

## Lessons of Andrew and Iniki

Adequate insurance and document safety are just two of the lessons emerging from Hurricanes Andrew and Iniki.

*Hurricanes Andrew and Iniki were powerful reminders of the strength of Mother Nature. In August, Hurricane Andrew caused \$20 billion in damage in South Florida. In September, Hurricane Iniki slammed into the Hawaiian island of Kauai causing \$500 million in damage; \$1 billion in total damage for the state. The human tragedies were even greater: homelessness, poor health conditions, and lost of life.*

Even with \$11 billion in federal disaster relief going to victims of hurricanes Andrew and Iniki the effects of the storms will be felt for years. And many hard lessons are being learned about adequate insurance, building codes and construction quality, contracting, and record protection.

### Inadequate Insurance

Despite record payments by insurance companies, many community associations have found that their insurance coverage is not adequate for the cost of rebuilding. According to Gary Poliakoff of Becker & Poliakoff, P.A., in Ft. Lauderdale, Florida, most community associations were not covered for a total construction loss. As a result, they are receiving payments only up to their policy limits, which is not enough to rebuild and entire community. Another problem: much of the damage came in areas not covered due to standard policy exceptions, such as wind damage to paint and landscaping. The result is major losses for community associations.

Andrew and Iniki are not likely to change this fact; if anything, the storm reinforced the reasons for these storm reinforced the reasons for these exceptions: wind damage to landscaping in hurricane-prone areas is a great risk.

Some associations protected themselves from coverage shortfalls by obtaining blanket guaranteed replacements coverage - covering each building in a complex together rather than individually. the benefit? Say, for example, that six buildings were insured individually and one had more damage than the others. If the damage to the one building exceeded its insurance amount, an association would have to pay excess of the policy limit. The blanket policy, however, likely would cover it. The Calusa Club Village in Kendall, Florida, followed

that strategy. Instead of insuring five buildings at \$1.5 million each, it insured them together for \$7 million. The blanket coverage is being used to rebuild damaged roofs.

Calusa Club Village also had building ordinance coverage--coverage that many associations lack, which is seriously impacting the ability of associations to rebuild.

Replacement cost coverage only covers the existing building up to current building codes, which may have been upgraded since the building was constructed. According to insurance expert Barbara Wick in the September/October 1992 Common Ground, replacement cost coverage must include building ordinance coverage to cover the cost of code-required upgrades.

Geoffrey Darr, PCAM, of Chaney, Brooks, & Co. in Honolulu, said that after Hurricane Eva 10 years ago, many associations reviewed their policies and added not only building ordinance coverage, but other endorsements such as inflation guard.

For associations without adequate insurance, the end result will likely be high special assessments--a frightening prospect for homeowners already facing post-hurricane financial difficulties. At least one community is discussing a \$500,000 special assessment. Others are considering "plowing under" or "cashing out" --post-hurricane lingo for terminating the community. But even that is not as easy as it sounds. According to Poliakoff, many association documents--which contain the provisions for termination--require a majority of owners to approve the termination within a fixed time period. The documents do not say what to do when communications are cut off and owners are missing.

For associations considering termination, Poliakoff recommends obtaining tail coverage on the directors' and officers' policy.

### **Contracting Difficulties**

Hurricane Andrew uncovered more than deficiencies in insurance strategies; it also uncovered evidence of shoddy construction techniques.

The problem was not the building codes--Dade County reportedly has some of the strictest code in the country. The problem was shortcuts around those codes. Among the problems were the use of staples for roof attachments, which often were crooked and did not properly secure the roofs. Roof trusses often were not anchored securely to outside walls. The poor construction led homeowners in the heavily damaged Country Walk subdivision to organize a class-action suit against its developer.

As South Florida rebuilds, however many experts fear that these same construction problems will re-surface. "The contractors are throwing plywood up and they're just building, and in a lot of cases there isn't much thought about the rebuilding," and Adam Weingard of High-Point Schaer, an engineering consulting firm. Weingard also fears the effect of different construction methods and qualities within individual neighborhoods. "one structure may be rebuilt well and another rebuilt poorly; that changes the appearance of a neighborhood," said Weingard.

Sandy Blank of Elite Property Management in Miami, which manages Calusa Club Village, recommends that associations hire construction managers to oversee rebuilding projects and to ensure that contractors are meeting building codes. She also cautions against using out-of-state contractors. Many insurance companies, she said, are recommending contractors. Many insurance companies, she said, are recommending contractors they used during Hurricane Hugo. "Unless the contractors are willing to open a satellite office and stay here permanently, they're not going to do anything for me," she said.

### **Sorting Through Legalities**

Associations are doing more than reconstruction buildings and homes they also are reconstructing records. Many associations lost all of their

records in the storm and no longer have information, for example, on the locations of bank accounts, said Poliakoff.

In Kauai, Darr said that 24-hour warning of the storm allowed his management company and many associations to duplicate records before the storm hit. "Stuff was taken from the island or put where it would be safe." said Darr.

In addition to loss records, South Florida community associations are facing another hurdle: the state's Condominium and Cooperative Acts. According to Poliakoff, the Acts' strict requirements on board meetings and reserves do not take into account disaster conditions--a time when quick decisions and fast action are essential. For example, the Acts require a posted notice of board meetings and posted agendas, and written notification to owners when the board will discuss financial matters. But poor communications and missing home-owners are making the nearly impossible--not to mention the problems with establishing a quorum. As a result, board members must either violate the laws or do nothing. The State Condominium Advisory Board hopes to develop emergency rules regarding the Acts.

The Acts affect not only meetings but finances as well. Poliakoff adds that reserve funds needed to secure areas against looters and to protect buildings from further damage are required by law to be used only for their stated purpose. Assessment collections are also a problem. Less damaged associations have written their owners and informed of the continuing need for assessments and that it is still "business as usual."

In the near future, business as usual for parts of the United States will be more hurricanes. Scientists say that counties from Texas to Maine and the southern costs of Louisiana and South Florida could be part of a 25-year hurricane cycle. Before the next disaster strikes, meet with your insurance agent and determine the extent of your association's coverage. Duplicate records and store them in a safe location. Establish meetings sites in case of an emergency. Disaster could strike at any time. ☪

*This article was written and researched by the staff of Common Ground.*