

**Shelter Bay Community, Inc. & Shelter Bay Company
Questions & Answers on the Master Lease Rent Adjustment**

Arbitration		
1	<p>Q A</p>	<p>Can we appeal the value? Is arbitration binding? The Shelter Bay Board of Directors determined that there were no grounds on which to question the computation of the value by Judge Jordon, so did not request reconsideration. Further, the Board did not appeal the value to the B.I.A. for several reasons: 1) We felt it was doubtful that we would prevail as we think the value is likely in the ballpark, 2) We felt it was in the best interests of the Community not to drag this issue out for more months and years, 3) Because of the expense involved, the Board felt that it was not a prudent thing to do, and 4) We felt it was important to resolve the issue now so we could have an opportunity to discuss with the Tribe a lease extension.</p>
2	<p>Q A</p>	<p>According to the lease, we could have chosen a panel of three arbitrators, why did we only have one? Cost savings, Shelter Bay legal counsel recommended this approach and advised that Judge Jordan was a good, fair judge. A formal Lease Modification to allow the arbitration board to consist of only one person was approved on November 6, 2006. Note that this modification is restricted to this rental adjustment cycle only.</p>
3	<p>Q A</p>	<p>During negotiations the dollar value and the extension were closely coupled. How did the extension fall out from arbitration? The lease says we can only arbitrate land value.</p>
4	<p>Q A</p>	<p>Was this binding arbitration? Yes, however, the B.I.A. must review and approve the rent adjustment recommended by the Judge.</p>
5	<p>Q A</p>	<p>Can we open up arbitration again? No.</p>
6	<p>Q A</p>	<p>Why not contact B.I.A.? At this point, we have no reason to contact the B.I.A.</p>
7	<p>Q A</p>	<p>How much did we pay for the arbitration effort, and how was it paid for, or is there a cost unpaid? Since our purchase of the Company, the total legal and related professional fees for the arbitration are \$480,000. All fees have been paid, and came from Company revenues.</p>
8	<p>Q A</p>	<p>In 1993 we had a wonderful attorney for Shelter Bay, his name was Jim Johnson; he helped us appeal to the B.I.A. Did we use him again. Jim Johnson was Shelter Bay Community's attorney, who was engaged for assistance with Tribal Affairs, covering lease issues, building permit jurisdiction, and other land use issues. He was initially involved in the Community's purchase of the Shelter Bay Company, but then separated from the community in June 2004. We did not engage his services for these arbitration proceedings.</p>

Cash Reserves		
9	<p>Q A</p>	<p>On Slide #22, it says that using the cash from the marina and company will deplete the cash reserves. Explain what reserves. When Shelter Bay Company was purchased, it came to the Community with some cash reserves. Additionally, not all the rent paid by the sub lessees was used to make the annual rent payment to the Tribe. And, the marina has had excess profits since it has been owned. Part of these excess funds have been paid to the Tribe because we anticipated a rent increase and did not wish to pay 8% on everything. The remainder of these reserves is available to pay toward the July 1, 2008 rent payment.</p>

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Default		
10	Q	Is there a due date for the payment of the past-due rent on the master lease, which we are in default?
	A	We are not now in default. As explained in one of the slides, the Community representatives have requested a payment plan from the Tribe and we are waiting at this moment for a response. When this information is known, it will be made available to the members.
11	Q	What are all the ramifications of not paying?
	A	To the best of our ability, the ramifications of not paying, those issues we know and those issues we do not know, are listed on Town Meeting Presentation Slides 14 and 15.
12	Q	When can we “default” – people need to find out the specific risks to us?
	A	We would be in default if we do not make a rent payment when due. The risks as we know them and the risks that may be potential, but not known at this time, are found on Slides 14 & 15.

Eagles Nest		
13	Q	Will owners in Eagles Nest have to pay?
	A	Eagles Nest owners are associate members of the Shelter Bay Community, and did not participate financially in the purchase of Shelter Bay Company. They do not have subleases with the Company and will not be asked to pay for the Company's back rent liability. Eagles Nest owners pay the assessments as approved in the Shelter Bay Operating and Capital budgets, and may be assessed for future common area rent expenses.

Excess Rent		
14	Q	Is there any legal liability to collect from previous owners?
	A	No legal authority exists to assess non-members; we only have the ability to assess current members.
15	Q	What is Osberg’s liability for period July 1, 2003 to November, 2004?
	A	When Shelter Bay Community, Inc. purchased the stock of Shelter Bay Company, we purchased the Company assets and company liabilities.
16	Q	How can there be interest on money recently determined by the Judge to the due?
	A	The master leases spell out the terms for the rental rate adjustment and the amount of interest that is due from the rental rate adjustment date, which in this case is July 1, 2003 for one lease and July 1, 2004 for the second lease, called the master leases.
17	Q	Who determined and how was 10%/34%56% breakdown calculated, or arrived at? [Reference Slide #21].
	A	10% is approximately the marina area of the total leased lands; 34% is the difference between the total common areas and the marina area; 56% is the area of the subleased lots.
18	Q	Why didn’t the cap, the total of the sublease payments, cap the total rent to the amount of the total sublease payment apply in this case as it did in 1993?
	A	Judge Jordan was clear in his decision that it did not apply, and Shelter Bay legal counsel also advised us that it was a long shot in this arbitration. In 1993 it was not formally approved by the BIA. Peter Buck, Shelter Bay legal counsel, advised in 2004 that he didn’t think this premise would be upheld.

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19	<p>Q Why is back and future rent based on assessed value rather than prorated basis on subleased fee?</p> <p>A Using the assessed value as a means to prorate the excess rent to the subleases is fairer than using the current sublease fees, because the sublease fees are so skewed, ranging from \$183 to \$913, with properties right next to another at different rates. Using assessed values in the formula to compute the excess rent corrects this.</p>
20	<p>Q For the common areas, why is the Board not considering a proration of the rent for the common areas based on the value of the common areas compared to the rest of the area, rather than just a flat rate per lot?</p> <p>A There is no assessed valuation information for the common areas, so using the common areas as a percent of the total area was the best information we have at this time.</p>
21	<p>Q Is a new owner in Shelter Bay responsible for all the back rent?</p> <p>A Yes; Shelter Bay may only assess the owner of record at the time of the assessment. The prospect of a future owner having to pay back rent should have been negotiated with the seller at the time of purchase, and it was incumbent upon the seller to disclose the fact the rent adjustment for the period beginning July 1, 2003 was not settled.</p>
22	<p>Q Will there be a discount for paying all at once?</p> <p>A Similar as Shelter Bay did with the purchase of the Company, the Board is considering a discount for members who pay their assessment off up front rather than spread it out for the term.</p>
23	<p>Q Why wasn't back rent disclosed at time of sale to a new owner?</p> <p>A Disclosure is a matter between the buyer and seller. Shelter Bay Company nor Shelter Bay Community, Inc. participate in the negotiations between the buyer and seller. It is a matter of public information to members of the Community that the rent adjustment for the period beginning July 1, 2003 had not been settled and that on-going negotiations and/or arbitration was taking place.</p>
24	<p>Q How did you come up with the 10% for the Marina?</p> <p>A Using the physical area: 407,000 total acres, 41 acres of marina area (10%), 138 acres of open spaces (34%) and 228 acres of leased lots (56%).</p>
25	<p>Q Do you have details about the 5 year payback yet?</p> <p>A No. We are waiting to hear from the Tribe on specific terms.</p>
26	<p>Q What happens if the sub lessee decline to pay: a) back rent and interest, and b) future lease increases?</p> <p>A As a last resort, the Community can place a lien on a property and then thru legal action execute on the lien. And, the Company because it administers the transfer of sublease assignments, can collect monies owed at the time of sale. Our collection experience is almost 100%.</p>
27	<p>Q The Tribe does not want us to default either as they will get less money; are there negotiations taking place to find a more workable solution than \$6.2 million of back rent?</p> <p>A The Board made a decision to accept the \$19.4 million value, which results in current rent of \$1.3 million and back rent of \$6.2 million. We did not consider it in good faith to go to the Tribe and ask for terms while at the same time ask for a reduction in what is owed.</p>

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28	<p>Q Are you going to raise every lease fee now to reflect what we will be paying, which is 6 times the present amount?</p> <p>A The sublease fee now charged by the Company is fixed by your sub-lease. The excess rent that is due, back and future, which is not covered by the sub-lease fees, will need to come from an assessment charged by the Community. Even if everything is in places, including holding an election, the earliest that any excess rent could be charged to the members is July 1, 2008 because that is the next budget year. This assumes there's an agreement with the Tribe as to a back rent payment plan in time so we can have the ballot issues prepared for the May election. This window is very short; the Board will need to adopt the ballot issue or issues no later than March 19, 2008.</p>
29	<p>Q How and when can we learn our lease amount due for 7/1/08?</p> <p>A As soon as we know the answer. The annual sublease fee that you are normally charged by the Company will remain unchanged for 7/1/08. We hope to have the calculation of the supplemental annual lease fee going forward to July 1, 2009 included in the May election packet. We cannot develop the retroactive rent amount until we know the details of the terms from the Tribe.</p>
30	<p>Q If you charge less for those who just bought property, how will you distribute these costs to all equitably?</p> <p>A We cannot charge less; we cannot consider how long someone has owned their property. There are over 450 lots that changed hands at varying times since 2003. It would be unfair to other long term lot holders to try to assess them the back rent for lots that sold since 2003. The normal turnover in Shelter Bay is 10% of the lots per year.</p>
31	<p>Q If we all paid an equal amount to purchase the Company, how can you ask us to pay a variable amount for Company debts?</p> <p>A At the time we purchased the stock of Shelter Bay Company our By-Laws required that we assess all members equally. Since that time our By-Laws have been amended to require that we assess members equitably. See By-Laws Article IX Section 3, last sentence. "The Board will levy assessments equitably, based on the best interest of the community as a whole". (Also see #57)</p>

Extension		
32	<p>Q What is the potential for extending the lease?</p> <p>A There are no guarantees. There are substantial financial benefits to the Tribe for extending the lease beyond 2044. The Tribe indicated in correspondence that it would not discuss a lease extension until the rent adjustment was settled. In its June 8, 2006 letter, the Tribe states, "Until such time as the current Master Lease rental rate is corrected, however, the Tribe does not have an interest in pursuing further discussions of extension of the Master Lease." Now that we are correcting the rent under the new land value, we are hopeful the Tribe will discuss an extension in the near future.</p>	
33	<p>Q Does this value of \$19.4 include a lease extension?</p> <p>A No, it does not. This is just the value determined through arbitration. After the back rent issue is resolved, Shelter Bay will look to the Tribe to keep their commitment to consider discussion about a lease extension. If we do not pay the rent resulting from the arbitration we believe we will never get an extension.</p>	
34	<p>Q What is different now that makes us believe the Tribe might discuss an extension?</p> <p>A They said they wouldn't discuss and extension until the rent adjustment issue was settled. That is all we know at this time. Refer to Answer #32.</p>	

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35	<p>Q</p> <p>Reasons why we want the lease extended?</p> <p>A</p>	<p>1) It is a good business deal for the Tribe – would mean that property values would continue to increase and their income from Shelter Bay rent would therefore continue to increase, 2) The homeowners association would be able to continue to maintain the common areas and infrastructure which contribute to the increase in property value, and 3) Prospective owners will be to obtain 30-year loans so they can purchase properties.</p>
36	<p>A</p> <p>Q</p>	<p>Was Tribe amenable to discuss an extension?</p> <p>When Mike Morrell, Art Young, and Steff Steinhorst (Board Members) met with the Tribe on February 14th, they made a point of mentioning that Shelter Bay is interested in extension discussions. Art responds by stating that he thinks they will be agreeable now that fair market value rent has been set.</p>

Fee Simple		
37	<p>Q</p> <p>Will the fee simple people all be allowed to vote?</p> <p>A</p>	<p>Yes, each member in Shelter Bay Community, Inc. will have one vote.</p>
38	<p>Q</p> <p>What is Board's rationale for including the fee simple lots into the payment of rent on the common areas?</p> <p>A</p>	<p>The fee simple owners are members of Shelter Bay Community, Inc. SB Community, Inc. authorized by a vote of all members to purchase Shelter Bay Company in November 2004. Since that date, all members of the Community Inc. receive the benefits of the assets of the Company and are also responsible for the liabilities of the Company. One of the liabilities of the Company is the excess rent due to the Tribe beginning July 1, 2003. The income stream from the sub-lessees for their sublease payments will not cover the excess rent payment due to the Tribe. As a member of the holding company, SB Community, Inc., each member is therefore responsible for their fair share of the excess rent. In the case of the fee simple owners, only a portion of this excess rent, for the common areas, would be charged.</p>

Excess monies at time of Purchase of the Company		
39	<p>Q</p> <p>Is the past rent that was in excess to what was required to go to the Tribe held in Trust and is that available to now be paid to the Tribe?</p> <p>A</p>	<p>Some of the excess, difference between \$410,000 collected and \$210,000 owed to the Tribe has been paid to the Tribe in order to keep the 8% interest from accruing, but there is still some that has not been paid. This is some of the funds that the Company has available to make the July 1, 2008 payment of current rent for the period beginning July 1, 2008.</p>
40	<p>Q</p> <p>What happen to the \$358,000 that came from Osbergs, when we purchased the Company? Did it accrue interest?</p> <p>A</p>	<p>Funds totaling \$363,758 came with Shelter Bay Company and went into reserves and did accrue interest. Some of these funds have been paid to the Tribe in order to keep from having to pay as much interest on the back rent as we knew some increase would occur. The rest, plus reserves from the Marina, is proposed to be used to make up the cash needed to make the July 1, 2008 current rent payment.</p>

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Negotiations		
41	Q	In reading the chronology on the web site of the lease offers and counter offers, something doesn't match with what was said at the town meeting yesterday. Judy Colby said that Shelter Bay turned down the Tribe's offer and one reason was that the Tribe wanted the Marina. There is no mention in the Tribe's previous offer of wanting the Marina, please clarify.
	A	The recollection was that the Tribe said they wanted the Marina in 2044 and would make individual extensions from that date forward. The records have been checked and the chronology is correct.
42	Q	If the Marina is the showcase of the Community, how could the Board have offered up the Marina to the Tribe during negotiations?
	A	In reading the chronology carefully you'll see that the date that the Board was saying it would return the Marina to the Tribe, in exchange for an extension, was 2044. This is the date the Tribe was going to get it back anyway.
43	Q	What broke the original offer down?
	A	Soon after the Community purchased the Shelter Bay Company in November 2004 (which holds the two leases with the Tribe) negotiations commenced with the Tribe. None of the Tribes offers included a lease extension. It seemed that the Company and the Tribe could agree on the value but not an extension or giving up the marina to the Tribe. So, there was an impasse on points other than just the value of the land. A chronology of the offers has been posted on the Shelter Bay Community web site, www.shelterbay.net , and is also available in the business office for reference.
44	Q	For people new in the community, explain what was the correspondence classified (re: negotiations). Why wasn't the community ever told?
	A	Negotiations are a legal, confidential matter under law. The art of negotiating does not include allowing the opposing side to know what your position is prior to your making a response, that is why is confidential, because it is a negotiation. As stated previously, now that negotiations are no longer taking place, and the legal action is over (arbitration), the Board has prepared a complete chronology of the offers and counter offers in this matter and this information has been declassified.

2013 Rate Adjustment		
45	Q	Next lease rate adjustment is in 2013; where do we go from here?
	A	At the meeting with the Tribe held on February 14th, one of the points raised by Art Young, Mike Morrell, and Steff Steinhorst was that Shelter Bay would like to discuss some alternative basis for arriving at a rent adjustment for the 2013 and beyond period. The Tribe seemed to be interested in doing this.

Land Value		
46	Q	What does the value of unimproved land mean?
	A	According to the lease the value for purposes of establishing the 10 year rent adjustment is 7% of the unimproved land as it were in fee title and assuming that what is built could be built as of 7/1/2003. The "unimproved" land means the land without any development, but it comes, or is entitled, with the ability to obtain permits to build the development as it is now, with the density of homes, dredging for the marina, etc. This is an important factor, as in 2003, it would not have been possible to obtain dredging permits for the marina.

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47	<p>Q</p> <p>How did the Judge get the value of the land?</p> <p>A</p>	<p>The judge reviewed our appraisal and the tribe's appraisal in pre arbitration hearings; he listened while each side presented their appraisals. In the week-long arbitration hearings he listened to testimony and cross examinations of the appraisers and from expert witnesses on both sides defend or attack the other sides reasoning. He then spent several weeks reaching his decision on his opinion of the value. You can find his conclusions on the web site or at the office.</p>
48	<p>Q</p> <p>Why did value of land go from 3 million in 1993 to \$19.4 million in 2003?</p> <p>A</p>	<p>The 1993 value of 3 million was as a result of arbitration and then appeals to two levels of the B.I.A. The value of \$19.4 million was also as a result of arbitration. Land values in the Pacific Northwest have increased appreciably during that 10 year period.</p>
49	<p>Q</p> <p>If the Tribe's appraisal was \$26 million and Shelter Bay's was \$7.8 million – doesn't that seem like a big spread?</p> <p>A</p>	<p>These two appraisals were prepared by professional appraisers, each hired by a different client. They took different approaches to arriving at their opinion of value. The Judge studied the appraisals and used them to make his decision. The two appraisals are available in the office for member review.</p>
50	<p>Q</p> <p>What acreages went into the \$19.4 million?</p> <p>A</p>	<p>There are 407 acres of land covered by the leases. This acreage does not include the Division 1 fee simple acreage or the RV Storage lot.</p>
51	<p>Q</p> <p>There was an agreement according to one slide on the \$12 million on the land - what makes you think its now worth \$19.4 million?</p> <p>A</p>	<p>At the time the Tribe made the offer of \$12 million it also wanted the Marina and did not wish to discuss an extension. By the time Shelter Bay had determined that its members wanted to settle without an extension and we moved forward to accept the \$12 million, the Tribe had already hired their experts who were telling them that it was worth over \$20 million. So, the Tribe withdrew all prior offers. All the details of the offers back and forth are available in the office and on the Shelter Bay web site.</p>
52	<p>Q</p> <p>If the \$12 million was a value that was agreed upon, then doesn't it follow that you thought the marina's value is \$7 million?</p> <p>A</p>	<p>No. The Marina had nothing to do with the land value; it was just something the Tribe tried to obtain in negotiations. Our offer to give it to them said they would get it in 2044 not now. The Master Lease is up in 2044</p>
53	<p>Q</p> <p>How was the acreage appraisal determined?</p> <p>A</p>	<p>Each Master Lease includes an exhibit detailing the acreage covered by the respective leases, which totals 407 acres. The appraisal uses various methods for determining land value; the appraisal is available in the business office for member reference. The acreage was valued by appraisers one representing each side. They used several methods of appraisal of the land and presented their opinions to the Arbitrating Judge who used information from both to reach his conclusion.</p>
54	<p>Q</p> <p>What is the assessed value of the land by the Skagit Co. Assessor?</p> <p>A</p>	<p>For the subleased lots, the Assessor's value was around \$87 million in 2003. You have to then subtract the improvements to the land such as the private docks, roads, sewer system, water system, park and other community development to arrive at just the pure land value. This was what Judge Jordan did in his valuation using the information furnished during the arbitration proceedings.</p>

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55	Q	What will be the land value, if we give the Marina to the Tribe?
	A	Do not really understand question but the value of the marina would have to be appraised and negotiated with the tribe. Many factors are involved.

Other		
56	Q	Validity of the legal advice we have been getting?
	A	We chose the best attorneys available. The lead attorney was the same attorney who achieved a low value in 1993. Apparently the Tribe's lawyers and appraiser were more convincing.
57	Q	Asked for a definition of 'a fair share'?
	A	Fair' is defined as an equitable share for a member. This is what the Board will need to determine and the members will be asked to vote. The Board, at this time, thinks it would be fair to charge everyone equally for the land that is the common areas that we all enjoy or get value out of and to allocate the remainder by the Skagit County assessor's valuation of our sub-leased lots. The assessor is a neutral 3rd party who has no reason to be unfair about their appraisals. The Board's opinion could change if evidence is presented that convinces them that there is a more fair allocation method available. Our By-Laws require that we allocate assessments equitably.
58	Q	What was the \$1,800 for that we paid several years ago?
	A	In November, 2004, the Community purchased Shelter Bay Company from the Osbergs for \$2 million and the assessment of \$1,886 represented your portion of that purchase price.
59	Q	How is the lack of an extension going to affect future real estate sale?
	A	We think the answer is considerable but certainly can't quantify that to a percent. We'd have to ask some experts in the field.
60	Q	What is the average annual sublease fee now?
	A	Range is \$183 to \$913, and the average is \$472/lot.
61	Q	Can the current sublease fees be changed as they aren't equitable?
	A	We are stuck with the established sublease fees. They seem to be somewhat arbitrary as you can go down a street and every lot is \$426 and one in the middle is \$183. There may have been some marketing issues involved when Osbergs were selling the lots; we just don't know the answer to this. In order for these sublease fees to be changed, it would take an agreement by the B.I.A. and the sub-lessees.
62	Q	This is a very weighty decision to make. How is the decision going to be made. Are we going to be able to have small groups, subcommittees, to work on helping to find a solution?
	A	You may have all the subcommittees and small group meeting that it takes. We welcome all the input that you can give. Ultimately, the community will make the decision at the polls.
63	Q	Can we purchase the subleased land?
	A	No, the B.I.A. will no longer allow the sale of tribal lands because it makes a checker board of the reservations and makes it difficult to manage.
64	Q	How long may written comments and questions be submitted?
	A	A week or so.
65	Q	Is there a CPI increase for our subleased lot or will it be the same as 7/1/07?
	A	Your subleased lot rent is set by the terms of your sublease and can only be adjusted for the Seattle CPI every ten years. Being discussed here is the rent in excess of your sublease fee.
66	Q	Has Shelter Bay ever foreclosed on property?
	A	No, not to our knowledge.

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67	<p>Q If I were to take out a home loan and pay my portion outright, can I be assured that my parcel would be free and clear to sell without hindrance?</p> <p>A Yes. At the time of sale, the Title Company will contact us to determine if there are any outstanding balances owed, and at that time we will report that balances are paid in full.</p>
68	<p>Q What happened to the \$1,800 we paid for the Marina. It was sold to residents as a “free” investment or would be paid back by a reduction of lease/maintenance fees?</p> <p>A The \$1,886 was the payment members paid to purchase the Shelter Bay Company which includes the two leases and the Marina. It was paid to the former owner of the Company, the Osbergs. Because the rent adjustment is a Company issue, no monies have been spent out of the Company since the purchase to subsidize anything until the rent adjustment issue is settled, other than for arbitration expenses and month-to-month marina expenses. That is the reason there will be sufficient cash in the Company to make the July 1, 2008 rent payment.</p>
69	<p>Q What happens if Shelter Bay does not default and an individual leaseholder does default on the coming assessment?</p> <p>A The Board is discussing easing the burden as much as possible by: 1) providing monthly payment terms, and 2) providing hardship case terms. However, the final computation will need to include an allowance for doubtful accounts and an interest assumption for those who wish to pay on terms.</p>
70	<p>Q What about the money needed for Marina dredging?</p> <p>A The recommendation of the Board would leave about \$120,000 to \$150,000 of profit in the Marina annually, which could be reserved for future marina maintenance and dredging. How much and when dredging will occur will need to be prioritized.</p>