

Notes from Budget Shortfall Planning Meeting

The annual budget planning season, from September - November, has begun for boards across CVE. This years' budget planning is unusual due to various factors accelerating the cost for items in all building budgets. For many buildings costs are already accelerated and show no sign of slowing down. Associations are experiencing costs that exceed their reserves.

This round table seminar is to help you with information and ideas in regards to the main contributors buildings need to be aware of as potential expenses and solutions to deal with the budgeting shortfalls you might be experiencing.

Planning for Reserve budgeting and huge increases

Areas of increases:

- - Overall insurance-Property Insurance rate hikes @ 25%-35%
 - Out of pocket/deductibles (esp roof deductible)-Hurricane Deductibles increasing to 5%
 - Roof upgrades, replacements, AC stands
 - Elevators/fire alarms upgrades
 - Electrical panels
 - Concrete work
 - Increased attorney use
 - Potential defaults and non-payments
 - Inspections/repairs
 - Structural Integrity Reserve Study by 12/31/2024 - Mandatory to reserve to targets set by study
 - Increased maintenance fees
 - Rising costs of goods and services

Possible actions:

- Places you can cut or defer expenses (improvements, insurance)
- Assessments/coupons—how soon, how much at one time, who (current vs new)?
- Contract now, pay later; payment plans
- Group buys
- Borrowing/Lines of credit

- **Current banks--collateral (some banks do not offer loans--e.g., Amtrust)**
- **Staging borrowing**
- **Other**

Notes and suggestions from attendees:

FL Senate Bill 4-D was signed into law May 2022. It addresses Condominium inspections and reserve requirements. The details and specifics of this new Bill are still being ironed out but will affect all buildings in CVE in some way or another.

The new Legislation will require all hi rise buildings (three stories or more) to have a Milestone Inspection performed by a licensed engineer before December 31, 2024 and every 10 years thereafter. In addition, the new Legislation removes the ability of the owners to completely waive reserve funding. Condo owners may not vote to use reserve funds, or any interest accrued thereon, from one category to pay for another (other than their intended purpose). Associations can not vote to waive or partially waive reserves for items listed on the Structural Integrity Reserve Study (SIRS).

The SIRS will consist of the following items as related to the structural integrity and safety of the building:

1. Roof
2. Load-bearing walls or other primary structural members
3. Floor
4. Foundation
5. Fireproofing and fire protection systems
6. Plumbing
7. Electrical systems
8. Waterproofing and exterior painting
9. Windows
10. Any other item that has a deferred maintenance expense or replacement cost that exceeds \$10,000 and the failure to replace or maintain such item negatively affects any other structural integrity component, as determined by a licensed architect or engineer performing the visual inspection portion of the SIRS.

Possible ways to lower the price of Building Insurance Premium while also lowering your coverage, but lots of discussion about taking extreme caution and possible consequences of doing without these coverages :

1. Lower or remove your Umbrella policy
2. Lower the amount of Ordinance & Law coverage

Consider requiring owners to buy their own condo insurance:

1. Individual condo owners insurance has a provision called HO6, Loss Assessment Coverage, up to \$2000 towards a special assessment resulting from an insurance claim by the building not fully paid for by the association's policy. If the condo association has to pay a high deductible due to hurricane or fire damage to the building or an injury to a person in a common area, the assessment levied to owners by the condo, up to \$2000, would be covered by the HO6 provision, depending on the coverage you maintain.

Note: Condo insurance isn't required in Florida, but your condo association may still require you to purchase coverage, if it is in the bylaws.

Some buildings have owner volunteers who do odd jobs to save money for the condo. However, please be aware if the work is unsatisfactory or an injury occurs to the volunteer or as a result of the work done, the association may be responsible. If you want to use your residents as volunteers, consider getting a workers' comp provision as part of your insurance.

Some buildings have delayed vanity and landscaping projects as well as updating their bylaws to save money (buying mulch in bulk; using permanent stones or ground cover instead of mulch; delaying catwalk resurfacing, building painting).

Possibly increase laundry costs or group buys on washer/dryers.

Suggested resource: The **Florida Community Association Journal** is a resource for all associations to read and stay up to date with the new laws affecting all Condos in Florida. In addition, it discusses cost cutting ideas and various topics related to condo associations. The website is www.fcagroup.com.

Similar sized buildings may want to communicate with each other to look into group buying to reduce costs. A vendor might be willing to give discounts if a group of buildings make one larger volume purchase. NOTE: a volunteer group is forming to investigate various cost-savings group buying options.

Additional comments:

1. Wait till the dust settles with the state law before beginning structural inspections. Make contacts now with structural engineers and discuss plans, but wait at least several months to see changes in deadlines, requirements, etc.
- 2 Many buildings are exploring lines of credit or low interest loans with their banks which hold their main accounts.
- 3 Could create a 'Catastrophe Fund' that owners pay into and are repaid when they sell (@38.19)
- 4 Suggested increasing monthly fees rather than doing big chunk assessments in order to spread the pain
- 5 Major discussion of cost of roof replacement vs increasing cost of insurance and deductibles and inability to support costs; roofs will likely end up being uninsurable; buildings now extensively exploring insurance costs with insurers before adequately budgeting
- 6 Share costs of roofs, repairs, reserve increases, etc. between buildings to help everyone plan
- 7 Lots of discussion about the benefits of pooling and what will be allowed under the new law and who needs to approve the change in methods
- 8 Possible self-insurance village-wide
- 9 How to fund unexpected major expenses (like underground water leaks, concrete problems, electrical panels, etc.)
- 10 Stressed importance of communicating to owners about coming increases. Sample letters are posted at <https://coocve.com/association-sample-forms>
- 11 Reinforced the fiduciary duty of boards and how they need to fund reserves because they will be legally liable if they don't