

Subject: Road Repair Update #3 & Notice of Special Assessment Number 2

Summary

Road and slope damage repairs due to Subtropical Storm Alberto (late May 2018) hit significant progress milestones in November / December. The two major work areas along Creston Drive are nearing completion and work was shifted to the Kestrel repair zone, where more detailed engineering and sub-contractor assessments have now been obtained. Unfortunately, the combined impacts of the final engineer-endorsed repair plan methods and significant work delays caused by many high precipitation events during the repair period have greatly increased the repair cost outlook.

At the Annual Meeting it was stated that the repairs for the three sites were expected to be in the \$600,000 to \$800,000 range. It was not based on an engineer evaluating the sites nor factoring in adverse conditions, both in terms of what was discovered as excavation began and considerable delays from continued inclement weather. Our July estimate was too hopeful and it turns out not to be realistic. And as you will see in the detailed description of each repair site, we continue to find surprises that have a significant impact on the total cost of the repairs.

We have applied for a bank loan of \$400,000. However, the Board has determined a second special assessment of \$3,400 per lot is necessary in order to qualify for the loan and ensure the solvency of the POA for the current fiscal year and position us to rebuild depleted reserves. The assessment is payable in two installments: the first payment of \$1,700 is due February 15, 2019, with the second payment due August 15, 2019. Owners have the option of making a single discounted payment of \$3,000 no later than February 15th.

Topic specific background, explanation and supporting details are provided below:

Recap of Contributing Events and Repair Progress

Work continues to repair the roads damaged on May 29th of last year when Subtropical Storm Alberto drenched already saturated slopes. There were more than fifty slides reported in McDowell County caused by Alberto including the three major slides we had in Creston. There are several other less significant slide areas Creston that are currently not being addressed (most notably at the front gate off Mount Hebron), but will part of a repair plan once the repairs to the three major slide areas are complete.

Within 31 hours of the partial collapse of Creston Drive, we had created a one lane passable road to enable owners above the slide area to reach their homes and provide access for emergency vehicles (sheriff, fire trucks and ambulances). Shortly thereafter, we were able to divert water flowing over Kestrel Lane at the slide area to minimize further damage.

The next major step was to secure the services of an engineer (John Garner of Garner Engineering) to design repair plans. The repairs being performed follow those plans, which were conditional based on findings during excavation of the three sites. As you will see in the following paragraphs, those plans evolved as our crew uncovered conditions worse than expected at the major slide on Creston Drive and particularly the Kestrel Lane slide site.

The weather continues to hamper our progress. In 2018 we had 110" of rain in Creston; more than twice the normal amount for our area. Persistent rain events in the following months have caused delays, significantly slowing our progress. These delays add to the cost since the heavy equipment used to make the repairs is rented on a monthly basis even though weather prevents our crew from working. The ice storms and major snow storm we have had this winter also significantly delayed the work of Duke Energy in relocating power cable.

The good and bad news

- The good news is that the repair at the swing on Creston Drive is nearly complete and in less time than expected.
- The equally good news is that most of the work at what we all calling the "Great Wall of Creston" (the slide area on Creston just above Tanager Lane) is about 90 percent complete and the work to complete the repair is now underway.
- The bad news is that a longer wall was required to stabilize the failed slope on Creston Drive at Tanager Lane.
- The other bad news is that when excavation began on the Kestrel Lane site, we found debris and material unsuitable for a road base under the pavement. Upon closer inspection of the existing culvert it was discovered that it had begun to "egg" (meaning that it is losing its structural integrity). This significantly alters the scope of this repair and will substantially add to its cost.

The bottom line is the projected cost is now at 1.45 million dollars for the repairs at all three sites. While we have applied for a \$400,000 bank loan as originally

planned, the Board has concluded that another special assessment is required to keep the POA solvent.

The following details what has been done, what remains to complete repairs at each site and our financial situation.

Creston Drive at Tanager Lane

What has been done?

In order for our engineer to develop a repair plan, core drillings were taken to determine the depth of the natural soil, and a drone survey was performed to map the topography of the area.

The repair plan called for lowering the road and installing a wall consisting primarily of Redi-Rock (think giant Lego building blocks). Redi-Rock with a geo-tech fabric grid provides a permanent repair with the greatest strength and stability. The Redi Rock wall is complemented by a smaller basket wall at one end of the Redi-Rock wall. The Redi-Rock materials are more expensive than the basket system but the labor costs are less for Redi-Rock. Installation of the wall was preceded by removal of a substantial amount of rock and soil to provide a solid level base. Photos of the wall as it was being constructed can be found in the album section on the Creston website (<https://www.creston-community.com/repairs>).

Where are we today?

The outer lane is complete and we have begun to lower the second travel lane to reestablish the two lane road. Completing the second travel lane was delayed pending Duke Energy shutting off power where the utility locator service indicated there was a power cable under the inside lane. As it turned out, Duke just informed us that there never was a power cable in that area.

Once the inner lane is graded and lowered, one more row of Redi-Rock will be added to ensure the road is properly pitched for water to run to a paved swale on the inside edge of the road rather than running over the edge of the wall.

When the repair is complete, the board will determine if a safety barrier will be needed and if so, what type of barrier is will be installed. The last step will then be to pave that section of Creston Drive. Due to the winter shutdown of asphalt plants, paving cannot occur until spring 2019.

Creston Drive Swing Area

Several previous slides had already resulted in the edge of the overlook sluffing off. The current slide not only compromised the area where the swing was located but also highlighted that further erosion would threaten houses located below.

What has been done?

Core drillings were done to determine the depth of the natural soil. All saturated, unsuitable fill dirt has been removed from the slide area: approximately 200 dump truck loads of debris were removed. A basket wall was built using clean, compactable dry fill dirt, layered with geo-tech fabric to provide strength and stability. We successfully located a good source of fill dirt at the bottom of Kalmia Lane in an area owned by the POA, which helped minimize cost.

Where are we today?

The engineering plan required construction of two basket walls. The upper basket wall is completed and the area is ready for landscaping.

The second, smaller basket wall will be installed at the base of the slide area to prevent further erosion and help protect the properties below the slide. This will be installed after the other repair on Creston Drive is complete.

Kestrel Lane

A large landslide that originated on the downhill side at the end of Warbler Lane buried the culvert at the “Hikers’ Rest Stop” on Kestrel Lane in twelve feet of mud and debris, including large trees. Water and debris continued to flow over the road, causing the outer shoulder to collapse and a small portion of the asphalt pavement to break off. The viewing platform at the Hiker’s Rest Stop overlook was destroyed with some of its remnants now located at the end of Ironwood Lane.

What has been done?

In the days immediately following Alberto, mud and debris was removed from the roadway and a small drain pipe was placed over the road to temporarily carry water flowing down the ravine to the opposite side of the Kestrel to prevent further damage to the road. In early June, all mud and debris was removed from the catch basin to open up the culvert and allow water flowing down the ravine to be carried through the culvert.

Repair work began in December with the construction of an access road to the bottom of the collapsed shoulder. The anticipated repair plan was based on using anchors to stabilize the embankment. Once the access road was complete and the downhill side of the slide area was opened up for visual assessment, our engineer was able to complete a more thorough assessment of the site and determined that the anchors would not work because unsuitable material had been used to create the road bed.

Where are we today?

We have discovered that when the current Kestrel road was originally built, the fill material used was unsuitable for a long-term stable road. We found logs, tree stumps, asphalt pavement from what appears to be an earlier road or road repair, and non-compactable clay that was used as fill. Further, a closer inspection of the existing culvert revealed compromised structural integrity as evidenced by observed "egging" and some joint discontinuity. This required abandoning the original repair plan. Our engineer now prescribes that all the unsuitable material must be removed and the drain pipe replaced. We will use a larger 36-inch double-walled HDPE culvert along the rock bed, and then rebuild the entire road bed using suitable, compactable material. Paving, not included in the original scope will be necessary because the plan involves removal of the existing asphalt pavement. *This change of plans has significantly increased the scope and cost for this repair area.*

Further complicating the repair on Kestrel is a power cable that has now been exposed as fill material under the road sluffed off. A Duke Energy engineer has evaluated the situation and developed a plan to maintain power to affected houses once the power cable is disconnected. He further advised that the first opening in the schedule to complete this work is a month out.

Creston Financial Situation

What is current projected cost of the repairs?

To date the repairs performed have cost a total of \$1,047,836 for labor, equipment rental and fuel, material, and other miscellaneous expenses. We have paid \$785,021, with a balance due of \$262,815. The table below provides the breakout of the cost to date for each repair site:

<u>Site</u>	<u>Labor</u>	Equipment/ <u>Fuel</u>	<u>Material</u>	<u>Misc</u>	<u>Total</u>
Creston at Tanager	\$165,858	\$247,909	\$147,476	\$21,271	\$582,514
Creston at Swing	129,959	191,661	25,454	1,275	348,349
Kestrel	<u>47,779</u>	<u>66,269</u>	<u>2,925</u>	<u>0</u>	<u>116,973</u>
Total	\$343,596	\$505,839	\$175,855	\$22,546	\$1,047,836

Adding in the amount required to fully complete work at the three major work sites increases the projected total cost to \$1,450,000.

What does this mean for the budget?

We completed a detailed analysis of the current budget and projected budget requirements for the term of the loan in order to assess our options. We factored a possible cost increase for service contracts, but remain frugal with other expenses. To maintain a reasonable balance in the reserve account, we need to secure the \$400,000 loan as previously planned, and impose a second special assessment of \$3,400 which will be discounted to \$3,000 for owners who elect to make a single lump sum payment rather than installment payments. The detailed analysis is displayed in the attached spreadsheet, which factors in the bank loan and the second special assessment.

In summary, we started the fiscal year (July 1, 2018) with a balance of \$635,600 in the operating and reserve accounts. This included the balance from the previous year, annual dues collected during July and the remaining payments from the 2013 special assessment. The October 2018 special assessment provides an additional \$504,400 for a total of \$1,140,000. We had over 90 owners opting for the lump sum payment with the remaining owners on the payment plan.

We have applied for a bank loan of \$400,000 which, if approved, would give us a total of \$1,540,000 in operating and reserve funds this year. But after taking into account our normal operating expenses, the projected cost of the road repairs, and the cost to service the loan this would leave a negative balance of just over \$56,100. The bank has indicated it will not approve the loan without sufficient funds to make the loan payments. And we cannot operate in the red.

What's next?

We have only one option: a second special assessment. The bank is aware of the recent projected cost increase at the Kestrel repair and has communicated back that we must provide documentation that we will be able to make the loan payments.

Special Assessment Number 2

The Board has voted in favor of a second a special assessment of \$3,400 per lot. The POA has 118 lots subject to special assessments. Similar to previous special assessments, the board will discount the assessment amount for those who elect to make a one-time lump sum payment of \$3,000. For those who prefer to make two periodic payments, each payment would be \$1,700, six months apart. If we have similar results with the number of lots owners who make a lump sum payment, this would result in an immediate cash infusion of \$276,000 from lump sum payments and an additional \$44,200 from owners on the payment plan. This would give us a projected balance of \$264,000 at the end of the year. That balance takes into account the loan payments, cost to complete the three repairs barring any other unforeseen changes to the scope of the repairs and provides us with a sufficient hedge against unplanned expenses.

While no one is happy about the significant cost increase for the repairs and facing another special assessment, we need to complete the repairs, ensure we qualify for the necessary loan, and keep the association on a firm financial footing. As you can see from the budget projections for the next four years, we will be able to maintain a reasonable cash balance should we have unplanned expenses beyond our normal operating costs.

Sincerely,

The Board of Directors