**Special Assessments / Supplemental Budgets (S/A or S/B)**

(especially those tied to a loan)

1. **Items to consider:**

* What is the difference between a Special Assessment and a Supplemental Budget (S/A or S/B)?
* Are owners “on-board” with approving and ratifying a S/A or S/B? What can the Board and management company do to increase owner awareness and approval of the Assessment?
* Is the S/A or S/B for repairs or improvements? What is the difference and why is it important? Review requirements under RCW 64.55.
* The S/A or S/B must be approved & ratified (new Act):
  + One time?
  + Annually?
  + What is the difference and why is it important?
* Will the Association need an owner vote to move forward with repairs?
* Do the governing documents allow the Association to borrow funds?
* Will the Association need an owner vote to borrow funds?
* Is there authority in the governing documents that allows the Association to assess unit specific costs to the unit owner?
  + Are there time requirements of informing and assessing specific unit owner?
* Board resolutions may need to be passed:
  + Resolution to pass through fees to owners
  + Resolution by Board for acceptance of bank commitment letter
  + Other Resolutions as recommended by General Counsel
* Is any of the proposed work included in the Reserve Study?
* Is there insurance coverage for any of the proposed work?
* Are there rebates available for the proposed work? How will those funds be used?
* Resale Certificate updates throughout process; general counsel should review language.

1. **Careful review of all costs relating to the total project, not just the construction hard costs, to avoid cost overruns and/or budget shortages:**

* What pre-construction/investigative costs are expected? How will they be funded?
* What design, engineering and architectural expenses are involved?
* What permits will be required?
* Who will be the project manager and what level of involvement is necessary?
* What are the total construction costs (based on final scope of work)?
* Are there additional charges from your property management company?
  + Staff costs (Manager, Admin, Accounting)
  + Handling Fees
  + Administrative costs (additional copies, postage, website updates)
* Cost of additional meetings (venue, notices, handouts, professional attending)
  + Informational meeting
  + Amendment meeting (to amend governing documents to allow borrowing)
  + Vote to repair and/or borrow funds
  + Ratification meeting, if necessary
  + Weekly / bi-weekly construction meetings
  + Project update meetings
* Legal costs
  + Governing document review
  + Contract review
  + Attendance at Board and owners meetings
  + Loan negotiation & document review
  + Legal opinion letter for bank
* Loan costs
  + Origination fees and/or commitment fees
  + Interest charges (during construction phase and after loan converts to P&I)
  + Lender legal fees
  + Closing costs
  + Broker fees
  + Reamortization / reset loan fees
* Contingency costs
  + Construction contingencies (has the PM built in enough in the budget?)
  + Professional contingencies (design, engineering, architect)
  + Delinquency contingencies

1. **Loan Considerations:**

* Will the Association use a broker who has access to multiple banks or will the Association contact a specific bank directly? What costs are additional for a broker?
* Which banks specialize in Association construction loans?
* What amount of loan is necessary to cover the total project budget?
* What loan term is best for the Association? Most banks won’t approve a loan longer than 15 years.
* Does the loan allow early payoff without penalty? Most Associations pay off a loan early due to the ability to reamortize when owners pay off their S/A / S/B in full.
* Does the loan allow for reamortizations / resets more than once a year? Most banks that loan to Associations allow reamortization / reset of the loan upon request for a fee.
* Qualifying for a loan:
  + Delinquency status – most banks require delinquencies to be less than 10 or 15% of the # of units in the Association.
  + The Association may be required to collect 6 – 12 months of S/A or S/B prior to qualifying for a loan, which will delay construction.
  + How much does the Association have in Maintenance Reserves? Will the Association be required to move their Reserve funds to the lending bank?
  + Does the loan require a Reserve for delinquencies? How will this be funded?