



FUNDING BUILDING REPAIRS

BY JENS JOHANSON



BUILDING CONSULTANTS
THE BUILDING DOCTORS

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AUTHOR'S NOTE

INTRODUCING JENS JOHANSON

I have worked in the construction industry for over 30 years, with a focus on the building envelope for over 20 years. My professional experience encompasses all facets of the industry: hands-on trade work, estimating and project management, building envelope design, construction administration, construction defect analysis, and expert witness testimony.

Over the years, I have worked with hundreds of homeowners association boards, and have recorded for you some of the most creative ways we've found to fund their repairs. Your specific needs should always be reviewed by your attorney and your board. I am not offering legal advice, I'm not a banker or accountant, and I haven't read your governing documents. So use this for what it is: a guide based on experience and knowledge about what has worked for my clients as they raise money for their repairs.

Some of these methods are not groundbreaking ideas, but we know that common sense is not always common practice, so hopefully these are good reminders or a new way to look at things.

Will all these methods apply to you right now? Probably not. But they may be relevant in the future! Some rely on contracts with vendors that need to have these inclusions and protections written into them, so hold on to these tips for when the time comes. Working with your attorney to integrate these provisions now will benefit you "later." The concept of budgets and saving reserves is an annual process that requires time for the money to build up. I hope you implement these tips sooner rather than later, and being to reap the benefits of a happy and healthy community!

INTRODUCTION

WE START WITH WHAT YOU HAVE

As the title suggests, this is a book written for condominiums or homeowners associations who find themselves with a construction project, and wondering where the money will come from to fund it. We'll review the standard reserves and savings and then get into some more creative ways of funding your building repairs.

ADD RESERVES & SAVINGS



ADD OTHER RESOURCES



Contracts



Insurance



Warranties



1 RESERVES AND SAVINGS

B E N E F I T S

There are always surprises when it comes to managing a community, so it's our recommendation to add a line item in your budget to have some extra funding when the need arises. Having the funds on backup helps reduce the stress about projects, minimize additional assessments, and gives your community a positive image for new buyers and resale value, giving residents the peace of mind that the association is "properly funded."

Reserve accounts are an easy way to save money long term for the planned projects that come up.

Having cash on hand will put you in a better financial position for loans!
(See Chapter 3)



S T A R T H E R E

Start with what you have! Your reserve account represents the funds that come out of your assessments each month to replace items as they fail, which comes directly from your reserve study and annual budget. Put in a line item for "contingency" or "maintenance" at 5% and see what can happen when you have a little extra money.

If you don't have reserves, make a note and contact your manager or board to get this done! Even though these items are likely required by your governing documents and even the law in some states, many boards give me a blank stare or nervous laugh when I ask about their reserve account. They know they are grossly under-funded and feel helpless to change things. Common sense is not common practice.

How will you feel when you have a savings account? How will your property values and your community look and feel when you are spending money on your community based on a budget plan? All organizations feel more connected and do greater things when they have a plan and feel confident that the plan is reasonable and attainable.

If you don't yet have that plan in place, today is a great day to start!

The background features a stylized illustration of hands holding and counting US dollar bills. The bills are in various denominations, including a prominent \$100 bill in the foreground. The overall color palette is soft, with pastel shades of orange, yellow, and light blue.

2 RAISING DUES

COSTS INCREASE, BUT DUES DON'T?

“No new dues under my watch”

This is a popular election platform for new board members and board Presidents. During the economic recession, not raising dues was an acceptable promise. But now we have had quite a few good years and property values are rising — provided the necessary maintenance is performed.



Why should you raise the dues?

We work with many associations that haven't raised the dues for several years. These communities are usually struggling to find the money to make repairs, and property values are flat-lining.

Consider a \$30 monthly increase

For an association with 300 units, raising the dues by only \$30 a month can raise \$9,000 per month or \$108,000 per year. That means only \$1 a day more per household and you can raise six figures a year, depending on the size of your association. Now you can make your repairs and have a much more attractive community!



The background of the image is a construction site. It features several wooden A-frame ladders leaning against a wall under construction. To the left, there are stacks of white pipes or conduits. The floor is a mix of concrete and dirt, with some debris and a black cable lying on it. The overall scene is brightly lit, suggesting an outdoor or well-lit indoor environment.

3 LOANS FOR REPAIRS

WE HAVE REALLY GOOD NEWS!



If you don't have enough in your savings and reserves, you can get a loan. In the past 10 years, loans have become easier for associations to obtain due to banks focusing on the assessment collections of the association rather than the individual unit owners for lien rights. Historically, banks have used individual liens on each unit to secure the loan. Today however, the banks secure the association's reserve account and use monthly assessments as their collateral. This makes the underwriting process much simpler.

TAKE THIS INTO CONSIDERATION

Loans are a great way to spread the assessment payments out over time at an attractive interest rate versus paying a big chunk all at once. It also helps some residents with budgeting these repairs and makes the lump sum assessment less of a hardship.

DELINQUENCIES

Get these under control, usually under 10% is the ideal amount for being 60 days overdue. If you are over 10% review them closely. We have seen several occasions where there are disputed fees or fines that are small in nature, causing several owners to be "delinquent" according to the report. A closer look at this report may reveal some easy fixes to bring your delinquency account under 10%.

HOW ARE YOUR RESERVES?

Do you have money in the bank? Do you have a history of funding your accounts on time? (See 'delinquencies'). This helps the bank in the underwriting process know that you have a track record of paying your dues.

BANKS vs BROKERS

The banks will have their programs and guidelines that they must follow, but brokers can go to several different lenders if there are problems with certain guidelines. For example, one bank says, "since you only have 24 units we cannot give you a loan," but a broker may be able to find another bank or lender that will loan on associations your size. For this reason, it's good to get a couple different quotes so that if you have turned down by one party you don't feel that you are un-financeable.

TAKE THIS INTO CONSIDERATION

WHO IS ON YOUR TEAM?

The bank will be looking for a formal scope of repair, plans, and specifications prepared by a professional, such as an architect or engineer or construction manager (hint....that's us). They also like an experienced contractor with a hard bid and formal contract ready to perform the work. They are making sure the project has been defined, can be carried out, and will be overseen to make sure it's properly done. The first step to getting a formal contract and bid is to hire a consultant to help you write a scope of repair and perform a competitive bid process with contractors to do the work. A competitive bid process is likely required by your HOA bylaws, and showing the lender that you've done your homework will go a long way.

UP TO DATE FINANCES?

I hear it too often – “we don't have updated financials yet”.... You are running a business called the association, you should get your financials in order and updated so that the bank knows you can keep track of the accounting necessary to pay back the loan. They don't have to be audited, but they need to be professionally presented so that the bank can review them – the shoe box of documents needs to be cleaned up!

LARGE % OWNERS?

Does the developer still own 30% of the units? This may be a problem for the bank, they don't like this, because what if one owner defaults? Now they are only receiving 70% of the payments. Ask the bank about this if you think you have a concern.



The image features three incandescent light bulbs hanging from thin wires against a light blue background with faint, wispy cloud patterns. A large, bold, dark blue number '4' is superimposed over the left side of the image, partially covering the first two bulbs. The text 'ENERGY COMPANY & UTILITY REBATES' is positioned to the right of the number, with 'ENERGY' and 'REBATES' in green, 'COMPANY' in dark blue, and '& UTILITY' in orange and dark blue respectively.

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**ENERGY
COMPANY
& UTILITY
REBATES**

WHAT ARE REBATES?

This depends on your state and federal guidelines and usually benefits older communities that are updating their building with more insulation, lighting, or windows.

PROJECT EXAMPLES



WINDOW REPLACEMENT

Upgrading the older aluminum frame windows to energy efficient vinyl or fiberglass. Our team has won some clients huge rebates for their community-wide window updates.



FLAT ROOF REPLACEMENT

Replacing the old flat roof and adding tapered insulation to increase the slope for drainage as well as provide additional insulation value to the building.



EXTERIOR LIGHT UPGRADE

Replacing the old light fixtures with LED or similar more energy efficient lighting.



SOLAR PANELS

Installing new solar panels to supplement the power supply.

MEET YOUR NEW BFF

Power companies are your new best friend! Different power companies and geographic markets have different incentives, but the theme is: power companies appreciate the improvements that will lower your utility bills. Because of this, they often offer incentives that help pay for some of these upgrades. In some instances they will have specific performance requirements that can be easily incorporated into the project specifications so that the qualifying products get used and the rebates are processed efficiently. Ask your consultant about current utility rebates with your local power company.



HOW MUCH MONEY ARE WE TALKING?

We have helped our clients obtain up to \$120,000 in rebate checks! We check with your power and utility companies to see what they offer, then help you fill out the paperwork.



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WARRANTY PROVISIONS

WARRANTIES CAN COVER REPAIRS!



Many products used in the restoration projects these days offer 5 to 20 year warranties, much longer than the contractor's warranty or statute of repose (meaning how long they are legally "on the hook" for the warranty). These warranties can provide "funding" for replacing the product in question.

Just like your car warranty, extended warranties can be purchased for additional time and coverage. When your next repair project comes up, we'll negotiate with the contractor to get a construction warranty added to the contract. This is not the standard of care for most contractors, but it will ensure they perform top-notch repairs so they don't have to come back to fix their work.

PAY ATTENTION



Add the time frame and dates to a calendar!

What does it cover? Understand what the warranty covers. Labor? Materials? Damages? Demolition and haul away costs?



Initial steps? Some warranties require a sign off or inspection during or after installation, otherwise they are not valid. Make sure this gets done.

Annual Requirements

Some require inspections or cleaning. Others require "after 5 years do this," in order to qualify for a full 10-year warranty. These requirements should be put into the maintenance plan and marked on the calendar.

EXAMPLE

There is a roofing membrane warranty that will pay for labor, materials, and any consequential damages caused by the roof. This warranty may be worth upwards of \$500,000 to more than a million depending on the size of the roof! While this isn't "cash" for your repairs, these warranties are coupons for value, and they should be treated with respect and followed accordingly.

ALWAYS save the paperwork and contact information, as well as your documents with respect to the maintenance and rules you followed.

Paperwork filed in a binder works great, but we recommend backing up the files to an online cloud too!

CHECK OUT THESE FREEBIES!



Google



Apple



Microsoft



The background is a soft, painterly illustration. It features a laptop with a silver finish and a white keyboard. A hand is shown from the right, with fingers resting on the laptop's trackpad. The overall color palette is muted, with soft greys, whites, and a hint of yellowish-brown, giving it a clean but slightly vintage feel.

6 3RD PARTY CLAIMS

WHAT IS A 3RD PARTY CLAIM?

3rd party claims are claims caused by someone else, typically related to construction defect, or when a building wasn't built correctly. Some states have warranty provisions or "condo acts" that describe these provisions and timeline requirements.



How do I know if this fits my situation?

A quick Internet search for "[fill in your state here] condo act" will point you in the right direction. These claims usually relate to new construction or a recently "converted" apartment to condominium.

Get support and help!

The timelines and coverage provisions vary so get some guidance from an attorney who is savvy with construction defects. Depending on the state and its coverage provisions, these claims can be very valuable and are usually paid by the developer's or contractor's insurance or the project's wrap policy.



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INSURANCE COVERAGE

WHAT DOES INSURANCE COVER?

A covered loss on your insurance policy would be something like a fire, storm damage, etc.
Have the right coverage for your risks, and understand overlapping coverage.

OVERLAPPING COVERAGE

The first point I want to highlight is the overlapping areas of coverage between the master policy and the homeowner's policy. Many, if not most policies have a provision that makes the master policy primary when there are instances of overlapping coverage. What this means is that if both policies cover a particular loss, then the master policy pays, not the homeowner's policy. Many times the manager or board asks (or makes) the homeowner pay for a loss, even though the master policy provides coverage. Know your coverage!

GET THE RIGHT COVERAGE

My second point: Always —always— have the right insurance coverage for the anticipated risks. If you live in earthquake-prone area, have earthquake insurance! Policy coverage items and determining how much is enough, is really a question for your insurance professional who will help you through these decisions. Proper insurance is key to paying for losses as they occur.





8^{1ST} PARTY CLAIMS

WHAT IS A 1ST PARTY CLAIM?



1st party claims are claims made against your insurance policy when they should pay for something, but they don't. These claims require an attorney to interpret the policy and the claim basis. There has been recent success with older policies paying for "hidden" or "collapse" type damage. We have helped several clients with 6-figure recoveries for policy covered water damage on older buildings. A few examples of hidden damage we've experienced first hand:



THANKS FOR READING!

8 WAYS TO FUND YOUR REPAIRS

These are the top 8 ways associations find money to pay for their condominium repairs. I hope you have found some additional tips and tricks to make your project easier next time. As a thank you, and for those of you who want to learn more, I have invited specialists into our studio to discuss and elaborate on the following topics centered around finding money for your condo repairs. These videos are about 30 minutes each and they will give you further insight into each topic. At the end of each video you will find their contact information and they have all agreed to provide a free consultation to you if you have further questions.



**BANKER
INTERVIEW**



**RESERVE STUDY
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INSURANCE**



**CONSTRUCTION
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**INSURANCE FOR
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**CONDOMINIUM
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J2 Building Consultants is here for you and your building!
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