

# **M70 ANNUAL MEETING**

**HERMA LICHTENSTEIN - PRESIDENT**

**TOM HENKELS - TREASURER**

**JUNE 23, 2025**

# Herma Lichtenstein-President

- **Introductions:**
- **Board Members**
- **Committee Members**
- **GRF/MOD Staff**

# Agenda

- Opening Comments – Herma

Today's presentation will include:

- SB 326 & Termite Work Update - Herma & Tom
- Electrical Panel Replacement Update - Herma & Tom
- Paving Update – Herma
- Roofing Update - Herma
- Insurance Update - Herma
- Mid-Year Financial Update - Tom
- Emergency Special Assessment-Tom
- Questions & Answers-Herma & Tom

# Senate Bill 326 & Dry Rot 101

- Overview of the California State Law
- What is an SB 326 Inspection?



# What is SB 326 and Why Was this Law Passed?

- On June 16, 2015, six students were killed in Berkeley, California and seven others were injured when the balcony they were on collapsed.

The [Berkeley balcony collapse](#) resulted in the passage of [California Senate Bill 326](#) on August 30th, 2019.

- This HOA balcony law, an amendment to [Civil Code Section 5551](#), was designed to prevent future collapses by ensuring the structural stability of condominium decks, balconies, and walkways.
- The law applies to all HOAs or condominium complexes with **at least three attached units**.

# Project Comments

Lessons learned:

- **SB 326 Deck Inspections** began in 2022 and as required, all buildings have now been inspected...what we are seeing and costs implications:
  - Significant Dry rot in decks, walls, front landings and breezeways
  - Significant Termite / fungal damages
  - Damage from Improper Alterations

# SB 326 / Structural Beam Dry Rot Damage



## SB 326 / Underside of Breezeways





# Structural Beam Dry Rot Damage



# Structural Dry Rot + Fungus + Termite Damage



# Structural Wall Damage





# Dry Rot Damage Both Upper & Lower Units



# Handrails





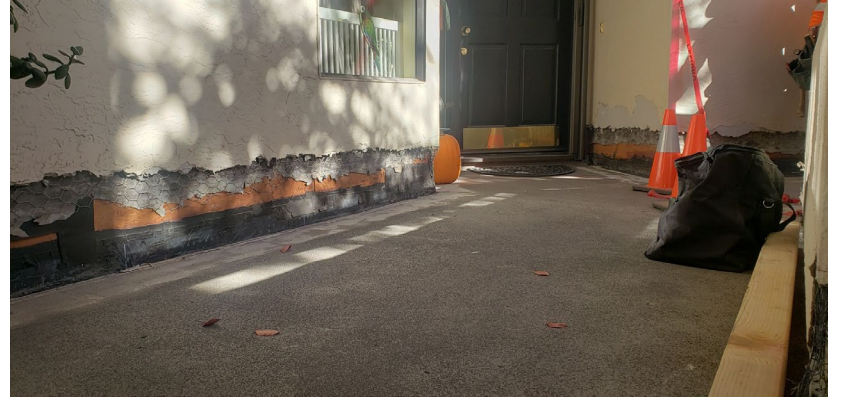
# Phase 3 Scaffolding



# Non-Warrantied Installation









# M70 Approach

*How did we get here and what are we doing to address structural and safety issues*

## **M70 Approach:**

5 phases beginning 2022 and to be completed by December 2026. Bundled all repair work dry rot / termite / deck reconstruction & painting. Scaffolding often required due to the terrain of our building locations and number of 3 story buildings.

## **Strategic Sequencing of Required Repair Work**

1<sup>st</sup> Step: SB 326 & Termite inspection of the entire building...

2<sup>nd</sup> Step: Address Deck & Termite Damage & required treatment

3<sup>rd</sup> Step: Address re-construction of decks, dry rot and required work

4<sup>th</sup> Step: Then paint

## **Project Process / Progress**

- Constant communications with the contractor, MOD Operations, M70 Building & Finance Committees and Board
- Detailed bid management process, construction management process to ensure quality of work and to maintain warranties.
- Tracking, analysis, and approval process of all change orders
- Monthly Updating of costs and cash flow impact of work & change orders

# Our Forecast as of June 2025

- SB 326 work in 5 phases. All work to be completed by 3/2026.
- Phases 1 & 2 completed (7-2 unit bldgs., 8-4 unit bldgs. & 2-3 story bldgs.)
- Phase 3 completed (1-2 unit bldg., 5-4 unit bldgs. & 1-3 story bldg.)
- Phase 4 underway 2025 completed Fall 2025 (2-2 unit bldgs., 2-4 unit bldgs. & 2-3 story bldgs.)
- Phase 5 to begin Fall of 2025 and end in spring 2026 (3- 2 unit bldgs., 2-4 unit bldgs. & 1- 3 story bldg.)

**\*\*\*\*Contracts and Change Orders in 2025 are On Plan\*\*\*\***

# **Keep costs in control-Please do not do this**

- Pots need to have a basin to catch water runoff and
- Pots need to be elevated over the deck
- This includes all pots regardless of location: decks or on top of balcony wall

**Please follow our Operating Rules** , especially sections pertain to alterations, structures and pots on decks, railings and exterior walls



## **Interrelated Connectivity With Pots with no water runoff capture / Termites / Fungus & Dry Rot**





**You can help by not doing this**



From Structural Engineer's Report...One issue of note is the placement of potted plants directly onto the balcony surfaces. Although these aren't direct instances of distress, **without having clear drainage and airflow underneath the plants, it can lead to distress in the decking surface which can lead to water intrusion into structure.** The below figure shows plants set directly on the deck surface that can lead to future damage to the water proofing membrane.



# **Overall Projects Update**



# Interior Electrical Panel Replacements

- Interior electrical Panel Replacements will be completed in 4 Phases

To date 38 Interior panels have been replaced with an additional 17 anticipated by the end of the year.

- Phase 2 - 42 units, focusing on four unit buildings
- Phase 3 - 42 units focusing on 12 unit buildings
- Phase 4 - 42 units focusing on 12 unit buildings

**All phases are included in the current forecast and to be completed by 2029**

# Exterior Electrical Panel Replacements

- Interior electrical Panel Replacements will be completed in 5 Phases

To date 6 of the 43 Exterior Panels have been replaced with an additional 9 anticipated by the end of the year. (The bulk of the panels were pre-purchased to reduce cost increases)

- Phase 2 - 10 buildings
- Phase 3 - 10 buildings
- Phase 4 - 10 buildings
- Phase 5 - 8 buildings

**All phases are included in the current forecast and to be completed by 2029**

# Paving Program Update

Total of five phases:

- Phases 1-3 complete
- Phase 4 – Entries 3 & 2, schedule for early Spring 2026
- Phase 5 – Entry 8, schedule for early Spring 2027

**All phases are accounted for in current budget and forecast**

# Roofing Program Update

Total of five phases:

- Phases 1-5 of tile roof have been researched and updated costs are included in our long-range budget forecast. The work is scheduled to start in 2028.
- Phases 1-5 of the flat roofs is being researched and an alternative coating system will be tested on one carport. The alternate coating is approximately 30% of the cost of replacement and far less disruptive. Flat roof work scheduled to start in 2033.

# Insurance Update

- Insurance rates have leveled off
- Updated valuation is in final phase
- Plan to adjust procurement date from January to June for better pricing.
- Fire Wise Community designation and Abatement work is paying off!

# Treasurer's Report – 2025 Annual Meeting Agenda

- Initial Comments:
  - Finance Committee and Financial Analysis
  - Understanding the **Operating Fund**, **Reserve Fund** and the Davis Stirling Act.
- Current 2025 Financial Performance
- Special focus on Reserve Funding & Insurance
- Questions & Answers – **Please hold questions till then**

# Financial Analysis & Modeling

“Rule of 172”

- Finance Committee (Tom Henkels, Gary Grellman, David Kirkpatrick, Joel Aberbach & Jeff Cheung) with MOD
- Modeling out, month-by-month Operating Fund and Reserve Fund Cash Flow to ensure adequate cash levels to meet our expenses
- Added complexity of insurance costs as well as critical need to keep existing Reserve Fund projects on track to handle “ongoing deterioration”
- Detailed review of 10-year and 30-year “look ahead” Reserve expenses to challenge costs and look for savings opportunities.

# What does the Coupon cover?

Our monthly coupon is comprised of two major accounts:

- **Operating Fund = Checking Account to handle ongoing minor maintenance, insurance, utilities and other minor expenses**
- **Reserve Fund = Savings Account to handle large repairs or replacements...now and in the future**



# M70 Coupon Components



# Think About Your Prior Home Budgets, Your Income and Net Worth

## (Operating Fund)

### Day to Day Expenses

- Household & Property Insurance
- Utilities
  - Water
  - Trash Pick-up
  - PG&E
- Yard Maintenance
- Cleaning Services
- Property Taxes

## (Reserve Fund)

### Major Expenses

- New Roof & Gutters
- New Windows
- Replace water heater, furnace or air conditioner
- New Garage Door
- Painting the House
- Repairing your driveway

# California State Law (Davis Stirling Act) Requires all Homeowners Associations (“HOA”) to Budget in the following way

## *Operating Fund (checking account)\**

- Day to Day building maintenance & minor repairs
- Landscaping Maintenance
- Utilities: PG&E, Water, Trash
- Insurance
- GRF & MOD Fee
- Working Capital-Cash to pay for next year's insurance & insuring cash on hand to meet operating expenses

\*Funds/income supplied by the Operating Fund portion of your total Monthly Coupon.

## *Reserve Fund (savings account)\**

- Major Building Repairs/Replacement
- Garage Doors
- Landscaping Rehab/Renovations
- Roofs & Roof Tiles
- Asphalt Replacement
- Replacement Gutters/Downspouts
- Painting
- Stucco/ Wood
- Patio & Balcony Decks

\*Funds/income are supplied by the Reserve Fund portion of your total Monthly Coupon.

# 2025 M70 Coupon Component

	Total 2025 Monthly Coupon: \$1,896		
	Operating Fund	Reserve Fund	GRF
Monthly Coupon Component	\$850 or 45% of Total Coupon (Insurance is \$452 or 24% of Total Coupon)	\$692 or 36% of Total Coupon	\$354 or 19% of Total Coupon
Income	From OF Component of Monthly Coupon	From RF Component of Monthly Coupon	From GRF Component of Monthly Coupon
Expenses	Day to Day Operating Expenses including Insurance	Major Repairs / Replacements / Renovations	Comcast, Buildings, Golf Course, Fitness Center, Pools, Tennis Courts, etc.

# 2025 Budget Objectives

- ***Recognize the realities of aging infrastructure:***
  - Buildings, Roads, Roofs, Sidewalks, Painting, Electrical Panels drains, foundations, pest repairs, patios, breezeways, stairs, elevators all need work
  - **Increasing occurrence of surprises: Electric Panels, Dry Rot, Pest Damage, Drainage Issues, etc.**
  - We live in a much larger interconnected world: National natural disasters + local disasters + fires in Rossmoor + fire abatement work + building type ALL impact our insurance rates. Rossmoor is classified as an Urban Fire Zone”.
- ***Balancing needs:***
  - Meet growing expenses and infrastructure improvements / repairs,
  - Working with increasing material & labor costs due to supply chain issues, labor costs and shortages and timing delays due to backlog in governmental permitting processes...and **unforeseen issues**
  - Continuing to strengthen the financial sustainability of M70,
  - While considering the consequential impact of coupon increase on M70 Owners.
- ***Identify, prioritize and fund Strategic Infrastructure Projects.***
- ***Balancing monthly coupon increases against option of Large Special Assessments – and the mortgage impacts from limited Insurance coverage***
- ***How best to ”stair step” increases...if possible***

# M70 Summary Financial Position

April/May 2025

## Operating Fund

- May Cash: \$565,976
- April YTD Excess Revenue over Expenses \$150,167
- April YTD **Excess** over Budget \$97,648
- Fund Balance @ 4/30/25: \$678,005

## Reserve Fund

- May Cash & Investments: \$2,387,381
- April YTD Expenses over Revenue **\$211,552**
- April YTD **Deficit** vs Budget \$144,105
- Fund Balance @ 4/30/25: \$2,311,154

# June Forecast vs. Budget for 2025

## Operating Fund

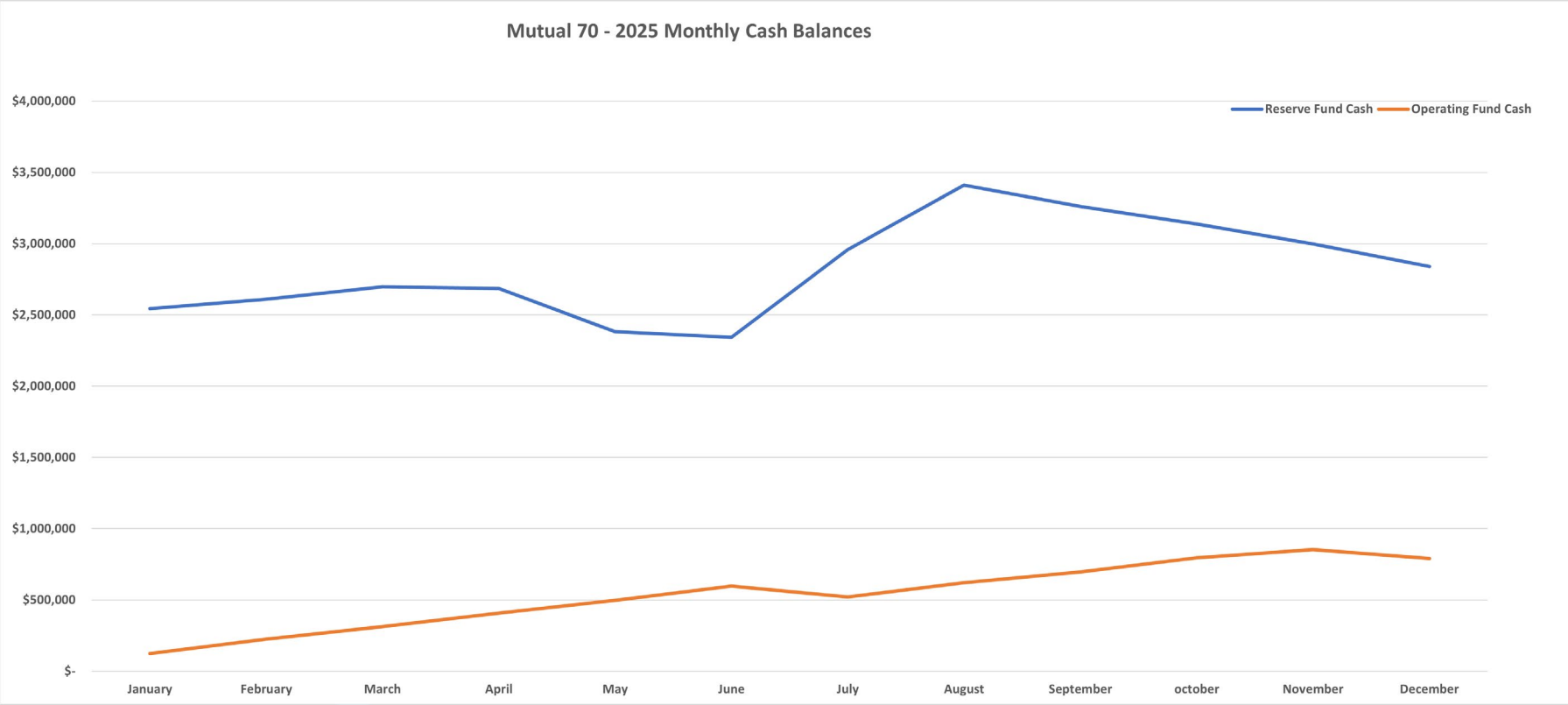
	<u>Forecast</u>	<u>Budget</u>
Income	\$1,790,820	\$1,753,327
Expenses	1,377,709	1,639,317
Excess	413,111	114,010
Ending Fund Balance	\$933,064	\$658,059

## Reserve Fund

	<u>Forecast</u>	<u>Budget</u>
Income*	\$2,857,338	\$2,746,840
Expenses	2,731,404	2,116,226
Excess	125,934	630,614
Ending Fund Balance	\$2,644,251	\$3,148,931

\*Includes ESA income of \$1,318,552

# 2025 Forecasted Cash Flow





# Insurance Cost Trends & Comments

- **2025 Budgeted M70 Costs of Insurance: \$934,195 or \$452 per manor per month**
- **Good news!** Actual 2025 Insurance premium \$650,665 or \$315 per manor per month
- **Over 5 years represents 99% increase in the Insurance costs**
- **Insurance market is dynamic and final costs are not totally known until 12/31 of each year – Changing renewal timing**
- **Costs are reflective of:**
  - **Disasters from international to US to California to Northern Calif.**
  - **Loss experience in Rossmoor: fires**
  - **Insurance market capacity**

# Insurance 5-Year Trend

Insurance Trend	2021	2022	2023	2024	2025 est.	% Increase
Net Insurance costs	326,626	373,313	428,235	692,820	650,665	99%
PMPM Insurance	158	181	207	351	315	99%
\$ Increase PMPM – Insurance	44	23	27	144	(36)	
Total Coupon PMPM	1,087	1,144	1,372	1,643	1,896	74%

# Insurance Costs Trends Beyond 2025

- **Insurance coverage most likely not to cover 100% of replacement costs**
- **Transitioning to mid-year renewal to improve marketability and cost certainty**
- **Insurance costs trends reflect combination of capacity + costs + global to Rossmoor losses**
- **Negative impact on mortgage lending**
- **Mutuals continuing to put into place fire risk mitigation projects**
- **Not just a Rossmoor or California problem**

# Hillside Clearing



# 2025 Financial Comments - Reserve Fund

Strategy: Complete 326 Phases 4 and 5 on time and on budget. Continue challenging future project costs and methodology and build-up adequate reserves to avoid future special assessments. Robust review/challenge of costs – 10 year outlook.

Retain “Yes” opinion from 3<sup>rd</sup> Party (Helsing) on adequacy of Reserves over the next 30 years.

Will need future Reserve coupon increases to adequately fund roof replacement projects beginning in 2028 in order to avoid special assessments.

# 3<sup>RD</sup> Party (Helsing) Report on M70 ReserVES

- From 11/12/24 Helsing Group Report:

Current Status of Reserve Fund			
Projected Reserve Balance on December 31, 2024: \$2,320,090			
	<u>Estimate of Desired Balance</u>	<u>Shortfall</u>	<u>Percent Funded</u>
Alternate Method:	\$11,841,671	(\$9,521,581)	19.59%
California Method:	\$11,971,551	(\$9,651,461)	19.38%

**30% to 70%  
considered  
range needed  
to avoid Special  
Assessments**

- 3) Based on the most recent Reserve Study and other information available to the Board of Directors, will currently projected Reserve account balances be sufficient at the end of each year to meet the association's obligation for repair and/or replacement of major components during the next 30 years?

Answer: **Yes**

# Major Upcoming Reserve Fund Projects

- Starting in 2025: Replacing inside and outside electric panels over next 4 years estimated at **\$1.0MM**
- Starting in 2028: Roof tile replacement: **Current estimate \$6.5 MM**  
**Plus.** Possible structural issues related to changes in building codes and dry rot
- Starting in 2033: Duro-Last Roof Top Replacement: Looking at alternative product to reduce **\$3.6MM** estimate
- Board performing a strategic financial review of these up coming projects

# Current Rolling 10 Year Plan

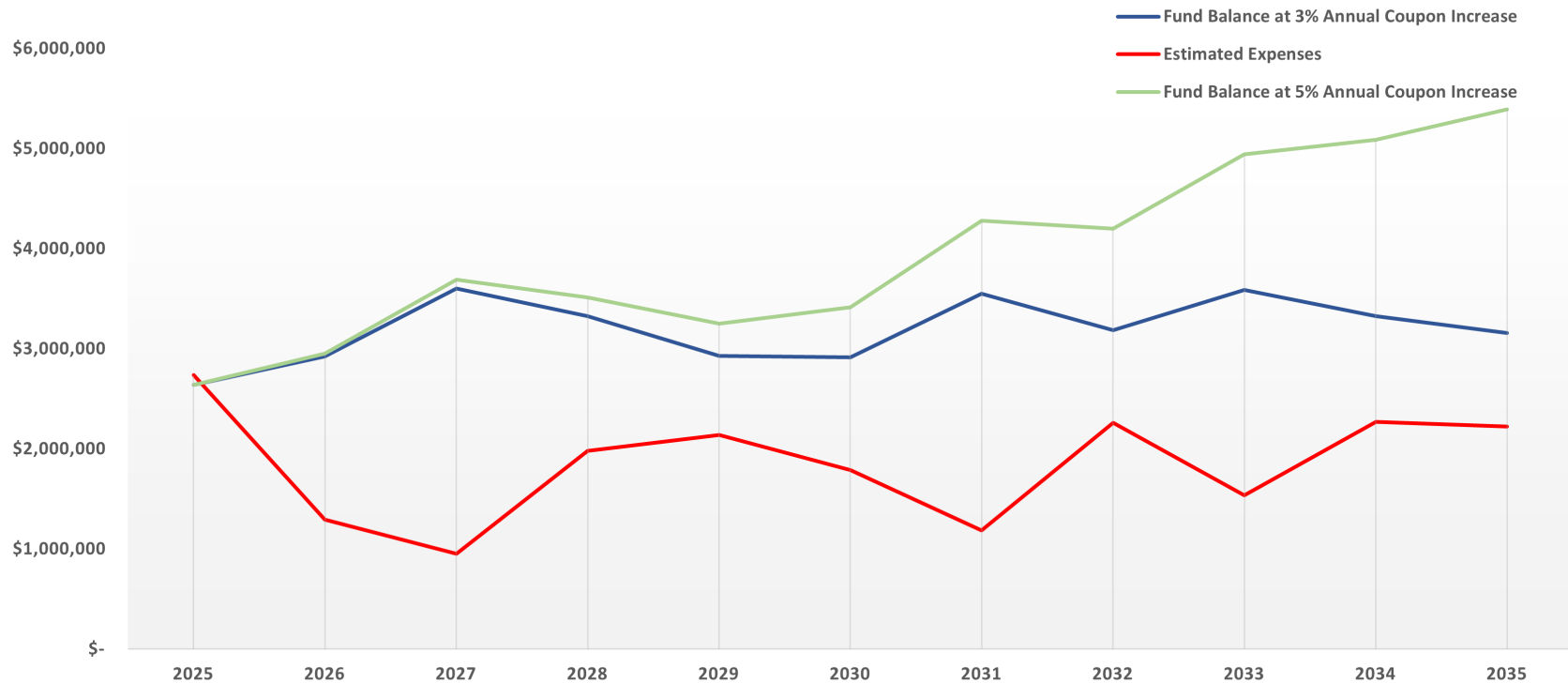
Major Projects	Yrs. 2026 to 2035
Patio & Balcony Deck Repairs & Recoating	1,980,000
Roof Tile	6,533,000
Paint Stucco & Wood	848,000
Landscaping Renovations	747,000
Roof, Duro-Last (Flat Roofs) *alternate cost is \$985,000	3,600,000
Asphalt Replacement	365,000
Electrical Panel Inspection, Repair/Replace	678,000
Gutters & Downspouts	365,000
Utility Repairs	1,325,000
Other projects	1,505,000
<b>Total</b>	<b>17,946,000</b>

2023 estimate was  
\$2.16M



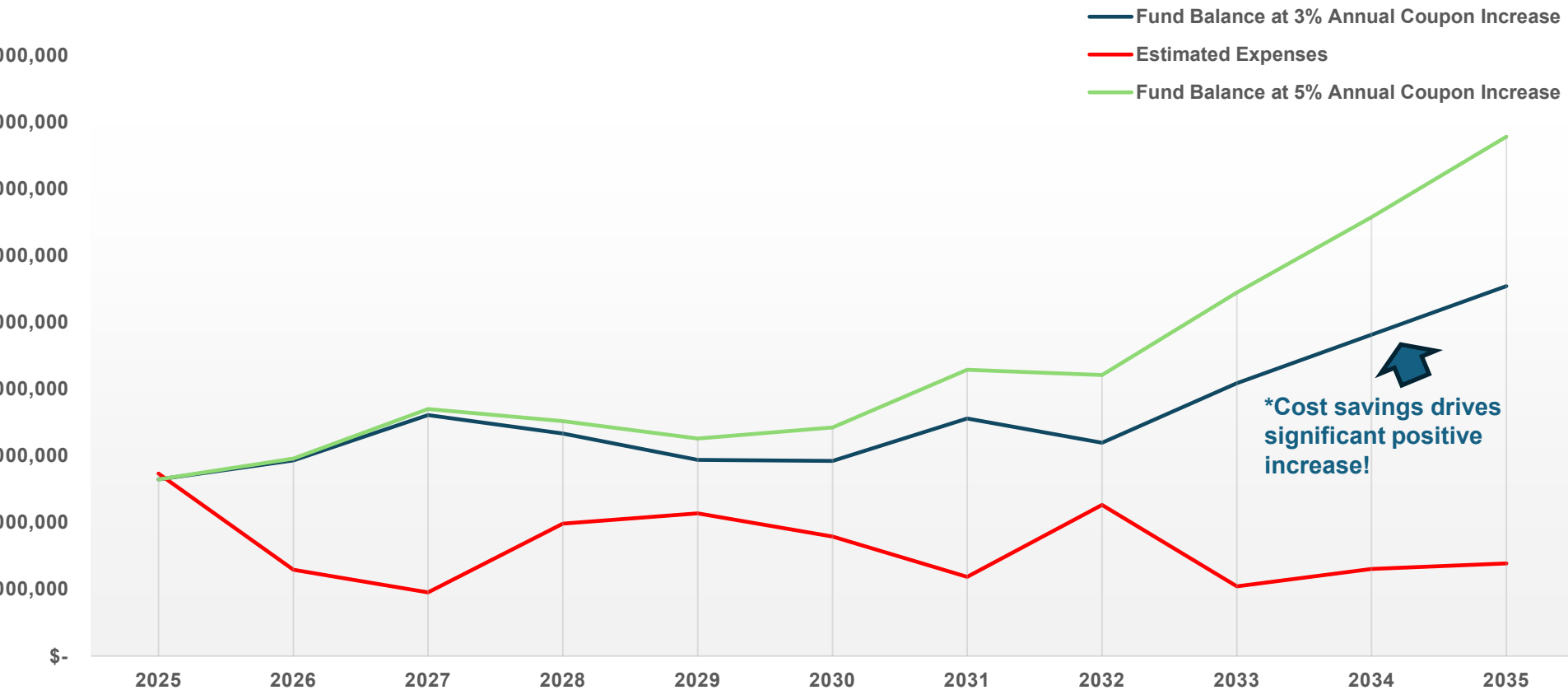


# Reserve Fund 10-Year Projection



# Reserve Fund 10-Year Projection

**\*With Flat Roof Cost Savings**



# SUMMARY COMMENTS

- **Operating Fund:** Positive impact of reduced Insurance costs have strengthened cash and fund positions. Uncertainty in insurance market driving fire mitigation measures.
- **Reserve Fund:** Continued to maintain our positive Reserve Fund Study Opinion in terms of ability to fund our projects while dealing with large upcoming planned projects and surprises.
- **Overall:** Have strengthened our financial sustainability and will continue to do so while planning for future large Reserve Fund projects.

# **Emergency Special Assessment Reminder**

# Emergency Special Assessment

- First Installment was Due 8/1/24
- Second Installment is Due 8/1/25
- Notice available today and reminders will be emailed in July.

# Today's Presentation

- Will be emailed to M70 Owners who have given Mutual their permission AFTER July 1.
- *Copy of this presentation can be found on-line at [Rossmoor.com](http://Rossmoor.com), For Residents Tab, Mutuals Tab then M70 then look under Useful Information-Town Hall Presentation by August 31st.*

# Questions & Answers