, Jo Smillie*
- ▶ Website: *Sandy Savoia*
- ▶ Building and Grounds Inspections: *John Wright, John Collins*
- ▶ Investigate Options to Heat Pools: *Bob Kraus*



2019 FINANCIAL REPORT

2019 Financial Report

Breakdown of 2019 Monthly Fee



2019 Financial Report overview

- ▶ Operating Budget
- ▶ Building Remediation Budget
- ▶ Reserves
- ▶ Balance Sheet
- ▶ CPA firm will prepare audited financial statements during Feb – April 2020 timeframe

Operating Budget Results - \$ 2019

Item	Budget	Actual	Variance
Fees	1,293,700	1,293,641	(59)
Other revenue	20,500	57,347	36,847
Total Revenues	1,314,200	1,350,988	36,788
Buildings Mtce	289,300	337,355	(48,055)
Grounds	183,200	182,941	259
Common Areas	36,500	33,450	3,050
Utilities	86,700	86,700	0
Administration	718,500	738,125	(19,625)
Total Expenses	1,314,200	1,378,571	(64,371)
Net income/ (Deficit)	0	(27,583)	(27,583)

Amounts billed, not all have been collected

Drywall repairs, roof repairs, electrical repairs

Insurance & misc admin over budget, legal expenses under budget

Financial Report: 2019 Building Remediation Contingency Account Activity

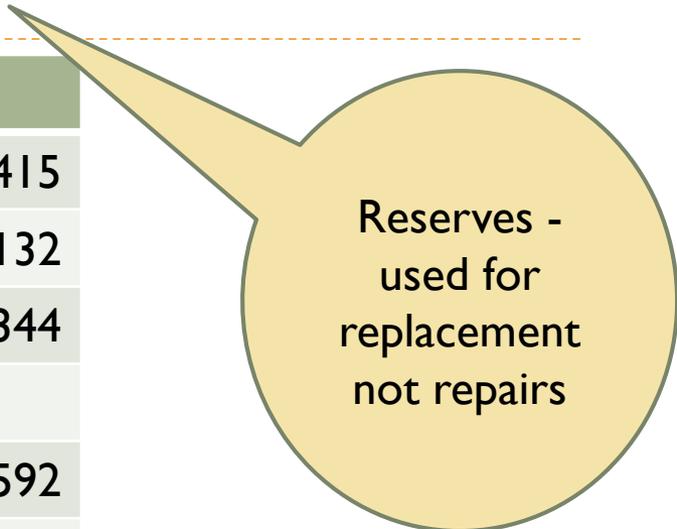
	\$
Contingency Fund Cash Balance on 12/31/2018	614,719
Member assessments invoiced in 2019	<u>2,000,000</u>
Total cash available	2,614,719
Construction Expenses (R. L. James)	(2,356,195)
Engineering Expenses (Delta Engineering)	(193,270)
Other Project Expenses (detail on next page)	<u>(207,884)</u>
Total Expenses	(2,757,349)
2019 Cash available Minus Expenses	(142,630)
2019 Increase in Construction Retainage	149,087
Contingency Fund Cash Balance on 12/31/2019	6,457

Financial Report -Breakdown of “Other” 2019 Building Remediation Project Expenses

	\$
Legal Expenses	(49,046)
Landscape Restoration	(43,641)
Drainage System Improvements	(42,050)
Gutters and Downspouts	(25,179)
Tree Trimming and Removals	(13,000)
Balcony and Lanai Painting – Phase I Buildings	(11,940)
Termite Treatment	(6,195)
Miscl. Items <\$5,000	(16,833)
Total Other Expenses	(207,884)

Financial Report: Reserves

	\$
Balance, January 1 2019	1,758,415
Add: Member Assessments invoiced	234,132
Interest earned on balances	24,344
Less: Reserves spent:	
Exterior Painting	52,592
Pool & Spa	9,187
Fire & Safety Systems	30,860
Plumbing	8,156
Balance, December 31 2019	1,916,096



Reserves -
used for
replacement
not repairs

The largest Reserve category is Roof Replacement with Dec 31/19 balance of \$1.4 million representing 73% of the total Reserves account. Estimated remaining life of the roofs is 5 years.

Financial Report: Balance Sheet Highlights

At December 31, 2019:

▶ **Cash:**

- ▶ The Association had \$2 million cash in bank accounts and certificates of deposits/term deposits. The bulk of this (\$1.9 million) is held for Reserves.



▶ **Due from Owners:**

- ▶ The Association has \$168,000 due from owners, comprising unpaid monthly assessments, fines, late fees, reimbursement of repairs, and interest on overdue fees.
- ▶ Half of this is owed by one member, a full time resident. This owner is going through bankruptcy and foreclosure, and we expect to receive at most \$2,000 from the proceeds of the sale of his unit. We have set aside over \$87,000 in allowance for doubtful accounts that will be used to offset the shortfall.
- ▶ There are 3 owners who owe over \$5,000 each and all have received demand of payment letters from our attorney. Other owners with smaller amounts due but outstanding for over 90 days have also received demand letters. Most of these owners do not have tenants.



2019 PLANS AND ACCOMPLISHMENTS

2019 Plans and Accomplishments

I. Building Maintenance

1. Fire safety: full inspection to test detection systems ✓ May
2. Fines for balcony /lanai and other building area violations ✓ Ongoing
3. Notices to owners of water heaters over 10 years old ✓ Feb.
4. Review and communicate flooring requirements for 2nd floor units (re: soundproofing) ✓
5. Continue to actively manage leaky roof situation ✓ Ongoing
6. Extensions on downspouts to move water away from buildings ✓
7. A/C common drain line cleanout 2x/year ✓ Apr. and Sept.
After remediation
8. Dryer vent cleanout 1x/year ✓



2019 Plans and Accomplishments

2. Grounds Maintenance

1. Necessary work to make irrigation system more effective and reliable ✓
2. Make decorative fountains operational ✓ work in progress
3. Annual major tree trimming – modified scope ✓
4. Major drainage system improvements by buildings 12, 14 and 25 ✓

3. Common Areas

1. Replacement of main pool spa heater
2. Cleaning, repairs and renewal of rear pool
3. Investigate/provide better bicycle storage solutions **X**
Removed and donated abandoned bicycles Temporary allowance to store on balconies/lanais

4. Utilities

1. Investigate potential solutions to water billing issue ✓ Amendments
2. Investigate potential solutions to trash and recycling issue ✓ Budget estimates

2019 Plans and Accomplishments

5. Administration

1. Additional progress in eliminating short term rentals **X**
Made some progress with #1 violator but still going after her in court proceedings
1. Website uploads and posting re: new regulatory requirements **✓**
2. Review/revise parking pass processes **X** Reviewed, but no easy fix identified
3. Distribute survey/poll to members, to gather data on key topics and direction **X** Not started – defer to 2020
4. Begin process of reviewing of Association documents to remove the developer from the documents, clarify association vs. member responsibilities, consolidate Rules. **X** Not started – defer to 2020
5. Develop written policies and procedures for:
 - a) Procurement **✓**
 - b) Resolution of owner damages **✓**
6. Implement staff workload tracking process **✓**



2020 PLANS

2020 Plans

I. **Building Maintenance**

1. Fire safety: Inspection of fire sprinklers 2x/yr.
2. Actively manage and educate owners on water leaks in buildings and rapid response requirements
3. Annual inspection, notification and follow-up re: owners with hot water tanks > 10 years old
4. Achieve savings in drywall repair costs through new maintenance staff
5. Extensions on downspouts to move water away from buildings – continue as buildings are remediated
6. A/C common drain line cleanout 2x/yr.
7. Dryer vent cleanout 1x/yr.
8. Pressure wash non-remediated buildings
9. Depending on the expected duration of remaining building remediation work, develop plan and budget for partial painting of non-remediated buildings



2020 Plans

2. **Grounds Maintenance**

1. Continued maintenance and fine tuning of irrigation system
2. Leaf raking and removal
3. Annual major tree trimming – palms and hardwoods
4. Pepper tree trimming

3. **Common Areas**

1. Investigate/provide better bicycle storage solution
2. Paint speed bumps and disabled persons spaces
3. Regular pressure washing of fishing docks
4. Pressure wash sidewalks, curbing, and picnic areas/gazebos

4. **Utilities**

1. If amendments 1 and 2 pass, implement procedures to more fully bill and collect water and sewer utility costs from owners



2020 Plans

5. Administration

1. Upgrade tenant screening procedures
2. Engage a new insurance broker
3. Engage a new financial auditing firm
4. Review policy and strategies regarding short term rentals – is there a better approach?
5. Rollout, promotion and ongoing maintenance of website renters' page
6. Review/revise Association documents to remove the developer from the documents, clarify association vs. member responsibilities, consolidate and update Rules.
7. Survey/poll members to gather input on long term goals and direction





BUILDING REMEDIATION PROJECT

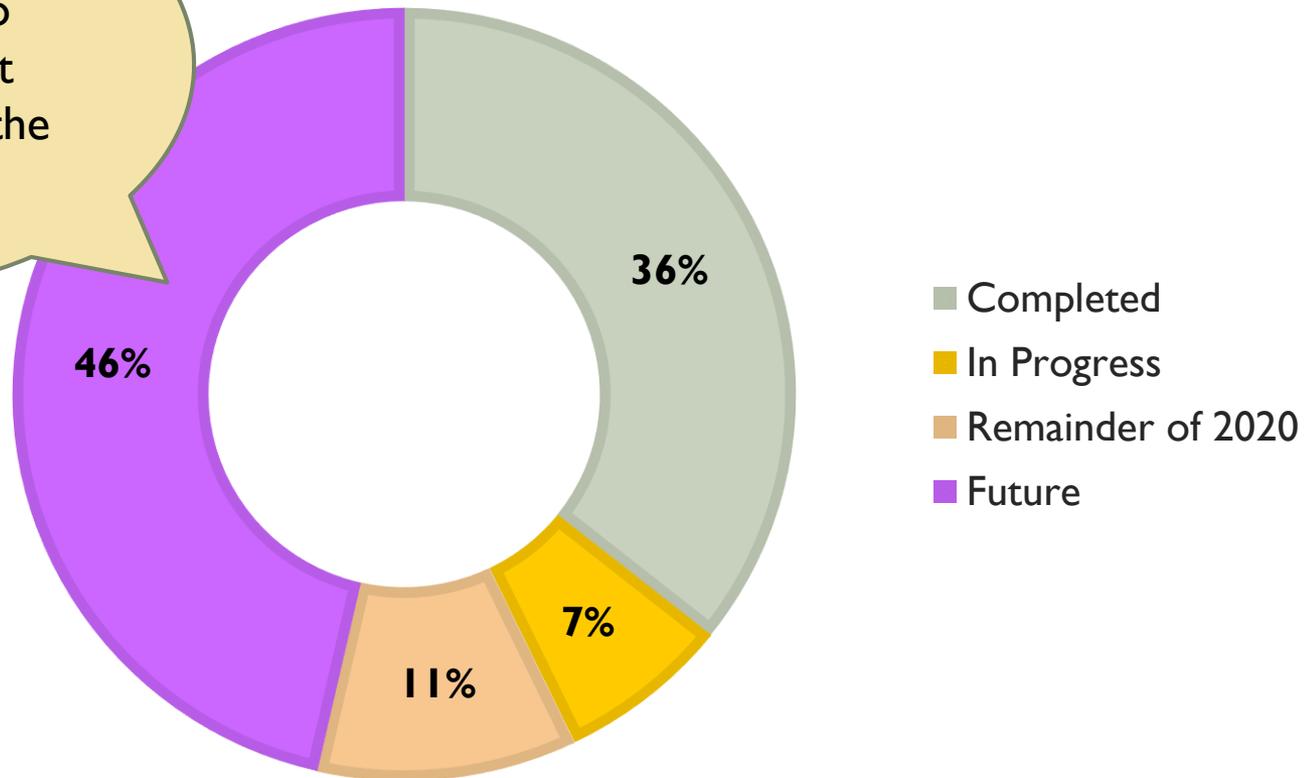
Building Remediation Project – 2019 Plans and Accomplishments

- Finish remediation work on buildings 14 and 25 and all associated post remediation work (gutters, grading and landscaping, etc.) by end of June ✓
 - Includes major site drainage improvements by both buildings ✓
- Complete other work components in RJ James original 2018 work plan by the end of April:
 - Attic truss repairs in Buildings 4, 17, 19, 22 and 28 ✓
 - Balcony support structure repairs for units 727, 1324 and 1824A ✓
- Remediate four (4) additional buildings in 2019
 - Full remediation and post remediation of buildings 24, 26, and 27 ✓
 - Start remediation of building 10 (revised sequence) ✓ now 90% complete
- Work with Delta Engineering and RL James to substantially improve their project management oversight ✓ significant improvements were achieved

Building Remediation Status

28 RESIDENTIAL BUILDINGS

We are now working with R. L. James to develop a contract extension to finish the project



Building Remediation Project – 2020 Plans

- Finish remediation and post remediation work on Building 10 in 1st Quarter of 2020
- Full remediation and post remediation of four (4) additional buildings in 2020:
 - Buildings 5, 23, 20 and 21
- Negotiate a contract extension to remediate the thirteen (13) remaining residential buildings under a range of potential financing scenarios

When will the Project be Completed?

2025

- If no loan and no significant insurance claim settlement

2024

- If no loan and a moderate insurance claim settlement

2023

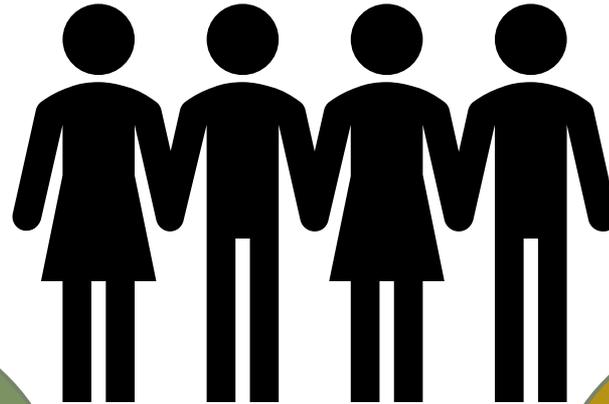
- With a loan and/or a large insurance claim settlement





CONSTRUCTION LOAN RESEARCH

Construction Financing



Some owners
want the
Association to get
a loan

Other owners
have no
need/desire for
loan financing

1. The attributes of a construction loan to a condominium corporation
2. Loan alternatives being considered
3. Positives and Negatives of a construction loan for our Association
4. Next steps



Construction Loans to Condo Associations

- ❑ Loan is a business credit facility, issued to a COA as a non-profit corporation. The financial records of the individual COA members are not reviewed.
- ❑ The loan collateral is an assignment of the COA's future assessment income from members. No liens are placed on property or any other tangible asset. No personal guarantees from owners are required
- ❑ Set up initially as a line of credit during a defined construction period (typically two years). Draws are made against the line of credit during the construction period based on approved invoices from pre-approved contractors. Interest only payments during this time based on the amount drawn.
- ❑ After the end of construction period, the line of credit is converted to a fixed term loan which is amortized over a repayment period (typically 5 to 10 years). Repayment is a fixed monthly amount.

Construction Loans to Condo Associations

- ❑ Line of credit interest rate during the construction period is a variable rate, based on the Prime interest rate + spread
- ❑ Term loan interest rate is fixed for the repayment period at the time of conversion to the term loan, and set by index LIBOR/COF + spread
- ❑ Typically there are no prepayment penalties
- ❑ Fees for the loan would include legal fees, stamp tax, arrangement or broker fees, drawdown fees.

Common Underwriting Criteria

- ❑ COA members' assessment payment delinquency rates – typically look at % of payments or percentage of units that are more than 60 days past due (our rate now is about 2% of units have assessments over 60 days past due)
- ❑ Financial statements and Reserves account over past 3 years & budget for current year.
- ❑ Ratio of residents who are renters vs. owners (our ratio now is very high, about 9 to 1)
- ❑ Foreclosure rate
- ❑ Qualifications and track record of the professional team that is executing the project
- ❑ Cohesiveness of Association and its Board; evidence that sufficient number of members support the decision to borrow money to complete the project

The lender is evaluating the risk of default, the risk of non-repayment of the loan. Typically a loan INCREASES the monthly assessments to the owners. But in our case a loan would DECREASE the monthly assessments. This is a positive factor in our favor in the risk assessment.



Vintage Grand loan scenarios

Moving on from the general loan parameters discussed so far to specific Vintage Grand loan scenarios

- ▶ Dollar amounts of loans cannot be firmed up until we complete contract negotiations with R. L. James for the remaining buildings.
- ▶ The loan proceeds would be used to pay the RL James contract. This accounts for approx. 86% of the project cost.
- ▶ Each time RL James presented an invoice and Delta verified it as accurate the Bank would draw down on the loan facility and pay RL James directly.
- ▶ The remaining 14% of the remediation costs, including:
 - ▶ Engineering firm
 - ▶ Landscaping restoration; drainage and irrigation system repairs
 - ▶ Gutters, downspouts, & gutter guards
 - ▶ Termite control

Would be paid by the assessments from owners during the construction period.

Rejected Loan Alternatives

- ❑ Loans with repayment periods longer than 5 years (mitigate lender risk)
- ❑ Loans requiring completion of 13 buildings in less than 30 months or 10 buildings in less than 24 months (we believe those are the limits of R.L. James' capabilities)
- ❑ The loan would not include an option for individual members to pay their obligation up front instead of participating in the loan (rejected due to administrative complexity and potential financial risks to those who opt out of the loan if others do not pay their assessment fees on a timely basis)



Alternatives Under Consideration

	Loan Alternative A	Loan Alternative B	No Loan – Self Fund
Loan start date	January 1, 2021	January 1, 2022	n/a
Estimated loan amount	\$7 million	\$5.5 million	0
Number of buildings remediated with proceeds	13	10 (and self-fund 3 in 2021)	13
Construction period	2.5 years	3 years	4.5 years
Construction end date	June 30, 2023	Dec 31, 2023	June 30, 2025
Loan repayment period	5 years	5 years	0
Final monthly assessment for remediation project	June 30, 2028	Dec 31, 2028	June 30, 2025
Interest (5.5%) & loan costs	\$1,670,000	\$1,250,000	0

Benefits of Getting a Loan (versus continuing to self fund as we are doing)

- ❑ Project will be completed 18 to 24 months sooner than if we did not get a loan

- ❑ Cycle times to complete individual buildings will be one month shorter (3.5 to 4 months vs. 4.5 to 5 months)

- ❑ Members' monthly assessment payments will be reduced from current levels during the construction and repayment periods
 - Approx 19% reduction beginning 1/1/2021 for loan alternative A (\$7M), with loan payments extending through 6/30/2028
 - Approx 24% reduction beginning 1/1/2022 for loan alternative B (\$5.5M), with loan payments extending through 12/31/2028
 - BUT...we will need to replenish reserves

Negative Impacts of Getting a Loan (versus continuing to self fund)

- ❑ Overall increase in project cost (\$1.3M - \$1.7M) due to loan set-up and drawdown fees, interest payments, legal fees, and required increase in project management expenses
- ❑ The Contingency portion of the HOA fee would continue until 2028, rather than ending in 2025.
- ❑ Proportionately more construction clutter and resident complaints to deal with due to shortening the construction period by 18 to 24 months
- ❑ Schedule risk – if R. L. James is not able to finish work in the contracted time frames, some or all of the projected benefits may not be realized, and we would then need to find a way to finance the unfinished work while also paying off the term loan
- ❑ A new master to please until final repayment date in 2028 – the Bank will be monitoring construction progress, require specific project and financial reporting, loan payments must be made in full, on time.



Construction Loan - Next Steps

1. **Firm up our numbers**, including R.L. James' pricing for the remaining buildings and all of cost parameters associated with the two loan alternatives, and obtain feedback from lenders on whether they would potentially loan money to us on those terms given how we "line up" on the various underwriting criteria
2. **Formally request approval from Association members** to apply for, negotiate, and execute a loan subject to certain parameters. This would require affirmative votes from greater than 2/3 of a quorum at a Special Members Meeting called for that purpose. We would prepare a comprehensive information pack to members for this voting decision.
3. If approval is obtained from members in step 2, proceed with the extensive work needed to **apply for, negotiate, and if approved, execute the preferred loan**



Potential Special Meeting Vote – June/July 2020 Timeframe

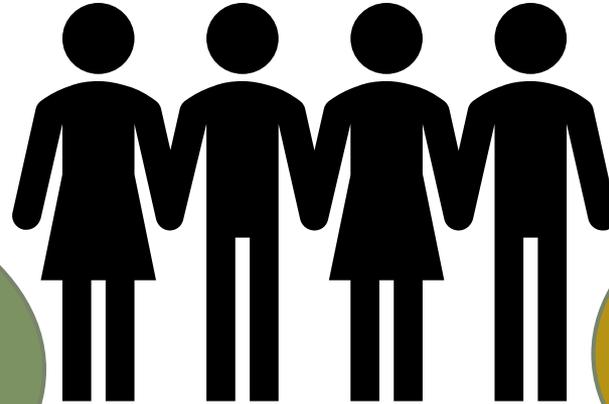
CONSTRUCTION LOAN

Section 5.1.(q) of the Association's Bylaws states that any proposed loan which would cause the Association's total outstanding indebtedness to exceed \$25,000.00 requires the consent of the Owners of at least two-thirds of the Units represented at a Special Members Meeting at which a quorum has been attained. The Board has determined that it may be able to arrange a **\$X,000,000** construction loan to shorten the time needed to complete the building remediation project by eighteen (18) to twenty-four (24) months. The loan would be a non-revolving line of credit with interest only charges during a **xx month** construction period that would begin on **[insert construction period start date for loan]**. The loan balance at the end of the **xx month** construction period would be converted to a fixed term loan amortized over a **x year** repayment period. The interest rate for the line of credit would be the prime interest rate plus a spread of no more than **y%**. The interest rate for the term loan would be fixed for the repayment period and set by LIBOR/FHLB index plus a spread of no more than **z%**. There may be loan set-up costs of **up to \$150,000**. Owners would not have the option to opt out and pay their obligation up-front. Are you in favor of the Association obtaining a construction loan based on the above parameters and with interest rates and other costs not to exceed the above projections in order to shorten the time needed to complete the building remediation project?

YES _____

NO _____

Should the Association Borrow?



Some owners
want the
Association to get
a loan

Other owners
have no
need/desire for
loan financing

Both are valid opinions, and
depend on your unique
circumstances

Questions to ponder:

- Would a loan and reduced HOA fees, but continuing for a longer time, be helpful to me?
- Do I have other methods for borrowing funds (eg HELOC against primary residence) that may be cheaper and more flexible for me?
- If I'm able to self fund the remediation, do I wish to incur the cost of borrowing?
- Is speeding up the construction important to me?



MEMBER VOTING RESULTS ON PROPOSED AMENDMENTS

Questions from the Floor

Moderated by Joe Joseph

- **No questions were received in advance of the meeting**
- **If you have a question, please form a line on the left aisle**
- **Begin your question by stating your name and unit number**
- **One question topic per member at a time, maximum 3 minutes**





Thank you for coming

This presentation will be available on the
website tomorrow