

CARNELIAN WOODS

Owner Insurance Choices Ballot

January 13, 2025

Background

The primary obstacle for property insurance is wildfire coverage. There are a few insurers that will deal with us, assuming the 2022/2023 winter damage repairs are complete and they don't ask about the Federal Pacific Electric panels, but otherwise most insurers won't touch us given the wildfire risk. There is also the \$1M claim for the 2022/23 winter damage in our history. The industry is so busy and the process to find insurers so arduous that we can't get exact costs unless we are actually ready to buy.

This ballot contains the high-end of the best estimates our agent can get from his wholesaler. The board is looking to you, owners, on how to proceed. We are asking you to choose which insurance option you prefer and which additional funding option you prefer. Ultimately, we are asking you to vote on how much risk to take and at what cost for the next year.

Since this is a changing market and the policies renew every year, the choices made through this vote will be reviewed annually.

Terms

Replacement cost is the amount of money it would take to replace the Carnelian Woods development at today's prices and is the amount of insurance that lenders prefer to see so that in the event of a disaster there is cash to make the loss whole or to pay off the loans. The replacement cost for our development is, in round numbers, about \$50M (a hard number to get accurately). This coverage is also referred to as "full" coverage.

Cash value is the amount of money needed to replace the development, less the decrease in value because of age or use. The cash value of the property is estimated to be about \$30M, or 60% of the replacement cost (also a hard number to get accurately).

A new insurance wrinkle for us is a policy called **parametric coverage**. Parametric coverage for us will cover **only wildfire** and will pay up to the policy limit, say \$5M or \$10M, based on the severity of wildfire structure damage within a given perimeter.

What We Have: California Fair Plan (CFP)

We have property coverage with the California Fair Plan, the insurer of last resort. CFP insurance is currently limited by regulation to \$20M total. This amount is allocated across the

individual buildings and all coverages, so we currently only have building coverage to maximize that protection. The California Department of Insurance has announced that by July 2025 the limits will increase to \$100M per location and \$20M per building, so we will discuss those parameters and the expected cost that would take effect at that time. There are still several limitations with this coverage, as well as some benefits.

Problems with the CFP Alone

The CFP will only insure the cash value of our property, \$30M, and not the replacement cost of the property, \$50M. To get replacement cost coverage from the CFP for buildings over 50 years old, the CFP requires that the plumbing, heating, electrical wiring and roof have been updated in the last 10 years. This leaves us about 60% covered on any single building or group, should we have a total loss.

The CFP appears to pay 100% of the loss (less deductible) up to the individual building loss limit (cash value), so for smaller losses, we're fine. If buildings that cost \$5M to replace were to totally burn, we would only receive \$3M (60%) and would need to come up with the additional \$2M (40%) to rebuild. The insured value of our individual buildings will likely range from about \$1.1M to \$4.5M.

The CFP covers specific perils listed or excluded rather than broad perils. For instance, it specifically excludes snow and ice damage, so the \$1M in damage from the winter of 2022/23 would not have been covered. However, in the years we had the insurance with Farmers, we had only one other time made a claim (2017) for snow and ice damage. The repairs this year have improved the roof design where repairs were done, so there is less chance of snow damage in the future. The CFP ballot option includes DIC (difference in conditions) coverage to cover a broader range of perils.

As far as we know, the CFP has not yet done a site inspection. We could lose the insurance due to the remaining incomplete balcony repairs, or the CFP rates could change dramatically. The current policy rates the property wildfire danger as low, while others in the industry rate it much higher.

Benefits of the CFP

We have it.

The CFP at \$20M coverage currently costs (until 3/31/2025) about \$83.6K per year. Our agent advised us to budget for a 25% increase as of the April 1, 2025 renewal date and an increase of 1.5X for \$30M coverage from \$20M. It is the least expensive option out there at present.

Payments are made monthly rather than all at once, easing cashflow issues.

New Options On The Ballot

Insurance

Problems to be solved by new insurance choices:

- More perils covered—each new option is much closer to the broad coverage we had with Farmers.
- Full coverage for some perils.
- Better application of the policy limits.

Notes:

- No option gives us full replacement cost coverage.
- When put in place, the number of insurance policies composed for the described coverage may differ from what is described here.
- All options are expected to have a deductible of about \$75,000, but it might vary.
- All dollar amounts are the best high-end estimates and may vary up or down from the amounts depicted. The dues changes will depend on these results.
- If the costs are significantly higher than the estimates, the board will evaluate the intent of the balloting results for guidance. Time is of the essence to avoid having to perform another vote.

Funding

Since all of the available options leave funding holes should there be a loss, also on the ballot are a selection of funding options to increase the reserves. These leave the association in a better financial state. Since the insurance market should improve within the next few years, if the funding is not spent on insurance needs, it will be applied to future reserve requirements and reduce future reserve contributions.

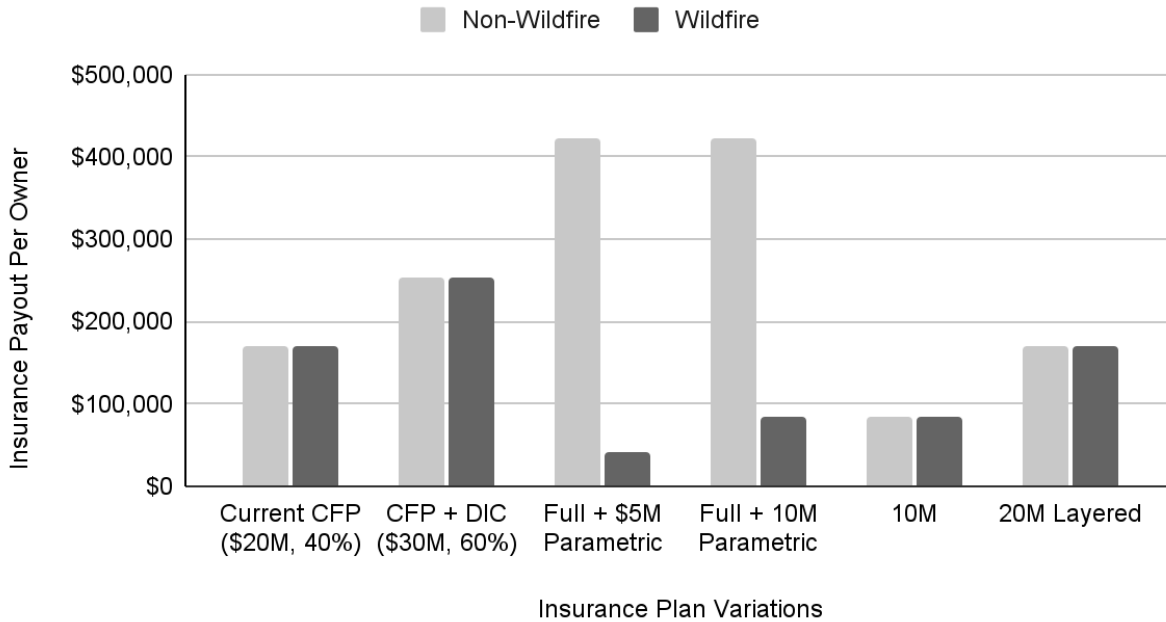
Risk

As homeowners, we each need to decide what cost and level of financial risk we can accept for the next year (we'll reevaluate insurance options yearly).

If there were a total loss and the association decided not to rebuild, how much would each owner's insurance payout be? Is this amount, plus your owners insurance, enough to pay off your loan? Is it enough to recover from the loss of rental income? Is it enough to find another home if Carnelian Woods is your permanent residence?

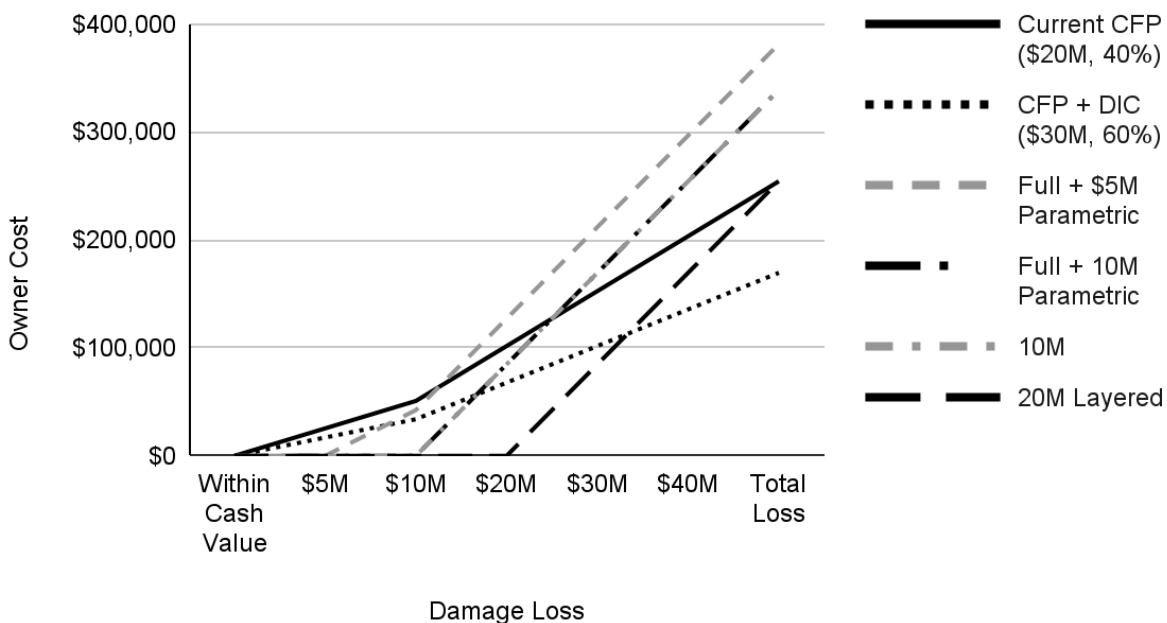
The first graph below represents the claims limit on each policy divided by 118 units for a wildfire and non-wildfire covered total loss. Note the Full + Parametric policies pay full replacement cost for non-wildfire losses (zero cost to owners) but are limited to \$5M and \$10M coverage limits for wildfires as shown.

Non-Wildfire and Wildfire Total Loss Payout Per Owner



Are you concerned more about coverage for smaller or larger losses? What is the cost per owner to rebuild after a loss? If there is less than 60% damage to the buildings, all the policies are comparable (zero owner rebuild cost), up to the allowed loss limit. For greater losses, the CFP limit to cash value requires owner contribution at moderate losses. The other policies' owner costs are zero, up to their loss limits (both \$10M policies are identical), and then climb.

Owner Cost To Rebuild For A Given Damage Amount



Insurance Ballot Options

Since there are multiple choices the election will be a ranked choice election. On the ballot you will rank your choices. Select only one choice per rank. Not ranking a choice is a no vote for all ranking tallies. With no ranking given to some choices, it is possible for the election to fail to have the minimum number of votes required for a decision.

The table below summarizes the difference among the new choices. See the individual items below for further details.

	Ballot Options					
	CFP only	CFP + DIC	Full + \$5M Parametric	Full + 10M Parametric	10M	20M Layered
Coverage Limit	30M	30M + full	Full, \$5M Wildfire	Full, \$10M Wildfire	\$10M	\$20M
Catastrophic Coverage *	60%	60%	100%, 10%	100%, 20%	20%	40%
First Policy	\$144K	\$144K	\$175K	\$175K	\$750K	\$750K
Second Policy		\$75K	\$125K	\$250K		\$200K
Total Cost inc taxes and fees	\$144K	\$222K	\$312K	\$425K	\$780K	\$988K
Increase Over Budget	\$47.9K	\$126K	\$216K	\$346K	\$684K	\$892K
Payments	Monthly	Monthly	Immediate, loan/quarterly	Immediate, loan/quarterly	Immediate, loan/quarterly	Immediate, loan/quarterly
Add'l Cost/Year	\$406	\$1,067	\$1,833	\$2,934	\$5,799	\$7,561
Add'l Dues Cost/ Quarter	\$101	\$267	\$458	\$734	\$1,450	\$1,890
Total Quarterly Assessment	\$2,835	\$3,001	\$3,192	\$3,468	\$4,184	\$4,624
The Reserve Special Assessment ended with the January 2025 dues, reducing dues going forward by \$479/quarter.						
Assessment Compared to January 2025	-\$378	-\$212	-\$21	\$255	\$971	\$1,411
New dues apply to April and July billings this fiscal year and continue going forward.						
* The percent of replacement cost we would be paid if the entire development were destroyed by a covered peril.						

California Fair Plan Only

Keep the CFP but increase it to \$30M in July when available. The benefits and problems described above apply unchanged.

- CFP is budgeted for a 25% increase over the previous year's amount and scaled up by 50% for the additional coverage. This is assumed sufficient.
- Since CFP coverage, even with the July changes, is constrained to the cash value limit on individual buildings, additional funding should be considered to fund reserves to cover the gap. See the second ballot.

California Fair Plan + DIC

Keep the existing CFP policy increased to \$30M and add a Difference in Conditions (DIC)/Wrap policy to fill the coverage gaps that the CFP does not cover. This option does not address the 60% per building limitation discussed above.

- CFP is budgeted for a 25% increase over the previous year's amount and scaled up by 50% for the additional coverage. This is assumed sufficient.
- Since CFP coverage, even with the July changes, is constrained to the cash value limit on individual buildings, additional funding should be considered to fund reserves to cover the gap. See the second ballot.
- We are not entirely sure how much DIC limit can actually be offered for other perils, and the wholesaler has not cracked the code on how they rate these. We are assuming full coverage.

Full Coverage + \$5M or \$10M Wildfire Parametric Coverage

Replace the CFP, subject to approval from the one carrier that can offer a full limits policy (~\$50M coverage) **excluding wildfire**, plus a separate parametric insurance policy for just wildfire.

- Full coverage for all perils except wildfire where the coverage is limited.
- Wildfire-only parametric coverage is limited to \$5M or \$10M without a limited dollar coverage per building like the CFP. Less total coverage than the CFP, but more coverage on a clustered loss.
- Payment is due immediately, so the association would need a short term loan (at additional cost of ~\$22K-\$30K) or assess the owner the full yearly amount immediately.
- Advantage: Unless a lender looks very closely at the policies, they might not notice the wildfire coverage is less than replacement cost.

\$10M Coverage or \$20M Layered Coverage

Replace the CFP with traditional, layered/shared property placement on ISO (standard) based policy forms (insurance-speak). Coverage would be similar to the Farmers policy but with a lower limit for all perils.

- Converge on all perils up to the policy limit.
- Less or equivalent total cover compared to the CFP, but no limited dollar coverage per building like the CFP.

- Payment is due immediately, so the association would need a short term loan (at additional cost of ~\$55K–\$69K) or assess the owner the full yearly amount immediately.

Benefits of Non-CFP Insurance

With the CFP, the loss limit per building is much less, so with only 60% coverage we self-insure for 40% on the full-loss of a building. With non-CFP insurance we self-insure only for damage above the loss limit (\$5M, \$10M, \$20M), so we will pay 0% of the rebuild cost (after the deductible) up to the loss limit. Below the individual building CFP loss limit (partial damage to a building) these two insurance policies are comparable.

Problems with non-CFP Insurance

They are more expensive. In 9-13 years we will have paid more in premiums than the coverage limit, but we won't have these exact policies for that long.

Monthly payments are not available. About 30% is due up front and the remainder is due shortly thereafter. Owners would have to be assessed the entire amount all at once or the association would have to take out a short term loan (possibly available at 14%) at additional cost, if we can. Note that this cost repeats every year so if the insurance market does not improve we will be repeating this process yearly.

Reserve Funding Ballot Options

Since there are multiple choices, the election will be a ranked choice election. On the ballot you will rank your choices. Select only one choice per rank. Not ranking a choice is a no vote for all ranking tallies.

California Fair Plan Wins Options

The CFP with its \$30M limit leaves significant uninsured risk (self-insurance) for a loss clustered to a large amount of damage to a few buildings. Recall the example of self-insurance of \$2M out of pocket on a \$5M loss because of the 60% coverage limit.

Choosing the lesser cost CFP plan options over the more expensive plans and placing in reserves the premium savings keeps the money in house and helps mitigate that risk. But this self-insurance can take many years to match the insurance protection of the more expensive plans. The premium savings of CFP per owner are \$166–\$1789 per quarter (depending on the non-CFP plan), and it would take 8–13 years to accumulate the loss limit coverage of the non-CFP plans. The table below shows the premium differences and the amount of time it would take to cover the uninsured risk that exists with the CFP at various contribution amounts.

	CFP Only	CFP + DIC (\$30M, 60%)	Full + \$5M Parametric	Full + 10M Parametric	10M	20M Layered
Quarterly Dues Difference From \$30M CFP	\$0	\$166	\$357	\$633	\$1,349	\$1,789
How long would it take to save in reserves enough to cover one large loss?						
Years to Cover Uninsured Risk (\$2M) with CFP on Clustered \$5M loss						
\$250/quarter		13+				
\$500/quarter		7+				
\$1000/quarter		4+				
\$1500/quarter		2+				
Years to Cover Uninsured Risk (\$4M) with CFP on Clustered \$10M loss						
\$250/quarter		>20				
\$500/quarter		13+				
\$1000/quarter		7+				
\$1500/quarter		5+				

With an owner contribution of \$1000 per quarter, it takes about four years to save the \$2M in the previous \$5M loss example. For a \$500 contribution, the times are almost twice as long.

With no losses or insurance funding difficulties, the money contributed is available to fund reserves in the future. At some point in the next few years the insurance market will straighten itself out and more affordable and better insurance should be available. Next year's insurance market will be different from now, so these options will be reevaluated at that time.

Non-California Fair Plan Win Options

Similar to above, these options select amounts to fund reserves to mitigate insurance pricing and loss issues. Given the higher prices of the non-CFP insurances, owners can choose a different amount for this outcome. As above, with no losses or insurance funding difficulties, the money contributed is available to fund reserves in the future, and next year's insurance market will be different from now, so these options will be reevaluated at that time.

CARNELIAN WOODS

Secret Balloting Instructions

Ballot Enclosed
Please Follow Instructions Carefully and
Return Using the Double Envelope System Outlined Below

Only one ballot per unit owned will be counted. Use both envelopes supplied to return the ballot as instructed below. If you own more than one unit, return the ballots in separate envelopes.

1. Complete the ballot by marking the desired selection. Do not sign or put any identifying marks on the ballot.
2. Place your ballot into the GREEN SECRET BALLOT ENVELOPE and seal it. Do not sign or put any identifying marks on this envelope.
3. In the upper left corner of the WHITE STAMPED MAILING ENVELOPE, print your name, address and unit number, and sign your name. Your ballot will not be counted if this information is not completed in its entirety.
4. Place the GREEN SECRET BALLOT ENVELOPE into the WHITE STAMPED MAILING ENVELOPE you just marked and signed and seal the envelope. (Upon receipt, these two envelopes will be separated so that votes are de-identified.)
5. Mail or hand-deliver to the Inspector of Elections the WHITE STAMPED MAILING ENVELOPE containing the GREEN SECRET BALLOT ENVELOPE enclosing your ballot.

Mail to **Inspector of Elections, Post Office Box 68, Carnelian Bay, CA 9614** or
Hand deliver during office hours to **5101 North Lake Blvd., Carnelian Bay, CA 96140** and
place in the secure box located outside the office in the Lodge.

All ballots must be received by the Inspector of Elections no later than 8 a.m. on the day of the election, Monday, February 17, 2025, in order to be eligible to be counted.

PLEASE REMEMBER TO PUT YOUR IDENTIFYING INFORMATION ON THE OUTER ENVELOPE AND TO SIGN THE OUTER ENVELOPE.

We need YOUR vote to meet the quorum requirement. The ballots will be counted on Monday, February 17, 2025, and will be announced to the membership thereafter in accordance with the Election Rules and Procedures.

If you discover that you did not receive or have lost or misplaced your ballot, contact the office and a substitute ballot will be issued to you.



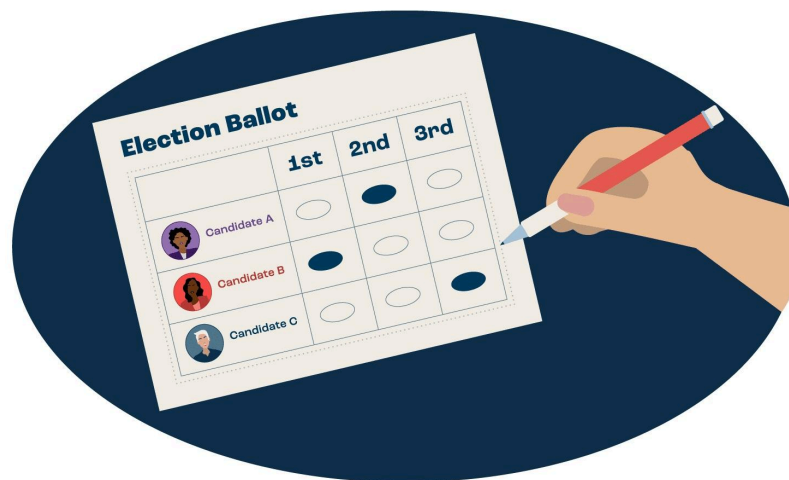
CARNELIAN WOODS

Owner Insurance Choice Secret Ballot

This ballot is to vote on two items:

- Selecting an insurance option and increasing the annual dues going forward to fund that option.
- Selecting an amount to increase the annual dues going forward to add monies to the reserves to provide cash to fund insurance shortfalls (deductibles and insurance limitations) and, if unused at a future time, to use for future planned reserve expenses (see reserve study on the web site).

Since there are several choices for each item, ranked-choice voting is used to provide an instant runoff election should the first round of tallying votes not determine the winner. The dollar amount effect depends on the winning choice. Payments will start with the April 2025 dues payment.



Ranked-choice vote counting proceeds as:

(adapted from [https://ballotpedia.org/Ranked-choice_voting_\(RCV\)](https://ballotpedia.org/Ranked-choice_voting_(RCV))):

1. Voters rank the ballot options by preference on their ballots.
2. If a ballot option wins a majority of first-preference votes (i.e., 50 percent plus one), then that option is declared the winner.
3. If no ballot option wins a majority of first-preference votes, the candidate with the fewest first-preference votes is eliminated.
4. All first-preference votes for the failed ballot option are discarded, and second-preference choices on these ballots are then counted as first-preference.
5. A new tally is conducted to determine whether any ballot option has won a majority of the ballots.
6. The process is repeated until a ballot option wins a majority of ballots received.



CARNELIAN WOODS

For any ballot option to pass, a quorum of at least 60 ballots (greater than 50% of 118 units) must be received and win the tally as described above. Not selecting a ranking for a ballot option is a no vote for that option at all tallies.

Ballots are due by 8:00 am, Monday, February 17, 2025.

There are two ballot items. Please fill in only one rank circle for each ballot option and only use that rank once. Ballots options incorrectly filled out will not be counted. Please rank all options to ensure an outcome.

Ballot For Item 1 of 2: Insurance Options

Increase the annual dues as needed to fund the winning insurance option. Dollar amounts below are quarterly estimates and actual costs will not be known until the insurance is underwritten.

Fill in at most one circle for each rank and each choice.

Ranked Choice:	1ST	2ND	3RD	4TH	5TH	6TH
California Fair Plan Only (est. \$101 per quarter)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
California Fair Plan + DIC (est. \$279 per quarter)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Full coverage + 5M Wildfire (est \$458 per quarter)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Full Coverage + 10M Wildfire (est \$734 per quarter)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
10M Coverage (est. \$1,450 per quarter)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
20M Layered Coverage (est. \$1,890 per quarter)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Return this completed ballot following the instructions and in the envelopes provided by 8:00 am February 17, 2025.

SEE BACK OF PAGE

Ballot For Item 2 of 2: Reserve Funding Options

Increase the annual dues as needed to fund the winning reserve funding option.

Fill in at most one circle for each rank and each choice.

Ranked Choice:	1ST	2ND	3RD	4TH	5TH
If either California Fair Plan option wins, fund reserves additionally:					
\$0 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$250 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$500 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$1000 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$1500 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If a non-California Fair Plan option wins, fund reserves additionally:					
\$0 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$250 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$500 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$1000 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
\$1500 per quarter	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Return this completed ballot following the instructions and in the envelopes provided by 8:00 am, February 17, 2025.