June 2013

SURFSIDE III e-NEWSLETTER

Daniel Kessner – Editor

FROM THE BOARD OF DIRECTORS

Proposed Unit Size Effect On Dues

The proposed CC&Rs re-write contains a provision that the dues will be apportioned based on unit size in square feet. There are three ways to allocate the dues using the square foot model. One is by using the square foot for the entire dues amount of $470. Another method is to allocate just the capital reserve portion of the dues by square foot because capital costs are relative to unit size and amount of infrastructure in the unit. The third method is to allocate dues based on the number of bedrooms in the unit. This could lower the dues for 70% of the owners and increase them for 30%. The results of these methods are in the following tables.

The following chart shows 2 scenarios based on square feet. If the dues are allocated on:

- Square feet of the unit for the entire amount of $470
- Square feet of the unit but only for the capital reserve contribution of $188.78 of the dues.

Dues By Square Feet and Dues By Square Feet Applied Only To Capital Reserves

Square Feet	Number Of Units	Dues By Square Feet	Operation Dues Of $281.22 Plus Capital Reserves By Square Feet
756	23	343.68	419.26
840	1	381.87	434.60
933	35	424.14	451.58
942	60	428.24	453.22
988	96	449.15	461.62
1024	1	465.51	468.20
1143	3	519.61	489.93
1175	3	534.16	495.77
1197	24	544.16	499.79
1247	19	566.89	508.92
1261	20	573.25	511.47
1297	18	589.62	518.05
1355	1	615.99	528.64
1379	5	626.90	533.02

Dues By Number Of Bedrooms and Dues By Number Of Bedrooms Applied Only To Capital Reserves

No. Of Bedrooms	Number Of Units	Dues By No. Of Bedrooms	Operational Dues Of $281.22 Plus Capital Reserves By Number Of Bedrooms
1	24	210.48	365.76
2	195	420.96	450.30
3	84	631.43	534.84
4	6	841.91	619.38

Based On	
Current Dues Based On Equal Distribution To Each Unit Regardless of Size	470.00
Capital Reserve Component Of Current Dues	188.78
Total Development Square Footage	319466
Total Development one (1) bedroom units	24
Total Development two (2) bedroom units	195
Total Development three (3) bedroom units	84
Total Development four (4) bedroom units	6
Total Development number of units	309
Total Development number of bedrooms	690

The smallest units in square feet, the one bedroom-one bath units that are 756 square feet, would pay $343.68 instead of $470 if the dues were based solely on square footage. If everyone paid the same operational dues of $281.22 and the remaining capital reserve component of $188.78 was based on square footage, then the dues would be $419.26 per month instead of $470. If you know your square footage you can find the sqaure feet-based dues amount in the right columns for each of these methods.

The smallest units in number of bedrooms would pay $210.48 instead of $470 if the dues were based solely on number of bedrooms. If everyone paid the same operational dues of $281.22 and the remaining capital reserve component of $188.78 was based on the number of bedrooms, then the dues would be $365.76 instead of $470. You can look at the number of bedrooms column and you can find the number of bedrooms–based dues amount in the right hand column of these methods.

At the next meeting on the CC&Rs we will have to decide which of these five methods to choose. The five methods are:

(1) everyone pays the same regardless of unit size as we do now

(2) the dues are apportioned by square footage

(3) the operational component of the dues is the same for everyone and the capital reserve component is apportioned by square footage

(4) the dues are apportioned by the number of bedrooms

(5) the operational component of the dues is the same for everyone and the capital reserve component is apportioned by the number of bedrooms.

Insurance Changes

The proposed CC&Rs contain changes to the insurance program at Surfside III. Insurance premiums are at $184,000. There were several claims in 2011 that resulted in premium increases by State Farm. The current CC&Rs require that the association carry broad form insurance which covers some of the interior elements in the unit, like cabinets, countertops etc. This is not what the association should be covering. The legal description of a condominium is the air space bounded by the interior walls, floor and ceiling of the unit. If a unit has a loss, the association or its insurance should pay to repair any infrastructure, and not the unit. The owner's insurance should cover the interior, including cabinets, etc. If the loss is caused by the owner, the association's insurance will subrogate against the owner's insurance. If the owner's insurance carrier thinks the association was responsible for the loss, they will do the same. This is the way it should work and does in the rest of the world. The new CC&Rs will require that each owner maintain insurance coverage on their unit. The association will maintain coverage for building infrastructure and earthquake. If this is passed by the owners, the cost of association insurance will drop to around $150,000 or less. The risk of high cost claims will be reduced and the costs of insurance will stabilize.

Saving Surfside

An article written by our Surfside III Board president documents the history of the epic maintenance problems that plagued our community and cost some owners their homes. This article was published in Common Ground, a Community Association Institute publication. This article appears at the end of this newsletter.

COMMITTEE BRIEFS

For more information visit: http://www.surfsideiii.com/docs/committee/committee.htm
Please contact the chair to volunteer.

Neighborhood Watch Committee: Val Lameka; 805-986-2855; v.lameka@yahoo.com

We had a short meeting, as Sr. Officer Bates had been assisting with the Springs Fire all day, and was scheduled to assist again the next morning. Volunteer Dolores Dyer gave us the calls for Surfside III. We had the fewest and least serious of any beach community. In Port Hueneme as a whole in April, our police handled 645 service calls, resulting in 44 arrests. April was a very good month.

Our next meeting will be Thursday, June 6, at 7 pm in the Clubhouse. All are welcome. Please refer any questions or reports to Valerie Lameka.

FROM THE EDITOR

Please send all newsletter submissions to me at dkessner@csun.edu. Please avoid any special formatting and use Arial 10-point font if you have it. The deadline is the 20th of each month for the following month's issue. Owners and renters should be aware that the Newsletter is always available on the website: www.surfsideiii.com. This includes back issues.

The **Owners' Corner** is a forum for all of you to voice your opinions on anything that might be of interest to everyone else. Please feel free to take advantage of this.

The City of Port Hueneme has a free electronic newsletter with information on various city-related matters and events. To sign up to receive it, visit the city website: http://www.ci.port-hueneme.ca.us, then in the column at the far left, click on "Sign Up for E-News."

CONTACT INFORMATION

MAINTENANCE/RESIDENT SUPPORT (PHONE NUMBERS AND E-MAILS BELOW):

Contact Lordon Management, Jennifer Critchfield; for e-mails always copy Donalea Bauer

Include your phone number(s) and/or e-mail for response before end of next business day. If you get her voice mail, but would like to speak with her directly, hit zero and talk to the operator.

If more urgent, call Donalea Bauer.

Surfside III On-site Property Manager's Office: 600 Sunfish Way, Port Hueneme, CA 93041

Phone: 805-488-8484

OFFICE OPEN:
Mondays & Fridays – 8 am-12 noon
Wednesdays – 1-5 pm

THERE WILL BE NO ON-SITE TELEPHONE SERVICE WHEN THE OFFICE IS CLOSED.

Please note that calls regarding maintenance or billing should be directed to Lordon Management.

Surfside III Direct Contact:
Surfside III COA
600 Sunfish Way
Port Hueneme, CA 93041
http://www.surfsideiii.com
manager@surfsideiii.com
Phone: 805-488-8484

Carol Short, On-site Property Manager

Management Company:
Lordon Property Management
1275 Center Court Drive
Covina, CA 91724
Phone: 800-729-5673
For after-hours emergencies, dial 5 or
626-771-1075

Donalea Bauer, Vice President, community manager
Email: donalea@lordonmanagement.com
Phone: 800-729-5673 x 3342

Jennifer M. Critchfield, assistant community manager
Email: jcritchfield@lordonmanagement.com
Phone: 800-729-5673 x 3380

Our Board:
Bill Betts - President bill.betts@surfsideiii.com
Ira Green - Vice-president ira.green@surfsideiii.com
Alexander Urmersbach - Treasurer alex.urmersbach@surfsideiii.com
Anthony Truex - Secretary tony.truex@surfsideiii.com
Michael Madrigal - Director michael.madrigal@surfsideiii.com

LORDON MANAGEMENT: OTHER DEPARTMENT EXTENSIONS

All escrow matters: Nicole Castillo, ext. 3339; nicole@lordonmanagement.com
All insurance and collections: Emily Polchow, ext. 3337; epolchow@lordonmanagement.com
Your account, billing address, etc: Liz Lopez, ext. 3319; llopez@lordonmanagement.com
Liens, legal issues: Donalea Bauer (see above)

Owners' Resource Center

The section herein is provided as a courtesy for owners only to afford an opportunity to advertise their business (es). All advertisements will be subject to Board approval. Nothing contained herein should be construed as an endorsement by the Surfside III Condominium Owners Association of any business, product or service. Owners utilize the services offered herein at their own risk. The Association expressly disclaims any responsibility and/or liability for use of the advertised business, product or service and makes no representations regarding its accuracy, quality or suitability.

Davis-Stirling.com Newsletter by Adams Kessler

Serving California's Community Associations – May 12, 19, 26, 2013

DAVIS-STIRLING UPDATE

More kudos to my Office Administrator Laura Whipple. After completing two conversion charts for the Davis-Stirling Act and the Rewrite, Laura went through every paragraph in both Acts and added links between the two so everyone can easily move between them without the need of a conversion chart. It's quite impressive.

To see what I mean, take a look at the existing Davis-Stirling Act and the Rewrite and look for brackets in the text that indicate **[Old: Civ. Code]** and **[New: Civ. Code]**.

STATISTICAL REVIEW

The Foundation for Community Association Research retained Zogby International to conduct a nationwide survey of community associations. The 2012 poll found that California was number two behind Florida as the state with the greatest number of associations. Zogby found that:

1. 70% of those polled rate their community association experience as positive and 22% were neutral. [That means that only 8% were negative--unfortunately, the ones who legislators seem to listen to and who generate the most litigation.]

2. 88% stated that their board strives to serve the best interests of their community.

3. 81% say they get a "good" or "great" return on their assessments. [Wish we could say the same for our state and federal taxes.]
RECOMMENDATION: The report is interesting. See 2012 Statistical Review.

PRE-LITIGATION ATTORNEYS' FEES

A case was recently published that addresses the question of pre-litigation attorneys' fees, specifically those incurred by parties satisfying ADR efforts required by the Davis-Stirling Act.

Factual Summary. A homeowner built a cabana in his backyard without obtaining prior approval from the homeowners association. In response, the association levied daily fines and then sued the owner.

Court's Ruling. The court determined that the actions by the association in demanding removal of the cabana and levying daily fines were not in good faith because (i) no one from the architectural committee actually visited the alleged violation until long after the initial decision to require removal of the cabana, (ii) the association denied the owner's violation appeal even while the ADR process was ongoing; and (iii) the association's actions were based on the owner's failure to secure prior approval not on the improvement itself. Moreover, the court noted that the association's enforcement was inconsistent--it had approved similar structures for other members. As a result, the court ruled against the association.

Attorneys' Fees. The owner, as prevailing party, asked for attorneys' fees going back to the unsuccessful ADR engaged in prior to litigation. Normally, fees incurred prior to the filing of a lawsuit are not awarded. Here, the court concluded that pre-litigation ADR mandated by the Davis-Stirling Act was the actual start of litigation. Accordingly, the owner was awarded those fees as well. (Grossman v. Park Fort Washington Assn.)

CHANGE IN ANNUAL DISCLOSURES

I've been contacted by people nervous about a change in the Davis-Stirling Act's annual disclosures. Disclosures in the existing Act and the Rewrite remain largely the same; they were simply reorganized into a "Budget Report" and an "Annual Policy Statement."

Annual Budget Report. As required by Civil Code §5300(b), the new "Annual Budget Report" contains all financial-related items and must include the following:

1. A budget,
2. A summary of reserves,
3. A reserve funding plan,
4. If reserve repairs will not be undertaken for particular components, a justification for the decision,
5. If special assessments will be required to cover reserve items (with estimated amount, commencement date, and duration of the assessment),
6. How reserves will be funded,
7. Procedures used to calculate reserves,
8. Disclosure of outstanding loans, and
9. A summary of the association's insurance.

Annual Policy Statement. As required by Civil Code §5310(a), the new "Annual Policy Statement" must include the following:

1. The name and address of the person designated to receive official HOA communications,
2. A statement that members may have notices sent to up to two different addresses,
3. The location, if any, for posting a general notice,
4. Notice of a member’s option to receive general notices by individual delivery,
5. Notice of a member’s right to receive copies of meeting minutes,
6. A statement of assessment collection policies,
7. A statement describing policies in enforcing lien rights,
8. A statement describing the association’s discipline policy,
9. A summary of dispute resolution procedures,
10. Architectural approval requirements, and
11. The mailing address for overnight payment of assessments.

January 1, 2014. The new disclosure requirements do not go into effect until January 1, 2014. As long as your association's notice period falls in the 2013 calendar year, you can continue to use your existing disclosure package. What matters is the date the

disclosures are mailed out, not the date they are received. Accordingly, anything mailed in 2013, including reserve studies and reserve disclosures, continue to use the existing Davis-Stirling language and Civil Code numbering scheme. Starting January 1, 2014, everyone must switch over to the new Civil Codes and language.

ELECTRONIC BALLOTING

Thanks to your letters and phone calls (over 200), Assembly Bill 1360 passed the Assembly. AB 1360 allows associations to save money by switching from paper to electronic ballots as is now done in 25 other states. I will let everyone know when it's time to start calling state senators.

RESTRICTING RENTERS' PETS

QUESTION: We have a lot of rentals in our association and most of our rules violations are from renters. The biggest problem we have is pet violations. Can we ban renters from having pets?

ANSWER: There is disagreement in the legal community over whether associations can prohibit renters' pets. Following are both sides of the argument:

Renter Pet Rights. The argument for renters' pets is the general proposition that boards cannot adopt rules inconsistent with the CC&Rs. If the CC&Rs allow owners to have pets, that right is passed to tenants. Except for voting rights and the right to attend board meetings, which are reserved to members only, renters enjoy all of the rights and privileges of an owner when they rent a unit. In Liebler v Point Loma Tennis Club, the court held that when a common interest owner leases his unit the renter automatically receives all rights to use and enjoy the common areas.

No Renter Pet Rights. The other side argues that the *Liebler* decision dealt only with the transfer of common area usage rights to a tenant, and keeping a pet is not a common area right. As a result, *Liebler v. Point Loma* cannot be used to support a tenant's right to keep a pet. Following are additional arguments:

1. Statutory Interpretation. The Davis-Stirling Act does not support renters' pets. The Act was amended in 2001 to state: No governing documents shall prohibit the owner of a separate interest within a common interest development from keeping at least one pet within the common interest development, subject to reasonable rules and regulations of the association. (Civ. Code §1360.5(a).)
The key word is “owner.” The statute gives rights to *owners* not renters. The Legislature could have expanded the section to include renters or even more broadly to "residents" but chose not to. Many other provisions in the Act reference renters (such as Civ. Code §1360.2) but the Legislature chose not to include them when it came to pets.

2. Landlord/Tenant. Apartment building owners routinely prohibit tenants from keeping pets in apartments as do condominium owners. When it comes to associations, the Act specifically authorizes the adoption of reasonable rules concerning the leasing of units. (Civ. Code §1360.5(a).) Because of the transient nature of renters and the difficulty of enforcing rules against them, it is reasonable for an association to restrict renters from keeping pets.

3. Timeshares. When it comes to timeshares, the argument for pet restrictions is even stronger. Timeshare associations have the right to prohibit both fractional owners and renters from bringing pets into units. Business & Professions Code §11211.7 enumerates the sections of Davis-Stirling that apply to timeshare ownership but does not include pet restrictions. In other words, Civil Code §1360.5 does not apply to timeshare associations.

RECOMMENDATION: Because the law unsettled on this issue, associations should consult legal counsel before adopting renter pet restrictions.

RESIDENCY REQUIREMENTS

QUESTION: In our CC&Rs everyone becomes a member of our association upon purchasing a condo. In rewriting our CC&Rs the board is proposing a six-month to two-year residency requirement before a homeowner can run for the board. Your thoughts on the legality of this?

ANSWER: It's legal. Residency requirements are common in the public sector. Not only must candidates reside in the district they want to represent, candidates must reside for a specified period of time. The time period varies depending on the particular jurisdiction and the office sought. Following are two examples:

President. Natural born citizen of the United States, at least 35 years of age, and a resident of the United States for at least 14 years. (Art 2, §1, Para, 5, U.S. Const.)

Calif. State Senators and Assembly Members. Eighteen years of age, a citizen of the United States, a registered voter, a resident of the legislative district for one year, and a resident of California for 3 years immediately preceding the General Election. (Calif. Const. Art. IV, §2c, S/S Ops.)

Outsiders. The idea behind residency requirements is to ensure candidates have ties to the community they represent. I have one association where a candidate nominated himself to run for the board while he was in escrow to buy a unit. He was disqualified from running because he had not yet closed escrow and therefore was not a member. He turned out to be a nightmare for the community who repeatedly violated CC&R restrictions and alienated neighbors. His blatant architectural violations resulted in litigation, which he lost. He eventually sold and moved out, much to everyone's relief.

RECOMMENDATION: Residency requirements give neighbors a chance to evaluate candidates before electing them to the board. If an association decides to adopt them, residency requirements should be reasonable not excessive.

FEEDBACK

Zogby Poll. Re the Statistical Review, I can believe 80% positive and 22% neutral and 8% negative even though I didn't want to at first as I'm on the negative cast. In our association of 8 units we can barely get 3 owners to participate so guess 5 of 8 (63%) are positive because they don't have to do anything and get away with it. While the other 3 (37%) are pretty teed-off because they have to do all the work to keep the place running. I can also tell you I lived in a 200-unit complex and the HOA could only get 10 people to ever do anything like serving on the board (so 95% positive, 5% negative) It's those who serve that are the ones who have a negative view because they know what is really going on versus those with their heads in the sand. -David A.

PEERING INTO YARDS

QUESTION: How difficult is it to disband an HOA? Our association has common areas and single family homes. We have a large group who would like to disband the HOA so we can stop the HOA from peering into our yards.

ANSWER: I've covered this issue before and it is almost impossible to disband an association--you need it to maintain the common areas.

As for peering into yards, if you are unhappy with a fly buzzing around your horse, you don't kill your horse, you kill the fly. If you are unhappy about rules enforcement, change the rules. If the rest of the membership agrees with you, that should be easy enough to accomplish.

APPROVING MINUTES

QUESTION: I am part of an entirely new board that was recently elected. We were presented with a backlog of unapproved meeting minutes. How do minutes get approved when no directors on the current board were at the meetings being approved?

ANSWER: I checked with Attorney/Parliamenatrian Jim Slaughter, author of *The Complete Idiot's Guide to Parliamentary Procedure*. It turns out that a person who was not present at the meeting for which minutes are being approved (or even on the board when the meeting occurred) can vote to approve minutes. The association as an organization has a continuing legal existence, even if specific members come and go over time. Accordingly, the new board can approve the minutes of the old board. The only downside is that they might contain errors which the new board would be unaware.

If at some future date errors are discovered, they can be corrected. The board that discovers the error can amend the minutes, even though it may be years after the fact. The correction can be made by a "Motion to Amend Something Previously Adopted." (Robert's Rules, 11th ed., pp. 469 & 475.)

Jim Slaughter discusses minutes in some detail in Chapter 11 of his book--what should be in minutes, what should not, approving the minutes, changing minutes after the fact, and minutes of executive sessions. He also provides examples of minute templates and skeletal minutes. You can find out more about Jim and his book at his website.

A few years ago I was kicking around ideas for a product that would fill a void and meet the needs of associations small and large--a product with unrivaled service and value, something uniquely *Davis-Stirling*.

Today I am proud to announce that after years of work, the product has arrived. In next week's newsletter I will announce what I've been up to for the past three years, stay tuned! -Adrian Adams

FEEDBACK

Director Qualifications #1. Always enjoy reading what other associations are dealing with--makes our problems pale in comparison (usually). We just got someone off our board who had missed seven of the nine last board meetings. Can we make it a requirement that anyone running for the board be current on their dues? When the aforementioned board member ran for the board she was nearly $13,000 in arrears and declared bankruptcy the day before the association was foreclosing on her unit. -Nancy H.

RESPONSE: Yes, you can amend your bylaws to require that directors must be in good standing to be elected to and remain on the board.

Residency Requirements #1. We have a brand new owner move into our condo complex, they know nothing about what goes on here, can they run for a board position? Also we have an owner that lives off site about 20 miles from the complex, he rents out the unit, can this off-site owner run for the board? -Barbara K.

RESPONSE: Your first question is covered in last week's newsletter. As for your offsite owner, if your bylaws do not require that he reside in the development, he can run for the board.

Residency Requirements #2. We have investors who own 30+ units but do not reside in the community. They appear to want to stack the board with their representatives and because the rest of the community is not organized and/or does not vote in HOA board elections, it seems feasible for this block of investor owners to do this. Can we make living in the community a director qualification? -Teresa H.

RESPONSE: Yes, you can make residency a requirement for serving on the board. You would need to amend your bylaws. In your case, doing so is a good idea.

Renters #1. I struggle with why our legislators don't get the need for rental restrictions. As of this month we now have 5 of 8 units rented. At 62.5% rental anyone trying to sell won't find a buyer qualified with FHA, Freddie or Fannie. Our legislators don't see the harm they caused. -David A.

RESPONSE: You can thank the California Association of Realtors (CAR) for the destructive piece of legislation (AB 150) that crippled the ability of associations cap the number of rentals. CAR railroaded the legislation over the objections of two state-wide organizations and one national organization that warned CAR of the damage it would cause. In my opinion, CAR put realtor commissions ahead of the health of community associations.

Renters #2. If only owners can attend board meetings, how is it possible for a non-owner to be on the board? Our CC&Rs have no restrictions on who can be on the board. It can be anyone off the street. So in this case isn't it absurd to restrict attendance at board meetings to owners only? We are left with a situation where, when a non-owner is on the board, that person cannot attend the meeting. Welcome to Catch 22. -Anne B.

RESPONSE: Just because renters don't have a legal right to attend board meetings does not mean you should ban them from attendance. Also, electing them to the board changes their status and gives them the right (and the obligation) to attend meetings.

Small HOAs. I live in a small (18-unit) condo association. Will the new rules about annual disclosures apply to HOAs of our size? -John B.

RESPONSE: Despite the disproportionate burden on small associations, everything in the Davis-Stirling Act applies to all associations regardless of size. The only concession to small associations is AB 968 now before the Legislature that would simplify the voting process for associations with fifteen or less units.

Saving Surfside

Years of neglect and poor leadership left our coastal California community in shambles, but it wasn't too late to bring it back to life.

By Bill Betts

Reprinted with permission from *Common Ground*™ magazine, March/April 2013

My life dramatically changed in 2004 when I entered Surfside III Condominium Owners Association to look at an available unit. It was one of several complexes my wife and I looked at that day, but there was something different about this place. I immediately knew this was where we would move. The community had tall trees in a park-like setting. It was a short walk to the most pristine beach in Southern California. There was a clubhouse with a pool, hot tub, exercise room, event kitchen, library, billiards, ping pong tables and association offices. What more could you want? We made an offer and took possession a few weeks later.

Surfside III, located in the small coastal California community of Port Hueneme in Ventura County, consists of 17 buildings completed in 1976 on 8 acres. There are 309 units in apartment-style condominium buildings and townhouse buildings. The town consists of 22,000 mostly median-income people; the ocean and the nearby naval base play an important part in daily life. It is idyllic, pristine and quiet, with moderate weather year round.

It sounded perfect, but I soon discovered otherwise.

Diagnosis: Negative

Shortly after moving in, I noticed a flier on the clubhouse door asking for applicants to apply for a vacant board seat. I did and was appointed to fill the unexpired portion of the one-year term.

As I learned of the problems at Surfside III, I was astounded. They were formidable:

- The cast iron interior drain/sewer lines were fracturing, often splitting longitudinally inside a wall. The sewage would build up within the wall until an odor was detected or the sheetrock discolored and mold was visible. In 2005, there were 120 incidents of sewer or water pipe leaks, and nearly 40 units couldn't be occupied. In some cases, units were gutted because sewage was so widespread that piecemeal replacement of sheetrock wasn't economical.
- Fresh water supply lines were developing pinhole leaks. Although these leaks weren't as bad as the sewer pipes, they created similar damage as the water often cascaded into other units.
- Building envelope components were decaying to the point that they were no longer weatherproof.
- The community faced multiple lawsuits.
- There was a lack of transparency from the board.
- The CC&Rs were outdated. Cumulative voting was allowed and used to elect board members even though they didn't have popular support.
- Rules were selectively enforced.
- On-site management didn't have the skills to help the association face these challenges.
- The association was spending about $400,000 in emergency repairs per year—nearly a third of the budget at that time. With the association's operating account drained, the board raided the reserves, which were down to $42,000 at the end of 2005.

Organizations don't get into such a situation unless there is a lack of vision and leadership. Surfside III was plagued by it for several years. A special assessment to repair the plumbing system was discussed for two years with no action.

As one owner described the community, "(Surfside III was) built on the cheap and maintained on the cheap."

For the first 10 years, no funds were put into reserves. When reserves were funded, it wasn't based on a reserve study and was too little, too late. By the time the board decided to increase the monthly fee by 20 percent to better fund the reserves, it didn't matter. A perfect storm had formed, and Surfside III's state would get much worse before getting better.

Realizing the association was running out of cash, the board imposed an emergency special assessment of $2,000 per unit in November 2005. Later that month, the board held a meeting to discuss the building and infrastructure crisis. Management recommended a $57,000 special assessment per unit, which required owner approval.

By early 2006, the board hadn't decided on the special assessment; we couldn't even reach a quorum at the January meeting. In February, the management company and board president resigned.

Surfside III was left with no president, no manager, hardly any reserves and no plan to deal with its long list of problems.

Treatment Plan

I took over as president, and the board decided on the following course of action:

- Develop a long-term plan to fund reserves.
- Repair the sewer and water leaks.
- Repair the units that couldn't be occupied due to sewage leaks with the previously issued $2,000 special assessment.
- Repair and replace building envelope components.
- Vigorously defend the community against lawsuits.
- Use the website as a portal for transparency, where current and archive information would be available for all owners. Newsletters, financial reports, contracts, legal decisions related to lawsuits and governing documents would be hosted there.

We presented our community improvement plan to owners in May 2006. It involved a combination of a special assessment and a loan. A $20,000 per unit special assessment would be used to repair the plumbing system. Residents could pay the assessment over five years with a total of $4,000 per year—a payment of $2,000 each August and 10 payments of $200.

The special assessment would raise $6.18 million dollars and be used to epoxy the fresh water supply lines and replace the interior drain lines.

In June 2006, owners voted two to one in favor of the special assessment.

As the association spent less money on emergency plumbing repairs, it devoted those savings to pay for a $7.5 million loan to fix the building envelope. Unfortunately, approval of the special assessment was the death knell for some. Several owners simply walked away from their units. Others, including a woman who was the sole provider for herself and her blind husband, had to work two jobs to make the payments. Others obtained equity loans.

It was hard on all residents. Surfside was their home, their nest egg for retirement and their piece of the American dream. The original unit prices were between $45,000 and $75,000, which made the special assessment at least one-third of the original unit value.

The stress of dealing with these issues, even for board members, was overwhelming.

Cautious Care

We approached the plumbing replacement carefully. We wanted to make sure there wasn't a way to fix the existing system, so we sent 16 drain line samples to a lab, which confirmed simple repairs weren't possible. We also tested replacement techniques, which were slow, tedious and a waste of time.

Along the way, we found several original construction problems that added nearly $1.5 million in unanticipated costs. We found that the elevator towers were leaking and damaging the electrical and hydraulic systems. We also found that the underground sewer laterals and mains were clogged. By replacing the interior drain lines, waste water would flow freely into the underground pipes, where it would stop. We spent almost $500,000 to take a video of the underground pipe interiors, and clean and repair five pipes. We absorbed some of the extra costs and used the bank loan to fund the rest.

From 2004 to 2010, the association dealt with 12 lawsuits, winning seven trials and settling five. The association was awarded about $500,000 in legal fees.

Signs of Improvement

The units damaged by the sewage leaks were repaired by the end of 2007. The plumbing system replacement was wrapped up March 2010. By that point, we had spent nearly $7 million fixing things no one could see. The place still needed a facelift; we still needed to plan the building restoration.

The building envelope work started off with some testing, which helped us set the scope of work. We had to refurbish stucco, replace siding and the vast majority of railings, restore decks, replace rotted posts and beams, paint each building and remove false chimneys.

Once we secured the financing and work began on building infrastructure, residents could see the fruits of our labors. Morale improved, and we heard positive comments in monthly board meetings. One of the board members organized several successful volunteer days to beautify and clean up the community.

In total, the plumbing and sewer system replacement, elevator repairs and building envelope repairs cost about $14 million or $45,000 per unit. Although the construction work is over, Surfside III still faces several major challenges. We still need to build our reserve funds while paying off the bank loan, which is amortized over 20 years with a balloon payment due in 15 years. Roofs need to be replaced in 12 years, which will cost another $1.2 million. Thankfully, we can phase in that work over time.

We also began discussing additional projects to fund over the next three years. The clubhouse exercise room and bathrooms need to

be renovated, ceilings painted, tiles cleaned and sealed, and carpeting cleaned.

Despite the realization that there is much more still to do, there has been a complete sense of accomplishment after several years of effort.

And now that the work is done, we have to maintain it and keep the community moving forward. No one at Surfside III wants history to repeat itself.

Side Effects

Surfside III Condominium Owners Association's journey back from the brink has been long and difficult. Aside from the complications of planning, organizing and executing the renovations, the board still needed to maintain all other association governance and operations.

Because we were undertaking projects of such size and scope, the board decided not to engage in other significant initiatives, like rewriting the CC&Rs. Board members can dedicate only so much time to the association.

While finishing one project at a time eases the stress on a board, even then there's no guarantee all will go smoothly. We did some things right and some things wrong during the plumbing replacement and building envelope work.

Right

- The research and testing on the interior drain lines were important tasks that confirmed our suspicion that we had to replace the pipes.
- We hired a construction management firm that saved us money by managing the change order process carefully for our plumbing systems. The firm intercepted and denied change orders for items contractors were responsible for in the base contract.
- We hired another firm as our construction manager for the building envelope work. It identified key process changes the general contractor could make to minimize damage during the tear-off process and developed a new workflow where construction teams were specialized in certain tasks. This specialization allowed crews to move through the buildings quicker.
- We also developed a good partnership with our bank, which was able to adapt to our financial needs.

Wrong

- We shouldn't have tested the replacement techniques of the drain lines.
- We should have started work in a building with a low number of cracking drain lines instead of starting with the worst building—an approach that could've saved some time as the crews perfected the process.
- We should have hired the construction manager earlier in the building envelope project. The company could have assisted us with the scope of work.
- We should have realized that construction projects have a way of costing more than planned and created a larger budget contingency. We allowed for $200,000, but that was spent on the first three buildings because we found significant rot and water infiltration behind the stucco.**—B.B.**

Bill Betts is a board member at Surfside III Condominium Owners Association in Port Hueneme, Calif.