

Bella Palermo FAQ – Insurance Situation ~ October 2022 [updated Oct 14, 2022]

Q: What does TSG do?

TSG Independent is a professional property management company. They manage the day-to-day issues related to the Bella Palermo property and buildings. They manage all vendor services for: decks and balconies, dues billing, electrical, exercise room equipment, fences, fire extinguishers, fire sprinklers, garage doors, general contractors, gutter cleaning, janitorial, keys, landscaping, lighting, painting, parking management, pest management, pool services, pool furniture, plumbing, roofs, security cameras, sidewalk and street maintenance, specialized vendors, sound barrier walls and termite inspections. If a new vendor is needed, they identify qualified vendors and manage the process of getting bids for services.

In addition, they handle the association's bookkeeping services and prepare financial reports; facilitate board meetings (prepare agendas, board packets, meeting minutes, etc.); interface with our attorneys, auditors, banks, collection agencies, insurance companies and local agencies such as the Orange County Fire Authority. They handle day-to-day questions from homeowners and work closely with the Board.

Q: What does the HOA board do?

The Board of Directors ("Board") is composed of homeowners who volunteer their time to help the community. Board members serve 2-year terms, with overlapping starting dates: three (3) board member terms start on the even numbered years; two (2) board member terms start on the odd numbered years. Board members are not paid and do not receive any special benefits for their service. Homeowners elect two or three board members every year via secret ballots.

The HOA board duties specified in the By-Laws and CC&Rs include (by are not limited to): adopt and enforce rules; employ a property management company to handle day-to-day property issues; contract and pay for maintenance services, utilities, supplies and other services needed to maintain the common area and property owned by the association; establish the amount of regular and special assessments; purchase and maintain insurance on the property; hold regular meetings to keep the community informed of activities.

The board is bound by the California *Davis-Stirling Act*, which is intended to provide safeguards for members within a community association and to allow for self-governance by an elected board.

Q: When were we notified by Farmers Insurance that they would not renew our property insurance?

On June 15, 2022, our insurance broker, Michael Berg, notified Amy Simpson, our property manager, that Farmers Insurance would be "[non-renewing the insurance for Palermo due to location and exposure to wildfire.](#)" Amy followed up with Michael Berg on June 27 when she received a copy of the non-renewal notice by US mail.

Michael replied, "[Carriers will start responding to us as we approach the 9/1 effective date. I would anticipate this being a late delivery, and the market in these types of situations is usually not getting back to us until we are much closer to the effective date. I will certainly keep you in the loop throughout the process.](#)"

On August 25, Michael wrote to Amy by email. "[I'm just touching base because we are still awaiting our property and general liability carrier responses on this account. I'm hoping to have something for you soon.](#)"

Q: When was the HOA board notified of the non-renewal?

On June 15, Amy forwarded Michael Berg's notice by email to all HOA board members. Amy continued to follow-up with Michael and to copy the HOA board with updates.

Q: When did the HOA board receive a quote for replacement insurance?

On Friday August 26, Michael Berg sent the first quote for replacement insurance to Amy after the TSG office was closed for the day. “I have attached the insurance option we have been able to secure for the community. This is a dramatic change to the insurance program for the HOA as it pertains to property insurance, as no other options were received from any of our other resources. All carriers declined due to the location of the risk, and wild fire score. These include: Philadelphia, Travelers, CAU, QBE, AIU/Amalgamated, Accelerant Specialty, CORE Programs, CIBA, Guard, Distinguished, Liberty Mutual, Coastal Insurance.

Presented here is a “stated limit” or “loss limit.” We have secured \$15 million of property insurance. This is not equal to the total insurable value of the community, which is more than \$60 million. We can provide additional layers of insurance to reach a loss limit of \$46 million. These additional layers will come at a cost of:

- \$15 million in excess of \$15 million for \$127,500, plus taxes and fees
- \$16 million in excess of \$30 million for \$120,000, plus taxes and fees

If the board would like to make this additional purchase, please let me know and we will request formal terms from the carrier. As it stands, the presented option with a \$15 million loss limit comes at a cost of almost \$446,000 including all other coverage lines, taxes, and fees. I know this is going to be a shock to the board, and a hard thing to understand. Please include me in any conversation you can when it comes to communicating this to the board. My recommendation would be a financing of premium, and we can provide that agreement once we have completed binding of the insurance.”

Amy forwarded that email to the HOA board on Monday, Aug 29 when she was back in the office.

On September 1, Michael responded to a member of the board who asked about alternative insurance carriers “If you are looking to quote the HOA needs, I'm sorry but there are no preferred carriers available, and no alternative programs that can deliver at this point (assuming we haven't already approached them and received declines). My recommendation is to accept what is on the table, work with legal counsel on the proper way to deliver a special assessment or consider borrowing from reserves, finance premium so the outlay is a down-payment initially and a couple of installments. And as I shared with Amy this afternoon, I will work directly with a competitor I trust, who is an expert in HOA insurance, to see if there is possibly anything else available that I have not accessed. That could be put in place in early December due to minimum earned premium on the property insurance policy. I know it's not the situation anyone wants to be in, and I empathize with you.”

Q: What other actions were taken by TSG and/or HOA board members to secure other insurance?

Amy contacted other insurance brokers who are connected to properties managed by TSG. She also contacted George Gustav, owner of TSG, who was out of town on vacation and he contacted insurance brokers that he knows. Amy also contacted our attorney Jillian Wright. Manj Sandhu contacted his insurance broker. Olga Reznik contacted an insurance broker that she knows. None of them were able to secure us insurance. Several told us that Farmers Insurance was not renewing many customers and that we probably could not find anything better than what our broker had found.

Q: When did the board meet to discuss the insurance situation?

The board met in executive session on September 1 via Zoom with Michael Berg and our attorney, Jillian Wright of Epstein. We discussed our options and costs of various levels of insurance. The board was concerned about how homeowners would be able to deal with a very large, unexpected emergency assessment that could be from \$1,200 per unit (for \$ 5 million of property coverage) to more than \$3,200 per unit (for up to \$45 million of property coverage). At that meeting, we agreed to purchase a policy

covering General Liability, Directors & Officers Liability, Umbrella Liability and Crime/Fidelity insurance (total cost \$9,839).

At that time, we still had one agent who said they could get us insurance and we set a deadline for them to give us a quote by 1:00 PM on Friday, September 2. When that agent did not deliver any information at all, the board voted to approve one of the lesser options Michael Berg had given at the meeting the day before for \$5 million coverage at a premium of \$284,586 [later revised to \$274,912.77]. He suggested that we finance that so we do not have to pay the entire premium in the beginning, rather spread out the payments over the policy year.

He also told that us that if we let our insurance lapse completely, we would probably not be able to buy any insurance at any amount for any price so the board had to do something immediately.

Q: Was there any time when we did not have any insurance?

No. When we agreed to the insurance on September 2, we had to sign a statement, “I certify that I am not aware of any losses, accidents or circumstances that might give rise to a claim under the insurance policy whose number is show above, from 12:01 AM on 9/1/2022 to 9/2/2022 (date and time signed).” That policy was effective 9/1/2022.

Q: When was the emergency special assessment approved?

At our Executive Board meeting on September 2, the board voted to make the emergency special assessment in order to cover the amount of the insurance above what was budgeted. That action has to be approved in an open meeting with proper notice. Since our regularly scheduled monthly board meeting was the following week, September 8, we put on the agenda the item “[Insurance Renewal Discussion and Emergency Resolution](#)” as the first item. The agenda was posted on the clubhouse door where all board meeting agendas are posted. At that meeting, the board formally voted to approve the emergency special assessment.

Q: What amount has been paid out so far for insurance?

We made a down payment of \$62,213.55 and have paid the first monthly installment payment of \$22,869.35. Our regular budget was \$50,433 for insurance. The rest of the premium has to be borrowed from our reserves. The amount borrowed from our reserves must be replenished by the emergency special assement payments within one year.

Q: How much commission does our insurance broker receive for the policies we have now?

Their normal commision is 10% of the premium. He cut it to 5% for this policy.

Q: When did the notice of emergency special assessment go out to owners?

The notice was mailed out September 15, 2022. We had to include a cover letter with the exact amount of the insurance premiums and the financing fees, which took a while to get confirmed by the insurance company and the financing company, the exact amount of the emergency special assessment and payment terms, and have the language reviewed by our attorney.

Q: When is the payment for the emergency special assessment due and can it be made in installments?

The assessment amount of \$1,218.73 will be added to all owner accounts as of November 1, 2022. The amount may be paid in full with no interest, or paid in installments of any amount plus 10% annual interest added to the unpaid balance, with a maximum amount of interest of \$20. If the assessment is not paid by August 15, 2023, there will be late charges and could result in a lien on the property.

Q: How much insurance coverage do we have now?

On September 27, 2022, we received updated certificates of insurance effective September 1, 2022. We currently have: Commercial General Liability \$1,000,000; Automobile Liability \$1,000,000; Umbrella Liability \$5,000,000 with Wildfire/Wind & Hail deductible of \$250,000 and All Other Perils/Water Damage deductible of \$100,000; Directors & Officers \$1,000,000; Fidelity Bond \$2,250,000.

Q: Why is our area considered a high fire risk?

We were told that insurance companies use computer models to determine which areas might be higher risk and anyone in that area is flagged. We have asked if there is someone we can contact to have the maps reviewed, updated or changed to show that we are surrounded by other developments, not by open brush. If anyone knows anything about how to get the maps changed, please volunteer to help. The RiskMeter Report most carriers use is now posted at <https://bellapalermohoa.org/DocPicker.htm>

Q: What is being done in California to look at the problem of insurance companies canceling or not renewing insurance?

For single-family homes, there is the California FAIR plan, which is a way to get insurance as a last resort if people cannot get insurance from regular insurance companies. Currently, that insurance is not available for condos. When people get insurance via the FAIR plan, it is less coverage than regular insurance and is much more expensive.

Q: How many different companies did our insurance broker contact trying to get us insurance?

Michael Berg gave us this list: “I approached the following carriers directly: Farmers Insurance (non-renewal), Philadelphia Insurance, Arden Excess and Surplus/Accelerant Specialty. I also accessed a number of carriers via a wholesale broker: Travelers Insurance, Sutton National, Arden Preferred, DB Insurance, CIBA, AmTrust, Guard, CAU, CORE Programs, Distinguished, QBE, Liberty Mutual, AIU/Amalgamated, Coastal Insurance Group. In addition, and what we finally received a response from, was an approach through a wholesale excess and surplus lines broker who accessed the carrier presented. I’ll reach out to them for a comprehensive list of the surplus lines carriers they approached.”

Q: Can the HOA purchase more insurance if owners are willing to pay more for a special assessment?

Yes, that is possible. Several homeowners requested that the board consider trying to purchase additional insurance. The HOA board held a special meeting via Zoom on October 5, to discuss sending out a vote to all owners asking if they would be willing to pay a higher assessment to get higher insurance coverage. That motion was approved and we are working with our voting company to manage the voting process. Twenty five (25) owners attended that meeting. Many people asked questions and some offered their help of various kinds.

That ballot will go out by US mail and will allow 30 days for people to respond. In order to open the votes, at least 100 homeowners must return their ballots before any of them will be opened. If at least 51 people vote “yes” to getting higher insurance, the board will hold a meeting to pass a resolution to increase the insurance by making an additional assessment and that notice will go out by US mail at least 30 days before it is effective. Any 2nd assessment will also have to be paid by August 15, 2023.

Q: What is Loss Assessment Insurance?

Loss Assessment Insurance is additional insurance to protect a homeowner against paying unexpected assessments made by an HOA due to any unexpected situation not covered by the HOA’s master policy. Homeowner Diane Powers suggested this website for more information

<https://www.thehartford.com/aarp/homeowners-insurance/loss-assessment-coverage>