Window Project Status and Finance Update

October 28, 2008

Betty Latson and Dave Beck

Clarification and Context

1. The numbers shown in this presentation are for "**demonstration purposes only**" and are not final numbers. They are based on most recent cash flow estimates reviewed in Finance committee meetings in October 2008. These assumptions will continue to change in the months ahead as actual costs and other variables are researched.
2. These numbers are based on an average cost of all JK owners. Again, this is used only for demonstration purposes and does not reflect how any costs would ultimately be allocated to owners.
3. Interest rate was calculated at 7%. This of course will vary at time of any actual loan being taken.
4. The comparisons made are to **demonstrate the one variable** - if the Association takes a loan to finance the project and affect on assessment level versus if the project is special assessed and the affect on owner assessment and costs. As each owner has a unique financial position and resources - we cannot make the assumptions for the reader about whether their personal financial options are better than the association-wide options.
5. 5. As Betty said last night - this demonstration is to inform and give a basis for your own review - not to persuade you to a point of view.

Introduction to Session

- This is a status report discussion on the windows and financing investigation
  - Several excellent questions have surfaced regarding status of the windows project planning and financing options
  - This is to advise people on the current state of planning, investigation and due diligence on the project

Window Project Status Update

- Since May 5 Town Hall Meeting
  - **Siemens energy modeling** of building confirmed up to $250K/yr energy savings w/ window replacement project
  - **Windows Advisory Committee** formed to work through design variables for final cost
  - **Window mockup installations** are being scheduled for committee and owner evaluation

Next Steps in Process

- Determine actual costs of windows replacement versus the estimates we are working with now

  (Timeframe: Early 2009)

- Determine project financing options -- *for example*:
  - How much can be financed?
  - What amount of the project does energy savings support?
  - What should be special assessed to owners?
  - What are options for owners financing?

  (Timeframe: Spring 2009 – earliest likely date)

Next Steps in Process (Cont.)

- Hold Financing Town Hall Meeting to discuss options with association owners

  (Timeframe: Spring 2009 – most likely)

- Board would make a 'Go '– 'No Go' decision regarding the project

  (Timeframe: Late Spring – Summer 2009 – earliest possible date)

Financing Investigation

Betty Latson

Chairman of The Finance Committee

will discuss the current progress with

windows financing options

Finance Committee Work Underway

- Updated and refined cash flow projections
  - Used 2005 Reserve Study as base
  - Used updated information coming in this year from our engineering consultants
  - Included the cost savings from energy project
  - Reviewed timing of capital expenditures to delay or eliminate where appropriate.

Finance Committee Work Underway

- At the fact-finding stage on financing options
  - Talking to banks
  - Gathering information from other condo associations with window experience
  - Researching non-bank financial institutions
  - Seeking advice from other professionals

Finance Committee Work Underway

- Ongoing interaction with banks – investigation
  - Have learned banks *are* open for business
  - Confirming financing terms that are available
    - 2 year construction and up to 10 years in term financing
    - Interest rates
  - We have not sought commitments – until final costs are in

Finance Committee Work Underway

- Financing Scenarios we are exploring
  - Bank financing
  - Long term financing through Siemens
  - Special Assessment financing options

There are two ways we can finance windows

- The **association can take a loan** and all owners pay off that loan with higher assessments for the duration of the loan
- The owners of the association can pay a **special assessment** and have a variety of ways and time frames to pay that obligation

Association Takes Loan

- The advantages
  - The cost of the windows is borne by current *and future owners* in the association.
  - The association can provide "group credit" to individuals who may have less access to credit.

Association Takes Loan (cont)

- Disadvantages
  - There is no flexibility for owners – everyone has to participate in the same program
  - There is no tax advantage (until you sell your unit)
  - This raises everyone's assessment level which may make selling a home more difficult
  - Opportunity cost – interest paid could be funding other future capital improvements
  - Total cost is higher
- *Let's look at 3 examples of loans at different length of term*

How much do all assessments go up to pay for an association loan?

	7 Year Loan	10 Year Loan	30 Year Loan*
Current monthly assessment 2008	$567	$567	$567
Increased assessment to pay off loan	$433	$325	$216
Total Assessment	**$1,000/ month**	**$891/ month**	**$783/ month**

The total cost of Association Loan

$15,700,000 Loan Needed	7 Year Loan	10 Year Loan	30 Year Loan*
Monthly Assessment	$1,000/ month	$891/ month	$783/ month
Total Cost of Loan over Term of Loan	$24,966,680	$26,281,324	$34,808,154

If we fund through Special Assessment

- Advantages
  - The least costly method of financing to association
  - No change in average monthly assessment - helps make home more marketable for all owners
  - Give owners the most flexibility in financing options most suited to their financial situation
  - Owner can take tax deductions resulting from Home Equity or Mortgage borrowing

Special Assessment Finance Options

- Homeowners have a *variety of choices*
  - Homeowner's **cash**
  - **Home Mortgage** – can select payment schedule up to 30 years to meet their needs
  - **Home Equity Line of Credit** (HELOC) – owner can choose to pay interest only
  - Homeowner can select to use a **repayment program through the association** from 1 – 10 years

Explain how pass-through loan works

- Association takes out loan for amount homeowners elect to borrow through association.
- Homeowners benefit from group credit of association
- Homeowner pays association for principal and interest on payback plan they choose.

If we fund through Special Assessment

- Disadvantages
  - The current owners pay 100% of the cost of new windows rather than sharing cost with future owners.

What is the Cost of Special Assessment?

$21,104 Estimated Avg. Special Assessment	Special Assessment Single Payment	Special Assessment 10-year payout with Association Loan
Current monthly assessment 2008	$567	$567
Increased assessment	$0	$0
Monthly Loan Payment	$0	$245
Total Assessment and Loan Payment	**$567/month**	**$812/month**

Comparison of Loan or Special Assessment options

	7 Year Association Loan	10 Year Association Loan	10 Year Loan for Special Assessment
Current monthly assessment 2008	$567	$567	$567
Increased assessment to pay off loan	$433	$325	$245
Total Assessment	**$1,000/month**	**$891/month**	**$812/month**

November – April 2009

1. Finalize actual costs of window options
2. Finalize project financing options
3. Hold Financing Town Hall Meeting to discuss detailed options with association owners
4. Board will make a 'Go '– 'No Go' decision regarding the project. *If Go* --
5. If special assessment option is selected, board surveys owners for repayment preferences
6. Secure funding and commit to manufacturing and mobilization schedules
7. If special assessment – payments would begin most likely late summer.

Questions from Owners

Assumptions Used

- These examples tonight are **not final figures**. They are best examples to illustrate financing options only.
- We are using **most current estimates** for windows, engineering and support services reviewed in Finance Committee. In addition, we have calculated energy savings submitted to IC by Siemens.
- We are using **7% as loan costs** – that will possibly change by the time we would be ready to take a loan 6 months out. (trend line is favorable)
- We have to **borrow $15.7M in the Association loan** scenario to cover the 3 year construction outgoes and then 7-10 year loan pay down.
- We have to **collect $13M in the Special Assessment Scenarios** – as we will have up-front funds that will carry the construction years.

Legal Opinion on 30-Year Loan

-----Original Message-----
From: Mark D. Pearlstein [mailto:mpearlstein@lplegal.com]
Sent: Thursday, August 21, 2008 5:33 PM
To: Provus, Maurina
Subject: RE: Additional Requests for opinion

The Board should not consider a 30 year loan under any set of circumstances. It is not prudent to bind the ownership with a long term debt. A loan of this duration is not feasible or realistic because the only permissible collateral to fund a large loan is the assessment collections. The Board cannot anticipate nor could a lender accept a long term loan because the amount of collateral that far into the future is uncertain.

I expect that the burden of a long term assessment of this nature would have a damaging affect on unit values.

My advice is to drop the idea.

Mark D. Pearlstein
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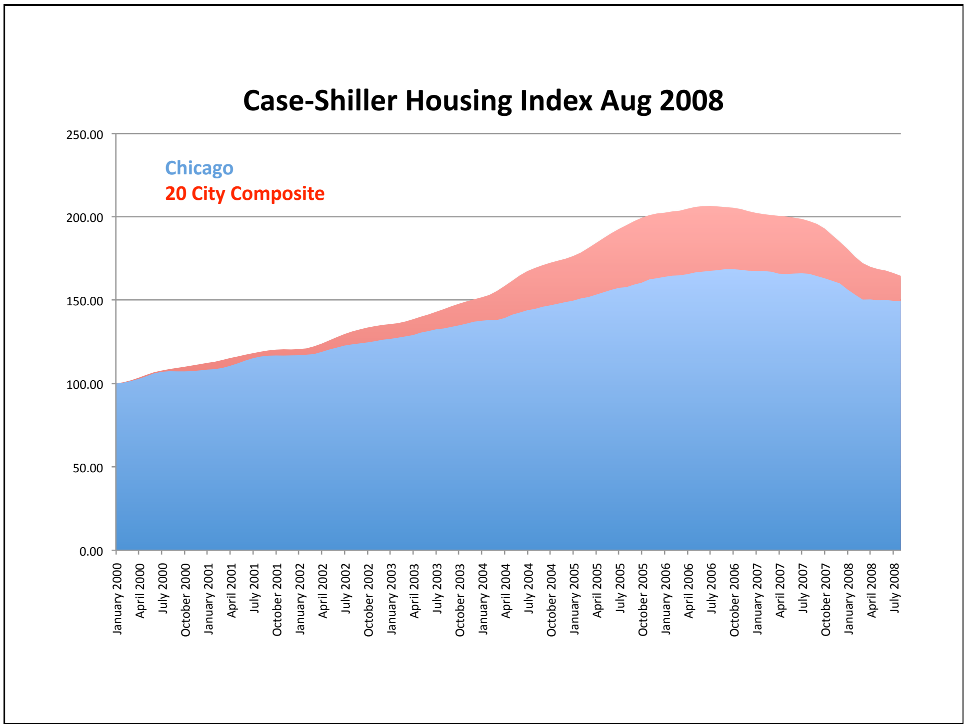
Case-Shiller Housing Index Aug 2008
Chicago
20 City Composite
250.00
200.00
150.00
100.00
50.00
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January 2000
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July 2000
October 2000
January 2001
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