

Forest Park at Wilderrest Association

February 4, 2021

Dear Fellow Owners at Forest Park:

As President of the Executive Board, I am writing about an important change in the Association's insurance coverage effective April 1, 2021. See below for a bulleted summary of what you need to know, followed by a more detailed explanation. There will also be an informational Zoom meeting with our Farmers' insurance agent, Nick Strong of the Kinser Agency, at 5:00 pm on Wednesday, February 17, 2021. You will receive an invitation by email next week.

Summary

- Effective April 1, 2021, Forest Park is changing the Association's form of insurance coverage to make owners fully responsible for insuring the interiors of their own units.
- The change requires each owner to notify your agent and increase the "Building Property" coverage on your HO6 policy to insure against the cost of rebuilding the interior of your unit in the event of a major loss.
- Forest Park's insurance agent recommends that owners carry Building Property coverage of no less than \$100 per square foot - i.e., \$140,000 for 2-bedroom units and \$180,000 for 3-bedroom units.
- The cost of completely renovating a 3-bedroom unit that suffered extensive damage on all three levels due to a water leak in 2019 was roughly \$250,000. Your costs may be higher or lower, depending on unit size, contractors, materials, finishes, etc.
- The increase in the annual premium on your HO6 policies will be offset by your pro rata share of the decrease in the Association's annual premium (~\$150, or ~\$6,000/40 units).

Explanation

At the Annual Meeting on January 22, we discussed the practical and economic challenges of insuring our mountainside community. There have been several large claims in recent years for water leaks that damaged the interiors of the affected units. Almost always, the leaks and resulting damage could have been avoided if the owners had taken more care. (I know because I was one of the careless owners!) Nevertheless,

the owners were responsible for little if any of the repair costs, as the claims were handled and paid by the Association's insurer under Forest Park's "all-in" policy.

Simply stated, an "all-in" or "inclusive" policy insures more than the unseen common elements within, above or below the walls, ceilings or floors of our units; it also covers interior items like fixtures, cabinets, countertops, built in appliances, rugs (if permanently attached), tile and hardwood flooring. Under our governing documents, the Association has the right to limit its insurance of unit interiors to "original condition" only - i.e., the type and quality of the finishes and fixtures from 1997-98. Over the years, however, the coverage on the Association's insurance policies for unit interiors expanded to include owner upgrades. This means the Association is paying to insure areas over which it has no practical ability to control much less prevent losses, and the payouts on claims directly benefit individual owners who often caused or could have prevented the problem.

Prior to our last insurance renewal in April 2020, there was some indication that our long-time insurer (Farmers) might not be willing to continue to write our insurance due to our loss history, which could have forced us into a secondary market with significantly higher premiums. As a result, the Board spent much of 2020 reviewing our coverage options. We worked with an independent agent (Mountain West) to obtain quotes from insurers other than Farmers. We also changed agents at Farmers because the prior agent was extremely unresponsive, while the new agent is exactly the opposite. After an extensive process, including advice from our legal counsel, the Board voted unanimously in December 2020 to renew the HOA's insurance with Farmers effective April 1, 2021, but to change the type of coverage to what is often called "bare walls."

I will leave the details of bare walls coverage to our informational Zoom meeting later this month, but the general concept is that owners will now be fully responsible for insuring the interiors of their own units. From the HOA's perspective, this type of coverage has many advantages, such as:

- Reduce both the number and cost of the claims submitted to the HOA's insurance, which over time will dramatically improve our loss history, which in turn will result in lower premiums.
- Motivate owners to perform the repairs and maintenance required to prevent losses within their units, thereby avoiding deductibles and increased premiums on their own policies.
- Allow owners to make their own choices about how much extra coverage they need or want. For example, if your unit has been recently renovated, you would probably want enough insurance to cover a full replacement (i.e., \$250,000 or more). If your unit is closer to original condition, however, you might feel

comfortable with the recommended minimum of \$100 per square foot (i.e., \$140,000 for 2-bed units and \$180,000 for 1-bed units).

Another advantage of the switch to bare walls is that it significantly increases the insurance funds available to rebuild our community in the event of a catastrophic loss. Right now, the maximum base amount that Farmers will pay to Forest Park is \$15,810,300, which is roughly \$200 per square foot. The Board does not believe that this amount would be enough for an “all-in” rebuild of 40 units spread over eight separate buildings on the side of a mountain. By switching to bare walls, however, the HOA’s \$15.8 million would be used mostly to construct the buildings and unit shells, and the owners’ HO6 policies would kick-in to rebuild the interiors, which make up roughly 30% of the construction costs. This increases the effective coverage on our property to over \$22 million.

The difference in premium between an all-in policy at \$22 million and a bare walls policy at \$15.8 million is roughly \$6,000 per year, which is \$150 per unit.

According to my insurance agent at Allstate, the annual premium on my HO6 policy will increase by \$106 for every \$100,000 of additional Building Property coverage on my unit. I already have \$100,000 of Building Property coverage, so if I increase the total to \$250,000 I will pay an additional \$159 per year. The \$250,000 figure was the rough amount needed in 2019-20 to rebuild a 3-bedroom unit that suffered extensive damage from a water leak on the top level.

Needless to say, your premium increase may be different than mine, but the first \$150 of any increase will be offset by your pro rata share of the premium saved by the HOA through the switch to bare walls. Therefore, the change in coverage should be neutral or almost neutral to owners on a net cost basis.

Next week, you will receive an invitation to an informational Zoom meeting with our Farmers’ agent, Nick Strong, to be held on Wednesday, February 17, 2021 at 5 pm mountain time. Please do not delay, however, in contacting your insurance agent to discuss the changes needed to your HO6 policy when the switch to bare walls becomes effective on April 1, 2021. By that date, each owner must provide the Association with proof that he or she has Building Property coverage in an amount that meets or exceeds the recommended minimums of \$140,000 for two-bedroom units, and \$180,000 for three-bedroom units.

Sincerely,



Martin Desmery, President
Forest Park at Wildernest Association