***Del Mesa Carmel Community Association***

**Finance Committee (FinCom) Meeting**

Minutes of Regular Meeting

July 23, 2021

1. **CALL TO ORDER:** Committee Chair, Nancy Jones, called the meeting to order at 2:09 p.m. The meeting was held on Zoom and in the Crystal Room.

Announcements. We have updated the FinCom Charter some weeks ago. The Board has had lots on their agenda so Nancy anticipates the Board will approve it at their next meeting on 7/29.

We have a new member on FinCom, David Lamm. Tom Mallett has resigned because of a potential move. There is someone additionally interested in being on FinCom. Nancy Jones is following up with this person.

***Agenda Review/Approval*** The agenda was reviewed and approved, as revised.

**2. ROLL CALL:**

*Committee Members Present*

Nancy Jones, Chair, Susan Franks, Marty Rubin, and David Lamm were all present in the Crystal Room. Mark Vanlerberghe and Maryellen Eisenberg participated via Zoom. Board members Ted Whitney, JR Wheelwright, and Suzy Boyle were present in the Crystal Room.

*Others Participating via Zoom:*

Anthony Lombardi, Finance Director, as well as Board members Mick Connolly and Mary Rogers. Other participants were Sandy Spooner, Richard Squires, Diane Mayer, Carmela Cantisani, Gigi Wharton, Peggy Johnson, Marcia Vanlerberghe, Danielle De Asis-Pinon, and Cecil Jones.

**3.** ***Approval of the June 16, 2021, FinCom Meeting Minutes.*** The Minutes were approved with three minor edits which have been made.

**4. GENERAL MANAGER AND FINANCE DIRECTOR REPORTS.**

We will not have financials until Monday. Victoria has been out the month of June; Anthony Lombardi has just come back from vacation. Dirk Young will be out until August 2, 2021.

**5.** **TREASURER’S REPORT**

***June Reviews/Reconciliations per Civil Code 5500/5501.*** We can’t reconcile because we have no financials, but we will have them next week and will reconcile before the Board meeting.

We have one delinquency, a one renter. The delinquency is around $10.00.

**6. OLD BUSINESS**

***Balcony Inspection and Foundation and Pier Inspection Costs.*** We have one bid for balcony inspections from the Bergeman Group. Jeff Pearson, from an organization contacted to do our repaving for 2021, says he will be providing the names of some engineers who can potentially do the inspection.

***Site Survey***. Will be going to the Board for discussion.

***Insurance Provided by Nancy Jones***.

Start with some history: After our prior property insurance carrier declined to renew Del Mesa’s master property insurance policy and after six weeks of searching over 100 sources for another carrier, the Board was left with only one bidder (inadequate as to coverage, but enabling DMC to be insured). This “first layer” policy was for $6.8M, for a cost of $544K. Since then, we have been able to increase our CA FAIR Plan coverage of the common area and are now insured for $9.0M ($5M for units and $4M for the Common Area) at a total cost of $556K. Our 2020-2021 policy had a coverage limit of $100M.

Since May, we have continued to search for additional layers of insurance coverage and have identified only one: $5M more coverage, for $300K. This option would put our limit of coverage at $14M at a total cost of apx $840K. We don’t have any offers for higher limits and don’t know what costs would be associated with them.

Let’s consider our options. We’ll consider only 2022, not the 2021 costs that combine our old policy and new ones. You are warned that new 2021 costs might result in a Special Assessment for 2021. There are many complications in developing costs for options, so let me state the assumptions being made:

1. Our 2022-2023 policy will cost 20% more that this year’s policy (last year we budgeted a 15% increase). We can’t easily compare 15% to what we’ve seen this year, since this year’s increased cost was 31%, for 9% of the coverage. Half that figure (10%) was used, since the annual premium will not be due until mid-year.
2. Additional coverage layers will cost $150K for $5M in coverage. This figure comes from the layer already offered and statements from insurance carriers that additional layers will have decreasing costs.
3. We are satisfied with $100M in coverage limits, the same as we’ve had for the last several years) and are not going to try for All-in, full replacement coverage for all of DMC. Note that $100M corresponds, roughly, to a Bare-Walls level of coverage.
4. An “average” HOA impact consists of dividing the costs by 289 (the number of DMC units) equally. There would, in fact be a higher cost for “C” units and a lower cost for “D” units.

**Plan A**: **the Association covers all units and the Common Area at a level of $100M**. This is the plan we were going for and is the plan that our current CC&Rs historically describe. In addition to the assumptions above, we need to make one more: that we can get additional layers. Under this plan, our 2022 annual property insurance premium is estimated at $6.1M. Rumors of a far less-expensive Plan A exist, but none have come forward with such a proposal.

Existing policies $555,618

New layers $2,700,000

Premium renewal rate increase $325,562

2022 total $3,581,179

So, in 2022, the “average” annual HOA impact, after subtracting a reasonable planned cost of insurance in 2022, is $10,785 annually, or an “average” monthly increase of $899.

One could argue some of the assumptions that would affect these calculations. The “inflation” amount in property insurance might be lower than 20% (but it could also be higher). Additional coverage layers may not average at $150K for $5M. We’ve been quoted $300K for $5M, but we’ve also been told by agencies that additional layers will decrease in cost as their risk is reduced (but they also could cost more). If we used $250K/$5M, the annual HOA impact would be $17,826, or $1486/month. We could also say that $100M is not enough coverage. Using $150K/$5M and assuming a replacement cost of $300M, the annual impact would be $33,622, or $2802/month.

**Plan B**: **individual owners insure their own units, at whatever level they are comfortable with, and DMC covers the Common Area buildings to a limit of $9M** and units to the current limit of $5M. This Plans B appear to be the only one, so far, that even begins to address Del Mesa needs and appears to be obtainable.

So far, many owners have obtained their own insurance, but others report an inability to secure a policy. Criteria being used by various agents and carriers to determine who they will insure and who they will not include whether you are on piers or are on the perimeter of the project, being closer to the forest. Some have used the excuse that we do not own our units and that we, therefore, do not have an insurable interest in them. The Board of Directors has been working hard on an update to our CC&Rs that, we hope, will satisfy insurers. The definition of a Unit from our Bylaws is being moved to CC&Rs, but this definition is not changing from the one being used to claim that we don’t have an insurable interest because we don’t own our roof, etc. Legal opinions vary, but our lawyers (including our new insurance expert) support the insurable interest position. There is another section of our existing CC&Rs, Article IV, Section 1(e), that, in fact, states that DMC will cover full replacement costs in the event of a fire. We have not had that level of insurance in years and will be proposing a change to the new CC&Rs to clarify what we can support in that area. Of course, the membership will be voting on new CC&Rs and may not want to accept the proposed changes in this area. When you vote on CC&R changes, I ask that you consider the HOA impacts described herein and presented when we receive “final” offers.

For Plan B under all our prior assumptions, our 2022 annual property insurance premium would be $941K.

Existing policies $555,600

New layer~~s~~ $300,000

Premium renewal rate increase $85,562

2022 total $941,179

So, in 2022, the “average” annual HOA impact is $1650 annually, or a monthly increase of $137. Of course, this does not include the extra insurance costs to individual owners. Those are ranging from $300-$4500/year and vary by whatever risk the owner assigns to their unit.

The Board continues to look for a Master Plan policy with more coverage (at any cost) and to encourage owners to obtain their own individual policies. The Board is ready to help you with individual insurance, as requested. Members will need to make some decisions concerning how Del Mesa goes forward. This is your money, your insurance risk, and your Association.

Maryellen Eisenberg questioned how do we know that 9 Million will cover the common areas. Nancy Jones said that we do not believe 9 million will cover the common areas; this number represents an option provided by Paul Sullivan, our broker. Maryellen Eisenberg offered to provide the name of a person who could provide a good replacement value.

Marty Rubin thinks Plan B is the only one that is reasonable, i.e., the individual owners get their own insurance. Fair Plan will cover anyone who cannot get insurance.

JR Wheelwright said in the green book it states that every homeowner is required to carry insurance. Article 4 of Section 1. “the owners of the units shall carry insurance.

In response to a question, Nancy Jones said that she did not believe the Board of Directors will say it is mandatory for owners to get their own fire insurance.

**7. NEW BUSINESS**

**FinCom Report for 27 May Board meeting**. These are the things that will be bought up at the next Board meeting: the review/reconciliations per Civil Code 5500/5501, the delinquencies, and the FinCom Charter.

**Preparation for the 2021-2022 Budget.** Nancy Jones stated that she put this item on our agenda this month largely because of the huge impact insurance costs are going to have on our 2022 budget and all that this implies. She noted that annual budgets are first proposed by the General Manager, working with his staff, then they go to FinCom. We cannot control the increase we see with PG&E or with water. When DMC does the budget, we’ll have to consider carefully and make some assumption on any increases. It was noted that, so far in 2021, the numbers Anthony Lombardi made for 2021 are pretty much right on.

**Open Discussion**

Mick Connolly. Mick wanted to thank Nancy on the concise way in which she presented the insurance information.

Mary Rogers. She has run into people who have said they will not get insurance. Nancy’s answer says that they are at risk, if they do not get insurance.

Carmella Cantisani. Had a question about utilities. Is the association able to get a loan and conduct some infrastructure spending? Specifically, she is asking about installing meters in each unit. Nancy Jones has heard that it is too expensive to install meters in each unit, but that this statement has not been backed up by actual costs/bids. One of the things the infrastructure group should do is get a handle on what it will exactly cost.

Suzy Boyle mentioned that we were going to look into Solar.

Richard Squires suggests rather than looking for a number to meter all the houses. Rather, look at it as a Reserve Fund Expense, a continuously occurring expense. And begin the installation of meters with money in the Reserve Fund.

The meeting adjourned at 3:25pm.

The next meeting will be on Wednesday, August 21 at 9:30 a.m.

Respectfully submitted by

Susan Franks