

LFG HOA Board Budget Review

2024-2025 Insurance Renewal & Options

August 26, 2024

Situation Summary

- Farmers Insurance notified LFG HOA in late June that they would not be renewing its existing insurance policies, including property, general and excess liability, directors and officers, and employee crime effective September 1.
- Property insurance, and the associated wildfire risk in the Tahoe area, is the principal risk that many insurance carriers are now unwilling to underwrite. All other lines of insurance are still generally available, although costs continue to increase year-over-year.
- LFG HOA's insurance coverage and renewal period is September 1, 2024, through August 31, 2025
- For several years the HOA has enjoyed below-market insurance costs; we are only paying \$133,360 in total for all lines of insurance this year.
- The property insurance market and pricing remains very challenging but has improved somewhat year-over-year.
- Most, if not all, HOAs in the area have already had policies non-renewed and have had to procure less coverage at higher cost ranging up to \$1-2 million or more per year.

HOA Context and CC&Rs

- LFG HOA is legally structured as a “planned development”, not a condominium community, which means that each unit owner owns the defined lot that corresponds to their residence.
- Section 6 of the CC&Rs, Association and Owner Maintenance Responsibilities, outlines HOA vs. Homeowner obligations relative to the lot. Owners are generally responsible for the lot, whereas the HOA is responsible for the common areas unless otherwise defined in the CC&Rs.
- Section 6.2. extends the HOA’s responsibility to the exterior siding and roof, as well as the fences, parking area in front of each lot, exterior siding and roof of outside storage units located at the end of the residence, front doorsteps, and the entryway in front of the door.
- Section 9 of the CC&Rs, Insurance, outlines HOA vs. Homeowner responsibilities relative to insurance. Consistent with Section 6, owners are responsible for insurance related to the dwelling, whereas the HOA is responsible for insurance of the common and other areas as defined in the CC&Rs (see Section 6.2 reference above).
- Section 9.1.(b) of the CC&Rs: The Board, in its discretion, may obtain a policy of less than full replacement cost coverage if the Board, in its business judgment, determines that the premium for a full replacement cost coverage is too expensive and it is more appropriate for the Association to obtain a different level of coverage. Such decisions shall be communicated to the Owners and a Majority of the Voting Power of the Association may override the Board’s decision to obtain a different insurance policy.
- The HOA’s expiring property insurance provided \$85M of coverage, while homeowners are recommended to hold a minimum of \$250,000 in dwelling unit coverage of their own via an H06 condo policy.

Actions Taken to Date

- Multiple meetings and discussions have taken place over the past two months with three different insurance agents and two lawyers from different firms to evaluate renewal options and the HOA's insurance obligations.
- Firm quotes and confirmation of \$40M in property insurance coverage were received by the HOA only one week ago.
- Property insurance is being provided through a combination of California FAIR Plan, Difference in Conditions, and other property underwriters at a cost of ~\$475,000 vs. the current cost of ~\$133,000, an increase of ~\$342,000 annually for \$45M in less coverage.
- HOA insurance is currently paid on a monthly basis of ~\$11,100 per month. With this renewal, the total premium of ~\$475,000 is due upon renewal on September 1.
- The HOA maintains ~\$200,000 balance in its operating bank account, so does not have sufficient operating funds on hand to make the one-time \$475,000 premium payment on September 1.
- Borrowing from reserve funds (~\$2M balance) is permissible but must be repaid within one year. Given that operating funds are not sufficient, the HOA will need to borrow from reserves to pay the insurance premium on September 1.
- Financing options to allow monthly payments were explored but deemed too expensive (15-20% finance charge).

LFG Statistics & Replacement Costs

- Total square footage of 234 units is estimated to be ~310,000 square feet
- Total building replacement cost is estimated at ~\$250 per square foot, or ~\$78M, per local builder estimates, but could run higher in the event of a full-scale wildfire in the north Tahoe area.
- Prior HOA coverage of \$85M plus homeowner recommended \$250,000 in dwelling coverage (H06 policy) equated to \$144M in total coverage:
 - \$85M HOA coverage + \$58.5M homeowners ($\$250,000 \times 234$ units) = \$144M (\$463 per square foot)
- Available HOA coverage of \$40M plus homeowner recommended \$250,000 in dwelling coverage (H06 policy) equates to ~\$99M in total coverage:
 - \$40M HOA coverage + \$58.5M homeowners ($\$250,000 \times 234$ units) = \$99M (\$318 per square foot)
- Available HOA coverage of \$40M plus homeowner dwelling coverage of \$200,000 (H06 policy) equates to ~\$87M in total coverage:
 - \$40M HOA coverage + \$46.8M homeowners ($\$200,000 \times 234$ units) = \$87M (\$280 per square foot)

Individual Unit Coverage Quotes/Estimates (as of 8/22/24)

NEW: Individual Unit (H06 Policy) with \$250,000 in Dwelling Coverage

Primary Residence: \$3,119 per year

- \$250,000 by CA FAIR Plan: \$465
- \$250,000 DIC (Aegis): \$2,654

Vacation/Short-term Rental Residence: \$3,464 per year

- \$250,000 by CA FAIR Plan: \$667
- \$250,000 DIC (Aegis): \$2,797

EXISTING: Individual Unit (H06 Policy) with \$250,000 in Dwelling Coverage

- Per local insurance agents, existing coverages can typically be increased much more cost-effectively vs. obtaining a new policy.
- Recent estimates to increase existing individual unit dwelling coverage from \$100,000 to \$250,000 are in the range of \$400-500, depending on existing homeowner coverage and insurance provider terms.

2025 Expense Forecast

- Projected 2025 Expenses
 - **\$1.760M** 2025 vs. **\$1.362M** today, +\$398K y/y, \$33K/month
 - \$61K OpEx + \$342K Insurance + \$5K Spectrum - \$10K Reserves = \$398K Total
- Insurance Renewal
 - **\$475K** 2025 (~\$40K/month) vs. **\$133K** today (~\$11K/month), a 3.6x increase y/y
 - Annual Per Unit (234 units): \$2,028 vs. \$570 today (+\$1,458 y/y)
- Reserve Borrowing & Repayment
 - Given that the insurance payment is due upon renewal and not in monthly increments, the HOA will need to borrow \$475K from reserves and repay the reserve borrowing over 12 months.
 - Monthly reserve repayments would begin September 2024 and be funded through the deferral of budgeted reserve contributions, budgeted insurance funds remaining in 2024, and ~\$4K per month from operating funds for 8 months in 2025.
- Funding the projected 2025 expense increase will require an increase in dues, an assessment, or both.

2025 Financial Projections: Insurance Funding Option Summary

	Option 1	Option 2	Option 3
	Dues Increase	Assessment	Dues Increase + Assessment
Income	\$1.760M	\$1.760M	\$1.722M
• Dues	\$1.760M (\$627/month, 29% increase)	\$1.362M (\$485/month, +0% increase)	\$1.634M (\$582/month, +20% increase)
• Special Assessment	n/a	\$0.398M (\$1,700 per unit)	\$0.088M (\$375 per unit)
Expenses	\$1.368M	\$1.368M	\$1.368M
• Vs. Run Rate (\$1.368M vs. \$0.960M, +\$408K)	+\$408K, +43%	+\$408K, +43%	+\$408K, +43%
• Operating (\$705K vs. 644K, +\$61K, +9.5%)	+\$61K	+\$61K	+\$61K
• Insurance (\$475K vs. \$133K, +\$342K)	+\$342K	+\$342K	+\$342K
• Spectrum (\$188K vs. \$183K, +\$5K)	+\$5K	+\$5K	+\$5K
Reserves (\$0.392M vs. \$0.402M, -\$10K)	\$0.392M (-\$10K)	\$0.392M (-\$10K)	\$0.392M (-\$10K)
Total Expenses + Reserves	\$1.760M (-0-)	\$1.760M (-0-)	\$1.760M (-\$38K)
Considerations	HO approval required Covers higher insurance cost run rate No large 2026 increases (~4-5%) 2024 reserve borrowing of \$475K 2025 reserve borrowing of ~\$158K	HO approval required Covers 1 st year insurance increase only No 2nd assessment allowed Requires 34% dues increase in 2026 2024 reserve borrowing of \$475K 2025 reserve borrowing of ~\$23K	No HO approval required Results in \$38K annual budget shortfall Requires 12%+ dues increase in 2026 2024 reserve borrowing of \$475K 2025 reserve borrowing of ~\$151K

Next Steps

- **Decisions Required**

- **Recommendation:** Option 1: Dues Increase (+29%) = \$485 per month (\$5,820 per year) increases to \$627 per month (\$7,520 in 2025)
- Reserve borrowing to fund premium payment and reserve repayment plan
- Homeowner dwelling insurance requirement or recommendation.

- **Homeowner Notification Requirements**

- Approach to insurance renewal and incremental cost, including borrowing from reserves to pay premium and repayment plan.
- Proposed dues increase to fund incremental insurance costs.
- Plan and timing for homeowner vote to approve dues increase.

- **Homeowner Dwelling Insurance Coverage (\$250,000): Recommendation vs. Requirement**

- HOA currently recommends, but does not require, \$250,000 in dwelling coverage by individual homeowners.
- Requirement would require annual HOA coverage confirmation and record keeping for all 234 units with remedies for non-compliance.

- **Insurance Committee**

- Given the unique challenges of the current insurance market and coverage options, recommend the creation of an insurance committee now to begin investigating options for next year's renewal.
- To be led and composed of homeowners with expertise in commercial property insurance or other financial and legal matters.
- Expected outcome is a formal recommendation to board and homeowners for 2025 insurance renewal.

Appendix

Borrowing from Reserves

- **Reserve Borrowing.** Without a vote of the membership, boards are allowed to borrow from reserves to meet short-term cash flow problems or other expenses, such as unexpected increases in insurance premiums. ([Civ. Code § 5515\(a\).](#))
- **Notice of Intent to Borrow**
 - Boards are required to give notice of their intent to borrow reserve funds by listing it as an agenda item in its notice of board meeting.
 - The notice must include the reasons the reserve transfer is needed, some of the options for repayment, and whether a special assessment may be considered.
 - If the board authorizes the transfer, it must issue a written finding, recorded in the minutes, explaining the reasons for the transfer, and describing when and how the money will be repaid to the reserve fund. ([Civ. Code § 5515\(c\).](#))
- **Repayment Within One Year**
 - Monies borrowed from the reserves must be repaid to the reserve fund within one year of the date of the initial transfer.
 - Exceptions: The board may, after giving the same notice required for considering a transfer, and, upon making a finding supported by documentation that a temporary delay would be in the best interests of the association, temporarily delay the repayment. ([Civ. Code § 5515\(d\).](#))

Reserve Repayment Plan

LFG HOA Expense Summary	2024													2025												
\$K	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Dec x 12	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2025
Operating	54	54	54	54	54	54	54	54	54	54	54	54	644	59	59	59	59	59	59	59	59	59	59	59	59	705
Insurance	11	11	11	11	11	11	11	11	11	11	11	11	133	40	40	40	40	40	40	40	40	40	40	40	40	475
Spectrum	-	-	-	-	-	-	15	15	15	15	15	15	183	15	15	15	15	15	15	16	16	16	16	16	16	188
Subtotal	65	65	65	65	65	65	80	80	80	80	80	80	960	114	114	114	114	114	114	114	114	114	114	114	114	1,368
Reserve	34	34	34	34	34	34	34	34	34	34	34	34	402	33	33	33	33	33	33	33	33	33	33	33	33	392
TOTAL Budget	98	98	98	98	98	98	113	113	113	113	113	113.5	1,362	146	146	146	146	146	146	147	147	147	147	147	147	1,760
Per unit (234 units)	0.420	0.420	0.420	0.420	0.420	0.420	0.485	0.485	0.485	0.485	0.485	0.485	5.820	0.625	0.625	0.625	0.625	0.625	0.625	0.628	0.628	0.628	0.628	0.628	0.628	7.520
Reserve Repayment Plan	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2024	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2025
Reserve Repayment Required	-	-	-	-	-	-	-	-	40	40	40	40	158	40	40	40	40	40	40	40	40	32	32	32	32	443
Reserve Deferral	-	-	-	-	-	-	-	-	34	34	34	34	134	33	33	33	33	33	33	33	33	33	33	33	33	393
2024 Insurance + Operating	-	-	-	-	-	-	-	-	11	11	11	11	44	4	4	4	4	4	4	4	4	-	-	-	-	35
Monthly Reserve Repayment	-	-	-	-	-	-	-	-	45	45	45	45	178	37	37	37	37	37	37	37	37	33	33	33	33	428
Reserve Repayment YTD										89	134	178		215	252	289	327	364	401	438	475	33	66	99	132	
Reserve Allocation (actual)	34	34	34	34	34	34	34	34	-	-	-	-	268	-	-	-	-	-	-	-	-	-	-	-	-	-
Reserve Balance								2,000	1,570	1,614	1,659	1,703		1,740	1,777	1,814	1,852	1,889	1,926	1,963	2,000	1,875	1,908	1,941	1,974	1,974
Insurance Payment (Sep 1)									475												475					
Insurance Funding via Dues YTD									-					40	79	119	158	198	238	277	317	40	79	119	158	158
Reserve Borrowing									(475)												(158)					

HOA Quote & Coverage vs. Prior Policy

Coverage Lines	8/17/24 Quote 9/1/2024 - 8/31/2025			Farmers Insurance 9/1/2023 - 8/31/2024			Year-over-Year Premium	
	Limit	Deductible	Premium	Limit	Deductible	Premium	\$	%
	Property	40,000,000	75,000	\$439,052	85,000,000	50,000	\$125,902	313,150
CA Fair Plan (fire, wind, hail)	20,000,000		\$81,052					
Difference in Conditions*			\$52,000					
Excess Property	20,000,000		\$306,000					
Liability & Crime			\$35,412			\$7,374	28,038	380%
General Liability	2,000,000	n/a	\$16,050	2,000,000	n/a	included		
Excess Liability	5,000,000	n/a	\$6,243	10,000,000	n/a	\$7,374		
Directors & Officers Liability	1,000,000	15,000	\$13,119	1,000,000	1,000	included		
Employee Crime	500,000	2,500	included	1,000,000	25,000	included		
TOTAL Insurance Premium			\$474,464			\$133,276	341,188	256%
Per unit (234 units)			\$2,028			\$570	\$1,458	
Per unit per month			\$169			\$47	\$122	

* Difference in Conditions (DIC) policies provide coverages that are not available through the California FAIR Plan, such as water damage, theft and liability coverage. They are designed to be combined with the FAIR Plan policy to provide you with coverage similar to that in a comprehensive homeowner's policy.