

Brown Homestead Remodel Project Updated Q & A February 26, 2010

1. How much will the project cost?

Current estimate is \$1.3 million. There is about \$48,000 in existing funds that can be used, which means the special assessment/association loan will be about \$1.255 million. Deduct about \$175,000 if the HOA decides to choose the smaller scope of work in Concept 2.

2. How sure are we about the project cost?

The estimated project cost is based on proposals from 7 contractors who bid the MMA preliminary plans. So it is a rough number that we are using for general budgeting purposes. The project will be re-bid after owner approval and MMA prepares final plans.

The project budget includes:

- * 15% contingency of \$125,000 for unforeseen conditions
- * all soft costs, including the architect, owner's representative and engineer
- * Keeping \$107,000 in reserves, which will be a buffer against costs of foreclosures

We will try to negotiate a construction contract that is cost-plus with a guaranteed maximum price (subject to allowances and change orders for unforeseen conditions) with a fixed contractor's fee.

3. How will the project be paid for and what will the new assessments be?

About \$48,000 will be paid from the association's funds, the balance of \$1.255 million will be a special assessment or HOA loan or a combination. The association is considering giving owners the opportunity to pay off the entire special assessment when construction is complete. Then there might be an opportunity for full payoff again when the HOA's loan is refinancing.

Windows and doors are limited common elements under your declaration. There is a provision in the declaration that allows the association to repair and replace limited common elements and charge the owners benefited. So there is no need to change the declaration to include windows and doors in this project. The same reasoning applies to the decking material for the upper decks.

Assuming windows are included in the project, the total window budget is \$150,000. The upper units are expected to cost about twice as much as the lower units, and we have adjusted the numbers accordingly. The decking material will also be assessed to the upper units only, but this is a small number.

Based on a \$1.255 million need, the estimated one-time special assessment would be \$52,000 and \$73,500 for upper units. For owners who do not payoff the assessment, the HOA would take out a bank loan and assess those owners as part of regular assessments. The estimated increase in assessments is as follows.

Lower Units (adjusted for windows) \$375

Upper Units (adjusted for windows) \$600

Anticipated savings in operating expenses, reserve assessments, and painting funding assessments are \$100/month for lower units and \$130/month for upper units. When adjusted for the anticipated monthly savings, the increase in assessments is estimated to be:

Lower Units (adjusted for windows) \$280
Upper Units (adjusted for windows) \$470

4. **What are the terms of a bank loan?**

We will not know what the actual terms are until the HOA applies for the loan after owner approval. Preliminary numbers are based on a 3 to 5 year balloon with a 20-year amortization, 7% variable interest rate, and 1.5% in points. The loan would be secured by the HOA's receivables. These terms are less favorable than individual home equity loans would be.

5. **What can we cut from the project to save costs?**

The project scope consists of:

- * New roof
- * New siding and trim
- * Reframing the North and South decks
- * New windows and doors
- * Breezeway walkway scoring

Most of this work is deferred maintenance and is not optional.

- * The roof is 30 years old and is failing
- * The wood trim won't hold paint any longer
- * The windows and doors are failing
- * The decks are dry rotted and some are actually peeling away from the building
- * The breezeways are slippery and an ongoing safety concern

So unfortunately, much of this work is going to have to be done at some point in the next couple of years one way or the other.

The optional portions of the project are the difference between Concepts 1 and 2. Concept 1 is intended to take advantage of the opportunity to improve aesthetics and significantly improve the function of the roof to improve snow shed and reduce snow damming, which should help eliminate future damage to the building. Concept 1 removes the chimney boxes and reconfigures the chimneys, and adds shed roofs over the upper South decks.

There is an estimated \$130,000 difference in estimated costs between the two concepts, and another \$45,000 difference in cost between the two plans for windows.

The estimates for specific areas of work that are somewhat optional are:

Windows	\$100,000 - \$145,000
Shed Roofs	\$20,500
Breezeway Sidewalk Treatment	\$11,500
Reconfigure Chimney Flues	\$30,000

6. **What if other owners can't pay?**

The association will continue to hold about \$107,000 in reserves, which by vote of the association, can be used as a cushion for foreclosures. Each foreclosure is estimated to cost the association about \$15,000. The \$15,000 for Gray's unit, which went to sale this week, is already accounted for. There is another foreclosure pending that will come out of the \$110,000 fund. This will leave enough for 5 more foreclosures.

In addition, the association is exploring sale of the "tennis court" property that is under lease to the Red House to the neighboring owner. If this happens, the intent will be to keep those funds as a further contingency.

7. **What other costs will there be?**

Owners are responsible for the interior window and door trim and other interior finishes and for drywall nail pops.

8. **Is the new assessment tax deductible?**

According to the association's accountant, Denise Jurgens, CPA:

It depends. First, the interest paid by the HOA can certainly be reported to each owner as interest paid during the year. Whether or not each owner gets to deduct the interest depends on tax law. For instance, you can only deduct interest up to \$1 million for no more than 2 residences. So, assuming the Brown Homestead is the third home for one owner, they may not be able to deduct the interest. If an owner rents the property, either long-term or short-term, it would not be home mortgage interest; it would be interest deductible against the rental property. Therefore, each owner will need to talk to their accountant to see if the interest is deductible based on their specific situation.

9. **Will the project include solar?**

No. Full Circle looked into this and, unfortunately, it is prohibitively expensive.

10. **Will the project include insulation?**

No. The siding and roofing materials will go over the T111 and sheathing, so the interiors of these spaces will not be exposed. There is no budget for insulation work.

11. **Will there be new stair railings?**

No. Unfortunately, there is no budget for work on the breezeway stairs or railings.

12. Are there any tax rebates available?

There may be some small (\$1,500-ish) tax rebates for windows and doors. We are looking into whether there are any for the new roof. The board does not recommend counting on rebates to significantly offset the remodel costs.

13. What are some of the “pros” for doing the remodel?

Regain structural integrity of buildings
Avoid additional water damage to structure
Roof replacement MUST be replaced anyway
Avoid leaks and damages from failing roof
Low construction costs due to economy
Financing is available
Increase in resale value of property
New doors and windows increase aesthetic appeal of property and improve heat retention
\$100,000 every 5 years savings on painting (new siding does NOT have to be painted)
Future savings on roof maintenance and repair
Future savings on reserve funding
Windows will comply with code for egress

14. What are some of the “cons”?

Risk of owner delinquencies and foreclosures
Risk that construction budget contingency is not enough
Possible increase in RE taxes

15. How long will the project take?

The estimate is 4 to 5 months. The hope is to start construction by June 1.

16. Will I have to move out during construction?

No. Replacement of windows will be a one to day inconvenience, but otherwise all of the work is on the outside of the building.

17. What is the procedure for moving forward?

The board noticed a March 12 owners meeting. At this meeting, the owners will be asked to vote on the project scope, budget, and how they want to pay for it. A majority of the total votes will be needed for any action to pass.