

Minutes Harvest Dance Financing Meeting

July 28, 2021

10:00 am via Zoom

Derek Goodson opens the meeting and summarized the agenda.

Marc Segal provides history of the Harvest Dance (HD) repair and renovations.

- Several years ago, the Board had the HD units inspected. Originally the purpose was to determine how to best maintain the units so that things did not wear out.
- Jackson Brandenburg (HOA project manager) was brought in as a consultant. He and other experts took a hard look at what needed to be done.
- Results: A list was developed of what needed to be completed right away and what projects could be done over time.

Mr. Segal provided a history of how reserve assessments at Spring Creek work for the individual subdivisions.

The reserve funds have been largely depleted as a result of years of determining that rather than collect significant funds for annual reserves, HD would borrow funds that would address the renovation/repair needs as they arise.

Mr. Segal emphasized that an important goal is to build significant reserves so that down the road in 20-30 years there are adequate funds to undertake the work that will inevitably be needed.

Upon inspection of Units, it was clear that the construction methods of the early 1980s would not meet current standards. Decks were not built in a manner that would be approved today or meet construction standards. Decay is evident on decks. Vapor barrier (ie: Tyvek) has completely failed.

Mr. Segal then listed the projects that have been completed: Decks and railings, entry decks, pathway lighting. Remaining projects include: completion of sliding doors, windows, doors, siding, and pathways.

The HOA has been effective in buying in bulk so that materials are purchased and stored on-site so that the Board can realize savings by avoiding paying price increases that are occurring.

Carter then summarized history of hotel units/project. When doing renovation work, it became clear it was prudent to replace siding in addition to windows.

Mr. Segal stated that both materials and labor prices are increasing dramatically. Mr. Segal also emphasized the level of need and the numerous items that are failing within HD.

Mr. Segal turned to discuss the matter of how to best finance the necessary repairs. There is a large, regional bank that is well situated to provide a loan in this situation and has helped a number of other entities in the valley on similar projects.

The Loan allows for a construction period, with a payment period. Upsides of Loan:

- Loan is pre-payable without penalty at any time after the construction period
- No lien on each individual property
- If someone defaults and does not make a payment, then the Association could place a lien on the property in the same manner it can for other, unpaid assessments
- Simple process that allows the construction work to be accelerated
- Approximate loan amount per unit is \$62,000.00
- Monthly debt service for average unit is estimated to be about \$652.00 per month

### **Questions & Answers:**

**Tom Sweet:** Siding and wrap seem logical, but question about the construction timeline and how the financing structure will work.

**Answer:** The assessment will go away if the loan is pre-paid. If a Unit is sold, can pre-pay at closing at any time post construction. Work will be done in Fall 2021 and Spring 2022 and the following fall and spring.

**Bob and Dorina Link:** Supportive of getting the work done and the loan structure. Mentions flexibility of loan and ability to pre-pay or allow loan to fully amortize. Asks what interest rate for loan is and whether it can be priced down more.

**Answer:** Loan amortizes over 10-year loan period. Interest rate is set at 4.25% and Board has determined that balloon structure not appropriate. Every regional, super-regional and national bank was consulted, and this was the best rate.

**Deweese Berry:** Inquired regarding the second option referenced in the July 16 letter. Asked about the structure of the Special Meeting.

**Answer:** Mr. Segal advised that if the loan was not approved the Board would make a determination regarding moving forward to accelerate the project. Quorum is needed at the meeting, followed by a majority vote of members attending.

**Colin Jennings:** Supportive of project, good plan and work is necessary.

**Mr. Schirmer:** Asks whether anyone has checked into the availability of materials. Mr. Schirmer expressed concerns about the limited amount of materials, that the price of materials has recently doubled, and that the current plan is to do construction at the absolute peak of the market. Mr. Schirmer stated that upon his own inspection the siding on the Units was variable,

and recommended doing the project building by building to take advantage of the decrease in cost of materials that is expected. Stated does not support the current structure and that the comparison to Florida is not reasonable or accurate.

**Jim Whisenand**: Asked if Board can contribute since the level of repair now needed is the result of a lack of maintenance and lack of reserves by the Board. Mr. Whisenand stated that otherwise the obligation falls on the person or entity that owns the property. Mr. Whisenand inquired as to whether there is any insurance coverage and whether the Board is insured for being negligent for not doing the maintenance nor maintaining adequate reserves.

**Answer**: The Board is not a company with funds. Owners of HD or other Townhomes previously enjoyed low assessments. Mr. Segal noted that when he bought into Spring Creek research was needed to know what he was buying into.

**Mac Riley**: Mr. Riley expressed that he is well pleased with the efforts that has gone into this and the extraordinary amount of work by the Board. He notes that he owns numerous condominiums around the country and many condominiums of this nature do not have adequate reserves (while there are others that have excessive reserves). Notes that the search for the best interest rate has been thorough. Supports the project as an outstanding effort.

**Judy Tabler and Clay Cook**: No comment.

**Mary and Jeff Dixon**: Inquired if the loan rate is fixed or floating. Asked what the money is buying (types of windows, siding, type of wood).

**Answer**: It is a floating rate. Materials are planned for wood doors that look like current doors, windows are modern version of the type currently installed, and the same type of waney board is planned. Ultimately, the same style and design for all materials.

**Ryan Townsend**: Asked about the timeframe within which Units cannot be occupied due to construction and whether there will be a formal timeline distributed.

**Answer**: A schedule/timeline will be distributed. Owners may want to consider adding insulation during the time when the windows are removed. The only very impactful part of the process is staining. Other projects are anticipated to take only a few days at a time.

**Steve Powell**: Mr. Powell asked whether, when HD owners are being asked to vote on financing or will they also be voting for or against the increase in reserve assessments in future years. Mr. Powell also inquired regarding the amount of financing per unit and asked what it would cost the typical unit if they wanted to pay off the loan at such time as the construction is finished and the loan is termed out. Mr. Powell also asked specifically how the voting process would work and what must happen for the financing to pass.

**Answer:** Only being asked to vote on the loan at this time. With respect to reserves, about \$2.7 million is needed to finish the project. Per the current budget, the reserve account balance remains low until approximately 2026 and grows in 2032 (to \$1.66 million in reserves at that time). Mr. Segal, upon review of the numbers for his Unit, stated that the loan principal for his Unit would be is \$63,662. There is interest during the construction period. For the financing to be passed at the upcoming meeting there will need to be a quorum established, followed by approval by a majority of members voting in person and by proxy. HOA attorney Nicole Krieger stated that she would send out a brief summary of the regulations regarding meetings and voting as established in the Byalws and CCRs.

**Lucian Snow:** Expressed concern about state of reserves and need for repair. Asks whether rising rates have been considered in terms of financing and whether locking in a rate has been considered. Mr. Snow asked about putting financial pressure on the owners at this point versus building reserves for several years before initiating the project.

**Answer:** There will be a reset of interest rate after first five years. A fixed rate loan for this type of project is not available. It was previous HOA Boards that approved the low reserve assessments. Mr. Segal notes that this is not uncommon because of a desire to keep costs down. Goal is to get work done and then obtain the benefits of the project being completing and the ability to enjoy the units. Mr. Segal noted a concern about improper disclosures by Sellers during sale. Mr. Segal clarified that it would be an interest-only payment due for first 18 months of the loan, then convert to a term loan of 120 months, minus the 18-month construction period.

### **Follow Up**

Carter provided a summary of the process of assessing needs to obtaining financing from his perspective and why the proposed financing plan is appropriate.

Mr. Kallop spoke and emphasized the hard work, that the Board has done, the benefits of the project being completed quickly, and that the owners will be able to benefit from the project on an expedited timeline.

There was clarification by Mr. Segal that the cash payment for those Owners wanting to pay off the loan when the loan is converted from the construction phase to term phase.

Mr. Schirmer spoke and stated that he has owned a HD Unit for 15 years and cannot recall any time in last 15 years when a decision was made by Owners to keep low reserves and asks for a longer construction period. Mr. Schirmer requested minutes of meetings during that timeframe and Mr. Segal stated that the request would be taken under consideration.

Mr. Segal and Mr. Goodson thanked all present for their participation and the meeting was adjourned.