

Summary and Perspective on the \$2.8MM Special Assessment

Much of this document was presented at the 11/30/2009 Board Meeting explaining the reasons behind the Special Assessment and how the Board reached its conclusions and what processes were used to arrive at the conclusions. Furthermore, at that Board meeting, there were questions from unit owners, as some were detailed; we believe that this summary answers those questions as well as other potential questions by unit owners that were not able to attend that meeting.

History

- The problems we are experiencing are not recent and are not unexpected in a brick building of our age. The Association through the Board has been addressing façade issues since our inception and the significant needs were brought to light initially with the April 4, 2003 Critical Façade Examination Report conducted by Schoengart Associates, architects, engineers and planners.
 - Sometime after 2004 Schoengart was either merged or acquired, and no longer exists independently.
 - This came as a surprise to the Board because in prior years Critical Façade Reports did not disclose such level of deterioration of the façade. However, Schoengart utilized pictures and drawings to illustrate their findings.

2003 Recommendations

- The Schoengart report recommended that the owner/ agent establish an exterior façade repair program to address all deficiencies found in the masonry, limestone and sealants elements.
 - This work should be implemented within the next 12 months from the date of this report.
 - The scope of the recommended repair was extensive.

2003 Repair Scope

The 2003 recommendation included the following scope of repairs:

1. Remove and replace the new masonry areas of damage or deterioration such as severe cracks, spalls or out of plumb masonry.
2. Grind out a minimum of ¾” and tuck-point 100% of all mortar joints.
3. Repair deteriorated masonry vertical joints at the corners of the garage parking on the east elevation.
4. Remove and replace deteriorated sealant/mortar joints around limestone elements.
5. Remove and replace any weathered or deteriorated window caulking at the perimeter of the window openings.
6. Repair as needed any deteriorated steel shelf angles.
7. Clean and paint as needed balconies, metal railing and components.

Initial Response

- The Board at the time was in a dilemma, there were no excess funds and the cost estimate of 100% tuck pointing was in the \$5-6MM range.
- The Association had just approved a \$200,000 special assessment and passed a 15% regular assessment increase in 2001 for 2002 and the reserves were still at low levels.
- In 2003 the Board retained Optima Group and requested that it submit a plan to address the hazardous and dangerous conditions first and then attempt handling the most pressing or damaged areas next based on availability of funds.
- The Board's plan first addressed the hazardous and critical aspects of the critical façade issues addressed in the Schoengart Critical Examination Report.
- Bral, a contractor firm specializing in masonry was contracted to start addressing the most critical issues in 2003 and 2004.
- Next, a five year plan was initiated by the Board under the direction of Optima to handle the most advanced damage and deteriorated areas to establish if that could arrest further deterioration providing a more stable platform to determine the next step for future Board's. That five year plan just ended this October.

2008 Activity Summary

- During late 2008, several Board members became more involved with the on-going masonry project after discussions with Bral workers who stated that some of the remediation efforts were not successful.
- Over the winter months when the Bral work came to an end, the documents relating to the multi-year remediation project were reviewed and informal discussions with third party professionals, contractors, architects and engineers began informally.

2009 Activity Summary

- Early in 2009, the Grand Ave. bridge vibrations were initially thought to be the source of cracks along the limestone and the separations taking place between the roof and parapet walls surrounding the building and dissecting the building into three separate areas on roof level. However, the poor state of the masonry and façade was evident on the entire perimeter of the building, not just the portions closest to the Grand Ave Bridge. The vibrations from the bridge, evident for years, had worsened and vibrations could be felt in most of the southern third portion of the building, potentially contributing to the deteriorating masonry.
- We continued to experience water penetration at the roof level. Some of these issues were a result of tears in the membrane, some were a result of inadequate sealing around the structures on the roof, and some were a result of flashing that failed on top of the roof structures. In many cases it was determined that the leaks were a result of "fish-mouthing" where the flashing and roofing material would no longer adhere to the masonry parapet walls. In fact, on occasion the masonry workers, their work materials, staging equipment and weights had caused some of the leaks. Many

of the water penetration issues were a result of not having a comprehensive preventative maintenance program, which was put in place fall of 2009.

- Discussions with TBG and Bral confirmed that plans to concentrate on selected areas of the masonry had addressed only those areas, but not the façade as a whole and additional action was necessary. The Board then decided to contract for a new Capital Reserve Report (CRR) to capture future costs related not only to façade related needs but to address the state of the entire building and provide the Association with up to date cost estimates and assist in the long-term budgeting process.
- During March 2009, Units 603 and 608 were experiencing substantial water penetration resulting from substantially deteriorating masonry and roofing materials no longer adhering to the masonry due to failure of the bricks. In addition, Units 606, 506 and 406 were also evidencing water penetration due to failure of façade along that tier. The Association installed tarps to envelop the penthouse structures of units 603 and 608 while the Board assessed the situation to determine if other units had similar issues.
- During the months of March and early April, 2009, a competitive process was conducted to select an architectural/engineering firm to issue a new CRR:
 - Wiss, Janney, Elstner Associates
 - Thornton Tomasetti
 - Sullivan Goulette Wilson (SGW)
 - Klein and Hoffman, Inc.
- Unlike prior years, only firms with masonry experience or firms known to have acceptable credentials to evaluate a building type such as RBL, and those that would make a detailed physical examination were selected. Some firms found our project too small and some did not respond. After careful review, the Board selected SGW.
(Tom Ablum abstained from the voting on the Board's motion to hire SGW as he had a personal and professional friendship with Mark Sullivan, this disclosure was made at the March 2009 board meeting).

In April 2009, SGW approached the Board noting they were observing substantial and material deterioration on the façade and the potential of other structural problems. The Board expanded the SGW CRR assignment to cover an additional report on the façade.

- The Board decided to retain a new firm to replace Optima (a sole proprietor firm but with affiliation with other like firms), with a firm with more depth and a wider range of capabilities to provide a new plan and solutions for the problems observed by SGW. The following firms were invited to participate;
 - Wiss Janney, Elstner Associates
 - Thornton Tomasetti
 - Sullivan Goulette Wilson (SGW)
 - MAXIMO
- Brian Hudok directed this competitive review process; SGW was chosen to lead the project which has resulted in the Building Repair and Remediation Project and again the larger firms like Wiss Janney, Elstner Associates declined to submit a proposal and the smaller firms were more competitive. The competitive process again resulted in the selection of SGW, who expanded on

their in-house experience with a structural engineering firm and a roofing specialist in forming the team to handle the new project.

- Board members were active in holding discussions with Bral, other firms and consultants thru-out this process in order to learn about masonry issues. Other buildings with similar issues were contacted to learn about their process and experience.
- At the end of May, weather permitting, the unanticipated emergency work on Units 603, 608 and tier 06 began which eventually resulted in more than \$250,000 in unexpected expenditures, which were funded from reserves.
- Additionally the original 2009 scope estimated by Optima, on the south section of the West Wall was increased by more than \$100,000 to cover additional necessary remediation recommended by SGW.
- SGW's façade report and updated CRR highlighted the need for significant repairs necessary to provide a more comprehensive approach to the water penetration and masonry deterioration in our building. While the 2004-2009 project did solve many of the critical issues as intended, the ongoing deterioration had not been arrested. Based on all of the information, meetings and findings, the Board reached the painful conclusion this fall that there was no choice but to initiate a comprehensive restoration remediation and maintenance plan.
- Due to the significant amount of funds planned to be expended and to also confirm the validity of the plan, the Board retained Dearborn Engineering firm to perform a Peer Review of SGW's proposed plan.

Peer Review Process

- Again a competitive process was utilized and six engineering, architectural firms with project management skills were invited to bid. Only three responded and two sent in written offers. Dearborn Engineering was chosen to assess the following:
 1. Is the work proposed by SGW appropriate, too little, too much?
 2. Are the estimates in line with the proposal, or too low or too high?
 3. Based on what SGW proposes to accomplish, are their fees in line, too high or too low?
- Dearborn Engineering made their presentation at the 11/30/2009 Board meeting. They concurred with the amount of work being proposed, the cost and verified that the fees anticipated to be charged by SGW were in line. Dearborn noted that SGW should have an engineering consultant as part of the team as they felt that SGW lacked strong engineering qualifications. As noted earlier, SGW did bring in engineering and roofing professionals to round out their team, covered within their fees.

**The Budget Breakdown of
the proposed Special Assessment**

Masonry*	\$1,364,500
Door/Window Seals*	156,000
Roof Membrane *	220,500
Roof & Structure Repair*	49,700
AC lines/Condenser	70,900
SGW Management fee	158,000
Lobby, Security, Paint, Carpet	327,000
Garage Doors/Lights	30,775
Common Area Concrete	42,246
Common Area Metal Painting	13,800
Critical Exam	<u>40,000</u>
	\$2,473,921
Contingency	<u>326,079</u>
Total Estimated SA	\$2,800,000

Proposed SA – SGW Management Fee

* Projects for which the SGW Management fee applies:

- Masonry
- Door/Window Seals
- Roof Membrane
- Roof & Structure Repair
- Budgeted Total for these items = \$1,790,700
- Management fee of \$158,000 = 8.82% of the project total
- (Management Fee is approximate)

Other SA Budgeted Projects

- Some projects, such as the lobby, 1st floor lighting, entire building carpet and wall paint are deemed necessary as the building is in need of these improvements; carpet is tearing, walls are scarred, spare parts are not available, etc. The carpet and lobby projects have been considered regularly in the past years and were regularly postponed due to budgeted funds being re-appropriated for masonry repairs.
- Some projects such as security system upgrades are deemed necessary as current equipment/systems are no longer supported by the manufacturer (system includes building access cards/fobs and the garage door openers).
- We plan to wait before initiating some of these projects to make sure that the masonry and roof portions are within planned budget.

Current Situation

- The Board members have been working on these issues constantly since early 2009, although the process of reviewing the masonry issues began late 2008.
 - We have discussed many alternatives and have worked to reduce the cost estimates as low as possible.
 - Many consultants, architects, other associations were consulted and many aspects of the project and various alternatives were discussed before we arrived to where we are.
 - The Board has worked with the local Banks to obtain the most advantageous terms. Banks are not willing to finance beyond 7 to 10 years. Banks will not provide us with financing unless they are able to determine that the building is improving its reserves and there are no other projects during the time their loan is outstanding.
- We do not want to overburden the regular assessments and can only increase them by 15% a year; the Board can only raise the annual assessment up to 15% without triggering petition and referendum. The Board looked at alternative solutions, including, raising regular assessments every year at 15%, however, this option did not produce enough funds to pay even for only the masonry portion of the project nor maintain adequate reserves. Essentially, we would be trying to implement the same process that was attempted over the last five years, which led to the problems we face today. As a result of the low level of reserves, we will have at the end of this year and due to the unanticipated cost of the emergency masonry work the Association needs to build its reserves for the future. Furthermore, our regular assessments are currently in line with buildings of similar size and amenities to attract re-sales.
- In terms of the special assessment, as units sell, the special assessment portion must be settled. The remainder of the special assessment will be paid down by the remaining units.
- The Board, with the assistance of Brian Israel has developed an Assessment Calculator which will be placed on the RBL web site so that unit owners can test various assumptions and determine their payment levels if the cash option is chosen and the interest and loan repayment schedule if the financing option is chosen.
- Under the cash option the payment plan are equal cash payments over 34 months starting March 1, 2010.
- Under the financing option, until the construction project is over, the unit owners choosing this option will pay interest only during the 34 months. On January 1, 2013, when the construction loan is converted into a seven year fixed rate term loan, owners choosing the financing method will make level payments representing interest and principal.
- Again we suggest you view the Assessment and Loan Calculator that will be on the RBL web site next week.

Questions, Concerns and Misconceptions

- We all realize this SA is an unpleasant surprise, even during the best of times.
- For those that are facing financial challenges and need more time to bring their finances in line for the SA we have negotiated with Harris Bank to make available a financial package where the initial payments for the first 34 months are interest only on the outstanding balance of the loan.
- The process has taken a long time and many hours and has culminated after discussing many alternatives. Given that our reserves are depleted due to approximately \$250,000 of emergency repairs, we do not have the funds nor can we build the reserves with regular assessments to fund the required work.
- The firms that the Board has engaged all have the requisite credentials and relevant work experience. Our size building and project is not significant enough to attract some of the larger and more globally recognized names, at least not at costs we can afford.
- All of these process's were revealed at the board meetings starting early in March 2009 and all subsequent board meetings. There is a misconception that all of our water penetration issues are roof related and we should complete the roof first. The roof membrane utilizes the parapet walls to adhere and as a result, there were numerous failures due to this masonry issue. Not to minimize roof membrane leaks, these leaks individually or collectively are not as critical as the masonry and façade issue but are part of the comprehensive plan. The roofers do not want masonry staging equipment and workers on the roof after they lay down the new membrane and it could impact the warranty. The roof will be the last part of the project.
- When multiple independent engineering or architectural firms all confirm the same outcome and suggest that the building has significant masonry and façade issues, how many more consultants can we hire with money that comes from all of our pockets? At some point we have to review all of the materials and draw a conclusion of which we have done. That is why the Board approved the SA and wishes to begin the project to alleviate further façade deterioration. The Board has developed a fiscally responsible plan to allow the Association to fund the project and fund the reserves. We do not feel we have the right to pass on this problem to future owners. We need to be responsible.
- As to the authority of the current Board to undertake and approve the project and the Special Assessment, we have asked our counsel to prepare a legal opinion, which creates yet another unanticipated budgetary cost. In preparing the legal opinion counsel was confident that the Board acted with full authority. When the legal opinion is issued it will be posted on the RBL web site.
- A question relating to the validity of the Board was communicated in a previous letter to all unit owners along with the revised proxy.

We welcome further questions, comments and participation. While we recognize that everyone does not always agree on every issue, we believe that we all wish our homes to be safe, our building to be well repaired and maintained, and that our homes are an investment, which we should protect.

The Board of Director of River Bank Lofts Condominium Association