Committee Report and Recommendation

September, 2015
Recent Activity

- Committee defined three essential limits to any golf course solution
  - Will not enter into any arrangement which has an open-ended future financial commitment; i.e., joint ventures.
  - Will not enter into any arrangement which requires homeowners to become golf club members.
  - Will not enter into any arrangement which pushes ArrowCreek HOA assessments beyond $300 per month.
Committee agreed on our basic objectives

- To gain control over the land in order to protect home values, to enable fire fuels management and to prevent attempts to develop the land to the detriment of ArrowCreek homeowners.

- To establish a stable, long-term relationship with the golf operator (current and future) which would promote a viable golf club operation in order to avoid potential “brown” and “green” scenarios, if possible.

- To avoid being in the business of operating a golf club.
Recent Activity

• ACCC developed a purchase lease-back proposal which was vetted in a joint meeting with the HOA attorney and the HOA Board, and based on the objectives and limitations as previously described.
  – ACCC appointed a negotiating team (Rich Kenny, Sam Fox, Norm Reeder and Paul Burkett).
  – Initial proposal presented to the FOA on July 29.
  – Reached agreement in principle on August 22 and finalized term sheet on September 3.

• FOA reviewed this proposal with their shareholders on September 15 and their Managing Members approved. Final approval subject to a vote of their shareholders.
Proposed Agreement - Summary

- HOA will purchase all of the land under the 36 holes of the golf course, approximately 475 acres. FOA will retain the clubhouse (inclusive of parking lot and driveway), driving range, pump house, maintenance facility and a limited amount of land for future expansion of the clubhouse facilities.

- The cost of acquisition will be $3.3 million, or $3,039 per homeowner, or an estimated $33 per month in increased assessments and tax payments.

- HOA will lease back the property to the FOA for $20 thousand per year, with an initial term of 25 years and (3) 10 year options. Lease rate will step up based on CPI every 5 years. Current road usage charge ($15 thousand per year) is eliminated.

- Leased HOA land to be used as golf course only.
Key Protections

- If FOA intends to sell to a non-golf operator, HOA has right of first refusal to purchase the remaining property owned by the FOA. However, HOA must conduct a vote and make an offer within 90 days.

- If FOA proposes to downsize the course, they must demonstrate financial necessity and the downsizing will take place in a coordinated way.

- If the FOA sells to another golf operator, the lease is assumable and all provisions carry over to the new owner.

- If FOA files for bankruptcy, they must provide the HOA 60 days notice, during which time we can negotiate a purchase.

- Insurance coverage will be coordinated between HOA and FOA – mutual “hold harmless” agreement in place.
Financial Issues

- Homeowner cost estimated at $33 per month
  - $25 per month for payment of 15 year loan for purchase
  - $5 per month increased Reserve assessment
  - $3 per month increased Washoe County property tax allocated directly to homeowners

- Potential cost of downsizing the golf course
  - HOA will keep the unused portion of the course “dormant” for one year to provide time to determine next steps
  - Conservative cost estimate for 18 holes is in the range $48-$59 per month per homeowner

- Fire fuels management costs will increase
  - Will be adding 300+ acres of area to be mitigated/maintained
  - Spending increase dependent on Safety Committee and Budget Committee recommendation and Board vote
Suggested Sequence of Events

• The HOA Board votes to conduct a homeowner vote on the proposal and the associated activities of funding the purchase (loan) and related changes to the Association’s governing documents.

• Since the FOA Managing Members have already voted favorably, HOA and FOA sign a Letter of Intent within the next week.

• HOA conducts a series of town halls to provide information on the proposal, answer questions and provide a forum for dissenting opinions.

• Vote package distributed within 60 days.
The ACCC recommends that the HOA Board accept the proposed agreement between the HOA and Friends of ArrowCreek to purchase and lease-back the property under the golf courses at The Club at ArrowCreek, as described in the Term Sheet. The ACCC further recommends that this proposal be moved forward for a vote of all ArrowCreek homeowners within the next 60 days, subject to legal review.
Term Sheet Details

- The following pages lay out the proposed terms of the purchase and lease in detail.
Property to be Purchased

- HOA will purchase all land under the 36 hole golf course. FOA will break up parcel 152-021-03 (the parcel enclosed by ArrowCreek Parkway) to create two additional parcels to include the clubhouse (inclusive or parking lot and driveway), the driving ranges and maintenance buildings and a limited amount of land for future expansion of facilities. A parcel for the pump house will be created from parcel 152-443-22. These three new parcels will not be purchased by the HOA. HOA and FOA will equally split the cost of redefining the parcel(s) related to the sale of the property.
**Purchase Price**

- HOA will pay $3,300,000 for the property as described above. Parcels to be free and clear of any taxes or penalties and any outstanding Special Assessment District (SAD) charges to be paid off at or prior to settlement by the FOA.

- At purchase we estimate the outstanding SAD to be $500,000. The current outstanding taxes and penalties (from bankruptcy) are $1,200,000.
Lease Agreement

• HOA will lease the purchased property to the FOA.
• 25 year initial lease term with (3) 10 year renewals at lessee’s sole option.
• $20,000 per year, fixed rate for 5 years. The rate will be adjusted by the Reno-Sparks CPI for the previous year, and each 5 years thereafter. The road usage charge ($15,000 per year) will be eliminated.
• Lease will be assignable as long as the leased property continues to be operated as a golf course.
• Leased property operated as golf course only.
• Use is limited to members of The Club at ArrowCreek; no non-member access.
Improvements

- FOA may make any improvements on their owned parcels (for example, Clubhouse expansion, pools, tennis courts), conforming to County zoning requirements and building standards, without seeking the permission or approval of the HOA. The design of these improvements will be consistent with the current architecture of the Clubhouse and the general architecture of the ArrowCreek community.

- FOA is free to change the leased golf course(s) property (tees, fairways and greens) and alter the cart paths without HOA permission or approval, although cart paths should be built to the same standards as the current paths. FOA is solely responsible for the cost of any such changes. FOA cannot build structures other than restrooms or snack facilities unless the HOA's Architectural Design Review Committee reviews and approves. FOA is responsible for the construction cost and HOA will add the asset to its Reserves if appropriate.
Maintenance

• Excluding those items which will be added to the HOA Reserves (Reserve Assets), FOA is responsible for repairs, maintenance and replacement of any equipment and infrastructure on the leased property. For those items which are designated Reserve Assets, the HOA will accrue reserves and repair or replace those items as needed and in coordination with the FOA. FOA agrees to maintain these Reserve Assets with reasonable diligence, for example regular cleaning and servicing of restrooms. Reserve Assets include and are limited to cart paths, bridges, viaducts/tunnels, restrooms, major irrigation water supply lines and sewer lines.
Fire Fuels Management

- FOA and HOA will be responsible for fire fuels management on their owned property. This includes initial fire fuels mitigation and fire fuels maintenance.
- Cost to HOA is to be determined based on Safety Committee and Budget Committee recommendations and Board approval.
Shared Use of Storage Parcel

• Parcel 152-471-11 (commonly known as "the pit") will be jointly and cooperatively used by the FOA and the HOA for storage of material and equipment.
HOA Access to Leased Parcels

• HOA to have access for fire fuels management, drainage issues or other necessary maintenance. HOA will coordinate with FOA to minimize business impact.
Insurance Coverage

- FOA provides primary insurance coverage on leased premises and coordinates coverage with the HOA. FOA and HOA will mutually indemnify and hold harmless in the event of a law suit.
Sale of FOA Owned Parcels

- In the event of potential sale of the FOA-owned parcels to an entity who will no longer operate a golf club and course, the HOA has the option to match or better any legitimate offer and purchase the property. The FOA must notify the HOA within 10 days of any confirmation of an interested buyer of the business or property. Once the offer has been received the HOA will have 30 days to inform the FOA if they will ask the homeowners to approve a matching offer and, should the HOA decide to move forward with the vote, they will have 90 days from the date of the offer to conclude a vote and make a formal offer to the FOA.
In the event of financial necessity, FOA can downsize the course to 27 or 18 holes. "Financial necessity" must be demonstrated and parties will agree to the judgment of an independent auditor (details to be worked out). FOA will instruct HOA on the steps needed to take the course to a "dormant" state, and HOA will execute. FOA will continue to supply irrigation and HOA will pay their portion of the water cost and FOA pumping expense. HOA will keep property in a dormant state for one year, during which time the HOA will determine the future use of the property. If the HOA should decide that it will begin to modify the property or its maintenance such that it can no longer be used as a golf course, the HOA will notify the FOA 90 days prior to undertaking that action. HOA and FOA may then negotiate a new lease agreement if the FOA decides to resume expanded golf operations to 27 or 36 holes.
Downsizing the Golf Course (contd.)

- Financial necessity includes insufficient funds to provide working capital; pay tax assessments; payment of debt service (if any); provide a reserve for capital repairs and replacements; and a reasonable return on and of investment to equity shareholders. Reasonable return to be based on a similar investment in a golf operation. It will not require insolvency (reorganization or bankruptcy) to meet the standard of "financial necessity". In other words, the downsize may be necessary to achieve reasonable business practices that are fair to investors. Their capital should not be tied up in perpetuity if the business cannot support 36 holes.
Bankruptcy

• The FOA will notify the HOA 60 days prior to filing any bankruptcy. The HOA will have first right of refusal to purchase the assets of the FOA and will negotiate a purchase price for the FOA’s 3 newly created parcels and buildings.
Membership Cooperation

- HOA will instruct the HOA's management company to provide FOA club literature as part of the new Homeowner's package provide to each new homeowner prior to closing.
Access to The Club at ArrowCreek

• Non-Resident Members, Guests and tournament players of The Club at ArrowCreek shall have unrestricted access to the club and golf course as long as FOA is not in default (with 30 day cure period), and the FOA cooperates with ArrowCreek Security to insure effective access procedures.
This agreement will be subject to the ArrowCreek Homeowners approval of the purchase, funding and changes to the ArrowCreek HOA governing documents. As part of this agreement, the "road use fee" payment will be eliminated and corresponding to that, the FOA's voting rights will also be eliminated. Provisions in Article 7 of the CC&R's, related to the FOA's status as "non-residential owner" will also need to be discussed and revised.