

Meeting Minutes

Special Meeting of the Board of Directors of the Rocky Ridge Properties' Owners Association

Meeting Date: **May 11, 2021, 1:30 pm**

Location: ZOOM Internet Meeting

Notice of Meeting: Bill (Yates) Bauder confirmed that he provided notice to the homeowners of the Board meeting in accordance with the requirements of the Association's Bylaws (e.g., by the means permitted by the Bylaws and with sufficient advance notice to comply with the Bylaws).

Attendance and Quorum: Yates patched into the ZOOM internet meeting from his office at the base of the Rocky Ridge hill. Board members Steve Dohrmann, Bob Schuchardt, Laura Bertone, Nick Farwell, Frank Pagliaro, Curt Sproul and Bruce Shepherd joined the meeting from other remote internet connections. Accordingly, a quorum was present. President Steve Dohrmann called the meeting to order at 1:30 pm.

1. **Property Insurance.** The primary agenda item for the board meeting was to consider the property insurance (often referred to as "fire insurance") for the time period from 5-15-21 to 5-15-22. The Association's insurance broker, Rich Votaw, was unable to attend the meeting due to a conflict, but his partner Andy Sinclair described their insurance procurement efforts and the ultimate insurance proposal which they recommended to the board for adoption. Andy noted in particular the following:

- One consequence of the forest fires in recent years has been to shrink the field of insurers offering fire insurance for townhome/condo developments in the Tahoe basin, and insurers still providing quotes are requiring much more difficult and expensive terms.
- Insurers still in the market base quotes upon the brush fire risk rating assigned to a property. Properties rated above 60 on the scale are viewed as being within a "brush zone". The current rating assigned Rocky Ridge is 83, well above the 60 threshold. It thus triggers a significantly higher premium.
- Rich and Andy sought fire insurance quotes (together with general liability coverage) from several potential insurers. The lowest 12-month premium quote was approximately \$409,000 (this figure includes the property insurance premium, the premium for general liability insurance and associated taxes). This quote was provided by a syndicate ("MRMG" - the same syndicate that insured Rocky Ridge for the preceding 12 months). By comparison, the next most favorable quote was close to \$300,000 more than the MRMG quote. But note: **the MRMG quote for 5-15-21 to 5-15-22 is more than double the \$189,000 premium that the Association bore for fire and general liability insurance (and associated taxes) for the 12 months ending 5-15-21.**
- Andy also noted a few other important features of the MRMG fire insurance quote:
 - The maximum limit on recoveries under the policy is \$53,854,000 per occurrence. The insurance covers the common areas and the townhomes; the insurance does not cover the two individual residences within the development (the owners of the residences procure their own fire insurance, while also contributing to the fire insurance premiums for the common areas in the development).
 - The board concluded that the insurance amount proposed by MRMG likely would be sufficient to cover the rebuild costs. Yates has spoken with local contractors to assess the adequacy of the insurance amount relative to the rebuilding costs that likely would be incurred were there to be a major casualty. While estimates of these rebuilding costs are inherently speculative (consider, for example, that the ultimate rebuilding costs could be driven higher if several Tahoe/Truckee developments were damaged simultaneously in a major forest fire, thereby pushing labor and materials costs in the area), Yates reports that local contractors (and our insurance brokers) believe that the \$53,854,000 likely would be adequate to cover the rebuilding costs, particularly given that the Association's obligations with respect to re-building costs are limited to common areas and to the "shells" of the townhome buildings (under our CC&Rs, whereas the Association covers the

cost of repairing common areas and townhome building shells, each townhome owner is responsible for the rebuilding and repair costs for damages within the “walls in” portion of his or her townhome). The townhome owner should procure its own “walls in” fire insurance (also referred to sometimes as a “H-06” policy) for “walls in” damages. Note the following additional points with respect to the amount of insurance coverage procured:

- (1) The coverage total is a bit higher than the coverage bought for the 12 months ended 5-15-21;
 - (2) The common areas and the townhomes include about 200,000 square feet of building improvements, meaning that if there was a total loss event, the insurance would provide funds to cover damages up to about \$270/square foot of total development square footage.
 - (3) After the Association has borne any applicable deductible amount, the maximum insurance amount will be applied (before any other Association funds) to address losses covered by the policy, even if the losses per square foot of damaged area are greater than \$270 per square foot of damaged area (until such time as the losses reach the \$53,854,000 figure).
- The policy has a \$25,000 deductible per occurrence. There is a separate deductible if the damage is caused by “wildfire” – in such case, the deductible increases to 5% of the maximum insurance amount (i.e., 5% of \$53,854,000, or \$2,692,700 -- about \$27,000 per townhome). If the Association suffered a meaningful deductible, it likely would pass the deductible on to homeowners through increased assessments. ***Each owner can protect itself against such assessment exposure by procuring “loss assessment” coverage as part of its H-06 policy.*** Under the Association’s CC&Rs, each townhome owner is ***required*** to procure at least \$200,000 of “walls in” coverage, and to also buy at least \$40,000 of “loss assessment” coverage.
 - The board asked a number of additional questions about the fire insurance:
 - Can the Association reduce its fire insurance premium by increasing brush clearance in the Rocky Ridge development? Andy noted that Yates already has aggressively cleared brush from around the buildings in Rocky Ridge, and that the insurers walked the property before providing their quotes, weighing the level of brush clearance in crafting their quote. Accordingly, Andy believes further brush clearance is unlikely to materially affect the premium (but Rich and Andy will continue to explore this argument as they pursue quotes for the subsequent 12 month period).
 - Can the Association reduce its premium by increasing deductible levels? Andy said that the insurers generally were uninterested in providing coverage structured with higher deductibles, and accordingly premium savings could not be achieved through higher deductibles.
 - Could the Association achieve lower overall premiums by having the Association bear the “walls in” repair costs arising out of a casualty? Andy said that the answer is a resounding “NO.” In fact, Andy believes that the current structure of the CC&Rs (as amended by the recent amendment) results in the lowest total fire insurance costs for townhome owners. For example, Andy believes the allocation of “walls in” damage costs to the respective individual townhome owners results in lower costs than would be achieved were the Association to bear these costs (and thus be required to procure additional Association owned insurance for potential walls in losses).
 - How does the proposed Rocky Ridge premium compare to the premiums charged to other Tahoe developments? Rich and Andy represent several townhome/condo developments in the Tahoe basin. While some developments enjoy lower premiums (particularly a few insured by Farmers), Andy reported that our premium level generally is below the levels he has seen for most other developments. He thinks this is attributable in part to the structure of our CC&Rs; Andy notes that several other developments are exploring CC&R amendments to incorporate damage allocation provisions akin to those in our CC&Rs.

- Does the insurance comply with the requirements of the CC&Rs? Andy confirmed that he has reviewed the insurance requirements and that the proposed insurance meets all of the requirements.
- Andy recommended that each townhome owner review his or her H-06 policy with an insurance expert. In brief, the H-06 coverage should be sufficient to cover all rebuild and renovation costs, including internal wiring and piping from the perimeter of the unit's walls, all internal wall coverings and finishes, all appliances and fixtures, and all furniture, art work and other furnishings. The minimum insurance mandated by the CC&Rs may not be sufficient to cover all of these items, particularly for units that have been renovated to a higher finish level. ***Andy has offered to review, on behalf of each individual townhome owner (at his or her request and at no charge), the H-06 policy for his or her townhome.***
- Andy warned that notwithstanding the dramatic increase in premium amount embodied in the MRMG proposal, ***the Association and its respective property owners should brace themselves for potentially further dramatic increases next year.***

The Board approved a motion to purchase the insurance offered by MRMG (motion by Bruce; 2nd by Nick; 6-0 vote (Frank had to leave the meeting prior to the motion)). The Board also approved a second motion (motion by Bruce; 2nd by Nick; 6-0 vote) calling for the 2021 homeowner charges (to the extent attributable to periods after 5-15-21) to be increased to cover the higher insurance premiums (to the extent in excess of amounts previously reserved for these premiums). The Board asked treasurer Laura Bertone to calculate the dues increase, and to issue revised invoices to Rocky Ridge owners. Although Laura still is working on the final calculation, the increase likely will be between \$155 and \$185 per month.

2. **Additional Insurance.** Rich Votaw and Andy Sinclair also worked with the Association to procure other insurance for the Association. This insurance included an additional layer of general liability coverage (in the form of umbrella coverage), auto, dock and marina, workers compensation, directors and officers and fidelity bond insurance. The board by consensus approved the purchase of these policies, as proposed by Rich and Andy. Andy is working on a statement that can be circulated to the homeowners to describe in greater detail the purchased insurance policies.
3. **Suggestions by Board members for future agenda topics (subject to change).**
 - July 13, 2021: Discussion of the Association's various bank accounts, their respective purposes and their respective balances.
 - July 13, 2021: Discussion as to summer operations, including the intensity of beach use and the viability of our beach security program.
 - September 4, 2021: Establishment of schedule for board meetings during the 12 months ending in the annual homeowners meeting over Labor Day weekend in 2022.

Adjournment. The meeting adjourned at approximately 2:28 pm.

SCHEDULE FOR FUTURE BOARD MEETINGS (Subject to change):

- July 13, 2021 at 1:30 pm CA time (Location: TBD)
- September 4, 2021 at 9:00 am CA time (Location: TBD)

SCHEDULE FOR FUTURE HOMEOWNER/MEMBER MEETINGS (subject to change):

- September 4, 2021 at 11:00 am (Location: TBD).