Heritage Grand Homeowner's Association
Town Hall Meeting Minutes – Americanas Insurance Information
Monday, May 16, 2022 – 7:00 PM, HG Ballroom

Directors Present:
Preston Jones, President
Janet Wright, Vice-President
Carol Hankins, Secretary
Pat Myers, Treasurer
Gary Patton, At-Large

Also Present:
Pete Hogue, Financial Operations Committee (FOC) chair
Jonathan Henley, AJ Gallagher representative (HG's insurance broker)
Jennifer Rivera, FSR, managing agent

Approximate Homeowners in Attendance: 59

The meeting commenced at 7:00 PM and was facilitated by Pete Hogue, FOC member and Americana property owner, with Jonathan Henley from Gallagher assisting him.

Handouts used for the town hall meeting are attached.

The purpose of the meeting – **to share information about group insurance changes (specifically concerning Americanas duplex property insurance) and how these changes affect the additional personal property/liability insurance those owners should consider carrying** – was outlined for discussion. Pete explained that as Americana property owners, all are required, per the DCCR, to maintain a certain level of coverage to protect their assets and property.

Jonathan reported on insurance industry changes (regionally and nationally) that have occurred since the 2019 Town Hall meeting that first addressed Americanas insurance. Factors impacting the current insurance industry include inflation, the state of financial markets, and global politics. The last 3-5 years have shown sharp increases in Harris County rates. The Houston area has specifically seen an increase in hail and flood claims, seriously affecting the industry and fewer carriers are willing to write policies for property within the Houston market area. Philadelphia was a major insurance carrier in previous years but has decided to non-renew all habitation coverages. With the Philadelphia departure, Gallagher had to seek coverage elsewhere for the HG master policy. The local market is further impacted by the effects of natural disasters on a national and international level.

Pete reviewed the following Gallagher-provided table (taken from the meeting handouts) which shows master policy insurance costs and valuations over the recent past:

| Heritage Grand Homeowners Association, Inc. | | | | | |
|---|---|---|---|---|---|
| | 2022-2023 (current) | 2021-2022 | 2020-2021 | 2019-2020 | 2018-2019 |
| **Property Premium** | $171,044 | $107,513 | $99,441 | $90,401 | $90,401 |
| **Total Insured Value** | $23,968,586 | $22,911,040 | $16,320,000 | $16,320,000 | $16,320,000 |
| **Rate** | $0.714 | $0.469 | $0.609 | $0.554 | $0.554 |

The total current annual master policy premium is $171,044, and a large percentage of the coverage is specifically tied to the Americanas – about $150,000 of this total cost pays the property insurance premiums for the 49 Americanas buildings, or 87% of the total premium amount.

As can be seen from the chart, from 2019-2022 our insurance premium cost increase has been about 89%. Also seen: the value of the insured property has increased nearly 50%. (This last data point is both positive and negative from an owner's perspective: positive in that the homeowner's assets are growing; negative in that a more valuable asset requires more insurance coverage.)

## Insurance Deductibles

A major change to our master policy impacts how the policy's deductible is addressed. Previous master policies had deductibles for certain disasters on a "per occurrence" basis; this is now changed to a "per building" basis per occurrence for the 49 Americanas buildings. This deductibles process change results in potentially larger deductibles being assessed to Heritage Grand collectively.

Deductible increases were specifically discussed as related to water damage. (Wind damage is already a higher liability focus for carriers since Katrina happened.) "Water Damage" includes items such as internal broken pipes, water-supplied appliance failures, and the like.

Water damage claims now carry a minimum $25,000 deductible per building per occurrence, so the issue at hand is to ensure homeowners have enough personal coverage to fully replace their belongings and reimburse the Association for the master policy's deductible.

The FOC (through its Insurance subcommittee) studied deductibles management options and then recommended the plan as presented in the attached handout.

## Deductibles Examples

Example 1: Damage occurred inside a unit due to a leaking toilet. The Association is responsible for the damage that occurred because of the leak, the homeowner is responsible for repairing the leak itself. The Association's responsibility is to make the needed repairs and not incur a loss of money because of the repair. When there is a deductible at all, the Association recoups the money by assessing the cost to the homeowner.

Example 2: Roof damage that allowed water to penetrate inside the condo, causing internal damage to the unit. The Association is responsible for the roof and will make the repairs. As an example, if the cost of the damage is $20,000, under the deductible amount, the homeowner would be responsible for the repairs.

Homeowners must decide if they choose to pay out of pocket or make the insurance claim. Anytime the claim is under the amount of the deductible, it would not be handled through the Association's insurance policy.

**Insurance Cost Management**

Pete addressed dues impact for Americanas homeowners from the insurance cost increases previously discussed. One outcome from the 2020 roof replacement project was an excess insurance payment as compared to the cost of the job. Most of these excess funds were allocated to offset future Americanas insurance payments. So as to not have a sharp budget increase in response to the insurance cost increase, a "glide path" was implemented and has been utilized (see the handout document for specifics). Allocations have not yet been proposed for the 2023 budget.

**Questions and Answers from the Town Hall meeting:**

- A Member (name not recorded) asked if the cost is currently (ballpark) $150,000/year for insurance. If so, and without the glide path offset of increases, insurance would cost almost $1530/homeowner/year or $128/homeowner/month. Pete Hogue responded that that was correct. The member stated that her sister lives in Grand Lakes in a home twice the value of her home and pays only $2200/year.

  Jonathan Henley added that "direct line writers" often sell coverage that is not needed or over insure clients. Some carriers don't understand the requirements per the Texas Uniform Condominium Act and/or the DCCR. Homeowners should verify that you are not carrying excessive coverage and that your agency/agent understands what coverage is provided by the Association and what is needed to ensure you are fully protected.

- Jim Ireland asked if HG had not filed the roof claim in 2019, would the increases still exist? Jonathan explained that it probably would not have been as high, but the increase was across the market.

  Jim asked if the overall value at $24 million is enough to cover every single unit. Pete responded that, yes, the coverage is adequate to rebuild should a total loss occur. Jonathan added that a complete loss is high unlikely with individual units.

- Dave Phillips asked how many 2022 insurance bids did the Association have to review and why were the quotes not shared with the community. Pat explained that the Board reviewed all the quotes issue and the Association accepted the lowest of the proposals.

  Mr. Phillips is under the impression that every roof in the Americanas was supposed to be replaced every 15 years. Pete explained that there is not a schedule for roof replacement; this may have been misinformation shared by the real estate agent selling the property.

  Mr. Phillips then asked if there is an amount per month that is contributed for the roof replacement. Pete responded that our Reserve Plan is in place to have funds to cover these necessary costs when they arise.

Is there a plan to replace roofs every 15 years in the Americans? No.

- Bob Snider asked if all the roofs were damaged when they were replaced or if some were and insurance proceeded with replacing all the roofs at the same time. Preston responded that his understanding was that enough damage had occurred to constitute full replacement.

  Mr. Snider asked about if only half the roof needs to be replaced, what happens then? It would be assessed on a case-by-case basis, but a building's roof (over two units) would likely be replaced.

  How would water damage in one unit that moves into the other unit be addressed? Jonathan explained that liability insurance would cover this.

  The HG master policy does not provide general liability coverage for events happening in your unit and outside on your lot. Homeowners must carry liability coverage for events that may occur at their property.

- Denise Brio asked if Jonathan recommended speaking with someone in person as opposed to over the phone. Jonathan responded that a direct line writer or insurance company may provide more personalized service. It is important that the homeowner understand the coverage they need to be able to communicate the specifics to their insurance company.

- Dollie O'Day asked if the Association carries Liability Insurance on the common areas. Pete replied yes.

  He added that volunteers should also be aware that anyone who performs duties for the Association is covered under the Association's policy. Is there a recommendation for coverage homeowners should carry? Personal umbrella policies can be a standard amount but this would be figured based on personal assets and property.

The meeting adjourned at 8:27 PM

**Attachments:**

- Heritage Grand Americanas Property Insurance (5/12/22 version)
- Insurance Deductibles Approach Worksheet (4/30/22 version)
- Glide Path for Americanas Excess Insurance Proceeds

The minutes were recorded by Jennifer Rivera and submitted by Carol Hankins.

# Heritage Grand Americanas Property Insurance

**SUMMARY**

1. Buy “Condo Owners” insurance
2. Consider buying Flood Insurance
3. Obtain adequate "LOSS ASSESSMENT" coverage in your Condo insurance

**Without implementing the above three suggestions, you are, by default, choosing to self-insure your property at a significant cost to you. Make sure you can afford to do that.**

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- The Heritage Grand Insurance Program is structured to meet the specific needs of the Americanas duplex housing area and the community as a whole. The pricing and deductibles are among the lowest today’s insurance market can provide. Purchasing insurance at group rates provides a significant advantage compared to what an individual would pay.
- The Master HG insurance policies provide coverage for the clubhouse, all common areas and liability coverage as needed as well as property coverage for the Americanas duplexes.
- Stand-alone homes outside of the Americanas have no coverage and must supply their own.
- Our Master HG insurance covers everything permanently installed in the duplexes at replacement cost. The insurance industry calls this a “walls in” coverage. This “walls in” coverage includes things like floors, walls, decorative trim, ceiling coverings, paint, fixtures, built in appliances, window coverings, air conditioning, ventilation, refrigeration, built in laundering, cooking and dishwashing equipment, and interior partition walls and doors. This insurance also covers all unit owner improvements and betterments. One way to think of this is that it includes everything left in your duplex if you sold it and moved out.
- This Master HG insurance has high deductibles in order to keep the cost reasonable. **Each duplex building (two individual homes) is considered one insured building. For any claim in a two unit building, the deductible is $25,000 for wind & hail damage. This also hold true for water damage. For any other damage such as fire, vandalism, theft, etc. the deductible is $10,000 for the two unit building. When both of the duplexes have damage from one occurrence, the deductible will be split between the two duplexes based on the actual cost to repair the damage. This deductible is the responsibility of the homeowners and their own insurance company.**
- Stand-alone housing residents maintain personally obtained "Homeowners Insurance" policies but Americanas duplex residents need to instead procure the much less expensive "Texas Condo Owners" (sometimes called HO-CON or HO-6) insurance through their personal insurance agent. **This policy provides liability for your duplex as well as personal property that is not covered under the master policy. This policy should also cover some or all of the deductible that would be incurred under the HG Master insurance policy.**
- **All homeowners should purchase a personal Flood Insurance policy.** This insurance is subsidized by the government and would cost much more if HG purchased one policy for everyone.
- Because you are covered by the HG Master insurance **you should not purchase the more expensive “homeowners insurance” that others buy and you do not want “renters insurance.” When you purchase your “condo insurance” make sure you understand the “Loss Assessment” coverage.** Different companies pay different amounts. This is the payment that an insurance company would pay toward your responsibility to meet your deductible under the HG Master insurance policy. **Make sure you know how much you would be personally**

**responsible for in the event that you had to pay a significant deductible required by the HG Master policy.**

- The HG Master policy does not provide general liability protection for Americanas owners. **When you purchase your "condo insurance", make sure you understand whether it provides general liability coverage for events happening in your unit and outside on your lot.**
- Heritage Grand Homeowners Association buys this insurance for your protection. **Any costs beyond the cost of insurance premiums are your responsibility.**

**<u>CONCLUSION</u>**

1. **You must have your own "Condo Insurance"** to protect your personal belongings, your liability inside your unit and outside on your lot, and to help pay your deductible under the HG Master insurance. Get several quotes and find an insurance agent you trust. **The HG master policy deductibles have recently increased significantly** so now is a good time to review your existing policies with your personal insurance agent.

2. **Flood insurance is important and recommended.** Thousands of Houston homes have been flooded when homeowners thought there was no possibility of a flood.

3. **Your personal "Condo Insurance" must cover all or part of your $25,000/$10,000 deductible** through its "Loss Assessment" coverage. Make sure your insurance agent can explain how you are covered.

4. If your mortgage agent or personal insurance agent needs a Heritage Grand master "Certificate of Insurance," one can be obtained by going to **www.ajg.com/fsr**.

**5.** **Immediately report any claim** to Heritage Grand Management.

**HG FOC INSURANCE FUNCTION**
**INSURANCE DEDUCTIBLES APPROACH WORKSHEET** (version 4/30/22)

The information organized under the two headings below on the first page cover information about:
a) how the insurance claim process works
b) how the insurance deductibles approach will work under the 2022 newly changed paradigm.

## INSURANCE CLAIM PROCESS INFORMATION

1) Overall, the repair project is managed by the Association and the involved owners are assessed by the Association to cover their respective share of the deductible covering their building(s).

2) Should there be an **excess** of incoming revenue (insurance money plus deductible money from the involved owners) after all the repair costs are paid then the Association would determine a fair approach for handling the excess; provided, that if the owner-contributed deductibles comprise the excess, then the excess would be refunded to the involved owners in proportion to their respective deductible assessments.

3) Should there be a **shortage** of incoming revenue (insurance money plus deductible money from the involved owners) to cover the full cost of repairs then the Association would go back to the insurance company with a request to increase the insurance payment over the previous payment which is based on an "estimated" (insurance adjuster provided) cost estimate.

## INSURANCE DEDUCTIBLES INFORMATION

1) Insurance coverage and deductibles are done on a per building basis – not a per unit (2 units per building) basis. We have differing values across our set of 49 buildings, so we also therefore have differing deductible values across our set of 49 buildings.

2) Deductibles vary by event:
a) Wind & Hail damage: deductible amount is 3% of the building (or buildings) value with a $25,000 minimum per occurrence
b) Water damage: deductible is $25,000 per occurrence
b) Other events (fire, vandalism, etc.): deductible amount is $10,000 per occurrence

3) Initially there are **two allocation approaches that seem equitable** – obviously the choice of which allocation alternative needs to be determined on a case-by-case (scenario) basis [*see the next page for the proposed Deductibles Allocation Approach information*]:
a) one owner pays all
b) both owners pay their share – with their share determined proportionally based on a damage amount basis.

4) **Considered but rejected allocation approaches**:
a) split the expense 50/50 (regardless of other factors)
b) both owners pay their share – with their share determined proportionally based on a square footage basis.

**DEDUCTIBLES ALLOCATION APPROACH TABLE**

| ***Scenarios*** | **Wind & Hail Deductibles Approach [$]** | **Other Events Deductibles Approach [$]** |
|---|---|---|
| | | |
| One [best case] - only one unit (a portion of the building) is damaged or destroyed | - Deductible amount: $25,000<br>- Deductible approach: 3a | - Deductible amount: $25,000 for water damage; $10,000 for other events<br>- Deductible approach: 3a |
| Two – only one building (both units) is damaged or destroyed | - Deductible amount: $25,000<br>- Deductible approach: 3b | - Deductible amount: $25,000 for water damage; $10,000 for other events<br>- Deductible approach: 3b |
| Three – 2 buildings damaged or destroyed | - Deductible amount: 3% per building, but $25,000 minimum per occurrence<br>- Deductible approach: 3b | - Deductible amount: $25,000 for water damage; $10,000 for other events<br>- Deductible approach: 3b |
| Four [worst case] – all 49 buildings (98 units) are destroyed | - Deductible amount: 3% per building – aggregate total for 49 buildings is $623,766]<br>- Deductible approach: 3b | - Deductible amount $25,000 for water damage; $10,000 for other events<br>- Deductible approach: 3b |
| | | |

**GLIDE PATH FOR AMERICANAS EXCESS INSURANCE PROCEEDS - Calculations shown below**

During final wrap-up of the 2019 hail damage re-roof project, the BOD declared that the Americanas' share of the excess insurance proceeds would be applied, for as long as it lasts, to mitigate future increases in assessments for increasing insurance premiums. In 2022, $67,232.75 of the excess proceeds will be used for this purpose. Additionally, $7,438.00 of the Excess Proceeds will be used to pay the Americanas' share of the additional premium for Property and General Liability coverage for January 2022, for which HGHOA has now been billed. Unless premiums increase a lot in 2023, the remaining proceeds likely will cover the Americanas' 2023 insurance assessment over $69/mo/Unit, but very little will remain for 2024.

| Americanas Excess Proceeds | |
|---|---|
| Original excess proceeds | $191,683.71 |
| Insurance overage 2021 | ($11,399.01) |
| 2020 FIT | ($34,536.84) |
| Balance as of 12/31/2021 | $145,747.86 |
| 2022 Excess Proceeds Used | ($67,232.75) |
| Available 2023-2024 | $78,515.11 |
| Jan 2022 Extension Invoice | ($7,438.00) |
| Adjusted Available 2023-2024 | $71,077.11 |