

Resolution of the Board of Directors  
Rocky Ridge Properties Owners' Association  
May 15, 2023

The Board of Directors of the Rocky Ridge Properties Owners' Association met on May 13 and May 15 in duly noticed emergency Board meetings. The purpose of the meetings was to consider the terms of property damage, general liability and umbrella insurance policies proposed to apply to the 12-month period from and after May 15, 2023, and further to hear an update by the Property Manager as to the costs likely to be incurred by the Association in addressing the storm damage incurred through the harsh 2022-23 winter.

The terms proposed for the 5/15/23 to 5/15/24 12-month period call for material increases in the premiums for said policies. The Association's insurance broker, Andy Sinclair, noted that the market for such insurance for townhouse/condominium developments in the Tahoe basin has evolved considerably over the last few years, with the terms becoming markedly less attractive to insureds. The market appears to call for premiums for such policies that are almost 3 times the premiums applicable last year, and more than 10 times the premiums applicable to such policies but a few years ago.

The proposed insurer for the proposed coverage is a syndicate led by the Multi-Family Risk Management Group. The same insurer provided coverage to the Association last year (i.e., May 15, 2022 to May 15, 2023). The insurer never provided the Association with a notice of cancellation dictating that it would not renew coverage for the 5/15/23 to 5/15/24 time period (as required in California if an insurer does not want to renew a policy). On May 9, 2023, however, just 6 days prior to the expiration of the 5/15/22 to 5/15/23 policy, the insurer delivered a quote dictating the terms of the policy for the 5/15/23 to 5/15/24 time period. The quote was presented with an admonishment that the terms are not negotiable.

**Given the proposed material increases in the applicable premiums, plus the imminent expiration of the policy providing coverage during the immediately prior 12-month period, the Board concluded that it had no choice but to deal with the insurance issues on an expedited and emergency basis.**

The key terms for the proposed insurance package are summarized below:

- The coverage will provide property damage coverage up to \$53,908,550, subject to a deductible of \$25,000 per occurrence and a special deductible for wildfire damage of \$2,695,428. Damage due to earthquake or flood is not covered.
- The coverage will include general liability coverage of \$1,000,000 per occurrence and \$2,000,000 in the aggregate.
- Both of these coverages will include an additional umbrella coverage of \$10,000,000.
- The premium for the coverage is approximately \$1,794,000 per year (for the 12-month period commencing 5/15/23).

The Association's insurance broker is a well-regarded broker with considerable experience in California insurance markets, particularly with respect to common interest (e.g., condominium) projects in the Tahoe Basin. The broker represents a significant portion of the larger common interest developments in the Tahoe Basin. The broker confirmed that he surveyed the market extensively, including through both retail and wholesale pathways, to seek more advantageous terms for the insurance, but that no better

terms were available. The broker further confirmed that he had checked the terms of the Association's CC&Rs and that the policies comply with the requirements of the CC&Rs.

The broker indicated that the insurer will permit the Association to pay for the premium "over time" through third party financing that permits multiple sequenced payments. The terms of the financing still are being confirmed, but the terms likely will include (i) interest at an annualized rate in the 6 to 10% range and (ii) termination charges in the event of termination prior to the end of the term of the policy.

The Board (on a motion from Laura Bertone, with a second from Bruce Shepherd and a unanimous vote) approved the following:

- The Board found that the increased insurance premiums required by the insurers as a condition to issuance of the proposed insurance policies were not reasonably anticipatable, and in fact were not anticipated by the Board, at the time of the preparation and the distribution (and the approval by the members of the Association) of the 2023 Association Budget in accordance with Civil Code Section 5300(9).
- After evaluating the available alternatives, the Board directed the Property Manager, on behalf of the Association, to procure the proposed insurance on the terms described above.
- The Board directed the Treasurer to negotiate the best financing terms reasonably possible with respect to the payment over time of the premiums for the insurance coverage. The Board also authorized the Association to commit to the financing terms, so long as the Treasurer concluded that the payment of the proposed premium payments was reasonably viable in the context of the Association's financial position (including the proposed special assessment described below).
- The Board further found that the harsh weather of the 2023-24 winter was effectively unprecedented, and that the increased costs borne by the Association to address storm damage accordingly could not have been, and in fact were not, anticipated by the Board at the time of the preparation and the distribution (and the approval by the members of the Association) of the 2023 Association Budget in accordance with Civil Code Section 5300(9). Although the Association still is in the process of confirming damages and related remediation costs, the Property Manager estimated that the extraordinary expenses incurred by the Association will amount to approximately \$50,000. The Board directed the Property Manager to report back to the Board should the actual expense amount to more than this figure.
- The Board further authorized the Association to adopt a special assessment of \$7,500 per townhouse unit to address the emergency situations caused by the insurance procurement and storm damage issues. The Board declared that the special assessment shall be payable within 30 days from adoption of the Board resolution (on May 15, 2023; this means that the assessment payment date will be June 14, 2023). The special assessment will be applied to cover (i) the Association's extraordinary winter 2022-23 storm damage costs and (ii) the increased insurance premiums for the period from 5/15/23 to 12/31/23; increased premiums for periods after 12/31/23 shall be addressed in the budget applicable to such later time periods.
- The Board further approved imposition of a special assessment that will be applied to the two single family residences within Rocky Ridge, but the amount will be materially lower, given that the property damage insurance coverage package does not apply to property damage to the single family residences (these residences procure their own property damage insurance, and only participate in the Association's coverage with respect to the portion attributable to common facilities). The Board directed the Treasurer to prepare a mathematical calculation of

the amount of the special assessment for the single-family residences in accordance with the requirements of the Rocky Ridge CC&R's.

- The Board directed the Association's Treasurer and the Property Manager to continue to assess the insurance markets in the weeks ahead, and to determine whether more favorable terms could be obtained through procurement of alternative insurance from another insurer or insurer group. The Board further noted, however, that given the terms of the policies applicable to early cancellations (including cancellation fees), it is unlikely that the Association will find replacement policies which will achieve a material net economic advantage for the Association.
- The Board further authorized the Treasurer and the Property Manager to take such further steps which they reasonably conclude to be beneficial to the implementation of the foregoing.

The Board also encouraged homeowners to carefully review the separate insurance policies which they have procured, or should have procured (!), with respect to their unit. The goal should be to make sure that they provide sufficient and effective coverage to mesh with the Association's insurance. In this vein, the Board reminded homeowners that they are responsible for covering property damage "from the walls in" to their townhouse units. Accordingly, each homeowner should have its own policy of insurance for its townhouse. These are commonly called "H06" policies and they should include property damage coverage (including for furnishings, fixtures, appliances and personal property), general liability coverage, and "loss assessment" coverage. The Association's insurance broker, Andy Sinclair, has offered to review each townhouse owner's H06 policy if that would be helpful to the townhouse owner in coordinating coverage with the Association procured coverage. Andy can be reached at [andy@sinclairinsurance.com](mailto:andy@sinclairinsurance.com).