

THE INSURANCE, THE INFLATION AND THE IMPACT ON VALUATION AND RESERVES

In accordance with the Fiduciary Duty of the Board of Directors, your Board is reporting that the Association and its owners are currently at risk for the following factors: the growth of insurance cost, the unit valuation for insurance purposes, the inflation growth that has an influence on the insurance costs and the funding of the various reserves.

Please read this important note from your Board of Directors. Your Board is carrying out its fiduciary duty by describing the impact over a 1 to 5 years period of the current insurance marketplace in Florida and the inflation impact on insurance valuation and on the various reserve's requirements for funding. The total insurance cost for the year would be \$478,213.00. Please review the next monthly financial report for more details.

The following demonstrates by various categories the evolution of the yearly premium:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
<u>PROPERTY</u>	<u>276,025</u>	<u>310,053</u>	<u>389,901</u>	<u>486,000</u>
<u>GENERAL LIABILITY</u>	<u>36,397</u>	<u>47,146</u>	<u>63,446</u>	<u>78,000</u>
<u>UMBRELLA</u>	<u>7,400</u>	<u>7,814</u>	<u>19,484</u>	<u>21,000</u>
<u>CRIME</u>	<u>1,971</u>	<u>1,936</u>	<u>1,974</u>	<u>2,100</u>
<u>MOLD/SEWER</u>	<u>2,889</u>	<u>3,074</u>	<u>3,408</u>	<u>3,500</u>
<u>TOTAL</u>	<u>324,682</u>	<u>370,023</u>	<u>478,213</u>	<u>590,600</u>
<u>MONTHLY COST</u>	<u>65.83</u>	<u>75.02</u>	<u>96.96</u>	<u>119.75</u>

The risk issues now facing the Association, in the past we were insured on the main policy on a declared value, now we are on a 100% co-insurance. If we face a situation that generates a claim, then the insurance company will determine if the values we declare are adequate. *We recognize that with the current inflation trending way up, our values are probably on the low side every day of the week.* Because of the high inflation, even if we perform a valuation each month, we will be below the valuation require for the year. Every condo association is faced with

this problem, and in a shrinking insurance market in Florida, it does compound the problem. With only 6 insurance companies remaining in the Florida commercial market, they are imposing new conditions to minimize their own risk.

Florida leads the nation in litigation. Despite accounting for only 8% of the issued policies in 2019, Florida accounts for 78% of all litigation nationwide. There are a lot of culprits to Florida's insurance crunch: fraud, litigation, the cost of roofs, roofing scams and active hurricane seasons the most often cited. The legislative inaction needs to be cited. It's good news that a special session to deal with a practical pocketbook issue is planned. If we refer to last year's session, there was one motion to dictate that owners with a private insurer proposal that exceed Citizen's quote by up to 20%, then the owner must accept the private insurance provider, lucky this did not make it into law. Remember that Citizen's is authorized to raise rates by 11% in 2022 and by 12% in 2023.

In addition to the inflation impact, the insurance industry is facing a large increase due to litigation, for example, the large payout made to the victims and families of the Champlain Tower collapse in Miami. *By the way, it is not over yet, the current settlement, inclusive of owner's own insurance and the Champlain insurance, exceeded \$1,150,000,000.00. Guess who will see increase in their premium, yes, the Florida residents.*

We agreed with our insurance broker, to perform an evaluation of our property within the coming 6 months and if there is an evaluation shortfall, we will then discuss a plan over a maximum period of 5 years to recover the evaluation shortfall risk, to bring our declared valuation to 100% of the replacement value.

If we are undervalued, and we must use a new valuation, then the insurance costs will continue to go up. Even if market place premium does not increase, as our value goes up then our insurance costs will move up. *Say that our current value is short by 10%, then the premium will go up by 10% just for the valuation shortfall recuperation.*

During that maximum 5-year period if the Association sustains a major event this may mean a special assessment to cover the insurance coverage shortage value. This risk was fully discussed within the Directors, the risk is currently acceptable until the reception of the valuation report, at which time *we will communicate with the Owners on any development on this issue.*

The best thing that can happen is to experience a year with say a base premium increase of 10%, then we can accelerate the recuperation of the 5-year plan and maintain the insurance cost growth to a range of 25%.

One condition that exists in the main property policy since the early days of the creation of the Association, is if all of the Association buildings, are damaged at more than 75%, then the obligation of the insurer is limited to pay the declared value, and it will be up to the then Board to make recommendations about the future, either rebuild or distribute all of the proceeds on an even basis between the 411 units.

As stated under Florida Statutes 718.111.(11).(f).(3) our insurance does not cover the following:

“The coverage must exclude all personal property within the unit or limited common elements, and floor, wall, and ceiling coverings, electrical fixtures, appliances, water heaters, water filters, built-in cabinets and countertops, and window treatments, including curtains, drapes, blinds, hardware, and similar window treatment components, or replacements of any of the foregoing which are located within the boundaries of the unit and serve only such unit. Such property and any insurance there upon is the responsibility of the unit owner.”

It is up to the owner to either cover the above or to self-insure, taking in to consideration the inflation. Some owners started to receive the following note as more and more insurance companies are leaving the Florida market:

“You are hereby notified in accordance with the terms and conditions of the above-mentioned policy that the above-mentioned policy will expire effective at and from the hour and date mentioned below, and the above-mentioned policy will not be renewed. Your coverage terminates at 12:01AM local time on... Reason for Non-Renewal: Company is no longer writing this line of business in this state.”

If an owner does not choose to obtain their own homeowner’s insurance and instead self-insures, this will put them at a considerable financial risk in the case of a hurricane or other disaster.

THE VALUATION OF THE RESERVE

The second risk for the Association is the Reserve valuation and this one is generated by the current inflation level. Your Board is currently evaluating the inflation impact on the main component of the reserve like the “roof reserve” and the “asphalt reserve”, this is required for the year-end audit, and it may mean an increase in the owner’s contributions to the various reserves. Just as an example of inflation impact, the average painting cost per unit was in a range of \$550.00 to \$600.00, even during last year’s painting program, this year it is over \$950.00, so imagine if it is the same for the asphalt and the roof and other reserve components, how much more would we need to contribute to our reserves. On this please review the month of April financials.

This board is fully committed to its fiduciary responsibility of reporting the financial facts and circumstances to our owners. We also understand in these economic times, controlling costs and expenses are even more critical than usual. We also understand that protecting the owners’ investments means a required increase of monthly assessments to keep up with the inflationary costs of funding our reserves as well as purchasing adequate insurance protection to minimize risk to owners in case of disasters. Our efforts will be focused on these endeavors as the year progresses.

Thanks for reading,

On behalf of the Board

Andre Mongrain, President

May 13, 2022