

Rocky Ridge Properties Owners' Association
Board of Directors Meeting December 1, 2023
Meeting Location: ZOOM Platform

Minutes

The meeting was called on an emergency basis and thus without normal noticing steps. The emergency stemmed from the fact that the casualty insurance alternatives available to the Association for 2024 were rapidly evolving. For example, the Board was concerned that the Association's might not be able to extend its existing casualty insurance might beyond May 15 of 2024, that the premiums for the existing insurance are extraordinarily high, and that even if the insurance could be extended, there was no assurance that the carriers might not increase the required premiums (per our brokers, the new policy recently procured for Chambers Landing cost more than \$2 million in premiums). Further, the Board received a new proposal for alternative and more cost-effective insurance on the morning of December 1st, 2023. The ability of the Board to procure insurance pursuant to the new proposal, however, was time limited – as a practical matter, the Board felt that it needed to make a procurement decision with respect to the new proposal on December 1st or the new proposal might not be available to the Association. So the meeting was called on an emergency basis.

The meeting also was held on a confidential basis in "Executive Session", given that the discussions regarding both the existing insurance and the proposed new insurance inherently involved discussion of (i) contract terms still subject to negotiation and (ii) potential claims with regard to enforcement of the alternative insurance proposals.

Attendance and Quorum: Board members Steve Dohrmann, Frank Pagliaro, Robert Schuchardt, Matt Howarth, Curt Sproul, Laura Bertone and Bruce Shepherd attended the meeting remotely through the ZOOM platform. A quorum of Board members was present throughout the meeting.

William "Yates" Bauder and Justin "Buster" Fenley participated as the designated representatives of the Board for purposes of enabling a ZOOM platform meeting in accordance with California law. Yates and Buster participated from the project development office in the building adjacent to the real estate brokerage building at the bottom of the Rocky Ridge hill.

President Dohrmann called the meeting to order at approximately 12:01 pm. The meeting continued until adjournment at approximately 1:48 p.m.

Insurance Discussion. The Board considered reports from Yates and Bruce with regard to the Association's existing insurance and difficulties encountered in obtaining materials from the Association's current brokers with respect to the existing insurance. These reports also noted that while the existing insurance has certain advantages, it is expensive and may not be susceptible to extension (the existing insurance expires in May of 2024).

The Board next received a report from Ryan and Mike Taylor of InterWest (an insurance broker) regarding insurance that InterWest might procure for the Association, and the steps involved in procuring such insurance. The steps include procuring insurance for the Rocky Ridge buildings in a series of sequentially identified groups of buildings; as new insurance is procured for a group of buildings, that group will be removed from coverage under the Association's existing insurance.

The insurance proposed by InterWest has several advantages relative to the Association's existing insurance, including the following:

- Insurance commitments have been obtained from highly rated insurers for the insurance for the first group of buildings (14 buildings, representing approximately 40% of the buildings within Rocky Ridge).

The insurance is at a rate which is almost 60% less than the premiums which the Association is paying for coverage under the existing insurance. The Board proposes to procure this insurance effective in early December of 2023, thereby enabling almost \$200,000 in premium savings between now and May 15, 2023 (when the existing casualty insurance expires).

- Commitments for the insurance for the other buildings (i.e., the remaining 60% of the buildings) have not yet been obtained, but InterWest has made significant progress in lining up this insurance and InterWest is confident that it will be timely procured. The Board plans to maintain the existing insurance on these buildings until the new insurance is replaced or terminates in the Spring of 2024. InterWest also is confident that the new insurance for these additional buildings also will yield significant savings for the Association, relative to the costs under the existing insurance.
- The procurement of the insurance in late 2023 and early 2024 will extend coverage at the new lower rates for new 12 month periods (thereby extending coverage and reducing the pricing for one further fire season of risk exposure).
- In the unlikely event that a major casualty occurs prior to 5-15-2024, the new policies could reduce the deductibles borne by the Association by more than \$2,000,000 (the magnitude of the deductible savings will depend upon the particular buildings suffering damage, and the nature of the damage event).

The insurance proposal from InterWest is not without risk. In particular, it is possible that InterWest may prove unable to line up insurance carrier commitments for the casualty insurance for the buildings in some or all of the groups after the first group, in which case the existing insurance may expire or be terminated prior to the arrangement of substitute insurance for all of the groups of buildings within Rocky Ridge. In such case, the Association (and derivatively its members) would be exposed to the possibility of significant loss that is not covered by insurance. The CC&R's applicable to Rocky Ridge include provisions which, in the event of a material uninsured loss, call for the townhome owners, as a group, to choose either (i) to repair in full the building shells for all of the townhomes in Rocky Ridge, with the uninsured building shell costs being shared by all townhome owners (and with each townhome owner responsible for repairing the "walls in" portion of its townhome), or (ii) to sell in full the townhomes in Rocky Ridge, with the sale proceeds being shared by all townhome owners. The larger the amount of uninsured loss, the more likely the townhome owners may vote to sell all of the townhomes, which may not be considered advantageous by all townhome owners. In any event, the occurrence of a significant loss event without coverage certainly could be costly to the Association (and its members), and it also likely would pose a material challenge for the Association and its members.

Although the possibility of an uncovered loss event troubled the Board, the Board nonetheless concluded that the advantages of the new insurance package were too great to forego, in part because (i) such a loss event seems unlikely to occur during the period from now to May (when the existing insurance is scheduled to expire in any event) and (ii) there is reasonable optimism that the replacement insurance indeed will be timely obtained.

Accordingly, the Board adopted the following resolutions pertinent to the insurance issues:

1. The Board, by a 6-1 vote, resolved to procure property casualty insurance from affiliates of Lloyds of London and Berkshire Hathaway totaling around \$24,000,000 in maximum coverage and covering 14 buildings within Rocky Ridge. In connection with the procurement of such insurance, the Board also will cause the Association to take the following steps:
 - The new insurance will be effective 12-5-23.
 - Concurrently, the Association will request that our existing insurer remove from coverage under its existing \$54,000,000 property casualty policy, by endorsement, the same 14 buildings. The notice shall call for the removal to be effective as of 12-5-2023.

- The Association will instruct InterWest to seek to replace the remaining property casualty insurance procured from the existing insurer. This comes to around \$29,000,000 of additional coverage; the Association will seek to replace this coverage with approximately \$39,000,000 of coverage (bringing the total insured amount for all of the buildings in the development up to a value of approximately \$310/SF of building areas).
 - The Association also will request that InterWest continue to seek to replace the other insurance coverages (including auto, marine, general liability, workers comp, directors and officers) that currently have been procured for the Association. The existing policies only will be terminated when InterWest has lined up replacement coverages.
2. Promptly following adoption of the foregoing resolution, the Board, by a 7-0 vote:
- resolved to explore financing (through some sort of installment purchases) the acquisition of the new insurance policies described above (and in connection therewith, the Board approved (i) borrowing up to \$125,000 from the Association's reserve accounts to cover the initial instalments due for the purchase of these policies; and (ii) such additional terms for the financing as the Treasurer may approve through the course of negotiating the financing;
 - approved the adoption of a 2024 budget which contemplates insurance at the higher rates contemplated by the existing policies (plus some anticipated annual adjustment; the Board anticipates that at such time as the replacement premiums for the above insurance are better known, the Board will approve a revised budget for 2024 and adjust the Association's periodic assessments, as appropriate); and.
 - resolved that the Association shall take such further steps as may be reasonably necessary to implement the foregoing.

The Association simply could not have achieved this result without contributions from several homeowners. In particular, thanks go to Roger Gault for identifying InterWest as the insurance procurement agent and participating in the structuring of the insurance, and to Jack Dittoe for working with outside legal counsel to iron out some legal issues related to the procurement of the insurance.