

NORTH SHORE CONDOMINIUM HOMEOWNERS ASSOCIATION
Emergency Board Meeting March 27, 2015
10:40 AM, Office of Payne West Insurance Company, Newport, Oregon

Directors Present:

Al Gilhuly Paul Amundson Paula Jones

Others Present:

Lee Hardy, Yaquina Bay Property Management, Inc.
John Russell, Payne West Insurance

Call to Order/Establishment of a Quorum/Purpose of Meeting:

Al called the meeting to order at 10:40 AM. Three of five directors were present, constituting a quorum. The purpose of the meeting was to consider the current insurance coverage for the HOA and compare this with other options currently available. The current State Farm policy expires on March 31, 2015.

Insurance for HOA:

Insurance for the Homeowners Association is currently provided by State Farm and includes general hazard, earthquake, general liability and Directors and Officers coverage. The coverage is for the common area only, not the units. The premium this year will be \$14,042.00, reflecting a 6% increase over last year's premium. The premiums have increased 28% overall since 2009. The board has decided to look at other options and has asked John Russell at Payne West to submit a quote.

John obtained value and building data so that an average cost per square foot replacement value could be calculated. He arrived at a cost of \$135.00-\$136.00 per square foot or roughly \$5.7million to replace the buildings based on a standard cost approach computer program. He offered the following information:

John explained the concept of co-insurance and its impact on the amount of money that can be collected when a claim is filed. Insurance companies penalize insured parties if they fail to insure their property to a certain percentage of the actual value to reconstruct. Underinsured property owners are not able to collect what they thought they could if the underinsurance falls below a certain level, usually 80%.

He explained that State Farm's package policy includes earthquake insurance but no flood insurance. He was able to obtain separate quotes for a condominium package policy and an earthquake and flood package. The board compared costs between the State Farm renewal and the quotes John submitted. He pointed out that the quote he obtained for earthquake and flood coverage offered different levels of deductible while the State Farm package offers a 10% deductible for earthquake insurance. Also, State Farm offers a \$1,000.00 deductible on the general hazard policy. While the \$1,000.00 deductible with State Farm is attractive on the general hazard coverage, it does increase the premium. And the 10% deductible on the earthquake coverage means the HOA would have to come up with about \$570,000.00 to cover the deductible in the event of a catastrophic earthquake loss. This would not likely be possible.

Directors present weighed the options of increasing the deductible on a general hazard policy to \$5,000.00 which would be easily covered by the association. And they looked at decreasing the deductible on earthquake coverage to 5% which would mean that the deductible would drop to about \$285,000.00. This amount could be accumulated over a period of 4 to 5 years if the HOA is willing to set aside this amount. If the HOA does not have the deductible available in the event of earthquake damage, there would be no coverage by the insurance policy. John pointed out that many companies are ceasing to offer earthquake coverage but that he was able to find a company that provided a reasonable quote.

In addition, directors learned that the insurance premium can be financed so payments could be made monthly or quarterly or annually. State Farm does not offer a financing plan for the premium. Lee asked if the adjusters for Liberty Mutual, the provider quoted for the general business package policy were employees of Liberty Mutual or part of an independent pool. John said that they are typically part of the adjustment division of Liberty Mutual; but, if independent adjusters are needed in the event of a high number of claims, the Liberty Mutual adjuster oversees all claims and exercises quality control over the process.

Discussion and a vote followed. A motion was made, seconded and passed to raise the deductible on the general business package to \$5,000.00. This motion was seconded and passed without opposition. A motion was made to decrease the deductible on the earthquake/flood coverage from 10% to 5%. This motion was seconded and passed without opposition. Based on these decisions, John was able to refine the quotes as follows:

The general business package, including liability, walls-in coverage of the units as well as the common area to 90% of their approximate value, and with a \$5,000.00 deductible was quoted at \$9,671.00. The earthquake and flood package with a 5% deductible was quoted at \$4,735.85. The total cost of insurance would be \$14,406.00 this year for much more complete coverage than the State Farm policy offers at \$14,042.00 per year.

A motion was made, seconded and passed to authorize John Russell to bind both coverages. This was accomplished the same day.

At the annual meeting, the association will be able to review the new coverages and ask questions regarding the change in coverages. A discussion will occur regarding setting up an earthquake deduction allocation so that earthquake coverage can be used in the event of earthquake damage. To this end, Al commented that the common area component replacement projects will be completed within a couple of years, and it will be feasible to accumulate reserves toward the earthquake deductible as the need for major expenditures for component replacement will decrease greatly.

Adjournment:

A motion was made, seconded and passed to adjourn this meeting at approximately 11:25 AM.

Lee Hardy
March 28, 2015