

## *Riviera Gardens HOA*

*Owners Town Hall Meeting - December 9, 2023*

### FAQ - Main Electrical Panels Project

**Q: What are the main electrical panels, and what do they do?**

A: These are the panels which contain circuit breakers and electrical meters for each of our 221 units. They are located at both ends of each building in a wooden “closet” attached to the external building wall.

Electrical power comes along underground cables from Southern California Edison (SCE) transformers located in underground vaults, (you can see the several metal vault grates at ground level around the perimeter of the property), to the main electrical panels, and from there, individual runs go to each unit in the building.

**Q: Didn't we just do some electrical panel replacements 6-7 years ago?**

A: The work that was completed in 2016 was replacement of the “sub-panels” found on the balcony or patio external wall of each unit. These sub-panels are where the power enters each unit and then is split into separate circuits that feed plugs and fixtures. If a circuit breaker “trips” in your unit, this sub-panel is where you reset it. The cost of replacing these sub-panels was properly identified as a “component” in the HOA Reserve Study, and was paid for by reserve funds at a cost of \$163k.

**Q: How was it discovered that the main panels were a reason for concern?**

A: During the sub-panel replacement project, the electricians discovered conditions at the main electrical panels throughout the complex that caused serious concern. On closer questioning, the electricians said that they had found several instances throughout the complex where main panel circuit breakers were being held open by wires, clothes pins and similar “work arounds” to keep the circuit breaker closed (and therefore unable to “trip” in the event of overload, arcing or other condition), resulting in power always flowing from the main electrical panel to the unit sub-panel.

As a result, the electricians resorted to powering up many of the replacement sub-panels “LIVE” (meaning not shutting off power from the main panel), because they were concerned that if they cut power at the main panel to hook up the sub-panel, they may well not be able to get the main panel power back on, due to the main panel age, general condition and obvious evidence of failing 40+ year old breakers. At that time, the electricians also stressed the fact that replacement parts and breakers for the main panels were no longer manufactured, so if a breaker did fail, there was no way to easily replace it.

**Q: What has happened since 2016 when this condition was reported to the then HOA Board?**

A: HOA records indicate that previous Boards had electrical companies look at the main panels and “quote” for their replacement. Unfortunately, no proper scope of work or engineering investigation was ever done. Each year, some owners would again raise a question about what was happening - but nothing further was ever done beyond receiving some

incomplete quotes that didn't address the complete scope of what was, in fact, expected to be a large and expensive project.

**Q: How has this Board determined what the current situation is with these main panels? Has anyone looked at them and made recommendations?**

A: Over the last year and a half, the current Board has determined that this project can no longer be deferred, but must be dealt with. The Board delegated to the newly formed Planning and Implementation Committee (PIC), amongst many other projects, the responsibility for investigating and properly managing the process for this important project, and reporting back to them. As with any other projects assigned to PIC, its purpose is to serve the Board and their recommendations must, and have received, the required majority vote of the Board.

An electrical engineer (Victor Leon of RTM Engineering) was retained and his report brought to the Board, and his recommendations accepted. Mr. Leon's report is attached to this FAQ and he will be presenting it in person at the Dec 9, 2023 Town Hall meeting. Engineering work has been completed by RTM and an engineering cost estimate obtained. This estimate was included in the 2024 Reserve Study. A Request for Proposal (RFP) was prepared by the PIC and sent to 5 electrical contractors for bid. Proposals from two large electrical contractors are pending.

**Q: Do we know how much this work is going to cost?**

A: Contractor bid pricing is pending. Our engineer has provided an engineer's estimate of total costs in the range of \$600,000 - 650,000. We anticipate that detailed contractor quotations will be received in early 2024,

after some additional non-invasive site investigations are completed. A review of the quotations, in conjunction with the electrical engineer, will then be undertaken, before a final contractor selection is made.

**Q: So this main electrical panel project you've been describing has nothing to do with our earlier sub-panel replacements?**

A: Well, there is an unexpected connection. Unfortunately, PIC determined during the course of their investigations and planning that the vast majority of the sub-panels were replaced without city permits, or in some cases, proper inspections. 16 permits were issued in total with 14 of those being completed and 2 expired, meaning 207 units' sub-panels are not currently permitted.

As such, the main electrical panel project, as recommended by PIC to the Board, includes in the scope of work, that the contractor inspect and obtain “retroactive” approval for these subpanels to bring them into regulatory compliance.

**Q: Was the cost of replacing these main electrical panels part of our 2023 Reserve Study, just as the sub-panel replacement project was, some 7 years ago?**

A: Unfortunately, that is not the case. For reasons that have not been provided by previous Boards nor our previous reserve consultant, this major cost item (second in cost only to copper plumbing replacement, which was also not listed in our 2023 Reserve Study), was never listed as a “Component” in previous Reserve Studies. Therefore, no funds have been saved to do the replacement work.

**Q: Would the Special Catch-up Assessment that was recommended by our new Reserve Consultant be used to pay for this work?**

A: As part of their overarching legal “fiduciary duty” to all owners in the HOA, the Board is required to both fund and replace infrastructure that has reached the end of its useful service life, or as may be necessary for the protection of life and safety. It must be understood by owners that this is **not** an “optional” or discretionary choice by the Board.

Given the recommendations of our electrical engineer, current observed conditions, past service history and the ongoing concern of our HOA insurer, the Board has approved proceeding with this deferred work. The process for selecting a contractor and obtaining final pricing is underway, and will be brought to the Board for final approval of the written contract.

Since present and future Reserve Account balances are forecast to be sufficient to meet the cost of what will likely be a 2+ year phased build-out beginning in fiscal year 2024, these costs will be paid from the HOA reserve account.

However, given our seriously underfunded Reserves, this comes at the risk of having to defer other required work such as building roofs which, from our latest inspection in 2023, are known to be in either poor or poor-fair condition, as reported by Western Pacific Roofing. The replacement of our roofs has already been deferred past their useful lives.

**Q: Isn't the proposed Special Catch-up Assessment recommended by our Reserve Consultant in the 2024 Reserve Study in reality being used to pay for the main electrical panel project?**

A: No. The Special Catch-up Assessment, to be paid over a 2-year period in 2024 and 2025, is necessary in order to gradually begin the process of building an HOA reserve balance (funding level) that is based on an accurate Reserve Study that properly identifies all HOA components that must be properly reserved.

Funding for the main electrical panel project will come from accumulated reserves, just as any infrastructure component replacement should be funded. This is more so the case for a long deferred infrastructure replacement project that has significant potential life and safety issues.

Years of providing insufficient funding to reserve for future infrastructure repairs and replacement at accurate replacement costs have worsened the problem. In short, our 2024 Funded Reserves are at a dangerously low level of 18%, not the 41.16% as stated in our 2023 Reserve Report. As the report presents in graphical format, and as Mr. Leonard will explain, the LOWER the level of Funded Reserves, the HIGHER the certainty of Special Assessments. It comes as no surprise that a Special “Catch-up” Assessment has been recommended as a crucial part of our 30-year recovery Funding Plan.

The reality is not terribly complicated. Monies needed to fund the HOA inevitably have to come from only one source - the owners. And there are only 2 ways for owners to fund these requirements - monthly assessments or Special Assessments. A Reserve Study, when based on accurately described “components” and their condition, a deep database of actual repair/replacement costs for the location of the HOA, and prepared by a highly experienced and knowledgeable consultant, provides to HOA owners a true assessment of Reserve Strength, along with a realistic plan for achieving fiscal health.

As is the case for Riviera Gardens, a detailed funding plan over an extended period of time has been recommended - in order to bring our “high risk” HOA into a long term, stable and sustainable financial position from which it can achieve the major mandate of all HOA Boards - protecting and enhancing the value of owner’s investments.

Details of our 2024 Reserve Study will be presented by Kevin Leonard, President of Association Reserves. He will explain why our Reserve Funded Level is not as previously stated, the practical implications of dangerously low reserves, and the long term Funding Plan he is recommending to restore our Reserves to a level they should be at in order to minimize the need for additional Special Assessments in future years.

**Q: Aren’t we trying to rebuild our depleted reserves and funding levels just a bit too quickly? Can’t we take more time?**

A: It’s important to understand that the Reserve Consultant has recommended a long-term, 30-year funding recovery plan, that slowly builds reserves to a level that will minimize the need for further instances of deferring maintenance and infrastructure replacement, thereby minimizing the risk to owners of the inevitable Special Assessments which result from underfunding and deferring necessary work.

**Q: How long will the electrical panel job take and when will it get started?**

A: The exact start date and build-out will be better known once a contractor has been selected and a contract entered into with the HOA. Coordination of the work between the contractor, SCE and the City of Palm Springs may well require the use of a Project Manager hired by the HOA.

However, based on the large scope of the work, supply shortages of necessary components, and the desire of the PIC to minimize disruption to owners during the build-out, we do not expect work to start until mid to late 2024, with completion by the end of 2025.

**Q: The electricity supply seems to me to be just fine - can't we just put this work off for a number of years?**

A: The main electrical panels were identified as being unreliable and obsolete by electricians doing the sub-panel repairs 7 years ago. The incomplete assessment of the problem and deferral of replacement has already resulted in a significant period of "deferred maintenance" and significantly higher costs. The Board has determined that this work must be completed with no further deferrals, given the life and safety implications and obvious legal liability consequences of not acting in accordance with their fiduciary duty.

**Q: What are some of the considerations that the Board took into account in deciding this project must be approved and proceed?**

A: The Board has given consideration to some of the following facts:

- 1) Since this issue first came to Board knowledge 7 years ago and been repeatedly deferred, no further period of deferral is in keeping with their fiduciary duty to all owners;
- 2) Insurance costs and Insurability. The huge increase in our insurance premium this year was largely a product of market forces, but also the knowledge by our insurers of this significant "deferred maintenance" item. As the insurance market hardens, many HOA's and owners are finding it difficult to find insurance at ANY cost. Some



HOA's are typically seen by the pool of insurers as being "bad risks", either because of geographic location, unacceptably high loss records, poor reserve funding levels, and far too many deferred maintenance items with no plan to address them.

RG has already made a significant claim to our insurer just last year arising from the Building 21 fire. If we wish to ensure our continued insurability at improved rates, the main electrical panels must be addressed. The implications of becoming uninsurable are serious:

- 3) There is a history of circuit breakers being improperly rigged with clothes pins and tied off with wire in some cases, to prevent their proper operation in preventing overheating of wires in the event of an overload condition. These observed conditions indicate the underlying problem. Once breakers fail and repeatedly trigger and fail to reset and are "tied off" in order to provide power to the units, the inherent safety function of breakers is no longer available and can lead to arcing and a risk of fire. The engineering report of Victor Leon speaks to this condition;
- 4) The loss of power to one or more units due to a failure cannot be quickly or easily fixed due to the fact that the original manufacturer is out of business and there are no replacement parts. Refurbished parts are of uncertain condition and availability. The involvement of SCE and required engineering would also significantly delay any type of "quick" repair;
- 5) Replacing one electrical panel would likely trigger a requirement from SCE to replace all panels serving the same building. Some circuits (400A) require that larger underground conduits be used to bring these runs up to current code standards as a condition for replacing the panel. Trenching of the underground conduit line is a time intensive process, and cannot economically be done for just one conduit run.

The net result is that a single failure will, as a practical matter, likely mean that all units in that building will be impacted by the necessary repairs. The opportunity for coordinated and optimally scheduled repairs to minimize inconvenience to owners and project costs, will be lost;

- 6) Inflationary costs make deferred expenses greatly more expensive. Had the panel work been done 6 years ago, costs to the HOA would have been significantly less - likely in the order of \$200k - \$250k less. Building cost inflation has been running at far more than food or general price inflation - and in Southern California estimates range upwards of 15% per year - all depending on the type of building work being done. Infrastructure replacement costs don't "disappear" when deferred - they just come back to the HOA (thus all owners) costing much more;
- 7) This work will allow us to bring the non-permitted and uninspected sub-panels into compliance with regulatory requirements. This is a secondary benefit, indeed a requirement, to address electrical issues properly at RG. Had proper project management been done for sub-panel replacement, this would not be an additional problem we are now facing;
- 8) Risk Assessment. The implications of even a contained fire to one or two units, due to a failure of the ageing and obsolete system with various "work-around" repairs, are significant. An insurer may well be able to deny coverage under our Building and Liability Master Policy by reason of our failure to address these known issues. The cost of rebuilding would then be the responsibility of the HOA, requiring a significant special assessment, in accordance with our Governing Documents.

The implications of a serious fire, resulting in loss of life, would be catastrophic at a human level, and would most certainly result in significant personal liability exposure on the part of EACH homeowner, who may well find themselves without insurance coverage under the HOA Master Policy.