



**ROCKY RIDGE MEMBERS' GUIDE
TO THE PROPOSED FIRST
AMENDMENT TO THE CC&Rs**

**ROCKY RIDGE POA SUMMARY OF THE PROPOSED
FIRST AMENDMENT TO THE ROCKY RIDGE DECLARATION
OF COVENANTS, CONDITIONS AND RESTRICTIONS
(As of March 1, 2021)**

In the past year, your Board of Directors, Yates (our property manager), and the Association's insurance consultants collaborated in drafting the accompanying First Amendment to the Second Amended and Restated Declaration of CC&Rs for the Rocky Ridge development. The First Amendment, if approved by a vote of the Members, addresses two important concerns, namely (i) implementing a more equitable allocation of Association Assessment allocations between the owners of the two free-standing Residences in the Rocky Ridge development and the other 100 Townhome Residence owners; and (ii) clarifying the roles and responsibilities of the Association, on the one hand, and the Residence Owners, on the other hand, should a major fire or other casualty event result in damage to the Residences, Common Areas or Common Facilities within the Rocky Ridge development.

How the Property Owners and the Association Board respond to a major casualty event is something that no one wants to contemplate or plan for, however, your Board wants the community to be as prepared as possible, by providing a plan following a major casualty that begins with Association communications to the property owners, consultations with insurance and adjustor advisors, the retention of competent contractors and contract managers as a result of a defined bid process, and eventually ending up with a restored Rocky Ridge environment. Because the text of the proposed First Amendment is, of necessity, rather lengthy and covers some insurance issues that could be characterized as being esoteric, here is a summary of what the First Amendment is intended to achieve:

1. The Proposed Revisions to the Rocky Ridge Declaration of CC&Rs set forth in the First Amendment Seek to Create a More Equitable Assessment Allocation Between the 100 Townhome Residence Owners and the Owners of the Two Individual Residences:

Goal No. One of the proposed First Amendment is to amend the Rocky Ridge CC&Rs to provide a more equitable allocation of Owner Assessment obligations as between the Owners of the two free-standing Individual Residences and the Owners of the 100 Townhome Residences, particularly as to Insurance premium allocations. To achieve that objective, the Assessment allocation formula in Section 4.02(d) of the Rocky Ridge CC&RS has been revised in Paragraph 7 of the First Amendment to exempt the two Individual Residences from: (i) the costs incurred by the Association each year to pay the premium costs for a policy of blanket fire and casualty insurance for the Townhome Residences as well as (ii) costs included in the annual budget to fund the Association's obligation to maintain and repair certain elements of the Townhome Residence exteriors and structural features. Corresponding changes were made in the proposed First Amendment to Section 6.01 of the current CC&Rs relating to the allocation of maintenance and repair responsibilities between the Association and the Townhome Residence Owners.

With the agreement of the Owners of the free-standing Individual Residences these Assessment allocation changes, if approved, will not be retroactive (i.e., the owners of the Individual Residences will not be entitled to reimbursement for their past contributions to the Association's blanket insurance).

Instead, if the First Amendment is approved, the exemption of the Owners of the Individual Residences from contributing to the cost of blanket insurance premium costs and Townhome building exterior/structural maintenance will be applicable only on a prospective basis, as shown in the Association budgets after the 2020 calendar year. Because only two homes are being removed from the prior assessment allocation provisions which called for an equal allocation among all Residences in Rocky Ridge, the fiscal impact on the Townhome Residence Owners should be minimal.

2. The Simple Proposal for an Equitable Allocation of Assessments Among the Two Groups of Rocky Ridge Owners, also Led to a Discussion of How Different Damage & Destruction Scenarios Should be Addressed in the CC&Rs:

Goal No. Two of the First Amendment evolved from the proposed changes to the Rocky Ridge CC&Rs aimed at fairly allocating Assessments as set forth in the First Amendment. Specifically, the members of the Board took a more focused look at the procedures for rebuilding damaged improvements following a casualty event, as stated in current Rocky Ridge CC&R Section 10.02. The Board found those provisions to be woefully inadequate, particularly in light of the practical response lessons that have been learned from the aftermath of the devastating fires in Santa Rosa, Calistoga, and Paradise in recent years. Current Section 10.02 of the CC&Rs, which has been in the Declaration for several decades, presents a very simple approach to responding to damage and destruction events that would not serve the Owners well if a major casualty event occurs. Here is a summary of the current section 10.02:

- If any Lot and/or Residence is damaged or destroyed by fire or other casualty, the Association may, *at its sole discretion and limited to the insurance funds made available*, rebuild or repair all exterior damage to the Residence(s). Further, the provisions provide that the Owner of any Lot damaged by the casualty shall *become obligated, at the Owner's expense, to repair or rebuild all components on the Owner's Lot that are not rebuilt or repaired by the Association*, and to restore such Lot to its condition prior to the damage or destruction. In other words, the repair decisions for the Association are left to the sole discretion of the Board, and the Owners (at their own expense, and without contribution from the other Owners) are supposed to come in behind the Association and complete repairs that the Association either (i) lacks resources to pay for or (ii) otherwise declines to perform.
- Current Section 10.02 continues by stating that repairs by the Association shall be completed within a year, unless the Association, in its discretion, determines that it needs two years to complete the repair and restoration work. Although the fire that completely destroyed the Calistoga Ranch Resort lasted only for a day, already it is clear that negotiating with the 13 casualty insurance carriers, making decisions on whether or not to rebuild the Resort, engaging architects, engineers, contractors, and construction managers, and obtaining new permits for both demolition and reconstruction work is going to take perhaps as much as five years.
- Under current section 10.02 of the CC&Rs the amount of insurance proceeds does not limit the obligation of the Owner(s) to repair or replace the damage [to the Owner's Residence], even though the Owner(s) were not responsible for the Association's procurement decision

which resulted in insufficient insurance proceeds. Without good cause shown and approval granted by the Board, rebuilding and/or repair [by the Owner or Owners] must be accomplished within one (1) year from the occurrence of the damage or destruction. In the event that the Owner(s) of any Townhome Lot shall not complete the repair or rebuilding of the structures within one (1) year from the occurrence of the damage or destruction, the Association shall have the right, but not the obligation, to undertake any remaining repair itself and then charge the affected Owner for the costs.

The current text of CC&R Section 10.02: (i) grants considerable, unfettered, discretion to the Association Board to make the key response decisions when an event of damage or destruction occurs; (ii) fails to differentiate between large and small casualty events; and (iii) places significant burdens on the individual Townhome Residence Owners to essentially go it alone if the Association cannot complete its share of the reconstruction work with available insurance.

The short-comings of existing Section 10.02 of the Rocky Ridge CC&RS have become more apparent in recent years, as the insurance markets have morphed in response to the major fire events throughout California. Simply put, the Board has learned the hard way that economically viable insurance at times may not be available to cover all casualty repair costs, and that accordingly it is prudent for the Association's CC&Rs to establish thoughtful repair/rebuild provisions which, following a casualty with damages greater than available insurance, would still produce fair and reasonable results.

The Rocky Ridge Owners ought to understand that volatility in the insurance markets resulting from California's recent wildfire history also heighten their own responsibilities to maintain adequate levels of insurance coverage on the components of the Residences for which they are responsible as well as the other coverages referenced in Section 9.03(a)(iii), as stated in Exhibit "B" of the First Amendment.

Accordingly, rather than utilizing the one-size-fits-all response to casualty events set forth in current Section 10.02 of the CC&Rs, the First Amendment presents alternative responses in the context of three different scenarios involving major fire events, namely:

- (i) Casualty events in which the damage is limited solely to Common Areas and Common Facilities;
- (ii) Casualty events in which the damage impacts only certain Townhome Residences to the exclusion of other Townhome Residences; and
- (iii) A major catastrophic event involving major damage or complete destruction to all Townhome Residences, or perhaps simply to all of the Townhome Residences to the exclusion of the two Individual Residences.

If the First Amendment is approved by the Association Members, Article I of the Second Restated Declaration (the Article that presents defined terms) will be revised to include a number of new terms (listed in Paragraph 1 of the First Amendment) that pertain to events of "*Major Damage or Destruction Events*" (briefly, a casualty which likely will cause the Association to expend more than One Hundred

Thousand Dollars (\$100,000.00) to repair damage to Common Areas, or to expend more than One Hundred and Fifty Thousand Dollars (\$150,000.00) to repair damage to those portions of the Townhome Residence structures for which the Association is responsible) and the procedures that will be followed in response to such events (see the discussion below with respect to Article X). These rather significant revisions have been reviewed with our insurance consultants and with other lawyers who were directly involved in responses to the catastrophic fire events in Napa and Sonoma Counties.

3. Use of Three Exhibits to Present the Most Significant Proposed Changes that are presented in the First Amendment to the Rocky Ridge CC&Rs.

The proposed First Amendment includes three long Exhibits that are intended, from a presentation standpoint, to make it easier for the reader to follow and understand the changes that are being proposed to the Rocky Ridge Declaration of CC&Rs.

Exhibit “A” (*Association and Owner Maintenance & Repair Responsibilities*) This Exhibit presents Article VI of the Rocky Ridge CC&Rs in its entirety --- that is the Article that addresses the allocation of Association and Owner (both the Owners & Individual Lot Owners) maintenance and repair responsibilities. Essentially, the amended text of Article VI states that the Association is responsible for maintaining the Common Areas and Common Facilities of Rocky Ridge (recreation facilities, landscaping, the private roads, and snow removal) for the benefit of all of the Owners (including both the Townhome Owners and the Individual Residence Owners). Article VI also provides that the Association is responsible for maintenance of most of the exterior and structural elements of the Townhome Residences. In contrast, the only maintenance items that the Association is responsible for within the boundaries of Individual Residence Lots are (i) maintenance of the asphalt surfaces of the driveways, walkways and pathways providing access to the front doors of the Individual Residences, and (ii) entry and walkway snow clearance from these driveways, walkways and pathways; the Owners of the Individual Residences are responsible for all other maintenance work required within their respective Lots.

Exhibit “B” (*Association and Owner Insurance Responsibilities*). This Exhibit presents a restatement of Article IX (dealing with Association and Owner insurance obligations) in its entirety. Several very important improvements have been made to this CC&R Article dealing with insurance obligations. Specifically:

- Section 9.01(b) has been revised to present a much more specific enumeration of what the Association’s blanket policy of casualty insurance on the Townhomes covers and what that insurance does not cover. In the insurance industry there are essentially two types of residential blanket insurance policies and at Rocky Ridge the coverage is what the industry typically calls “bare walls coverage”. The meaning of that phrase in insurance-speak is explained in the penultimate paragraph of Section 9.01(b) of the revised Article IX.
- As revised by the proposed First Amendment, section 9.01(a) of the Rocky Ridge CC&Rs calls for the Association to maintain a combined single limit policy of liability insurance in an amount not less than Five Million Dollars (\$5,000,000.00) covering acts or inactions of the

Association with respect to the Common Areas and Common Facilities of Rocky Ridge or any other areas maintained by the Association pursuant to the terms of the Declaration.

- Under Section 9.01(e) as revised, the directors and officers required errors and omissions coverage has been increased to \$7,500,000.00, primarily in consideration of the risks that volunteer directors and officers face when making good-faith decisions of significant financial implications for a constituency of 102 families. Stepping forward to serve as a volunteer director is a lot more than just appearing at the annual membership meeting and giving presentations and reports at the beach house. Should a major casualty event occur, those same volunteers are on the front-line with fiduciary obligations to make the best judgements and recommendations possible to impart information to the property Owners and to make responsible recommendations on how best to proceed, given the circumstances. The Santa Rosa, Calistoga and Paradise Pines events demonstrate that those decisions must often be made with little prior notice and in situations where second guessing may be likely when the immediate crisis subsides.
- Revised Section 9.03 might be characterized as being the other side of the coin from the discussion of Association insurance obligations in Section 9.01. Section 9.03 discusses, in detail, the insurance coverage that individual Townhome Residence owners must maintain or are advised to obtain to protect their assets that are not covered by the Association's blanket insurance policy on Townhome Residences. The revised text of the Section goes into much greater detail about what a typical policy of "owner's insurance" should cover and mandates certain minimum coverages for casualty insurance coverage (of at least \$200,000.00); general liability insurance coverage (of at least \$250,000.00); and loss assessment coverage (of at least \$40,000.00). Other coverages are recommended, but not mandated by the new text of Section 9.03.

The revised text of Section 9.03 of the Rocky Ridge CC&Rs emphasizes that these required minimum coverages and recommended policy riders for Townhome Owner insurance are simply insurance industry common practices and that **each Owner should consult with his or her own insurance agent or broker, taking into consideration such factors as the replacement value of improvements that an Owner may have made within his or her Residence.** In the experience of the Association's legal counsel and insurance advisors, owners of condominiums and townhomes more often than not underestimate the replacement costs of property and improvements (including Owner-commissioned enhancements) within a Residence for which the Owner is responsible, and do not consider the impacts of a major casualty event on their future Association Assessment obligations. **THIS CANNOT BE EMPHASIZED MORE:** Rocky Ridge Owners are encouraged to consult with an insurance advisor who specializes in writing condominium / townhome insurance policies and provide that advisor with a copy of the Rocky Ridge Declaration of CC&RS and the Insurance Declaration Pages pertaining to the insurance maintained by the Association (so as to clearly inform your advisor of the respective insurance obligations of the Owners and the Association under the terms of the Declaration). Be sure to include the First Amendment to the Rocky Ridge CC&Rs if it is approved by a vote of the Members.

Finally, Exhibit “C” (*Damage and Destruction*) presents Article X of the CC&Rs in its entirety. As revised. Article X is extremely important because it focuses upon what sequence of events are likely to unfold in the event of minor and major events of damage or destruction to Common Areas and Common Facilities and/or the Residences at Rocky Ridge. In contrast, as noted above the existing Article X of the CC&Rs touches only briefly upon many of these issues, and the solutions that would result following a major casualty event at Rocky Ridge. Furthermore, the existing CC&Rs provisions, in many circumstances, would not always be desirable or even coherent. Of these three Exhibits, Exhibit “C” may be the most important in that it makes changes to Article X that add much more specificity as to how the Association, management and the Board of Directors will address the Rocky Ridge community’s collective response to a major catastrophic event, while keeping the Member/Owners informed and participating in the decision-making process and causing the economic consequences of the casualty event to be borne equitably among the various Rocky Ridge property Owners.

The revised provisions of new Article X envision a progression of events that will unfold in response to any significant damage to Rocky Ridge, its Common Facilities, and Residences. That progression can be summarized as follows:

- The Casualty Event. First there is the casualty event itself. In the context of the Calistoga Ranch Resort, the Glass Fire event in September of last year resulted in total destruction of the Calistoga Ranch Resort (167 acres, 147 owners with improvements on 34 of the 167 acres) in a single day. Six months later the Ranch owners are still in negotiations with the insurance carriers over valuation of destroyed assets, the amount of available insurance proceeds, and how those proceeds should be allocated. No significant work to clean and clear the property has occurred.
- Evaluation of the Extent of the Damage Once Access to the Property is Permitted. Next, promptly following the casualty event, revised Article X of the Rocky Ridge CC&Rs calls for the Board of Directors of the Association to assess whether the damage rises to the level of constituting what is defined in the First Amendment as an event of “*Major Damage or Destruction*” (i.e., an event resulting in greater than One Hundred Thousand Dollars (\$100,000.00) in Common Area repair costs, or greater than One Hundred Fifty Thousand Dollars (\$150,000.00) in repair costs to be borne by the Association to repair damage to Townhome Residences).
- Board Actions if the Damage Does Not Rise to a Significant Casualty Event. If the Board determines that the damage does not rise to constitute an event of Major Damage or Destruction, then the Board will use available reserves and insurance proceeds to repair the damage (or if necessary, through a Special Assessment, which in an immaterial damage situation likely will be capable of being adopted by the Board on its own, without further necessity of seeking Member approval).
- Board Actions if the Casualty Event is Determined to be Significant. Conversely, if the Board determines that a casualty event constitutes Major Damage or Destruction, new Article X sets forth a process for the Board and the Association to use to determine whether to repair

the damage and how to pay for the repair costs. The provisions of new Article X pertaining to the repair/re-build process are summarized in the attached “decision-making tree” – please keep in mind that the decision-making tree is a summary only, and that you should consider the language of the First Amendment to understand the potential application of the new re-build decision making process. The process includes the following progression of events:

- *Meetings of the Board and the Members to Report on Known Conditions.* A special meeting of the Board and the Members shall be noticed to provide an opportunity for all Owner/Members to participate in the discussion and analysis of the strategy that is being recommended by the Board, in consultation with its professional advisor, for repair of the damage. Based on the experiences in Santa Rosa, Paradise Pine, and Calistoga this step could involve more than one meeting depending on the severity of the event.
- *Preparation of a “Repair Plan”.* Preparation by the Board of a “Repair Plan” describing the contemplated repair work, the schedule for the repair work and the means for paying for the repair work. Pursuant to revised Article X, if there are sufficient insurance proceeds and reserves to repair the damage, then the Repair Plan will call for the full repair work to be undertaken expeditiously, under the ultimate direction of the Board.
- *Repair Plan Considerations if it is Determined that Insurance Proceeds Will Not Cover all Repair Costs.* If instead the insurance proceeds and reserves are determined, on the basis of initial calculations and available information, to be less than the anticipated repair costs, then the Board will explore options (including potentially proposal of a Special Assessment) to raise the funds required to complete the repair and remediation costs in accordance with the Repair Plan.
- *Approval of the Repair Plan by the Members.* The Repair Plan will be subject to approval by the affirmative vote of the Members if it involves a Special Assessment greater than 5% of the Association’s annual expenditure budget (Declaration of CC&RS at sections 4.03(b) and 4.08). The Repair Plan also may be vetoed by a two-thirds (2/3rds) vote of the Members in certain circumstances if it is anticipated that the repair costs will exceed Ten Million Dollars (\$10,000,000.00);
- *Potential Sale of the Development if a Repair Plan Cannot be Approved.* Article X, as revised by the First Amendment, also calls for a new remedy if a Repair Plan is not adopted by a specified date (three years from the casualty if the Board estimates that the repair costs are less than Five Million Dollars (\$5,000,000.00); five (5) years if the Board estimates that the repair costs are greater than Five Million Dollars (\$5,000,000.00)), or if the Members vote to veto a previously adopted Repair Plan. More specifically, in either such circumstance, new Article X of the CC&Rs, as amended by the First Amendment (specifically Section 10.03(e), final paragraph, Section 10.05 and Section 10.06), calls for the Association to sell the Rocky Ridge development in its entirety (excluding the two Individual Residences, which will be retained by their Owners and will receive access easement rights over the other properties comprising Rocky Ridge as it exists today). The

Board committee that drafted the proposed First Amendment believes the mandatory sale remedy is appropriate for two primary reasons:

- First, the remedy only will become potentially applicable in the unlikely event that a major casualty occurs and (i) there are insufficient insurance proceeds and reserves to cover the anticipated repair costs and (ii) the Members decline to vote to cover the insufficiency by either a Special Assessment or institutional financing.
- Second, in such a circumstance, the Board committee believes all of the Townhome Owners should share a common perspective on the decision whether or not to re-build, regardless of whether an Owner owns a damaged Townhome Residence or a Townhome Residence that somehow escaped damage. Keep in mind that the lack of adequate insurance proceeds will not be due to any fault or decision of the Owners with damaged Townhome Residences. Rather, the absence of full insurance coverage for the loss will be attributable to decisions made by the Board, on behalf of the Association, in consultation with the Association's insurance advisors.

Accordingly, the new provisions should endeavor to place all Townhome Owners in similar situation – either:

- (A) a Repair Plan will be adopted which (through insurance proceeds, Special Assessments approved by the Owners, or institutional financing) will provide each Owner with the full repair of its damaged Townhome Residence (to be clear, the Association only will pay for repairs from the “walls out” – the individual Townhome Owners will bear their own costs to repair “walls in” damages); or
- (B) Each Townhome Owner (whether its Townhome Residence was damaged or not) will bear a similar permanent loss of Townhome use (as a consequence of the decision to forego rebuilding the damaged Townhomes and selling the entire Rocky Ridge development, other than the Individual Residences).

The prospect of a potential sale of the entire Rocky Ridge development thus should motivate all of the Owners, including those not impacted by the damage, to share common perspectives in determining whether to vote to approve a Special Assessment that would be needed to fund (and thereby permit) the re-building of the damaged Townhomes.

- *Disposition of Net Sales Proceeds, Unused Insurance Proceeds and Unspent Reserves.* New Article X also sets forth the manner in which the net sales proceeds from the sale of the development, plus any unused insurance proceeds or reserves (collectively, the “Net Disposition Proceeds”), shall be divided amongst the various Owners in the event of any such sale. The provisions call for the “Individual Residences Share” (the product of (1) the sum of the Net Disposition Proceeds (but excluding any portion thereof constituting Reserves or unspent insurance proceeds attributable to the Townhome Lots) times (2) 2/102, to be paid to the Individual Residences in equal shares, and for the balance of the Net Disposition Proceeds to be split among the Townhome Residence Lot Owners in

proportion to the fair market values of their respective Townhome Residence Lots, as reasonably determined by the Board of Directors (after a valuation process which permits input from each Townhome Residence Lot Owner). Note, however, that if the Board, in the terms for the sale of the development, negotiates for the buyer to be obligated to replace the Common Facilities and to provide access to the Individual Residences to such Common Facilities in a manner akin to that allowed to the Individual Residence Lot Owners prior to the casualty, then the Individual Residence Lot Owners will not receive any portion of the Net Disposition Proceeds, and the Net Disposition Proceeds instead shall be split exclusively amongst the Owners of the Townhome Residence Lots, in proportion to the fair market values of said Lots.

- *Right of First Refusal to Acquire the Property.* Finally, new Article X includes a right of first refusal which should permit the Townhome Owners to pre-empt the sale of the Rocky Ridge development should they instead desire to form an Owner group to purchase the development on terms akin to those agreed to by the potential third-party purchaser.
- **Provisions Relating to Implementation of Remediation and Reconstruction Work.** Article X also sets forth certain mechanics to facilitate the prosecution of repair work, should the Board/Association elect to proceed with re-building following a casualty event. Among other things the mechanics facilitate:
 - Providing for site clearing and demolition of damaged or destroyed improvements;
 - Conducting regular meetings with representatives of the insurance carriers and the insurance adjustors with policies issued to the Association;
 - Establishing rules and restrictions on site access for security and to limit the potential for personal injury;
 - Retaining a construction manager and a general contractor (perhaps in bidding process) to implement and to guide the repair and reconstruction process;
 - Engaging qualified parties and representatives of the Association to meet with local governmental authorities to determine what reconstruction will be approved, and whether changes in design may be necessary to reduce future fire danger risks or to comply with then-existing Building Codes;
 - Continued meetings with the insurance carriers and the adjustors regarding the extent of available coverage and the timing for distribution of insurance proceeds;
 - Negotiating the terms of construction management agreements and construction contracts, using a Guaranteed Maximum Price contract structure, if possible;
 - Coordinating the work of the Association and its contractors and consultants with work that the Owners and their contractors will desire to pursue within their Townhome

Residences (including rules and procedures regarding access and the progression of work by both parties to avoid having one party's contractor impeding the progress of the other party's contractor); and

- Provisions for resolving disputes that may arise regarding the limits of the Association's repair and reconstruction obligations and the respective obligations of the Townhome Residence Owners to repair damage to the interior of their Residences.

Miscellaneous Conforming Amendments to the CC&Rs: Minor Conforming Changes in Terminology in the Rocky Ridge CC&Rs.

The two core objectives of the proposed First Amendment to implement a more equitable system of Association Assessment allocation and to better define the roles, responsibilities and procedures that the Association and the Owners should follow in the event of catastrophic events (primarily fire) that could occur at Rocky Ridge required the addition of new terminology in the Declaration of CC&Rs. Those new defined terms distinguish between "Townhouse Residences", "Townhome Lots", "Individual Residences" and "Individual Residence Lots". Other new terms introduced to Article I of the Declaration of CC&Rs via the accompanying First Amendment primarily impact Article X of the CC&Rs which deals with events of damage and destruction and how the Association intends to respond to those events. Distinctions are made between relatively minor events for which there is adequate insurance coverage and major events for which the available coverages maintained by the Association or individual Owners may prove to be inadequate to cover the total cost of reconstruction.

SEE ATTACHMENT FOR SUMMARY OF CASUALTY DECISION-MAKING TREE

SUMMARY OF THE DECISION-MAKING PROCESS FOLLOWING A CASUALTY EVENT

Following a casualty, the Board shall determine (i) the Anticipated Repair Costs and (ii) the Anticipated Insurance/Reserve Resources for the Common Facilities and the Damaged Townhome Components. [10.02] In calculating repair costs, the board shall assume that damaged Townhomes will be returned to their former quality and damaged Common Facilities will be repaired to a quality level deemed appropriate by the Board for a development of Rocky Ridge's quality. [6.01(a)(ii)]

If the Anticipated Townhome Repair Costs < \$150,000*, and if the Anticipated Common Facilities Repair Costs < \$100,000*, then the Board shall repair the damage, and it may make the repair decision w/o preparing an initial report or holding a member meeting. [6.01(a) and (b)]

If the Anticipated Townhome Repair Costs > \$150,000*, or if the Anticipated Common Facilities Repair Costs > \$100,000*, then the Board shall (i) prepare an initial report describing the anticipated repairs and costs and (ii) hold a Special Informational Meeting with Members to collect Member input. 10.03(a)

If the Anticipated Townhome Repair Costs ≤ the Anticipated Townhome Insurance/Reserves Resources and the Anticipated Common Area Repair Costs ≤ the Anticipated Common Area Insurance/Reserves Resources, then the Board shall repair the damage and may decide to proceed with the work without preparing the more detailed "Repair Plan". [10.03(b)]

If the Anticipated Townhome Repair Costs > the Anticipated Townhome Insurance/Reserve Resources or the Anticipated Common Area Repair Costs > the Anticipated Common Area Insurance/Reserves Resources, then the Board shall prepare a more detailed "Repair Plan" which describes the repair work, timeline, budget, and the proposal for filling any funding gap. [10.03(c) and (d)]

The Repair Plan may use debt to cover a portion of a funding gap, but only if duly approved by the Association i/a/w CA law. [10.03(d)(ii)]

The Repair Plan may use special assessments to cover a portion of a funding gap, if the special assessment is duly approved by the members.

If the special assessment is < 5% of the Association's annual expenses, then a member vote is not required, and the board (without any need for Member approval) may approve the Repair Plan and the special assessment and proceed with the repairs. [10.03(d)(iii)(A)]

If the special assessment is > 5% of the Association's annual expenses, then the Board will NOT adopt the special assessment (or the Repair Plan) unless approved by a vote of a majority of a quorum of the Members. [10.03(d)(iii)(B)]

If the Board (and the Assn) timely approves a Repair Plan, then it will implement it (subject to the veto right of the Members under Section 10.05). If the Assn does not make a timely "Repair Election" by approving a Repair Plan (and any required special assessment) by the Repair Election Deadline (3 yrs. from casualty if damage ≤ \$5MM*; otherwise, 5 yrs.), then the Board expeditiously SHALL sell all of the Townhomes/Common Areas per Section 10.03(e) and 10.06.

Even if the Assn timely approves a Repair Plan, the Members may veto its implementation if (i) the Anticipated Townhome Repair Costs are > \$10,000,000, (ii) any funding gap cannot be filled with a special assessment below the 5% threshold, and (iii) the veto is approved by 67+% vote of the Members). [10.05]. If the Members veto a Repair Plan per Section 10.05, then the Board expeditiously SHALL sell all of the Townhomes/Common Areas per Sections 10.05 and 10.06.

If Townhomes and Common Areas must be sold per 10.03(e) or 10.05, they will be sold in one or more sales (and without including sale of the Individual Residence Lots). In selling Townhome/Common Area Lots, the Board may define the continuing restrictions to be reserved over the Townhome/Common Area Lots, for the go-forward benefit of the Individual Residence Lots. The nature of the reserved easement rights will affect how the net sales proceeds from sale of the Townhome Lots and the Common Areas (as determined by the Board) will be split among the Rocky Ridge homeowners, as follows**:

If the Board elects to sell the Townhome/Common Area Lots subject only to access rights in favor of the Individual Residences, with no obligation for the buyer(s) to rebuild the former Common Facilities, then the net sale proceeds from the sale of the Townhome Lots and the Common Areas, and any unspent insurance proceeds or Reserves attributable to the Common Areas (as determined by the Board), will be split among all 102 Owners**. [10.06(b)]

If the Board elects to sell the Townhome/Common Area Lots subject to a requirement that the buyer rebuild Common Facilities similar to the pre-casualty Common Facilities at Rocky Ridge, then the net sale proceeds from sale of the Townhome Lots and the Common Areas (any unspent insurance proceeds or Reserves for the Common Areas) will be split among only the 100 Townhome Owners (and not the Individual Residence Owners)**.

After the sale agreement is finalized but before the sale is completed, the Townhome Owners (or a subset thereof) may exercise a right of first refusal to buy the property on terms akin to those offered to the third-party buyer(s). [10.08]

{01019204;21}* This figure is subject to increases proportional to increases in the CPI for the Reno area from 1-1-2021.

**Regardless of the nature of the reserved easement rights, any unspent Reserves and casualty ins. proceeds for the Townhomes will be split among only the 100 Townhome Owners. [10.06(c)]