

Shelter Bay Community, Inc.

And

Shelter Bay Company

Town Meeting

10:00 am – Saturday, February 23, 2008

1:00 pm – Saturday, February 23, 2008

2:00 pm – Sunday, February 24, 2008

7:00 pm – Monday, February 25, 2008

Agenda

- I. Welcome and Introductions
- II. Purpose of Town Meeting
- III. How We Will Proceed
- IV. Presentation
- V. Comments, Questions & Answers

Purpose of Town Meeting

- Discuss the Rent Adjustment to the Master Leases
- Discuss Options
- Questions & Answers

How We Will Proceed

- Provide members with information about Leases and Options
- Record your questions; make list of Q&A for consistency
- Reporters may be present – be polite
- Use Microphone so all can hear your important comments/questions

Rent Adjustment to the Master Leases

Presentation

Master Lease

Some Historical Facts

- Two Master Leases, both expire in 2044
- Lease 5020 covers Division 2, 3, & 5
- Lease 5086 covers Division 4
- Rent to Tribe is determined as 7% of land value

Master Lease

Periodic Rent Adjustments

Master Rent adjusted every 10 yrs since 1993

- Current rent period is 2003 - 2013 for Lease 5020
- Current rent period is 2004 - 2014 for Lease 5086
- Rent is based on agreed value of unimproved land as if in fee title and as if developed the way it is now
- If parties can't agree on value, lease contract calls for arbitration

Master Lease

2003-2013 Rental Adjustment

The Goal:

Reach agreement on land value without costly arbitration, tied to an extension to Master Lease

Master Lease Ownership Overview

Ownership Period

Owner

1969 – Nov. 2004

Osbergs

Nov. 2004 - Present

Shelter Bay Community

Master Lease Rental Adjustment

- Numerous attempts to negotiate with Tribe since the 2004 purchase
 - Tribe and Company could agree on land value
 - Tribe would not discuss an extension to Master Lease
- Company would not accept Tribe's offer without an extension

Master Lease Rental Adjustment

- Without agreement, arbitration was next step
- Not a contentious arrangement
- Merely abiding by lease contract terms
- Arbitration proceedings started Nov 2006
- Arbitration hearings held Nov 2007

Master Lease Rental Adjustment

- Tribe's appraised value: \$26 million
- Shelter Bay's appraised value: \$7.8 million
- Arbitration Judge's decision made on January 23, 2008

\$19.4 million Land Value

- \$1,358,000 annual rent to Tribe
- Approx. \$6 million in Back Rent

Options and Ramifications

- Don't pay (Default)
- Pay Retroactive Back Rent and increased Annual Rent to Tribe

What if we Default?

What We Know

- Master Lease and potential for extension goes away
- Individual subleases will remain intact
- Sublessees will pay the fixed amount they are currently paying directly to Tribe
- Future sublease increases limited to Seattle CPI
- We lose control of marina operation
- Tribe will receive less rent revenue
- Not a Good Faith option

What if we Default?

What We Don't Know

- Subleases for community common areas are at risk and may not be recognized
- Without common areas, may nullify existence of Shelter Bay Homeowners Association
- May nullify Protective Covenants
- Puts community infrastructure and utilities at risk
- Reduces property values and re-sale potential

Why Pay?

- **Demonstrates Good Faith**
 - We agreed to arbitration
 - We want an extension in the future
- **We retain control of Marina**
 - Control of operation
 - Control over preferential rates to members
 - We set maintenance & improvement priorities
 - Marina is the centerpiece of the community
 - Marina adds considerable value to our properties

Why Pay?

- **We retain control of Lease Administration**
- **Homeowners Assoc. remains intact**
 - Manage and protect common areas
 - Enforce Protective Covenants
 - Operate on-site utilities
 - Continued use of amenities
 - Enhances property values

Why Pay?

- **New value of \$19.4 million is fair**
 - *Average* new annual lease fee equals about \$1,500 per lot
 - *Average* assessed lot value is \$157,000
 - Property tax for *Average* lot value of \$157,000 equals about \$1,500

How Do We Pay?

- Current and Future Rent
- Back Rent

Payment Options

Annual Rent due July 1, 2008

Annual rent of \$1,358,000:

- Company can pay the total amount for July 1, 2008
 - \$410,733 paid by sublessees according to their existing sublease agreements
 - \$947,267 paid by Company from rent and marina reserves
- Will essentially deplete Company cash reserves

Payment Options

Future Rent, July 1, 2009- June 30, 2013

Annual rent of \$1,358,000:

10% = \$138,500 Paid by Marina to cover its portion of common area acreage

34% = \$461,720 Paid by all members equally, both fee simple and sublessees, to cover costs of remaining common areas; approx \$500 per lot

56% = \$760,480 Paid by sublessees to cover subleased lot acreage

#1 Pay equally; approx. \$900 per lot; or

#2 Pay per Skagit Co. assessed lot value

Payment Options

Retroactive Back Rent + Interest

Back Rent + Interest approx. \$6,234,000

Note: This is a one-time liability

Payment Options

Retroactive Back Rent + Interest

Back Rent + Interest approx. \$6,234,000:

Company/Marina's July 1, 2008 payment considered as fulfillment of all its portion of back rent

44% = \$2,742,960 Paid by all members equally, both fee simple and sublessees, to cover common plus marina acreage; approx. \$3,000 per lot

56% = \$3,491,040 (56%) Paid by sublessees to cover subleased lot acreage:

#1 Pay equally; approx. \$4,000 per lot, or

#2 Pay per Skagit Co. assessed lot value

Payment Options

Retroactive Back Rent + Interest

Where Do We Go From Here?

- 3 Board members met with Tribe on Feb. 14, 2008 to discuss:
 - Timing of this payment
 - Use of an index to set future increases
 - Desire to have future talks on lease extension
- Shelter Bay expressed that we need 5 years or more at favorable interest rate
- Tribe considering to allow this payment over time

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**Supplemental and Back Rent
Assessment Requires
Member Vote**

Member Comments and Questions

- Members only
- Use Microphone
- State Name and Lot Number
- Will record Q&A and write up summary for members' reference
- Rent adjustment information and announcements will be posted on Shelter Bay website: www.shelterbay.net

Please take time to offer
comments and suggestions in
writing. Place them in box at
the door.

Thank you for attending.