

The Board has been made aware of two recent mailings by COA owners, Steve Shaw and Philip Erstine, that contain some statements we believe warrant a thorough response. Most importantly, statements regarding insurance coverage, premiums, and finances. This letter addresses the first mailing. A response to the second mailing is being drafted and will be shared separately. During several recent member meetings conducted via Zoom, and chaired by the Board President, Mitch Lipon, these topics were covered in detail. The intent of this letter is to explain to the owners the challenges the association has been facing and the actions taken by the board, in partnership with the management company, to position the owners in the best situation possible considering the challenges.

**Insurance Coverage and Premiums**

The biggest impact to the association’s finances this year has been the drastic increase in insurance premiums. Some history is important to this topic. Below is a history of total annual insurance premium costs since 2012, showing a consistent downward trend until 2021.

Year	Premium	
2012	\$161,125	Prior to LaTour
2013	\$171,276	
2014	\$188,249	
2015	\$185,138	LaTour begins property management
2016	\$141,690	
2017	\$129,948	
2018	\$120,968	
2019	\$127,915	
2020	\$125,427	
2021	\$446,427	EIFS siding issues, \$3 million Sally claim, \$1.2 million hailstorm claim, lawsuit against property next door exacerbated by Miami building collapse

During post-Sally inspection by the insurance carrier’s engineers, they discovered that the building is clad in EIFS sheathing. You can do your own internet search on EIFS and why the discovery of this problematic building envelope system prompted the insurance carrier to drop coverage on Palm Beach. Prior to Sally, this negative aspect of the building’s construction was not understood by the insurance carriers, so Palm Beach Resort benefited from years of lower premiums due to that misunderstanding. We no longer enjoy the financial benefits of that misunderstanding. As of April 2021, Palm Beach Condominium Owners Association, Inc. is on its own independent policy.

Because of the EIFS issue, the pool of insurers willing to cover the property was drastically smaller, and those who were willing to cover the property have taken the EIFS into account and demanded substantially higher premiums to cover their risk. The policy was shopped to a large number of insurance companies, of which few were willing to even entertain writing coverage. Combined with the recent hurricane claim, and by being a stand-alone policy for a beachfront condominium subject to future disaster claims, the COA was in an unenviable position facing either expensive coverage, or no coverage at all.

Coverage was secured and immediately thereafter, we experienced a hailstorm that resulted in another \$1.2 million claim on the new policy. For clarity, the hurricane was on the old policy, the hailstorm on the new one, which is written in the name of the COA only. It's safe to say, even under the more expensive policy, the new insurers are upside down on our account already. That said, both policies are performing and paying out on the two claims exactly as they should be.

To inject more bad news to the insurance scenario, we took legal action against the developers building the high-rise condominium next door, which we allege caused significant cracking in several areas of our building. When the collapse of the Champlain Towers in Surfside, FL became national news, the companies providing coverage gave notice that they intended to cancel our coverage and pull out. They wanted no part of a beachfront condominium with two multimillion-dollar active claims, EIFS sheathing, and even a remote possibility of a catastrophic failure due to potential structural weakness. When you remove yourself from the situation, who could really blame them?

Through the combined efforts of the Board, LaTour's in-house Risk Manager, and using our leverage with brokers and carriers, we were able to convince the insurers to continue coverage with some concessions and exclusions, averting a scenario in which the building could have (again) faced the real threat of having NO coverage. This would have forced at least a temporary closure and possibly impacted many owners' mortgage conditions.

So, to those that continue to assert that we need to have our own policy and be the only named insureds, that is exactly what we have. It is very expensive. And, hopefully, the above does a complete job of explaining exactly why. That said, we continue to shop the policy to any willing insurer in an effort to lower premiums and receive adequate coverage, as mandated. Our management company's Risk Manager has communicated directly with several owners to clarify the questions some of you had. We hope this addressed questions others may still have. Policies and proof of coverage have been distributed to those who asked and explanations of the situation shared.

The single issue most detrimental to insurance premiums is the EIFS. This would be the case regardless of recent claims, cracks in the building, or any other factor. The discovery of the EIFS alone will forever be a burden on the COA unless addressed. There are several ways to attack this, and we are exploring them all. An obvious, and very expensive, remedy would be to remove the EIFS and replace it with stucco, or some other material that doesn't negatively affect our standing with insurers. We are exploring any other avenues available with BECI and insurance carriers, but those are either unknown or non-existent at this point. When we receive more information on this procedure, we will ascertain whether it would be of benefit from an insurance perspective, or not. We also need to determine whether re-skinning the building in the near future is advisable with construction continuing next door.

## **Finances**

The new policy went into effect in April of 2021. Before being notified of our existing coverage being non-renewable, we budgeted for the expected 2021 property insurance premium as normal. Financing the new premium has resulted in an unexpected monthly expense for the difference vs. budget. This resulted in the need to raise the necessary funds through assessments to cover this cash shortfall and pay our bills. Of lesser impact, but impactful nonetheless, we have had to cover unbudgeted legal and engineering expenses related to the cracking of the building. Of course, this new premium will be included in our 2022 budget and will be paid through monthly dues as you would expect.

To clarify another point made in the recent communication, the authors made the statement, *“The operating budget continues to be supported by assessments and bank financing as discussed and noted in our 2020 independent audit.”* We are unsure what the point being made from this statement is, given that “assessments” in the auditor’s language refers to common monthly dues payments made by owners. “Special Assessments” are, as you know, a different thing entirely. Bank Financing referred to the loan for exterior building improvements done in 2020. A copy of the audit is available to anyone who requests one.

Hopefully, this has helped to further clarify topics we have discussed in previous meetings and owner updates. No one would classify our current situation as desirable. The past year has been nothing short of challenging and the board and management company have worked diligently on all owners’ behalf to navigate the numerous and simultaneous pitfalls that impacted and continue to impact the COA. That work never stops. There have been 22 board meetings since hurricane Sally and hours of conversations between those meetings.

In an effort to communicate and keep owners informed every step along the way, the board and management company have hosted five owner-invited Zoom meetings that took place in October 2020, November 2020, February 2021, June 2021 and July 2021. In addition to Zoom meetings, there have been 59 communications sent to owners via email, mailings and posted to the owners’ corner page found here: <https://www.palmbeachresortob.com/owner-corner/>. Additionally, the Board and Management Company have been available to answer individual questions owners have had.

It is important that information being sent out to the owner base is factual and does not contain incorrect assumptions or erroneous conclusions. We will do our part in that regard. We ask that all owners do the same as we work through these issues and continue our mutual efforts to protect and improve our property, investments, vacations, and experiences at Palm Beach.

Sincerely,

PBCOA Board of Directors

Management and Staff