

## **Dear Neighbors and Friends**

The following commentary and statements are being provided by the Chair of the ACCC to get the facts clearly stated. I believe it is the right of the Community to see the facts so that you can give them careful consideration regardless of your conclusion.

### **Why will the ACHOA lot owners be asked to consider the purchase of the 475 acres?**

The 2014 bankruptcy of the previous owners of the golf club showed how quickly circumstances can change and how limited the ACHOA is in its ability to respond if it does not own the land. Had the prior owner elected for Chapter 7 rather than Chapter 11 bankruptcy, the course would not have been watered and the grass would have died.

Multiple academic studies have concluded that a golf course/club in a community has a 5-15% benefit to property values owing to the several benefits of the green space. It is reasonable to conclude that the loss of the golf course/club would have negative and lasting effects of similar magnitude on property values. By owning the golf property and properly structuring a lease agreement, the ACHOA can insure that it will have the ability to react in the future to protect property values.

### **What will the ACHOA lot owners be acquiring if they approve the Ballot Propositions?**

The ACHOA Board proposes to purchase only the land under the two 18-hole golf courses. This is approximately 475 acres out of the 524 acres presently owned by the FOA. The FOA would retain the driving range, maintenance building, pump house, clubhouse/parking lot and a limited amount of space around the clubhouse for future expansion. The exact acreage will be determined once the land has been resurveyed and re-parceled.

The ACHOA Board and the ACHOA lot owners would have a say in how the land will be used into perpetuity. The ACHOA Board and ACHOA lot owners will have no say in the use and potential development of the land if not acquired.

### **Is the \$3,300,000 Purchase Price reasonable?**

The Friends of ArrowCreek, LLC, (FOA) purchased the ArrowCreek Golf Course previously owned by Aspen Sierra Leasing Company for cash payments and assumed debt (Washoe County Taxes and Water Liabilities) of \$1,972,398 as overseen per the

U.S. Bankruptcy Court Case No. 14-50087. The FOA also assumed the six (6) unpaid Special Assessment District Liabilities of \$761,129. The total FOA purchase price is estimated by the ACHOA at \$2,733,527 which does not include operating losses and capital expenditures which are estimated by the ACHOA to be in excess of \$1,500,000 putting total FOA costs in excess of \$4,000,000. The Ballot Proposition for acquisition of the 475 acres requires that all assumed debt and the Special Assessment District Liabilities will be completely paid off by the FOA at or before the closing. The ACHOA will not be assuming any back debt.

Undeveloped land purchases within Washoe County and Northern Nevada were investigated to determine low, median and high costs per acre. The Northern Nevada unimproved land sales over 100 acres in Washoe County in 2014 reflected an average price per acre of \$3,044. The range in the investigation was as low as \$65 per acre up to \$23,061 per acre.

The high mark was set by the recent sale of the Rancharrah Estate Property in south Reno to a developer for \$40,000,000 that included 140 acres of improved land, a McMansion, and Horse Stables. A reasonable estimate of the improvements on the property could be \$15,000,000, leaving the value of the buildable improved 130 acres of vacant land at \$25,000,000. The estimated price for this land would be \$192,307 per acre, substantially higher than the costs proposed for the 475 acres of improved land under the golf course at \$6,947 per acre.

In addition to the above information, recent golf course sales were researched. Local golf course purchases of Dayton Valley Golf Course for \$750,000 and assumed debt in May 2010, Sunridge Golf Course in Douglas County for \$1,000,000 and assumed debt in December 2012, the Genoa Golf Course Purchase for \$3,250,000 in January 2014, and the Lakeridge Golf Course Purchase for \$5,500,000 in December 2013 were considered. Also, a recent appraisal of the Washoe County Golf Course conducted by the County indicated the total value of the county 18-hole golf course property in an "as is condition" was valued at \$6,968,500.

Lastly, in a market economy, the only prices that matter are what the buyer and the seller agree to concerning the price and other terms. When each of the ACHOA members purchased their homes, it is likely that we paid more for them than the seller's costs and when any of us have sold a home, it is likely that we asked more for our property than it cost us. Therefore, we would not sell or buy our homes tied to its cost without improvements, and the same rules apply to the purchase of the 475 acres of land in this proposition.

Based upon the above, the \$3,300,000 for 475 acres of land under the golf course with no associated debt was viewed as a reasonable and supportable price to allow for a stable well-functioning golf course operation in the center of the ACHOA community. It was a price that the market economy could support and it would keep ongoing operational costs for the ACHOA members at a minimal threshold. This acquisition proposal would allow the ACHOA to take control of the 475 acres at the lowest foreseeable cost.

### **What it is the best estimate of the cost impacts for each lot owner?**

The total increase per homeowner is estimated to be approximately \$368 per year, or \$31 per month. Keep in mind that most of the increase is due to the loan to purchase the land which will be paid off in 15 years. For those who choose to pay an upfront Special Assessment of \$3,100, the monthly increase will be only \$5. Below are more specifics and a summary table:

1. Bank Loan for Land Purchase. The purchase price for the land is \$3.3 million but the loan will be \$3.4 million with closing costs, escrow fees and related legal fees. The land will be delivered to the ACHOA free and clear of back taxes, penalties and liens. This means that the FOA will pay off \$1.3 million in claims from the bankruptcy settlement and all Special Assessment District charges either at or prior to closing.

The ACHOA proposes to help members who elect to finance their onetime upfront Special Assessment of up to \$3,100 (inclusive of legal related fees, closing costs) to pay for their share of the land using a bank loan. Preliminary discussions with several banks indicate that this will likely be a 15-year commercial loan with an interest rate of 4.5% to 5.5%, with a 1% upfront fee.

Assuming that the total loan amount inclusive of closing costs is \$3.4 million (including the 1% upfront fee, legal related fees, and closing costs) and using the high rate of 5.5%, the annual cost to the 1,086 property owners would be approximately \$339,000, or \$312 per year per property owner, or \$26 per month per property owner.

2. Increase in Reserve Assessment. In addition to purchasing the land, the ACHOA will need to increase its Reserve funds for the bridges, viaducts, cart paths, restrooms, major irrigation supply lines and sewer lines on this land. The ACHOA will be responsible for major repairs and replacement

of these assets. The expected incremental impact of this will be a \$2 per month increase per lot owner in the Reserve assessment. All Reserve amounts increase over time because of inflation so the incremental amount related to the golf course assets would increase to \$2.95 by 2044 per the Standalone Independent Browning Reserve Study which looked at only the golf-related assets.

3. Property Tax on Golf Course Land Acquisition. If the lot owners approve the acquisition and the land is owned by the ACHOA, it will be converted to ACHOA Common Area. The current property tax becomes the responsibility of each ACHOA lot owners.

The total tax is pro-rated and billed to each ACHOA lot owner on his or her regular property tax bill. The current tax on the approximately 475 acres of golf course land is \$34,497, so each property owner’s share would be approximately \$32 per year, or less than \$3 per month. The highest cost is estimated to be \$36 per year.

The following table is a summary of the costs per lot owner that the ACCC foresees and should be considered by the lot owners in their evaluation of the business deal.

<b>Summary Table</b>	<b>Annual Cost</b>	<b>Annual Cost Per Lot Owner</b>	<b>Monthly Cost Per Lot Owner</b>
<b>Bank Loan of \$3.4 Mil. \$3.3 Mil Purchase Plus Closing Costs 15 Years @ 5.5% Interest</b>	<b>\$338,727</b>	<b>\$312</b>	<b>\$26</b>
<b>Reserve Assessment</b>	<b>\$26,064</b>	<b>\$24</b>	<b>\$2</b>
<b>Total ACHOA Assessment Increase</b>	<b>\$364,791</b>	<b>\$336</b>	<b>\$28</b>
<b>Property Tax Billed by County</b>	<b>\$34,497</b>	<b>\$32</b>	<b>\$3</b>

<b>Total Expected Increase</b>	<b>\$399,288</b>	<b>\$368</b>	<b>\$31</b>
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4. Dormancy Contingency. If financially necessary, the Lease Agreement provides the FOA with the opportunity to downsize the number of holes on the golf course. Should the FOA be able to satisfy these conditions (see below), then the FOA is obligated to keep the closed holes dormant (green, but not maintained for golf) at ACHOA expense until the ACHOA determines the future use of the closed portion. This cannot occur before 2017.

During a prolonged due diligence process that included discussions with the Board's legal counsel, Browning Reserve specialists, independent reserve specialist, and ACHOA accounting firm, the Board has recommended that a restricted account be set up on the ACHOA's balance sheet for this Contingency Reserve.

It was recommended that the funding be accomplished over time with an Administrative Operating Expense of \$40,000 in the 2016 Draft Budget and an Administrative Operating Expense of \$40,000 in the 2017 Budget. The 2016 \$40,000 Budget surplus will be restricted on the year-end Balance Sheet for this contingency. By year end 2017, the contingency will be fully funded at \$80,000 and it will be restricted for the contingency.

The terms of the long term lease will require that the land be used only as a golf course, ensuring that we can continue to enjoy the views and quality of life that this green space provides. The lease has specific terms that require the operator (FOA currently proposed) to accept all related liabilities for the operation of the golf courses.

The FOA will be free to modify the course for golf purposes (tees, fairways, greens, bunkers and cart paths) without the need for approval from the ACHOA. In addition, they may add restrooms and snack facilities without ACHOA permission. However, any other structures would be subject to ADRC review and must receive ACHOA approval. The land cannot be developed for housing nor any other non-golf purpose without ACHOA approval.

There are **three important situations** which could affect the lease and the use of the land:

1. The FOA sells their business to a non-golf entity. In this case, the lease on the golf course land is terminated and the use of the land reverts to the ACHOA. The non-golf entity will own the club house, driving range and other assets owned by the FOA. It will be up to the ACHOA Board and property owners at that time to determine the future use of the golf course land. The ACHOA will have the right to match or better the offer for the FOA's business if the ACHOA decides it wants to own the entire property for benefit of the ACHOA.
2. The FOA goes bankrupt. In this case, the FOA is required to give notice to the ACHOA 90 days prior to filing. The ACHOA will have right of first refusal to negotiate a purchase price for the FOA's remaining property should it so desire. The use of the golf course land will revert to the ACHOA. It will be up to the ACHOA Board and property owners at that time to determine the future use of the land.
3. The FOA requests to downsize the course for financial reasons. Any time after 2016, if the FOA can demonstrate to the ACHOA (with financials confirmed by independent audit) that it no longer has the financial capability to operate all 36 holes of golf, they may request to close 9 or up to 18 holes. The closed portion of golf course land would then revert to the ACHOA for its use.

As a temporary measure, while the ACHOA determines the future use of the land, the FOA will be required to continue to water and maintain the closed portion in a "dormant" state (green, but not manicured for golf). The FOA will bill the ACHOA for this service at a cost not to exceed \$1,482 per hole per month, with this cost subject to increase based on the CPI increases beginning in 2019. There is no minimum or maximum time limit on maintaining the "dormant" state; this is completely at the discretion of the ACHOA. Should the ACHOA determine that the land will no longer be used for golf, it will provide notice to FOA. FOA would then have 90 days to decide if it wants to resume golf operation and negotiate a new lease contract. The FOA could also request the ACHOA to re-commission the dormant holes, subject to the parties negotiating a new lease arrangement.

### **How much will the FOA pay the ACHOA in the lease?**

Currently the FOA pays approximately \$16 thousand per year in "road usage fees" as detailed in the CC&Rs, the equivalent of six lots worth of property owner assessments.

In addition, they have six votes on every property owner vote. As part of this proposal (see proposed CC&R changes in Tab # 11), the FOA would no longer have any voting rights, the road usage fees would be dropped, and the FOA would pay \$20,000 per year for the lease, subject to rate increases every 5 years based on the local CPI beginning in 2021.

### **What else is contained in the Real Property Purchase, Sale and Lease Back Agreement and Lease Agreement?**

The Real Property Purchase, Sale and Lease Back Agreement (“Purchase Agreement”) and the Lease Agreement have followed the Letter of Intent that was agreed to between the ACHOA and the FOA in late September 2015. Subsequent changes were made and approved at the ACHOA Board meeting on November 3, 2015. The terms of the Letter of Intent and subsequent revisions which have not been discussed above include:

1. Lease assignment. The lease may be assigned to another entity as long as that entity is a known, financially stable golf operator and will continue to operate the property as a golf course under all the terms of the lease.
2. Improvements to FOA-owned parcels. The FOA may make improvements to their parcels (clubhouse expansion, swimming pools, tennis courts, etc.) as long as the design of these improvements is consistent with the current architecture of the Clubhouse and the general architecture of the ArrowCreek community.
3. Fire fuels management. FOA and ACHOA will each be responsible for fire fuels management on their respectively owned property. This includes initial fire fuels mitigation and ongoing fire fuels maintenance.
4. Shared use of storage parcel. Parcel 152-471-11, located across ArrowCreek Parkway from the golf maintenance building, will be jointly and cooperatively used by the FOA and the ACHOA for storage of material and equipment. This parcel is currently used by the ACHOA to store materials and equipment but is owned by the FOA. The ACHOA does not currently pay for use of this land.
5. ACHOA access to leased land. ACHOA will have access for fire fuels management, drainage issues or other necessary maintenance. The ACHOA will coordinate with FOA to minimize business impact.

6. Insurance coverage. FOA provides primary insurance coverage on leased premises and coordinates coverage with the ACHOA. FOA and ACHOA will mutually indemnify and hold harmless in the event of a lawsuit.
7. Membership cooperation. ACHOA will instruct the ACHOA's management company to provide FOA club literature as part of the new Property owner's package provided to each new property owner prior to closing.
8. Community/The Club access. Non-Resident members, guests and tournament players will have unrestricted access to The Club at ArrowCreek and the golf course as long as the FOA is not in default (with a 30-day cure period), and the FOA cooperates with ArrowCreek Security to ensure effective access procedures. These security procedures are in place today.

Thank you for taking the time to read through the facts. I appreciate your interest and involvement regardless of your position.

Rich Kenny  
Chairman ACCC