

TO: BOARD OF DIRECTORS

I received an insurance proposal from Bob Hessler which is attached. Property Insurance is based upon a replacement cost of \$87,734,451, an increase from last year's estimate of \$85,123,287 to reflect increases in costs. Despite this increase in value the premium for Property Insurance came in 3% less than last year--\$1,421,601 as against \$1,459,306. In view of the recent wildfire, this is surprising.

As proposed, Property Insurance would cost \$7,684 per year per Unit. All other insurance would cost \$482 per year per Unit. Also attached is a spreadsheet detailing insurance costs since 2012.

The budget for 2025 included \$1,286,876 for insurance. Total insurance costs as proposed would be \$1,510,804 reflecting a shortage of \$223,928. It will be necessary to cover this shortage with a special assessment since we did not raise the assessment for this year from last year due to the complete chaos in the insurance market due to wildfires.

Regardless of the restrictions in the governing documents, a board may levy a special assessment of not more than 5% of the budgeted gross expenses for the current fiscal year without the approval of the members.

Civil Code Section 5605(b) provides as follows:

(b) Notwithstanding more restrictive limitations placed on the board by the governing documents, the board may not impose a regular assessment that is more than 20 percent greater than the regular assessment for the association's preceding fiscal year **or impose special assessments which in the aggregate exceed 5 percent of the budgeted gross expenses of the association for that fiscal year** without the approval of a majority of a quorum of members, pursuant to Section 4070, at a member meeting or election.

In simple terms, we have authority to approve a special assessment to cover the shortage up to 5% of budgeted gross expenses. The following is a calculation of the maximum we could approve:

<b>BUDGETED GROSS EXPENSES</b>	<b>\$3,772,340</b>
<b>5% INCREASE</b>	<b>\$3,960,957</b>
<b>MAXIMUM INCREASE</b>	<b>\$188,617</b>

I propose that we approve a special assessment of 5% of the current assessment to cover the shortage, I calculated the increase as follows:

	<b>MONTH</b>	<b>YEAR</b>	<b>TOTAL</b>
<b>CLASS 1 2025 ASSESSMENT</b>	<b>\$1,620</b>	<b>\$19,441</b>	<b>\$3,596,666</b>
<b>5% INCREASE</b>		<b>\$20,414</b>	<b>\$3,776,500</b>
<b>DIFFERENCE</b>		<b>\$972</b>	<b>\$179,833</b>
<b>INCREASE OVER 8 MONTHS</b>		<b>\$122</b>	
<b>MONTHLY ASSESSMENT STARTING MAY</b>		<b>\$1,742</b>	
<b>CLASS III 2025 ASSESSMENT</b>	<b>\$1,090</b>	<b>\$13,080</b>	<b>\$78,480</b>
<b>5% INCREASE</b>		<b>\$13,734</b>	<b>\$82,404</b>
<b>DIFFERENCE</b>		<b>\$654</b>	<b>\$3,924</b>
<b>INCREASE OVER 8 MONTHS</b>		<b>\$82</b>	
<b>MONTHLY ASSESSMENT STARTING MAY</b>		<b>\$1,172</b>	
<b>TOTAL ADDITIONAL ASSESSMENT</b>			<b>\$183,757</b>

In simple terms, in May 2025 the monthly assessments would increase to:

**Class I--\$1,742**

**Class III--\$1,172.**

As we have discussed many times, the CC&Rs and Bylaws mandate full replacement cost property insurance. Such insurance is required to finance a Unit or to maintain existing financing.

The broker in San Diego, to whom I sent the material he requested, called me. It turns out that he did not represent carriers writing condo policies up to \$200 million, but rather he pursued the same markets covered by Bob Hessler. He volunteered that Bob had done an excellent job in reaching out to the available markets. He said that the carriers he contacted were leery of the stated value reflecting replacement costs because of the island location. The only thing he had to offer was fire insurance excluding wildfires. Such insurance would not meet CC&R or lenders requirements

I am happy to answer any questions. Remember three directors may not discuss this except by email. I will schedule a board meeting shortly

Norris