ATHERTON COMMON UNIT OWNERS ASSOICATION
SPECIAL MEETING MINUTES
SEPTEMBER 15, 2020

The meeting was called to order by President John Learoyd at 4:05 pm. Also in attendance were Vice President Dick Stout, Treasurer Kevin Eagan, Secretary Joan Ferguson, Director Rich Nowak, Capital Reserve Chairman John Sullivan, and Association Manager Norman Desrochers. In addition, 42 unit owners were represented (including five proxies).

Purpose of the special meeting was to discuss and vote on whether to pursue a bank loan to fund the re-shingling of all the units with the exception of the fronts of Units 32, 35 and 44 as well as the front and back of Unit 36 which were re-shingled in the past four years, and the garages. The meeting began with an opening statement by the president, followed by an outline of the Board's proposal, the contractor proposal and the loan proposal.

Learoyd opened with a comment regarding the composition of the Board, explaining its members are uncompensated volunteers whose sole purpose is to make the community a better place for all owners. Most do not have association experience, but bring other skill sets needed to advise on the running of an association: management, financial, engineering, and other experiences. This Board is seeking to be pro-active as well as ensure maintenance. They are looking at major issues such as vinyl siding, the roads and roofing to see if there is an approach that is not a burden to unit owners; i.e., does it make sense to take out an loan to do all re-shingling at one time? New England roofs have a life-span between 18 and 20 years and thus 85 of the 90 sections will require replacement in the next 10 years and of those, 44 sections are poor, fair or 20 years or older and will likely require replacement within the next 2 years (according to the study). In addition, records are incomplete regarding warranties related to the previous shingles and workmanship. A year-long study produced a proposal to spread out the cost of roofing for current and future owners rather than pay (via special assessments) as the roofs fail, thus avoiding a potential "tsunami" of re-shingling. It also avoids the inevitable increase in costs associated with labor and materials by assigning costs to both current and future unit owners. (Secretary Note: In the past 3 years, 12 of the units have turned over to new owners.)

See Attachment 1.

Attachment 1 Comments:

<u>Financial</u>. The proposed $360K adjustable rate loan is for 20 years with a 4.25% fixed rate for 7.5 years, then adjusted at the Wall Street Journal prime rate plus one-half percent for the following 5 years and then re-evaluated at the WSJ prime rate again at 12.5 years for the duration of the loan. Learoyd said $40K would be taken from the Capital Reserve as the down payment and that $15K would be set aside for roof repair (materials and labor) if any issues are found during the re-shingling.

The impact on the monthly HOA (Home Owners Association) fee, he said, is a net zero impact for the duration of the loan. That is, half of the current $100 of the Capital Reserve portion of the monthly HOA fee would go toward the loan payment with the remaining portion remaining in the Capital Reserve Fund. In other words, instead of $100 of the monthly HOA fee currently allotted to the Capital Reserve Fund, there will be a $50 increase in the Operations Fund and a deduction of $50 in the Capital Reserve -- a net zero impact on the HOA fee to Unit Owners.

In projecting the future HOA monthly fee, calculations were made that the worst case scenario at 10.9% interest rate at 7.5 years. However, for the past 20 years, the prime rate has been between 5-9.5% (see page 1-4 of Attachment 1). See pages 1-5 and 1-6 for a model worst case scenario loan payment schedule.

A unit owner asked if the calculations – both the HOA fee and the loan -- took into considering amortization. (Reply: Yes.)

<u>Conde Proposal</u>. The Board reviewed several contractors, narrowing the consideration to two contractors. While both bids were close to each other, the significant difference was in the product and the warranty. Both had 30-year warranties (on materials, labor and disposal based on for shingle failure) but the difference is the warranty. The difference on the 2nd proposal was that the warranty was pro-rated. On the Certainteed Landmark shingle there is a the 25-year warranty on the shingle workmanship failure. (See Attachments 2 and 3). In addition, Conde had the best rating on home advisor. (See Attachment 4.)

Learoyd said the original proposal included the garages, but they had been re-shingled between 2008 and 2012 and are not heated spaces, That decision cut the cost by $151,600. Priority is living space. The advantage short-term is sellers can use a new roof as a selling point and the Capital Reserve portion of the HOA fee for roofs doesn't go up for 7.5 years.

<u>Pay-As-You Go</u>. See page 1-9 of Attachment 1. Estimated costs would increase from $400K today to $725K over the next 15 years and would require special assessments starting in 2021 totaling nearly $7K.

In summary, there are real savings to awarding a contract now along with least cost to current owners while future owners share the costs. See page 1-10 of Attachment 1 for five other advantages for this proposal.

Question from unit owner: Where metal roofs look at? (Reply: Yes. However, they are more expensive and couldn't be funded.)

Question from unit owner: Is this loan a mortgage and thus has associated penalties if the Association defaults? Particularly does the bank take ownership of the condominiums should we default? (Reply: This is a commercial loan, and while the Board hasn't yet looked at the fine details, the bank will likely take our monthly fees and assessments as collateral. But we wanted a 20-year loan for its advantages of amortization to ensure a stable HOA monthly fee. The Board likes a 20-year loan for that advantage -- a stable HOA monthly fee.)

Learoyd said only the Millyard Bank offered a 20-year loan while others wanted 10-15 year loans. In preliminary talks, the Board found them more flexible and they indicated such a loan would help boost their reputation as they are a relatively new bank.

Question from unit owner: Can we delay a decision on pursuing a loan? (Reply: Yes, but it is certain the loan interest rate and the roofing contract costs will increase. Currently the average cost per section is about $4.75K on the proposal. Learoyd added that if skylights have never been replaced, Conde will install them for $100, but will not do the inside trim. Learoyd added replacing the skylights is a unit owner's responsibility and optional.)

Question from unit owner: Instead of all the buildings, isn't it better to use a pay-as-you go and complete one building at a time? That is, take out a loan per building? (Reply: We would not take out a loan for individual buildings. Payment and the roofing contracts would follow a pay-as-you go plan with special assessments and separate negotiations for each contract.)

Question from unit owner: Do we pay a security interest on the loan and does the bank have lien rights? What happens if we miss a payment? (Reply: Those details have to be agreed on.)

Question from unit owner: What precipitated this proposal? (Reply: The Association needs to be continually fiscally prudent while being innovative to address significant future infrastructure issues, particularly roofs, sidling, septic, and the roads. A review of studies of what is an appropriate Capital Reserve Fund indicates our Capital Reserve is too low for the age and size of this Association. Secretary note: $40K was earmarked several years ago for septic system failure Our septic systems are inspected each year but are nearing their life span.)

Question from unit owner: Will the ice shield between the residence and the garages be invalidated with the replacement? (Reply: No.)

Question from unit owner: I just replaced all my skylights. Will the re-shingling destroy the seals? (Reply: No.)

Question from unit owner: If I don't replace the older skylights and in the future there's a problem, is it a roof problem or the skylight? (Reply: It depends on the result of the troubleshooting of the problem.)

Question from unit owner: Regarding the bank loan, where are the Capital Reserve funds now held? Do we have to move our funds or do we write payment checks? (Reply: Today Capital Reserve Funds are with St Mary's Bank while the Operations Funds are at CIT. The payment details are yet to be negotiated.)

Question from unit owner: I understand we propose to take $50 out of the HOA monthly fee to make the loan payments. If you the math, over 20 years we are diverting $540K from Capital Reserve. With the Capital Reserve Fund underfunded, won't this seriously deplete any growth in the fund? A 2007 study a previous Board initiated indicated that an $85 Capital Reserve monthly payment will essentially show a shortfall of funds. I found the study indicated that by 2020, we would have a $500K deficit. And by 2027, the deficit would be in excess of $1M. A 2013 special assessment was made to ease the issue and the Capital Reserve portion of the monthly HOA fee was recently increased to further supplement the fund. Won't the deficient continue to increase over time if we take on a loan? (Reply: Half of the Capital Reserve portion (a $100 total) monthly HOA fee will go toward the loan repayment; the other half ($50) remains in the Capital Reserve fund. The Board agrees the Capital Reserve Fund shortfall must be addressed, but the most urgent issue for the near future is roofs.)

Question from unit owner: Regarding incremental costs, how statistically would it play out? Why should we pay for a future benefit? (Reply: The Board's proposal is net neutral for the monthly HOA fee while pay-as-you-go means increased costs and unknown warranty schedules each time a new contract is awarded by a future Board.)

Question from unit owner: I've been a resident since 1994. Why replace a "good roof" as certified by an engineering study made last year? Roofs don't fail en masse. You don't know when you have a leak until you have a leak. Historically, we've paid about $6.6K/year for roof repair and re-shingling. Aren't special assessments for the purposes of unplanned events? Also, I believe your interest rate assumptions are low. (Reply: There is evidence that 17 sections are 20 years or older – certainly approaching aging out considering New England weather. Thus the sense of urgency to address future re-shingling needs. We believe it is prudent to be pro-active.)

Comment from unit owner: I believe that skylights are close to $3K per skylight because the original provider is out of business and the spaces are unique. Others who have had recent skylight replacements commented this figure was probably quite high.

Conde Proposal. See Attachment 2 for description of work. Learoyd pointed out Certainteed shingles have a 30-year material warranty and is not pro-rated for the life of the shingle. Certainteed also provides a guarantee of the workmanship for an additional 20 years above the Conde workmanship of five years. Thus, if there is a workmanship failure within 25 years, Cetainteed owns the issue. And Conde is a master certified Certaineed roof installer. (See Attachment 3). He added the Association has no reliable records of warranties, only when the roofs were re-shingled.

Heat cables will need to be removed and new ones installed at unit owner cost. For $100, Conde will put up the new ones.

Satellite dishes will need to be removed and re-installed at unit owner cost.

Unit Owner question: What will be the color of the shingles? (Reply: Landmark weatherwood, which is very close to the garage shingles' color.)

Unit Owner question. I had a roof replaced at a previous location. Vaillancourt did it and it was well done. If you have an end unit, you have two at least two valleys. How will the valleys handled if they go to the metal flashing? (Reply: We confirmed the ice and water shield is under the cooper and extends three feet on each side of the valley.)

Unit Owner question: What makes a warranty good? If they only do a partial – that is, up to the flashing – doesn't that void any warranty? (Reply: Part of the installation is confirming the ice and water shield is under the copper and flashings. A pre-meeting with the contractor included an inspection that indicated the ice and water shield extends under the copper flashings. We will only agree to the contract if there is a 30-year warranty.)

Millyard Bank. See Attachments 5 and 6. Learoyd said if the unit owners give approval to pursue a loan (today's vote) the unit owners will have to give approval for the loan. This vote would be called at the upcoming annual meeting.

Question from Unit Owner: Is it fair to say we will still have special assessments for the next 20 years to pay for other projects, such as painting? (Reply: Yes. Also, it is likely Millyard will have access or take a lien to those special assessments if we don't pay on the loan.)

Learoyd said the loan details still need to be more thoroughly understood and the Board will not ask unit owners for approval until they are satisfied with the conditions.

Question from a Unit Owner: Milyard is a new bank. What happens if the bank closes? (Reply: As the bank is insured by FDIC, any closure will be assumed by them. And like other loans, our loan will be "sold" to another bank and we'll continue to make payments until it is paid.)

Question from Unit Owner: Let's hold off any decision because it is not an emergency. (Reply: All the roofs will likely need to be replaced over the next seven years due to age. If we wait the costs will only increase. It is unlikely we'll be able to get a net neutral HOA monthly fee.)

Question from Unit Owner: How many roofs will need to be replaced? (Reply: It is forecast, 44 of the roof sections will need to be replaced in the next two years with the balance within seven years.)

Question from Unit Owner: What will be the HOA monthly fee in 90 months? (Reply: If all the other contracts, such as snow removal and garbage pick-up remain relatively the same, perhaps $10 more than the current fee.)

Question from Unit Owner: If the owner wants to sell and we vote to proceed with the loan, will he or she get a discount on the HOA fee? (Reply: No.)

Question from Unit Owner: Does the Capital Reserve Committee endorse the loan proposal? (Reply: When they met, they were in favor, but two members have since changed their minds.)

Question from Unit Owner: Has the Board consulted with a CPA firm about the loan proposal? (Reply: It is one of the items that will be accomplished if unit owners agree to move forward with a proposal.)

The vote was taken to pursue a loan agreement and the meeting was adjourned at 6:45 pm to cast ballots. An email was sent to unit owners at 8:15 pm announcing the results of the vote. Of the 42 votes cast, 29 voted to pursue a loan agreement subject to final approval by the unit owners and 13 against. See Attachment 7.

The ballot, votes and proxies will be retrained for three years.

Respectfully submitted,
Joan Ferguson, Secretary