



Welcome!

RSJ Roof Project Townhall

Monday, July 25, 2022
At the Rancho Senior Center

A Few Words from Your Board President

- ▶ Like you, Board members are also homeowners in this community
- ▶ No one joins the Board with the idea, *“Golly, I can’t wait to hit my HOA with a special assessment!”*
- ▶ But when HOA dues are kept artificially low, bad things happen:
 - ▶ Board must dip into its reserve savings to cover operating costs - as our HOA has done in prior years
 - ▶ *This is because Board has to “fit” our operating budget within the given income from the HOA dues to balance the budget - on paper*
 - ▶ Reserve contributions are kept flat and not increased to keep up with inflation of future replacement costs
 - ▶ Maintenance starts to defer for buildings, trees, landscape to cut costs
 - ▶ *False rationalization is sometimes used: Budget has “excess fat”, “HOA is overspending”, or some maintenance can be skipped*

Few Words cont.

- ▶ Years later, whoever is on the Board is “left holding the bag” and becomes the bad guy
 - ▶ Must increase underfunded Reserve - *we're only at 38% **
 - ▶ BTW, **RSJ is an OUTLIER** - *almost all nearby condo HOAs have Reserves from 81% to 100%, including:*
 - ▶ *The Villas at SJ, Oxford Court, Columbia Square, Princeton Townhomes*
 - ▶ *They don't issue special assessments for projects like roof jobs because they are consistently FULLY funded*

** In 2017 our Reserve was at 36.5% & Board was advised by Reserve Analyst to increase contribution from \$60K/mo to \$65K/mo - but that was never done ☹*

- ▶ Must catch up on deferred maintenance - costs more \$\$\$ to catch up
 - ▶ *Board has been catching up on deferred maintenance for the past 2 years*
- ▶ Must update Reserve Study to reflect true costs and asset lifespans to ensure we're saving enough for future replacement costs
 - ▶ *E.g., our shingle roofs were listed with a 50-year lifespan in old reserve studies which was unrealistic*
- ▶ AND must figure out how to pay for a roof job with an underfunded Reserve

Few Words cont.

- ▶ Unfortunately, our HOA didn't learn its lesson after our \$25,700 special assessment in 2007
 - ▶ If we had set our dues a bit higher in prior years to cover our operating costs AND increase our Reserve savings to +70%...
 - ▶ We would NOT be having a roof townhall to discuss a special assessment ☹️
- ▶ **Here's the Good News:**
 - ▶ Board defined new savings plan in our '22 Reserve Study to get to +70%
 - ▶ Increased Reserve contribution 10% to \$66K/mo to help get there
 - ▶ Roof project is the last “big” reserve project for next few years
 - ▶ \$66K/mo contributions - *with small, annual increases* - will help build up Reserves again
 - ▶ NOTE: After roof job we must start saving again for roofs in 30+ years
 - ▶ Because roofs in ~2052 will cost ~\$13 MILLION (3% annual inflation)

Board Meetings on Roof Project

- ▶ Jan 18, 2021 Meeting
Roof Assessment report presented
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent
- ▶ Nov 23, 2021 Meeting
FSR invited a roofer to present
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent
- ▶ Jan 18, 2022 Meeting
Current roof condition discussed
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent
- ▶ Jan 25, 2022 Meeting
Roof (Boral) colors/planning discussed
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent
- ▶ May 24, 2022 Meeting
Review construction manager bids
 - ▶ All board members were present
 - ▶ Motion to select Ross Construction passed unanimously
 - ▶ No board objections or abstentions were noted
- ▶ June 21, 2022 Meeting
Reviewed roof bids; interviewed candidates
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent
- ▶ June 27, 2022 Meeting
Roof bids further discussed
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent
- ▶ July 5, 2022 Meeting
Final roof bid discussions
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent
 - ▶ Motion to select Fontaine passed unanimously
- ▶ July 18, 2022 Roof Townhall Meeting
 - ▶ All board members present except:
 - ▶ Dirk Larson, absent

Roof Project Townhall Lineup

- ▶ Roof Project Overview
- ▶ Roof Project Budget and Financing
- ▶ Homeowner Q&A *

** Again please hold your questions until the Q&A*

Roof Project Overview - Speakers

Conor Ross
President, Ross Construction Management

Conor Ross is president of Ross Construction Management in which he founded his company 13 years ago in 2009.

Conor has been in construction for more than 30 years. Conor has experience in HOA reconstruction, including older HOA communities like ours.

Conor's team was responsible for the successful oversight and completion of our 7-month street asphalt project in 2021 in which - *thanks to their oversight* - we completed this complex, multi-phased project on-time, within budget, and with quality work.

Roof Project Overview - Speakers cont.

Jim Fontaine President, Fontaine Weatherproofing

Jim Fontaine is president of Fontaine Weatherproofing in which he founded his roofing company 25 years ago in 1997. Jim has 40 years of experience as a Roofing Project Manager, General Manager, and 24 years of experience as a licensed C-39 Roofing Contractor.

His company works exclusively with commercial and multi-residential clients only, such as HOA communities like ours.

Fontaine's clients are throughout Orange County, including one recent roof project in Irvine that was a large apartment complex for The Irvine Company in University Town Center.

Why Are We Here?

- ▶ RSJ's current roof - FireFree lightweight composite
- ▶ FireFree shingles are no longer available
 - ▶ RSJ's roofs were replaced in 1995
 - ▶ Manufacturer later went bankrupt and closed
 - ▶ Replacement shingles no longer available
- ▶ Manufacturer promised a minimum life of 30 years
 - ▶ Shingles started to fail in half that time

Why Are We Here cont.?



Current State Of RSJ's Roofs

- ▶ In December 2020, Ross Construction Management (RCM) inspected all 84 townhome & stack unit buildings
- ▶ A report was provided to the Board, including photos
- ▶ The “best” buildings had hundreds of destroyed shingles
- ▶ The worst buildings had thousands of destroyed shingles
- ▶ Photos in report do not show all the different types of damage on RSJ's roofs!

Current State Of RSJ's Roofs cont.

- ▶ The number of roof leaks are increasing
- ▶ **16** leaks just from this past year's rainy season
 - ▶ These roofs are covered with plastic tarps
- ▶ As shingles break, underlayment is exposed
 - ▶ UV light destroys underlayment, later leading to leaks
- ▶ Properly “repairing” the roofs will cost RSJ millions of dollars and will not completely solve the issues
- ▶ Time is of the essence to replace the roofs before leaks get worse, increase in number, and cost RSJ \$\$\$

Reported Roof Leaks - Thru Jan 2022

The following homeowners have reported roof leaks or other related leak repairs to FirstService:

30 Nuevo on 1/12/22

28 Arboles on 1/2/22

14 Montanas Norte 12/30/21

31 Madrona on 12/27/21

2 Montanas Norte on 12/27/21

32 Arboles on 12/26/21

21 Palos on 12/24/21

12 Solana on 12/24/21

3 Montanas Este on 12/24/21

11 Madrona on 12/22/21

13 Solana on 12/20/21

11 Solana on 12/20/21

6 Palos on 12/20/21

4 Lago Sud on 12/17/21

4 Viejo on 8/27/21

Why Construction Management?

- ▶ Ensure well designed roofs & quality workmanship
- ▶ Assist RSJ residents - answer any & all questions
- ▶ Solve problems as quickly as possible
- ▶ Coordinate RSJ's massive roofing project and 100's of moving parts
- ▶ Ensure value for every dollar spent by RSJ
 - ▶ Money is not wasted on unnecessary work
- ▶ Quality control thru frequent “boots-on-the-roof” inspections
 - ▶ Every phase of the project and on every roof
- ▶ Cost control

Project Planning

- ▶ Scheduling to re-roof 440,000 square feet (84 buildings)
- ▶ Duration is 24 to 36 months because:
 - ▶ Unknown if wood repairs will be necessary and how much - won't know until peel back the old roof
 - ▶ Schedule delays due to rain
 - ▶ City cooperation on scheduling permit inspections
 - ▶ “Murphy’s Law” for other unexpected issues
- ▶ Project phases will be data-driven
 - ▶ Roofs with tarps will go in the first phase
 - ▶ Leak-prone buildings will go in the second phase, etc.
- ▶ Tenting will follow the same phased plan - prior to roofing
 - ▶ Eliminate change orders due to any damages caused by tenting

Roofing and Termite Treatment

- ▶ Fumigation termite treatment is overdue
 - ▶ RSJ's last tenting was done 15 years ago in 2007
 - ▶ Spot treatments not effective esp. for hidden termite infestations in walls, attic spaces, roof rafters, etc.
- ▶ Tenting requires non-roofers walk on all roofing components
 - ▶ Heavy containment tarps and attachments will damage roofing components
 - ▶ Vents are especially susceptible to damage and future leaks
- ▶ Tenting will occur before each phase of the roof project to avoid damages to the new roof
- ▶ Separate termite tenting meeting will be scheduled later

Unknowns & Contingency

- ▶ RCM inspects the roof after the existing shingle & underlayment is removed
 - ▶ Identify wood that requires replacement - RSJ's wood components are larger/thicker than most communities *
 - ▶ Wood damaged due to termite, dry rot, or out of compliance with city building code
 - ▶ Requires new 1x6 sheathing
 - ▶ New 4x8 fascia
 - ▶ New 4x rafter tails and eaves shiplap *
- * RSJ design has large eaves/overhangs and shiplap exposure which can get expensive if need to replace*
- ▶ Costs for these items are covered in 25% Contingency budget
 - ▶ Prevents cost overruns and ensures RSJ won't run out of money before end of project

Checks and Balances By RCM

- ▶ Document *every* inspection with photos of before & after conditions
- ▶ Four “Boots-on-the-Roof” inspections
 1. Verify condition of existing wood* after tear off old roof
 - * *Contingency budget will cover costs if need replacement*
 2. Review installation of waterproofing layer
 3. Create inspection “punch list” for Fontaine
 4. Final building walk - done before progress payments issued to Fontaine

Reroofing Your Building

- ▶ Notices sent to homeowners before their roof project phase begins
- ▶ Weekly meetings will be held during duration of roof project
 - ▶ Homeowners may attend
- ▶ What to expect
 - ▶ No need to move out during roofing
 - ▶ Will need to move out during termite tenting that's prior to re-roofing - *more details later*
 - ▶ Expect noise and dust during re-roofing
 - ▶ In the end you will get a beautiful, new roof that's leak-free and will last for many, many years *

* Strongly recommend RSJ performs annual roof inspections & maintenance to keep new roofs in good shape

Roofing Materials

- ▶ Total weight of new roof materials had to be considered for RSJ's current roof structure

- ▶ Plywood/OSB sheeting will add weight prior to roofing *

** RSJ roofs are out of compliance - full-sheeting now required and is why our roof cost is higher*

- ▶ Needed to consider lightweight roof options *

- ▶ Cedar shake - 50%+/- more expensive

- ▶ City approval issues due to fire danger

- ▶ DaVinci - Polymer shake - 200%+ more expensive

- ▶ Asphalt shingle - "Presidential" high definition

- ▶ Stone coated steel - Steel roof with high definition

** Standing seam metal & Tesla solar roofs were briefly considered but it's +200-500% more - cost prohibitive*

Bid Process

- ▶ Six roof contractors submitted competitive bids to RSJ
- ▶ Contractors were pre-qualified by FirstService & RCM
- ▶ Contractors received the Request for Proposal
- ▶ Bids were reviewed for accuracy by RCM
- ▶ An “apples to apples” comparison of bids was provided to the Board
- ▶ Contractor in-person interviews were held
- ▶ Board selected Fontaine at the July 5th board meeting

Quality Roofs

- ▶ At the end of the roof project, RSJ will get:
 - ▶ New high-quality roofing material
 - ▶ New synthetic waterproofing underlayment
 - ▶ New metal flashing
 - ▶ New vents
 - ▶ Dry rot/damaged wood replaced
 - ▶ Added reinforcement at leak-prone areas
 - ▶ Each building fumigated for termites that will be last for many years

Asphalt Shingles

- ▶ Manufacturer & product - CertainTeed Presidential shingle
- ▶ Definition - High (*compared to other asphalt shingles*)
- ▶ CertainTeed warranty - NO Dollar Limit Warranty
 - ▶ 30 years on materials and 25 years on workmanship
 - ▶ Covers material, labor, tear-off, and disposal
 - ▶ Warranty applies even if Jim Fontaine retires later and sells his business to another roof company
- ▶ Underlayment - Synthetic, proven material to help prevent leaks

Roof Project Budget & Financing - Speaker

David Wankel

Partner, Iger Wankel & Bonkowski LLP

David Wankel is an attorney and partner at Iger Wankel & Bonkowski LLP located in Laguna Hills.

David has over 26 years experience representing construction companies and HOAs throughout Southern California, including Rancho San Joaquin.

Project Expected Costs/Budget

Roofing + PM Fee \$5,545,000

25% Contingency * \$1,311,530

** 25% Contingency based on Roofing cost - for unexpected wood repairs, legal, management, etc.*

Termite Tenting \$375,520

TOTAL PROJECT COST: \$7,232,050 *

** Per member share (309 homes): \$23,405*

Estimated Start: January 2023

Reserve Funding

Project Duration: 24 to 36 months

Reserve Funding is approx. \$66,000 per month

(With planned small increases each year per RSJ reserve study)

Reserve Contributions During Project: $\$66,000/\text{mo} \times 24 \text{ to } 36 \text{ months}$

\$1,584,000 to \$2,376,000

Reserve savings at Start of Project: \$3.491M

Total Reserve contributions received by Project End *:

\$1.584M to \$2.376M

** With new roofs and termite fumigation completed*

Gap Funding

- ▶ **Project Funding Gap: \$3,741,050**
- ▶ **Per member share of Unfunded cost (309 homes):
\$12,107 each**

Don't panic! We have a plan!

*RSJ must have full funding determined
before Project can begin*

HOA Bank Loan

\$3.741M Needed To Fully Fund Project

- ▶ 10 Year Loan @ 6% Interest (*approximate*)
- ▶ 1 Year Open Line of Credit (*drawdown*)
- ▶ Converts To 10 Year Fixed Loan
 - ▶ 120 Monthly Payments
- ▶ Approx. HOA Loan Payment = \$41,500 per month

Funding Options: Option 1

How to Cover HOA Monthly Loan Payment of \$41,500?

OPTION 1

Reserves Allocation:	\$66,000 per month
Less Monthly Loan Payment:	(-\$41,500)
NET Reserve Allocation:	Only \$24,500 per month

Reserve Contribution Over Project Life (24-36 Months) Reduced To:

\$588,000 TO \$882,000

(Compared to original \$1.58M to \$2.38M contribution during Project)

HOA will need to RAISE the assessment to afford the loan because

We Will Go NEGATIVE In Reserves Balance By 2025!

+ AND...Still Have Another 8 TO 9 Years of Drastically Reduced Reserve Allocations

Terrible Idea!

Funding Options: Option 2

How To Cover HOA Monthly Loan Payment of \$41,500?

OPTION 2

Increase Monthly Assessments By 17%

- ▶ Already increased assessment by 3% to \$555 on July 1st
- ▶ Increase by another 17% (max 20%) to \$647 per month
- ▶ But this is only for the first year
 - ▶ HOA collecting only additional \$28,240 per month
 - ▶ *Still short by \$13,260 to cover loan payment*
- ▶ Must increase by another \$43 per month *next* fiscal year

Next fiscal year, HOA assessments will be \$700 per month or more!

Remember, CPI (inflation rate) is 9.1% this year...

Another Terrible Idea!

Funding Options: Option 3

How To Cover HOA Monthly Loan Payment of \$41,500?

OPTION 3

\$120 Monthly Special Assessment Per Member *

- ▶ \$120 monthly special assessment totals to HOA = \$37,080 per month
- ▶ Seek approval for special assessment of \$120 per month per home for 10 years (*beginning in January 2023*)
- ▶ = \$10,800 total principal
- ▶ = \$14,400 total via 120 payments, *including \$3,600 interest at 6%*
- ▶ Use portion of monthly Reserve contribution (*if needed*) = \$4,420
 - ▶ *Reduces Reserve contribution to only \$61,580 per month*

Funding Options: Option 3 cont.

OPTION 3 cont.

Special assessment of \$120 per month, per home

- ▶ Offers a simple payment plan
- ▶ Not a permanent increase in assessments
- ▶ Defined end date for payments
- ▶ May be paid in full at any time
- ▶ Alternative financing available for tax benefits
 - ▶ *Homeowner can get HELOC (Home Equity Line of Credit) to deduct interest*

Funding Options: Option 3 cont.

OPTION 3 cont.

Special assessment of \$120 per month, per home

- ▶ Amortization schedule of \$10,800 per home
- ▶ May pay all at once to avoid any interest
- ▶ May pay full balance at ANY time
- ▶ Negotiable in escrow
- ▶ Minimizes losses to HOA due to bankruptcy or foreclosure by a homeowner
- ▶ Potential tax benefits (*Homeowner HELOC*)

Funding Options cont.

CONTINGENCY

Roof budget includes 25% contingency for full funding

- ▶ 25% strongly recommended by Ross Construction & Fontaine
- ▶ If roof project ends up using less Contingency money:
 - ▶ *Reserve contribution won't reduce to \$61,580/month and can remain at our current \$66,000/month to Reserves*
- ▶ Contingency costs cannot be known before project begins
 - ▶ *Won't know how much Contingency will be needed until we peel back old roofs*

Special Assessment

APPROVAL REQUIREMENTS

- ▶ Membership vote is required
- ▶ Ballot will request approval of:
 - ▶ 120 special assessments of \$120 each
 - ▶ Amortization schedule will be included so payoff in any given month is known ahead of time

Special Assessment cont.

VOTE REQUIREMENTS

Majority of Quorum

- ▶ Quorum is needed - Majority of HOA members
 - ▶ *Set by law*
 - ▶ *Need minimum of 155 votes returned*

Of those that vote, a majority must vote to approve

Special Assessment cont.

VOTE REQUIREMENTS cont.

Majority of Quorum

- ▶ Examples of vote results:
 - ▶ 180 votes received → 91 must vote Yes
 - ▶ 226 votes received → 114 must vote Yes

Worst-Case Scenario

What Happens If the Vote Fails?

Board will have to choose:

- ▶ **Option 1** - Use Reserve allocations to pay bank loan and reduce Reserves to dangerously low levels
 - ▶ Assessment will also have to go up to prevent Reserves from going Negative

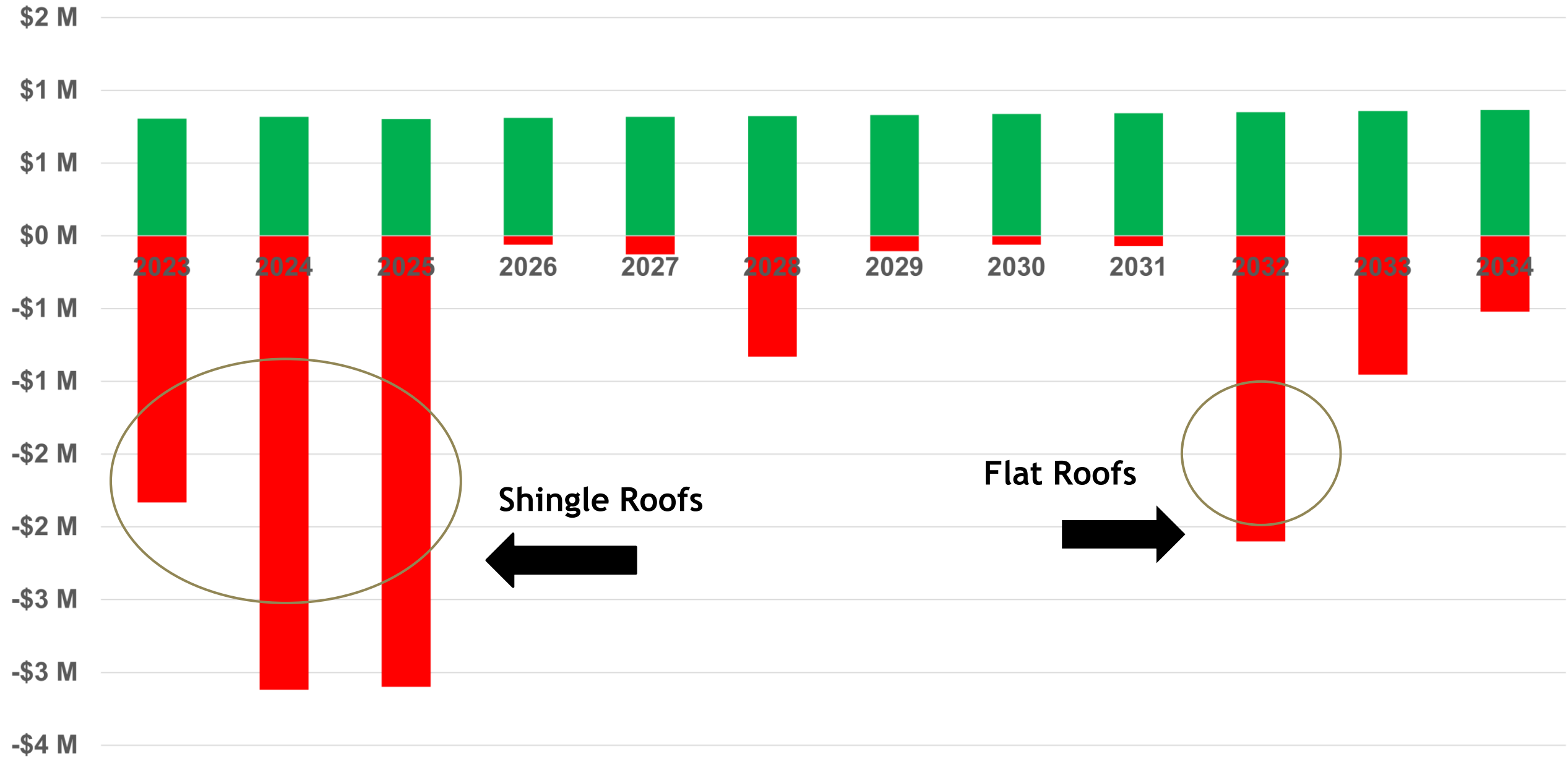
OR

- ▶ **Option 2** - Increase monthly assessments several times to \$700/month or more

Either Option Will Leave HOA With Low Reserves and Likely Not Enough Saved For Future Projects

Reserve Study Visualization

■ Additions to Reserve ■ Capital Expenditure

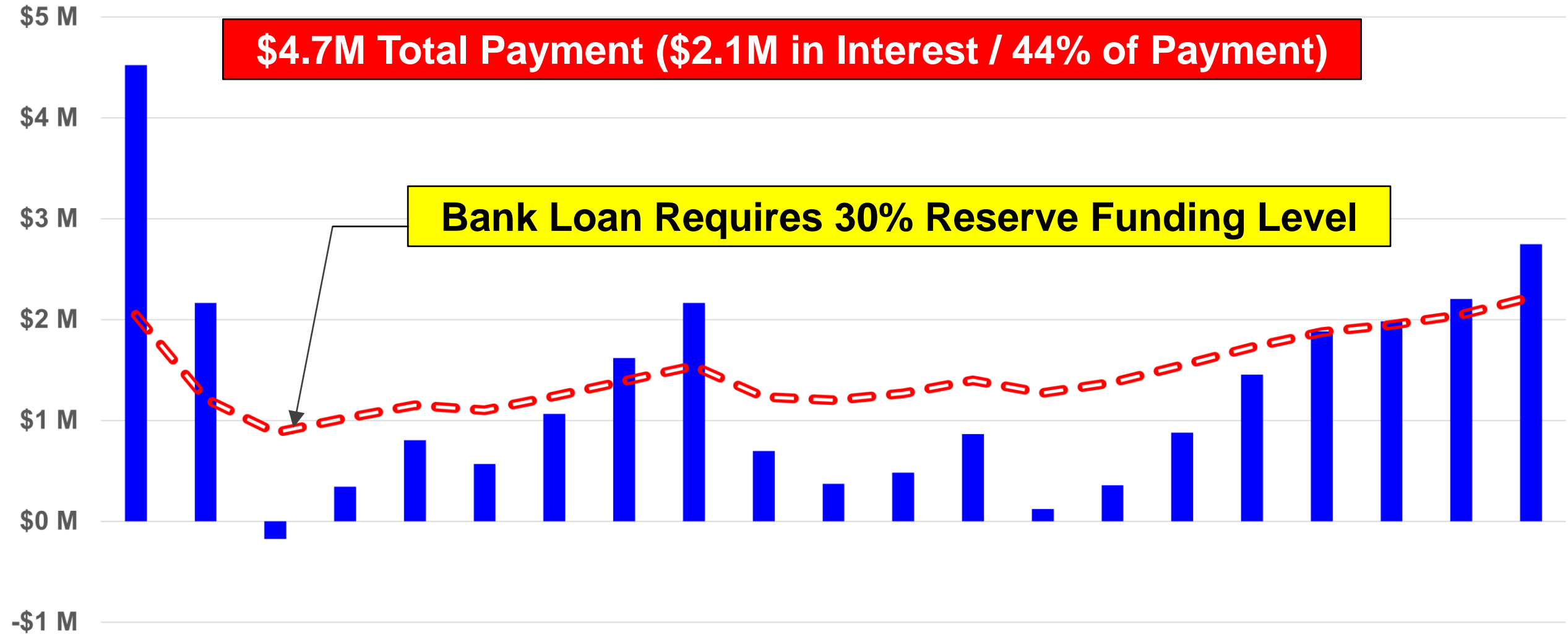


Borrow \$2.6M/No Special Assessment (Cary K-Option 4)

■ Reserve Balance -o- Bank Requirement

\$4.7M Total Payment (\$2.1M in Interest / 44% of Payment)

Bank Loan Requires 30% Reserve Funding Level



FY	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43
Res %	61%	29%	-6%	10%	21%	15%	26%	35%	42%	17%	9%	11%	18%	3%	8%	17%	25%	30%	31%	32%	37%

Follow Up Details

- ▶ Tonight's slides will be shared on our HOA website
- ▶ A separate meeting on termite fumigation will be scheduled later
- ▶ View CertainTeed Presidential shingle at:
 - ▶ Turtle Rock condo townhome community near Turtle Rock Preschool
 - ▶ Key in address: **3 Whitewater, Irvine 92603**
 - ▶ *BTW Presidential roofs did not decrease their property values*
 - ▶ *Since re-roofing their sales increased from ~\$750,000 to over \$1 Million*

Last HOA Project Without A Construction Project Manager: 2018-2019 Paint Project

- ▶ NO independent project manager was hired for our +\$1 Million paint project
 - ▶ Assumption was to “save money” on the project
- ▶ Project led by a consortium of people:
 - ▶ Our former property manager - who resigned from the HOA before the end of the project
 - ▶ 1 or 2 members from our previous HOA board(?)
 - ▶ A volunteer group of homeowners - “paint project committee”
 - ▶ Which disbanded before the end in which 1 member quit in frustration at a board meeting
- ▶ No scope of work was defined before the two painting companies were hired
- ▶ No one independently inspected the paint job
 - ▶ A board member volunteered go around in his golf cart & inspect the work but all 84 buildings were never inspected
- ▶ No one created “punch list” to correct issues before project ended & painters were paid
 - ▶ Wood rot was painted over & peeling paint later discovered, among other issues
 - ▶ ProTec STILL working on “re-work” - fixing wood rot & repainting \$\$\$
- ▶ **NO ONE WAS IN CHARGE**
- ▶ HOA ended up paying \$\$\$ for “re-work” AFTER the project - AND we got less-than-ideal paint job