

Common Interest

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Inside:

**Connecticut's New Law on
ELECTRIC VEHICLE
CHARGING STATIONS**

**Inflation Impacts Volatility in the
INSURANCE INDUSTRY**

**RECORDED AGREEMENTS:
A Must-Have for Approving Unit
Owner Requests for Modifications**

**INFLATION & RESERVES:
The Implications on Capital Planning**

...and more!



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Who Is CAI?

The Connecticut Chapter is one of 63 Community Associations Institute chapters worldwide. CAI-CT serves the educational, business, and networking needs of community associations throughout Connecticut. Our members include community association volunteer leaders, professional managers, community management firms, and other professionals and companies that provide products and services to associations. The Connecticut Chapter has over 1,200 members including nearly 150 businesses, and over 450 community associations representing 50,000 homeowners.



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To submit an article for publication in *Common Interest* contact Kim McClain at (860) 633-5692 or e-mail: kim@caict.org.

President's Message



Frank Pingelski, EBP

“With the return of so many live events this year it’s been great to see everyone in person.”

On behalf of the organization, I would like to say “thank you” for the tremendous support throughout the year! The dedication and effort put forth this year by all of our association members, board & committee members, speakers, and vendors has put CAI-CT in a strong position to grow and continue offering amazing programs. Everyone has truly come together to make returning to some sort of normalcy a success.

With the return of so many live events this year it’s been great to see everyone in person. As we look forward to all the ones scheduled for 2023, the committees have continued to review and refine their programs to ensure we are offering content that not only new members on the routine topics, but also to identify and address emerging trends and issues to ensure our members are set up for success to handle what lies ahead!

We’re looking forward to working with a new, enthusiastic group of Next Gen folks! Also, stay tuned for exciting projects in 2023. We’re always looking for energetic volunteers and people who enjoy writing to go to their keyboards and give us some common interest wisdom. ■



Have your community association board members changed since last year?

Be sure to update

your board’s member names, titles (President, Vice President, Treasurer, Secretary, and Board Member), and contact information to ensure your board members receive all the latest CAI member benefits!

Update today:

- ONLINE at www.caionline.org
- EMAIL addresschanges@caionline.org
- MAIL to CAI, P.O. Box 34793, Alexandria, VA 22334-0793



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From the Chapter Executive Director

**“Most fear what they don’t know
and think they know everything”**

~Ashlee Roché



Kim McClain

Courtesy CAI-CT

I recently got one of those calls that always leaves me shaking my head after I hang up.

Caller: Please remove me from your mailing list as I no longer serve as president on my board.

Me: Okay. Is the new president getting our information?

Caller: Yes, I’ve been sending everything on to them, but they say they “are not interested.”

YIKES! Not interested? How can this be? Our staff and great volunteers work hard to offer resources and information to keep Connecticut community interest communities running smoothly, yet far too many board members believe that they don’t need to connect with us. Understanding why, is our \$64 million question. (Inflation...) Perhaps it’s because they don’t know what they don’t know. For example:

Did you know... EV Charging stations. Our Legislative Action Committee worked diligently to ensure that associations would not be forced to cover the costs associated with installing charging stations, e.g. attorneys, engineering, building permit fees, etc. – a net savings for all associations.

Did you know... Emotional support pets – including miniature horses. Denying a resident the ability to have an emotional support pet will inevitably come back to bite the association with big legal bills.

Did you know... Reverse mortgages. Having an abundance of investor-owned units in your community can affect owners’ ability to obtain a reverse mortgage. That can impact those on a fixed income.

Our Condo Inc. program is chockfull of those “did you know” moments. How many of your board members are up to speed on all of the new law changes or are very familiar with risk management and more? Our professional community association managers are great, but they cannot be relied upon to know everything. Board members need to be fully aware of their roles and responsibilities as well.

Being a member of CAI-CT keeps you “in the know.” We are now working on our 2023 Member Directory. Will your association be included?

Here’s hoping for a festive and peaceful Holiday season! ■

People in the News...

Connecticut Represented at CEO-MC Conference

Alan Wunsch, CMCA – REI Property & Asset Management and Doug Newman, CMCA – CPE Property Management, recently attend the CAI CEO-MC Retreat in Las Qunitas, CA. The CEOs of management companies through the country had an opportunity to learn and share ideas. Education topics included: Manager Burnout, Diversity, Equity & Inclusion, Business Building Workshop and more. ■



UPCOMING CAI-CT EVENTS

CEO CAM Council

Hosted on ZOOM

Tuesday, January 17th • 1:00 - 2:00 pm

Qualifications to attend: you must be an individual member or the designated chief executive officer or equivalent of a management company holding a CAI membership. No more than two individuals employed by the same company may participate on the Community Association Managers Council at the same time. Pre-registration is required.

Jumpstart January (WEBINAR)

Hosted on ZOOM • (Exclusively for Managers, Attorneys & Insurance Professionals)

Wednesday, January 25th • 12:30-2:30 pm

Are your clients asking questions about solar and EV charging stations? Have they been encountering pressure from companies professing to offer “good deals” for an association only to later discover that they are stuck with a bad contract long term? The staff from the CT Green Bank will offer their expertise about these questions and more – including financing, etc.

No need to leave your home or office. Connect through ZOOM!

Start off 2023 with some great education opportunities!

\$30 CAI Members / \$55 Non-Members

Condo Inc. - WEBINAR SERIES

Hosted on ZOOM

Saturdays, January 28th, February 4th, February 11th • 9:00 - 11:00 am

Do you serve on the board of your association? Are you considering serving? Whether you are a seasoned board member, a recently elected board member or unit owner seeking to understand more about how an association runs, Condo Inc. is the course for you!

Scheduling conflict? Register anyway, and we'll email you the recording afterward!

\$50 CAI Members / \$75 Non-Members

BONUS SPECIAL PRICING –

50% off admission for additional board members.



25th Annual CAI-CT Annual Conference & Expo

Saturday, March 18th • 8:30 am - 2:30 pm

Aqua Turf, Plantsville, CT

Session Topics Include: Secrets of Effective Board Meetings, Reserve Studies & Monthly Fees, Delivering Difficult News, Implementing Capital Plans, Dealing with Conflict, Legal & Insurance Panel & Lunch with an Expert.

Board Members & Managers: \$35 CAI Members / \$55 Non-Members
Service Providers: \$100 CAI Members / \$150 Non-Members
Lunch with an Expert: Additional fee of \$32

CAI-CT has been providing learning, laughter and business connections at our Annual Conference & Expo for a quarter of a century! Wow! Plan to join us for what is sure to be a great day!

CEO CAM Council

Hosted on ZOOM

Tuesday, April 18th • 1:00 - 2:00 pm

Qualifications to attend: you must be an individual member or the designated chief executive officer or equivalent of a management company holding a CAI membership. No more than two individuals employed by the same company may participate on the Community Association Managers Council at the same time. Pre-registration is required.

Spring Fling Education & Networking Party

Wednesday, April 26th

Education 3:00 - 5:00 pm / Networking 5:00 - 7:00 pm

NEW LOCATION – We're heading West!

Charter Oak Brewery & Tap Room, Danbury, CT

Whiskey Tango Foxtrot – Simple Steps to Avoid Costly Consequences

Delve into how insurance claims work, hold backs, valuations; appraisals & arbitration as well as legal notice & hearing & bill backs. Lots to unpack!

Board Members & Managers: \$30 CAI Members / \$55 Non-Members
Service Providers: \$100 CAI Members / \$125 Non-Members

Sponsorships Available. Please visit www.caict.org for more information.



Visit www.caict.org
to register and for
updated information.





Statutory Snippet...

Association Board Member Education

Connecticut General Statutes Sec. 47-261a. states: The executive board of each association of a common interest community, or an officer designated by the executive board, shall encourage each member of such association, including the officers and members of the executive board, and any managing agent of such association or person providing association management services to such association, to attend, when available, a basic education program concerning the purpose and operation of common interest communities and associations, and the rights and responsibilities of unit owners, associations and executive board officers and members.

Editor's Note: CAI-CT's Condo Inc. program meets the requirements set forth in CGS Sec. 37-261a. More information about our upcoming 2023 program can be found on page 21. This program is also available on demand 24/7. More details are on our website: www.caict.org.

THANK YOU NEW & RENEWING MEMBERS

Welcome New Members

Associations

71 Fountain Terrace Condominium Association
Governors Ridge Association
Hatheway Farms Condominium
Hospital Avenue Condo Association
Jefferson Woods Community Inc.
Riverplace Homeowners Corporation

Individual Managers

Kevin Cragin
Karissa Davis, CMCA
Robin T. D'errico
Peter Dunnack
Tina Gomes
Marcus Laflamme
William Mckenna
Heather Parks
Bill Russo
Joseph Samolis
Tracy-ann Samuel
James Thurber

Management Companies

FirstService Residential Connecticut

Business Partners

AquaGuard, LLC

Thank You Renewing Members

Associations

84 Skyview Condominium
Bartlett Hill Homeowners Association
Center Village Homeowners Association
Copper Square Association
Crown Ridge Condominiums Association, Inc.
Fairview at Oxford Greens
Glenwood Green Homeowners
Greenwich Towers

Haven Ridge Condominium Association
Heritage Cove Condominium Association
Hunters Run Condominium Association
Mattabasset Owners Association, Inc.
Meadow Hill, Inc.
Mill River Meadows Condominium Associations
Mystic Run Association, Inc.
Renaissance at Danbury
Roton Point Association, Inc.
Southport Woods Condominium Association
Southwick at Milford
Spring Lake Condominium # 8 Association, Inc.
Town in Country Condominium Association, Inc.
University Towers Owners Corporation
West Lyon Farm Condominium Association
Windham Oaks Homeowners Association
Woodridge Lake POA, Inc.

Individual Managers

Natasha Bavrlic, CMCA
Carina Bridgemohan
Joseph S. Bruschetti, CMCA
Kenneth Burkamp
Justin Carta
Kristin A. Davis, CMCA
Edward Davis, Jr., CMCA, AMS
Robert Delavega, CMCA
Dennis DeMeglio, CMCA
Linda Drake, CMCA
Kevin Dzikowski, CMCA
Jesse Englehart, CMCA, AMS
Amber Lee Fairfax, CMCA
Janice Fiaschetti, CMCA
Terri Henderson, CMCA
Dennis Heske, CMCA
Travis Hyatt, CMCA
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Jeffrey McDonald, Jr.
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Management Companies

AJM Real Estate Services, Inc.
CM Property Management
Imagineers, LLC
Jeff Louis Associates, LLC
KP Management
Merit Properties, Inc.
The Property Group of CT, Inc.
U.S. Properties Real Estate Services, LLC
Westford Real Estate Management, LLC

Business Partners

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Axos Bank
Brown Roofing Company, LLC
Comcast
CondoLogic
Crystal Restoration Services
Dime Bank
Mark D. Alliod, CPA
MHA Property Loss Advisors, LLC
New Look Painting
Planned Companies
ReadySetLoan.com
Savy & Sons
Shipman & Goodwin, LLP
The Window People, a TWP Home LLC Company
Webster Bank



Not a Member?

Visit www.caict.org for membership information.

Legislative Update

The 2023 Legislative Session commences on January 4, 2023. We expect to be requesting some minor revisions to CIOA including:

- Resale package fee: The amount of \$125 for the processing and updating of the resale documents has not changed for many years. We will request that this fee be increased and then permanently adjusted based on the Consumer Price Index (CPI) going forward.
- Voting – Unless prohibited or limited by declaration, the ability to vote electronically or by ballot will be proposed again this session. Given that many meetings are being held online, offering additional methods for voting will hopefully allow for more participation and fewer complications.
- Co-op master policy – Clarify language regarding subrogation of claims with respect to the master policy.

No doubt, other issues will arise during the session. Please be sure to sign up for Legislative Alerts on our website: www.caict.org. We need YOUR voices at the Capitol! ■



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Share your news and expertise!



Common Interest welcomes the submission of articles, news and announcements subject to space limitations, editing and appropriateness, including educational value. The *Common Interest* Publication Committee will make every effort to publish articles submitted and may even be able to help you with your submission.

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JUMP START JANUARY

**Wednesday,
January 25th
12:30-2:30 pm
WEBINAR on ZOOM**

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2 CEUs**

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Are your clients asking questions about solar and EV charging stations? Have they been encountering pressure from companies professing to offer “good deals” for an association only to later discover that they are stuck with a bad contract long term? The staff from the CT Green Bank will offer their expertise about these questions and more – including financing, etc.

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Legally Speaking...



Adam Cohen, Esq.

Connecticut's New Law on Electric Vehicle Charging Stations

By Adam J. Cohen, Esq.

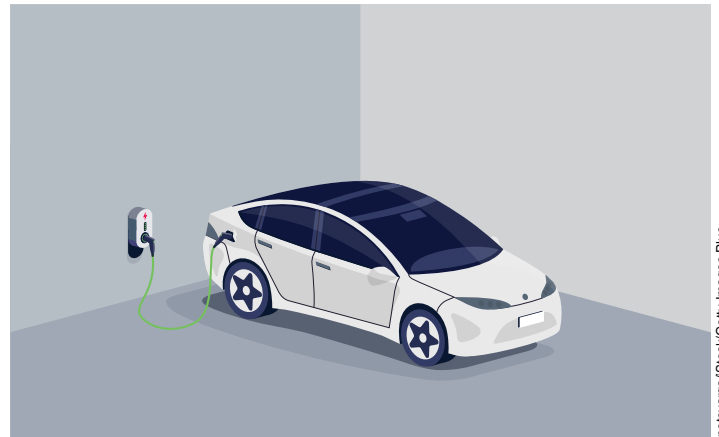
A new Connecticut law which became effective on October 1, 2022 will require nearly every condominium and other common interest ownership association in Connecticut to allow their unit owners to install electric vehicle charging stations under certain conditions.

The so-called “right to charge” is similar to laws recently passed in a number of other states including New York, New Jersey, and Florida. It says that any unit owner can apply to an association’s board for permission to install equipment designed to charge an electric vehicle in any parking space which is part of the owner’s unit or its limited common elements. The Board must acknowledge receipt of the application within 30 days, and issue a written decision on it within 60 days unless the Board reasonably requests more information for that purpose. The Board *must* approve the application as long as the owner agrees in writing to:

- comply with the declaration’s usual requirements for alteration work;
- have the charger installed by a licensed and insured contractor;
- give the Board an insurance certificate in an amount the Board deems sufficient;
- pay for everything related to the installation, maintenance, and removal of the charger as well as all of the electricity it uses; and
- pay for all of the association’s costs such as insurance premium increases, attorney’s fees, municipal permit fees, and contractor fees.

The law overrides any provision of an association’s governing documents which would contradict these requirements, or which would increase the cost of the charging station or decrease its efficiency or performance. What the law does *not* do is entitle anyone to install a charger in a common area (like a first-come, first-served parking space, or which is assigned only by a rule), or to plug an electric vehicle into a communal wall outlet.

The new law gives associations certain rights as well. It says that the applying owner and any subsequent owner of that unit are liable for any damage to the charger or other property, as well as disclosing this liability to anyone who buys the unit. The Board can require the owner to remove the charger and restore the area before selling the



pelovarga/Stock/Getty Images Plus

“What the law does not do is entitle anyone to install a charger in a common area ...or to plug an electric vehicle into a communal wall outlet.”

unit unless the purchaser agrees to acquire it. If the Board successfully sues an owner for defaulting in these obligations, the owner must reimburse the association’s attorney’s fees.

Associations can also choose to install their own charging stations for general resident usage. If they do, the new law says they can create additional parking spaces for this purpose and adopt rules for their use. The law goes on to excuse any board from having to decide charger applications on a case-by-case basis if the association installs enough chargers for at least 15% of the total number of units, or if it adopts uniform rules for residents to install them consistent with the law.

A state incentive program launched earlier this year encourages unit owners and communities alike to install electric chargers by providing rebates – up to \$500 for individuals and as much as \$40,000 for associations – for buying them and for any necessary electrical upgrades. The program’s details are available on the Public Utilities Regulatory Authority’s website at <https://portal.ct.gov/pura>. ■

Adam J. Cohen is an attorney with the Law Firm of Pullman & Comley, LLC headquartered in Bridgeport, Connecticut. As the Chair of its Community Associations Section, he represents and gives seminars to condominiums, tax districts, and other communities in matters ranging from amendments of governing documents to revenue collection strategies and commercial disputes.



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Financially Speaking...



Daniel Levine, CPA

Importance of Equity

By Daniel Levine, MBA, CPA

Those who have reviewed the monthly financial statements know that financial transactions are put into a variety of accounts classifications. These classifications help determine which statement is impacted by a certain transaction. The major categories of transactions are assets, liabilities, equity, income, and expense. In this article we will look at the equity classification, what it means, and its importance in your financial statements.

What is Equity?

Equity is an account classification that is present on an association's balance sheet. It often isn't analyzed as part of any monthly statement but that isn't to say that isn't important. In very basic terms the definition of equity can be derived from re-arranging the basic accounting equation of $Assets = Liabilities + Equity$. By re-arranging this equation to $Equity = Assets - Liabilities$ equity can be defined as what is left over from an association's assets once all liabilities have been settled. If assets are bigger than liabilities, then the association will have a surplus. If liabilities are more than assets an association will have a deficit for their equity balance.

However, another way to view equity is how it interacts with the income statement. As stated above, the balance sheet has a formula which it must follow to remain in balance, but that formula didn't include account classifications for income and expense. So how do income and expense classifications factor into the above equation?

Well, under accounting rules when a fiscal year closes all income and expense account balances are closed into the equity classification. So, for most associations, equity can also be defined as the cumulative profits and losses of the association from its inception. Or to put it another way: $Assets = Liabilities + Equity$ at the beginning of a fiscal period + Current year Income - Current Year Expense.

If the association has run surpluses for most of its existence, equity will be a surplus. If the association has run deficits, equity will also be a deficit.

Why is Equity Important?

The reason for equity's importance comes from its place in an accounting equation. It is a bridge between the balance sheet and income statement, but at the same time is also a constant during the year. The reason that it is a constant is based on how an association's



NicoElNino/Stock/Getty Images Plus

“...under accounting rules when a fiscal year closes all income and expense account balances are closed into the equity classification.”

equity balance should only change upon the closing of a fiscal year. The fact this number remains constant throughout the year means it can be used by an association as a control to determine the accuracy of its financial reporting.

Specifically, if equity is consistently changing, then this is something that should be investigated. If equity has changed by a number other than net income after year end this also should raise questions as to what is influencing this number. Additionally, understanding what the association's equity balance should be is extremely helpful when it comes to transitioning between management companies.

When a management transition occurs, the new management company needs to import the prior management company's account information. These balances should transfer 1:1 from one company to the next. The control on this process will be an association's equity account. This is because any new activity subsequent to the transition will change all asset, liability, income, and expense accounts. But since equity should show any change at year end, if an association leaves a management company mid-year with one number and starts with the

[Continues on page 12.]

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FINANCIALLY SPEAKING...from page 10.

new management company with a different equity, the transition may not have accounted for something correctly.

The same can be true if a management company or the association migrates to a new accounting system. A software conversion operates like a management transition where all numbers must migrate into a new system. Equity will also act as an anchor point to make sure that the association has migrated systems correctly.

If an association discovers their equity has changed unexpectedly it should investigate why there is a change. Was something improperly

“If an association discovers their equity has changed unexpectedly it should investigate why there is a change.”

reclassified into this account? Was there a consolidation of accounts that should be reversed? The concern here comes from the fact that entries that are posted into equity may be items that should impact an association’s income or expense accounts. By recording items into

equity an association may be inadvertently distorting its current year profit and loss.

However, understanding the why behind an unexpected change in equity is important. There are times when posting to equity may be appropriate. An association can experience what is known as a prior period adjustment which would have a direct impact to equity. A

prior period adjustment usually comes from an event in the current fiscal year occurring that should belong to a prior period that has been closed out. For example, an association pays a bill in fiscal year 2022, but the work was done in fiscal year 2021. Perhaps the bill was invoiced late, but if the prior period is closed and the payment is a material payment it may be better to process a prior period adjustment through equity than expense in the current year and distort current year presentation.

Additionally accounting pronouncements may also impact equity. The implementation of ASC 606 Revenue from Contracts with Customers required a retroactive application of its rules which caused many associations equity balances to change to comply with the rule change.

Conclusion

Equity is often a number that is looked over in the monthly analysis of an association’s finances. But this number is a component of the association’s financial framework and each month it should be reviewed for consistency. If there are changes in the equity balance during a fiscal year an association’s board should strive to better understand the reason for the change and if it is warranted or a correction should be made. ■

Dan Levine, MBA, CPA is a Certified Public Accountant at Tomasetti, Kulas, And Company P.C. Dan has extensive experience with tax and attestation services to condominium associations from all around Connecticut. Dan is an active participant in CAI-CT related programs and can be found presenting accounting best practices at these events throughout the year. Dan is also a member of our At Large Legislative Advocacy Committee and serves on the CAI-CT Board of Directors.

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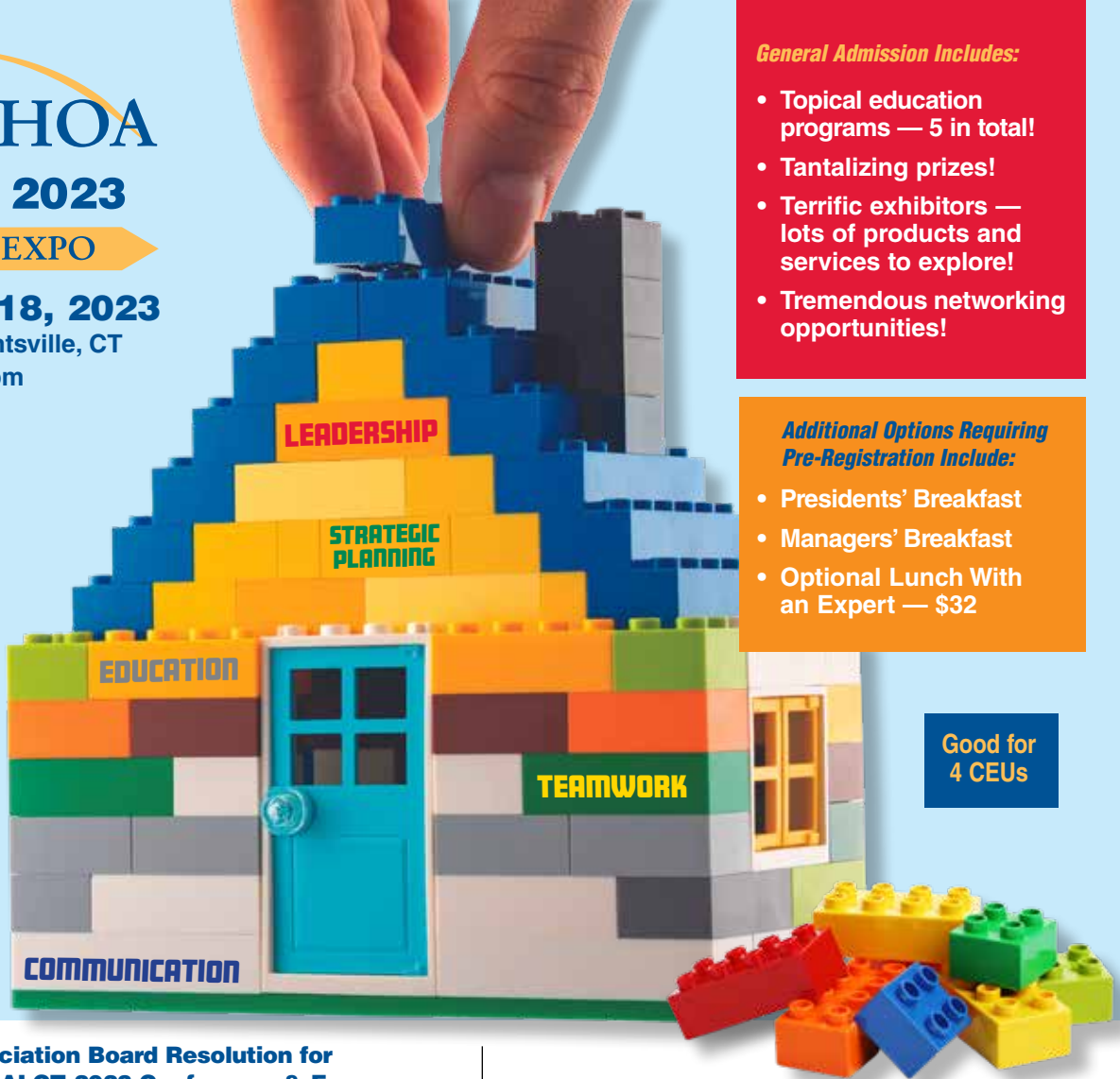
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Community Association Board Resolution for Attendance at the CAI-CT 2023 Conference & Expo

Whereas, The _____ Association (hereafter referenced as the "Association") board serves in the best interests of all owners in the community;

Whereas, The Association directors have the fiduciary responsibility to manage the assets of the Association according to established business practices and principles, and pursuant to competent, ethical and positive community governance; and

Whereas, The Association directors need to stay abreast of trends and best practices in community association governance, management and operations; and

Whereas, Community Associations Institute (CAI) is dedicated to providing information, education and best practices to help association leaders build and sustain strong and viable communities; and

Whereas, CAI is the leading advocate for common-interest communities before state and federal legislative and regulatory bodies; and

Whereas, Current and future Association residents will benefit from the training and education provided to their directors by CAI-CT; and

Whereas, attendance at the 2023 CAI-CT Conference & Expo will give Association directors access to valuable ideas, information and insights through educational sessions and awareness of products and services;

Resolved, That the Association invest in a funding the attendance of _____ board member(s) to attend the 2023 CAI-CT Conference & Expo; and

Resolved, That the Association's annual budget shall include funding for attendance at the CAI-CT Conference & Expo. Attendance at CAI education events may be paid by the Association, at the discretion of the board, requiring an affirmative vote by a majority of the directors and recorded in the open meeting minutes; and

Resolved, That the Association strongly encourages its manager and other professional service providers to attend the CAI-CT Conference & Expo to gain the knowledge, information and insights that enable them to better serve the association. SO RESOLVED BY THE BOARD OF DIRECTORS on this, the _____ day of _____ in the year _____.

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All Service Providers	\$100	\$150



Scott J. Sandler, Esq.,
CCAL

Recorded Agreements: *A Must-Have for Approving Unit Owner Requests for Modification*

Associations often receive requests from unit owners who wish to modify their units or limited common elements in some fashion. It could be a request for new windows, an awning, enclosing a deck, etc. When granting such a request, the association must clearly memorialize its requirements and expectations.

The Need for a Written, Recorded Agreement

Associations typically consider many factors when deciding whether to approve an owner's request to modify his or her unit or the limited common elements serving that unit. For example:

- Is the scope of the request reasonable?
- If granted, will the modification have any impact on other unit owners and residents?
- Who will maintain the modification in the future, the association or the unit owner?
- Will there come a time when the modification may need to be removed?
- What can the association do if the unit owner fails to maintain the modification?
- How will the modification be installed and does installation require a licensed and insured contractor?
- What can the association do if the owner fails to complete the installation of the modification?
- What can the association do if the installation of the modification does not conform with the owner's original request or the association's conditions of approval?
- What will the association expect from future owners of the unit, and how will future owners know of those expectations?

The easiest and best way to address these issues, and others related to the modification, is to create a written agreement between the association and the unit owner. A thoughtful agreement can also thoroughly and expressly set out requirements for installing the modification, for maintaining the modification, and any additional conditions of the association's approval. For example:

- Requiring that all installation work take place during business hours on weekdays, thus avoiding disturbances during nights, weekends, and holidays.



“Associations typically consider many factors when deciding whether to approve an owner's request to modify his or her unit...”

- Setting the minimum insurance coverages that must be carried by the contractor performing the work.
- Requiring the unit owner to indemnify and hold harmless the association, the board members, and other unit owners from any claims arising from the installation and future maintenance of the modification.

Furthermore, by recording the agreement on the land records, future owners of the unit are deemed to have received notice of the agreement and it becomes binding on them. Therefore, if the agreement requires the owner to maintain the modification, and the agreement is recorded, then the future owner assumes that obligation.

Thus, the relatively simple act of having the association's attorney prepare and record an agreement can easily avoid disputes with owners both now and years in the future. ■

Scott J. Sandler is the managing partner of the law firm Sandler & Hansen, LLC, located in Middletown, Connecticut. He is a fellow of the College of Community Association Lawyers. Scott has served as past president of Community Associations Institute – Connecticut Chapter and is a LAC Delegate and Chairs the Legal Symposium Committee.

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It's probably fair to state that the volunteers of Lyon Farm Resident Association, West Lyon Farm Condominium Association, East Lyon Farm Condominium Association and the Weaver Street Tax District represent the most educated community in Connecticut! On November 12, 2022, we held our first in person Condo Inc. program in several years. A whopping 14 of their current and future board members attended. In addition, about 20 other board members from a variety of associations were also in attendance.

We are grateful for Lyon Farm Resident Association's generosity in opening their East Barn recreation building for the purposes of providing a venue for education and for also keeping our attendees sustained with some great food.

We challenge other communities to connect with us by offering this terrific program in your association or town. Our attendees frequently tell us that attending Condo Inc. has saved them countless headaches and many dollars due to all of the tips and insights they gained from this program. Find out more at our website: www.caict.org. ■



(left) Russ Fernandes —
Becht Engineering, BT Inc.



(below) Dave Pilon, CIRMS —
Bouvier Insurance



(above) Kevin Reeves, CMCA, AMS, PCAM —
West Lyon Farm Condominium Association





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Jennifer Tirado

Inflation Impacts Volatility in the Insurance Industry

By Jennifer Tirado

What are the negative effects of inflation on the insurance industry for community associations?

As the cost of everything increases, insurers face the risk of claims costing them more than they planned. Insurance is developed on the premise that insurance companies will take in enough premium and spread risks across enough policyholders so that they will have no issues paying out claims. This foundation can be turned on its head when unexpectedly large and frequent losses occur.

Even before record inflation started, catastrophic losses have been wreaking havoc on the insurance industry. Natural disasters are only becoming more frequent and severe, and the costs to replace things that these natural disasters destroy have increased by 30 percent or more in the last two years.

This sudden increase in prices hasn't given insurers time to reevaluate their underwriting to ensure they're charging enough in premiums to cover their increased risk. Any insurance company without being clairvoyant may not have priced this year's premiums high enough to hedge their bets against frequent, large, and unusually expensive claims. Yes, the insurance market has been hardening for the last 2 years, but even with premiums increasing steadily over time, the recent increase of inflation can quickly undo those gains and leave insurance companies in a difficult situation through a combination of more frequent, more severe losses and increased repair costs.

How do insurance markets respond to inflation?

The most obvious way insurance responds to inflation are a hardening property insurance market. That means increased scrutiny in underwriting, significant premium increases, and carriers less willing to write policies for properties with any significant risk.

Just because the insurance market hardened before inflation began to increase doesn't mean it won't keep on the same course. In fact, the effect of inflation on insurance is likely to be insurers continuing to increase rates, reduce their appetite for risks, and focus more on risk prevention for example loss control inspections, higher deductible structures or per unit deductibles.

What does inflation mean for the insurance consumer?

Currently consumers should expect their insurance premiums to increase. We're all consumers and we all know the facts of life. Prices are rising across the board right now and we know our personal and Community Association master insurance policies will be next or have already been affected.



Courtesy CAI-Connecticut

“The most obvious way insurance responds to inflation are a hardening property insurance market.”

However, consumers should not necessarily sit back, relax, and assume their current policies are the best they can do. In times of increased inflation, insurance carriers that offer inflation protection endorsements may have an upper hand at least when it comes to the informed insurance consumers.

Insurance inflation protection is an endorsement that many insurance carriers offer on a variety of policies including for Community Associations. Although with the steep inflation we have experienced this endorsement might not be enough. Community associations and Community Managers should be asking their insurance broker to run an updated Replacement Cost Estimator or Insurance to Value to ensure proper limits are used to protect the insured and the insurer. It is also highly recommended to obtain an Appraisal every 3 years.

In this hard market it is critically important to have a strong community association focused insurance broker on your side. In the property and casualty insurance industry, price, terms, and conditions as well as the availability of coverage and capacity are all impacted by fluctuations between soft and hard markets. ■

Jennifer Tirado is the Chief Operating Officer and Chief Financial Officer for CondoLogic. Jen holds her CISR (Certified Insurance Service Representative) Designation issued by the National Alliance Association. She is also a member of CAI (Community Association Institute) as well as Target Markets.



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Manager's Column...



Rich Wechter, CMCA

Being Practical, Part LXXXII Development of Leadership

By Rich Wechter, CMCA

In this column, I tackle various topics of interest with the intent of imparting practical advice. In this issue's column, as we reach the end of 2022 and look forward to 2023, I offer some comments, suggestions and encouragement regarding the all-important topic of the development of community association leadership, perhaps the most significant requirement for governance of community associations.

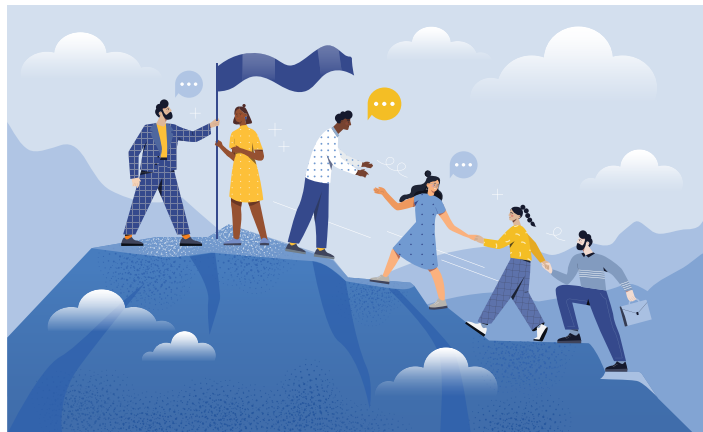
A. Setting the Table on this Topic

Throughout history, governments, organizations and communities have grown and faded due to a number of issues. While leadership, or the lack thereof is not always the cause of such movement, it can safely be said that strong and credible leadership is a vital part of the success of any entity, group, or community. Douglas MacArthur once noted, "A true leader has the confidence to stand alone, the courage to make tough decisions, and the compassion to listen to the needs of others. He does not set out to be a leader, but becomes one by the equality of his actions and the integrity of his intent." Leadership comes in many shapes and forms. The former first lady, Rosalynn Carter once stated, "A leader takes people where they want to go. A great leader takes people where they don't necessarily want to go, but ought to be." Community associations are an excellent example of a forum that cries out for great leaders. As community association managers are taught, community associations are governments, corporations and neighborhoods. This triad is not an easy thing to lead. It requires strong and smart leadership to handle a variety of issues and people. The following is just the beginning of a look at how to develop strong leaders in community associations.

B. How to Develop Strong Leaders in Community Associations

I offer just a few suggestions on how to develop strong leaders in community associations:

1. Encourage involvement by unit owners in association matters as soon as they join the community. There is nothing better than to welcome a newcomer to a community association with an invitation to become involved with that community. It fosters a greater interest in the community, provides a measure of warmth to the "newbie" and provides an opportunity for the new unit owner to learn about their neighbors and their new community.
2. Establish strong written operating procedures and guidelines that provide clear direction to those that govern a community associa-



Rudzhan Nagiev/Stock/Getty Images Plus

"A great leader takes people where they don't necessarily want to go, but ought to be." — Rosalynn Carter

tion. This will make it easier for members who aspire to leadership positions to adapt to the needs and desires of their respective community.

3. Encourage members to participate in educational events sponsored by CAI-CT or any organization that teaches members on how to be better board members and members of their communities.
4. Build upon the work of those that preceded you while learning from any mistakes, bad judgment calls or changes in circumstances. There is a balance between looking to grow and adapt without either throwing out all that came before or being blindly beholden to the past.
5. Encourage vibrant and productive debate among board members and the community at large. Diverse opinions generate original thinking. Future leaders can use that type of conversation to better approach issues and people going forward. Most anyone can handle that which is expected and is simple to address. Strong leaders are needed, however, for the unexpected and complex issues and projects that community associations face.
6. Accept failures while moving forward to obtain future successes. Leaders can disappoint us, or just make a judgment call that

[Continues on page 28.]



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Melissa Yocum

TECHNICAL EXPLANATIONS:

Inflation and Reserves: *The Implications on Capital Planning*

By Melissa Yocum

As we all know by now, inflation has moved into our lives and isn't estimated to move out for about a year or more. While some industries are already seeing some relief, this is not and will not be the case for many other industries for the foreseeable future, including those that community associations rely on for capital projects.

Because the primary purpose of reserve studies is to provide associations with a comprehensive short and long-term capital plan, we work diligently to account for these economic changes in our studies and reports. Generally taking 3% inflation into account in our reports, we are now incorporating higher rates in the near term when/as applicable. There are three primary ways in which inflation is affecting capital planning efforts within associations, including the cost of goods, the cost of materials, and the cost of labor.

Specifically pertaining to goods and materials, we have found that materials related to waterproofing are most commonly increasing in price. This can include flat roofing, shingle roofing, traffic coatings in garages, and more. Additionally, due to increases in oil costs, petroleum-based products like asphalt are also rising in cost. Along with rising material costs comes rising labor costs. We have compiled some data detailing annualized inflation rates of various materials and labor costs as seen below:



PPI Rates Source: U.S. Bureau of Labor Statistics, AGC The Construction Association

So, what are the implications of the current economic environment on capital planning for associations? First and foremost, the current climate has lent itself to capital planning issues within community associations. Because of this financial turbulence, an association's existing reserve fund or reserve funding plan may be prematurely outdated and in need of updates. This is especially true in cases where there are projects due soon or projects already in progress that are capital-intensive.

First and foremost, it is important to take into account the fact that the market will eventually correct itself, as it historically has. When it comes to short-term adjustments, particularly current-year expenditures, it's a good idea to bring in an expert on each project to guide you through the scope of the projects, the need for the project, and related costs. These can be incorporated into the reserve study, even after the report has been received.

Currently, when we conduct reserve studies, we are typically increasing near-term project costs extending through 2023. To account for supply chain issues, inflation, and pandemic-related pricing, we rely on real-world costs which our engineers collect as part of their information gathering at a community, along with published sources including construction cost estimating guides. Because these numbers may vary by market, we also rely on a proprietary database of recent

projects in each market. When we weigh these sources of information, we find that client vendor contracts are priority, followed by the database of recent projects by market and published sources of information.

One important thing to examine during times of economic uncertainty is the prioritization of all upcoming projects. If an association is unable to complete all capital projects as planned, priority should be placed on projects that, if deferred, would cause additional damage to the component, later leading to higher project costs to remediate excess damage. For example, if deferring a roof replacement

would increase water infiltration, replacement costs down the road would increase due to continued deterioration of the roof and any other component affected by this water infiltration. Next, associations can weigh the importance of discretionary projects, and decide to defer non-critical projects until inflation subsides or evens out. Again, your reserve study consultant will always be available to your board to help inform and solidify the updated trajectory of capital project timelines.

Of course, periods of inflation require associations to re-evaluate their current funding plans, specifically near-term. With the guidance of a reserve study consultant, two questions associations will work through are:

1. If we are facing significant increases in contributions, can the increases be phased in over a number of years?
2. Could a loan scenario be used to minimize reserve contributions near-term?

These questions allow associations to consider not only their current and future financial situation, but to consider the financial situation of their residents. While it's important for boards to consider how inflation is affecting their community as a whole, it's also important to consider the financial status of those who make the community what it is.

If an association is running low on funds and project timelines are being disrupted, it's inevitable that residents may be individually suffering financially as well. If you can expand the number of phases of increased reserve contributions, residents will not experience as dramatic a financial burden. Additionally, minimizing contributions near-

“Of course, periods of inflation require associations to re-evaluate their current funding plans...”



Mongkol Ohnuan/Stock/Getty Images Plus

term through a loan can help associations complete crucial projects on time, while also giving residents time to recoup from any financial strain they are experiencing before having to comply with higher dues.

If your association has a recent reserve study in hand, there are some best practices we recommend to weather this storm. If your latest reserve study is only a year or two old, a reserve study update without a site visit is a cost-effective option to consider if your association needs insight into the following:

1. Have capital-intensive projects been recently completed?
2. Can previously planned on projects be safely deferred until the market evens out?

We know that making these decisions on your own can be stressful, but working with a reserve study professional can help you navigate the unknown with expert experience and advice. ■

Melissa Yocum is a Senior Account Manager with Reserve Advisors.



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ENVIRONMENTAL TIP

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When there are a lot of people in a room, the room temperature gets hot quickly. If you use this situation to your energy advantage, you can give your furnace a break. Reduce the temperature of your home by one or two degrees at the beginning of the party. By lowering the thermostat by one degree you reduce energy use by 3%.

In addition, your visitors will be more comfortable and energetic in a cooler area, so this is not just one of our holiday energy-saving tips, but it can be entertaining. And if you used the oven to bake goodies, make sure you turn it off and let the door stay open. Recycling heat from your oven is another technique to give your furnace a break.



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Your Commitment as a Homeowner

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It is always important to remember that common-interest communities create some unique obligations to the community and to other residents within it:

- **Read and comply with the community's governing documents.** You should have received a package of documents well before you closed on your home. If you didn't, check the association's website (if they have one) or ask the manager or a member of the board for copies. Make sure you understand what's included in them, particularly the rules about pets, parking, your home's exterior maintenance, architectural guidelines and when you must pay association assessments.
- **Provide current contact information to association board members or the manager.** Make sure they know how to reach you in case of an emergency and to notify you of association meetings and other important events. If you rent out your home, provide contact information for your tenants also for use in an emergency.
- **Maintain your property according to established standards.** The community's appearance can add value to all the homes within it — including yours — so it's important to keep landscaping neatly groomed and your home's exterior well-maintained.



“Board members are homeowners — just like you—who have volunteered to give their time and energy freely...”

- **Treat association leaders honestly and respectfully.** Board members are homeowners — just like you — who have volunteered to give their time and energy freely to govern the community. While you should share your concerns about the community with them, do so in a way that's constructive, informative and helpful.

[Continues on page 31.]

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MANAGER'S COLUMN...from page 20.

proves to be wrong. The sign of a good leader is to learn from that and become better at guiding their community association.

7. Take time to discuss matters not even on the radar of the community association but may so appear in the near future. Strong leaders are prepared to deal with that which is not yet before their eyes.
8. Evaluate the process of decision making and the results of said decisions to develop more efficient and successful actions going forward.
9. Encourage the teaching of the skills of leadership by current community association leaders for the future leaders.
10. Remember to thank the community association leaders for their service. Everyone needs a level of gratitude for their service.

C. Conclusion

Leadership is not the easiest role to fill at community associations. It requires a world of patience and dedication. It is not for the faint of heart. Some people are natural leaders while others take time to grow into the role. For those that need time to grow into strong leaders, I encourage all such persons to work at reaching that goal. It is a worthwhile achievement. I hope that this article will aid in this effort. I wish all a healthy, happy and safe Holiday Season and look forward to the challenges of 2023.

On a personal note, I will be developing a new column devoted to discussing polar issues faced by community associations and offering a middle solution to those issues. The column will be thus named "In the Middle". While I plan to continue the Being Practical column going forward, I look forward to the challenges and wealth of topics for the new column. ■

Rich Wechter, CMCA is Senior Vice President at Westford Real Estate Management, LLC. Rich is a LAC Delegate, serves on our Golf Committee and as a member of the Legal Symposium Task Force.



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You have questions! Mister Condo has answers! Every issue of *Common Interest* features an "Ask Mister Condo" Question submitted by a reader of the Ask Mister Condo website at <https://askmistercondo.com>. There are often many reasonable suggestions and solutions to condo questions. Mister Condo is asking you to participate and share your wisdom with the world. Review the question and Mister Condo's answer below. Do you have anything else you'd like to add to this question or answer? Comment online at <https://askmistercondo.com>.

Condo Owners Left in the Cold

M.M. from Fairfield County, Connecticut writes:

Dear Mister Condo,

I own a condo in a mid-rise condominium building built in 1972 on the 2nd floor above an open space garage. Due to this, during the winter months, the floor of the condo is extremely cold and no matter how high I maintain my heat (which runs 24/7), the unit temperature does not go above 62 degrees. The hallways have no carpeting or heat. I have had to install extra thick padding and carpeting plus additional storm windows over existing storm window in an effort for the unit to retain heat. I have asked for additional insulation to put in the garage ceiling to no avail. The majority of the 2nd floor owners are either senior citizens or disabled on a fixed income. I have written the Association several times to which their only reply is the 2nd floor is always cold. It has gotten to the point where I wear a hat and gloves to bed in order to stay warm. Yet, year after year our fees are increased and the 2nd floor owners are always neglected. Do we have any recourse to have this corrected?

Mister Condo replies:

M.M., that is a terrible situation you have described. The need to keep your living space warm is a necessity. You may need to sue the association if they won't listen to reason. Insulating a section of floor that abuts the garage ceiling is not an unreasonable request. I don't know who owns what but whoever owns the garage ceiling should insulate it to protect the 2nd floor units. You might want to contact the Connecticut office of HUD and inquire about your housing rights under federal law: <https://www.hud.gov/states/connecticut/offices>. Make noise, a lot of noise, until the Board addresses the problem and provides a proper insulation solution. Simply telling you that the 2nd floor is always cold is not a solution. All the best!

Did you know that you can subscribe to the weekly Ask Mister Condo newsletter? Go to <https://askmistercondo.com/subscribe/> and you'll get Mister Condo's best advice delivered to your Inbox every Monday! Follow Mister Condo on Facebook or Twitter and get daily updates on current questions delivered right to your phone, desktop, or tablet. Since 2012, Mister Condo has been politely offering some of the best HOA and condo advice to readers just like you! Join in the friendly conversation at the website or on Twitter, Facebook, and LinkedIn. Visit us at <https://askmistercondo.com>. There's plenty to talk about! ■

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Vernon, CT 06066
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E-mail: mark@markalliodcpa.com
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E-mail: dmajor@pilicy.com
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[Continues on page 30.]

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GOOD HOMEOWNER...from page 26.

- **Attend board meetings and vote in community elections.** Board meetings are open to all who wish to sit in and keep up with issues under discussion. The association is a democracy, and your voice and vote can affect important issues.
- **Pay association assessments and other obligations on time.** Your regular assessments pay for common-area maintenance, amenities and other shared expenses. If you don't pay on time, the burden for paying your portion of the association's bills, like water, electricity and trash removal, falls on your neighbors. Contact a board member or the manager, if you're having problems, to discuss alternative payment arrangements.
- **Ensure that tenants, visiting relatives and friends adhere to all rules and regulations.** If you are leasing your home, you're liable for maintaining the condition of the home and for the behavior of those who live in it. Make sure to screen tenants thoroughly and familiarize them with the community's rules. ■

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