ARROWCREEK

ArrowCreek Community Club Committee

# Recommendations for Dealing with the Aspen Sierra Bankruptcy

# Confidential Information

- Portions of this presentation are covered by a non-disclosure agreement between ArrowCreek Home Owners Association and Arnold Palmer Golf.
- Homeowners are free to discuss this information among themselves, but you are prohibited from discussing this information with anyone other than an ArrowCreek HOA member.

# Cast of Characters

- **Aspen Sierra** is the company that owns the ArrowCreek Country Club. The club is managed by Golden Gate Golf. Both companies have the same owner.
- **Friends of ArrowCreek** is a group of current residents and other interested parties who have made a bid to purchase the Country Club.
- The **Unsecured Creditors Committee** is a group which represents unsecured creditors in the bankruptcy of Aspen Sierra.
- **Arnold Palmer Golf** is a nationwide golf management company interested in partnering with the HOA to run the Country Club.
- The **ACCC Committee** is a HOA committee that works in the best interest of homeowners with regards to our relationship with the Country Club.

# Summary of Key Events

- January 2014 – Washoe County notices intent to foreclose on Aspen Sierra for back taxes and water bills in excess of $1.1 million. Aspen Sierra files for Chapter 11 bankruptcy.
- February 2014 – ACCC Committee begins meeting on possible response and has initial meetings with Arnold Palmer Golf (APG). Unsecured Creditors Committee (UCC) is formed.
- April 2014 – ACCC Committee and APG begin serious discussions about JV structure, financial projections.
- May 2014 – Aspen Sierra files reorganization plan indicating that the current owner would like to continue in partnership with a new financing group.
- July 2014 – Friends of ArrowCreek (FOA) notices the court of its intent to enter a competing bid for the Club. Golf member contracts are dismissed by the Bankruptcy Court.

# Summary of Key Events

- August 2014
  - Court accepts and approves a joint reorganization plan from Aspen Sierra and FOA.
  - Ballots are sent to creditors. They are asked to either accept or reject the Plan and to select their preference for the winning bidder. This is a bankruptcy case vote, not an HOA vote.
  - The UCC sends a letter to all unsecured creditors advising them to Accept the Plan and to indicate preference for the FOA.
- September 24, 2014
  - Court will hear the outcome of creditors' voting.
  - Court will review the bids from Aspen Sierra and FOA. Both parties have opportunity to submit improved bids up to the time of the hearing.
  - Court will decide which party gets the Club.

# Committee’s Purpose

*In matters related to the Golf Club …*

- Protect the interests of all homeowners, particularly property values.
- Improve the working relationship between the HOA and the Golf Club to our mutual benefit.
- Find synergies between HOA and Golf Club which foster a greater sense of Community within ArrowCreek and which lead to the Golf Club becoming a Community Club.

# Bankruptcy Highlights Significant Risks

- Threat to property values in the range of 10-28%
  - Committee identified 3 academic studies showing that a golf course enhances property values by 10-28% within ¼ mile of the course
  - Committee gathered comparative data from the D'Andrea course closing. From the time their course closed D'Andrea properties have gained only 5% value, while ArrowCreek has gained 21% - a 16 percentage point advantage.
- Potential change in use
  - Property is zoned for recreational/resort use, leaving open the possibility of substantially greater non-resident traffic
  - Zoning can be changed, although changes to create more residential housing unlikely. Still, this is not a process that we can control.

# Bankruptcy Highlights Significant Risks

- Instability of the Golf Course business in Golf Communities
  - The course has never made money, and that same story is seen in many Golf Communities
  - Continuing to have the Club run by poorly funded and unqualified management will only lead to this same discussion at a future date.
  - Success stories are driven by strong partnerships between professional golf management companies and HOA's who seek to make the Club a community center.

# Examining Alternatives

- Committee identified three potential alternatives for further analysis
  - "Let it go brown", meaning let the property revert to its natural, high desert state.
  - "Keep it green", meaning maintain the property as a park for use by the residents.
  - "Operate as golf course", meaning to find an appropriate arrangement so the Club would continue to operate on a stable, viable basis.
- "Do nothing" was discussed but dismissed due to lack of control over land use and threat posed by unmitigated fire risk.

# Let It Go Brown

- Under the assumption that the Golf Club went to Chapter 7 and no buyer came forward, the HOA would “purchase” the course by assuming the current debts to Washoe County ($1.4 million) in order to control the future use of the property.
- The course would be permitted to brown out (if not already), all buildings except the club house would be razed, cart paths would be maintained for walking/biking purposes.
  - Club house would be kept because if its significant value to a potential future golf course operator.
- For fire control purposes we would minimally maintain the irrigation system. In addition, we would extend the HOA’s fire fuels management program to include the non-irrigated sections of the golf course.

# Let It Go Brown

- Advantages
  - Absolute control over use of the property.
  - Potential alternative use of the club house.
  - Possible future sale for use as golf course (far less likely after 2-3 years).
- Disadvantages
  - Predictable and permanent decline in homeowner property values.
  - Expense related to mitigating fire risk.
  - Proliferation of wildlife.
- Cost per homeowner
  - $73 average per homeowner per month – years 1-5 (back taxes and SAD)
  - $42 average per homeowner per month – years 6-10
  - 10-28% decline in individual home values

# About the Cost per Homeowner

The cost per homeowner contains these significant components:

- The purchase price would be negligible, but the HOA would need to assume the debts to the County of $1.4 million, to be paid over 5 years, and the water Special Assessment District payments of $254K through 2017.
- Fire fuels management program, will cost $440 K spread over 5 years (400 acres @ $1,100 per acre) for initial mitigation and $80 K per year thereafter for maintenance for all 550 acres.
- Maintenance and periodic testing of the irrigation system for emergency fire control - $55 K annually.
- Maintenance, utilities and minimal staffing for the club house - $180 K annually.
- Reserve fund for buildings and equipment - $130 K annually.

# Keep It Green

- Under the assumption that the Golf Club went to Chapter 7 and no buyer came forward, the HOA would "purchase" the course by assuming the current debts to Washoe County ($1.4 million) to control the future use of the property.
- The golf course would continue to be irrigated but not in the manicured state needed to play golf. Over time portions of the course would be re-landscaped to reduce water usage.
- All buildings except the club house would be razed and the cart paths would be maintained for walking and biking.
- For fire control purposes we would extend the HOA's fire fuels management program to include the non-irrigated sections of the golf course.

# Keep It Green

- Advantages
  - Absolute control over use of the property
  - Potential alternative use of the club house
  - Possible future sale for renewed use as golf course
  - Less impact on property values – studies indicate around 5%
  - Pleasant environment for homeowners
- Disadvantages
  - Almost as much cost as a golf course operation without the associated revenue
  - Still some affect on property values
- Cost per homeowner
  - $135 average per homeowner per month – years 1-5 (back taxes and SAD)
  - $113 average per homeowner per month – years 6-10

# About the Cost per Homeowner

The cost per homeowner contains these significant components:

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- Fire fuels management program, will cost $440 K spread over 10 years (400 acres @ $1,100 per acre) for initial mitigation and $60 K per year thereafter for maintenance.
- Maintenance and irrigation of the park green space- $825 K annually.
- Maintenance, utilities and minimal staffing for the club house - $180 K annually.
- Reserve fund for buildings and equipment - $130 K annually.

# Operate as Community Club

- Committee members contacted 7 different golf management companies to establish their interest in acquiring and managing the Golf Club.
  - The current trend of reduced golf play is not in our favor.
  - No company was interested in acquiring a club with a history of losing money.
- Arnold Palmer Golf was willing to discuss alternatives.
  - Executives were previously involved in Club Corp negotiations for ArrowCreek Country Club; familiar with property.
  - Has worked successfully with other Golf Communities to turn around their Club operations.
  - Broad and experienced golf management company; owns 55 courses and manages an additional 20 courses. In the process of taking over American Golf, which operates approximately 100 courses.

# Joint Venture Proposal

***The Arnold Palmer proposition:***

- The HOA would acquire the Golf Club.
- The HOA and Arnold Palmer Golf (APG) would form a joint venture to operate the golf course and the Residents' Center as a Community Club. HOA provides the asset and APG provides all management services (purchasing, accounting, HR, sales, agronomy, etc.).
- While golf would continue to be a core offer, there would be a shift in focus towards community involvement and family activities.
  - All ArrowCreek residents as social members of the Club.
  - Monthly community events.
  - Professional management and programming of the Club and the Residents' Center.
  - Residents Center and Club House as a hub for community activities
  - Club House upgrades to bring the quality of the operation to an acceptable level

# Joint Venture Proposal

- HOA and APG will split operating profits. HOA can use their share to reduce homeowner assessments or to fund improvements such as expansion of exercise facilities. This is projected to reach more than $250 K per year by year five.
- APG will charge a management fee of $150,000 per year, waived for the first two years.

# Alternative Structure

- Same as previous, except that no JV is formed and HOA employs APG or similar to manage the course
  - APG will require a similar management fee, including a percentage of profits, for this arrangement, so financial returns are the same.  Likely same for other companies.
  - HOA has direct exposure to 100% of losses.
- Committee recommends to avoid this structure
  - JV structure permits potential capital calls on both partners to fund losses.

# Operate as Community Club

- Advantages
  - Absolute control over the use of the property.
  - Most likely proposition to lead to stable and viable continued operation.
  - No negative impact on property values with some possible upside due to enhanced community services.
  - Significant added benefits for all homeowners such as access to restaurant and bar, monthly events, professional management, special interest groups and community orientation.
  - Improved growth potential due to superior value proposition, well-known management.

# Operate as Community Club

- Disadvantages
  - Homeowners as social members are helping to subsidize the cost of operations.
  - The Club will still need to solicit outside play, weddings and tournaments to build revenue until sufficient revenue comes from memberships.
  - Non-resident Golf members will have access to the AC Residents' Center if they pay the appropriate fees. At peak we project not more 200 non-resident members of which only a portion will elect to use the pools and tennis courts.
  - Still some possibility of failure.
- Costs
  - $99 per homeowner per month – years 1-3 (fuels management plus SAD)
  - $77 per homeowner per month – years 4 (initial profitability)
  - $60 average per homeowner per month – years 6-10

# Alternative Financing

- By paying the SAD upfront through financing as part of our initial loan we can reduce the impact of the initial payments
  - $84 per homeowner per month – years 1-3
  - $81 average per homeowner per month – years 4-5
  - $64 average per homeowner per month – years 6-10
- Not recommended due to the larger long-term outlay in a 30 year loan.

# About the Cost per Homeowner

The cost per homeowner contains these significant components:

- The purchase price, which is estimated at $1.2 million, and outstanding back taxes and water bills of $871 K, have been assumed to be paid up front using a 30 year mortgage.
- Water Special Assessment District payments of $254 K in years 1-3.
- Fire fuels management program will cost $440 K spread over 10 years (400 acres @ $1,100 per acre) for initial mitigation and $60 K per year thereafter for maintenance.
- Transfer Residents' Center expenses to the JV – ($203) K annually.
- Homeowner Social Dues of $80 per month, years 1-5 – subject to adjustment in year 6.
- JV shows profit in year 4 – average of $270 K returned to the HOA in years 6-10.

# Recommendation

**Summary - Cost Per Homeowner per Month**

| $(000) | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|---|---|---|---|
| Let the Course go Brown | 85 | 79 | 80 | 61 | 63 | 39 | 40 | 42 | 43 | 45 |
| Keep it Green | 143 | 138 | 141 | 124 | 127 | 106 | 109 | 113 | 116 | 120 |
| Operate as Community Club | 99 | 99 | 99 | 77 | 61 | 60 | 60 | 59 | 59 | 59 |

- **Proceed with the "Operate as Community Club" alternative**
  - Protects property values
  - Creates a center for our community
  - Much better cost/benefit value than the other alternatives

# Issues

- HOA cannot proceed without a homeowner vote
  - Acquisition of property and formation of a for-profit joint venture are not authorized by our current CC&R's.
  - Revised CC&R's are being prepared, including a number of other needed revisions.
  - Time will be needed to preview this with all homeowners. Recommend a series of Town Hall meetings (perhaps as many as 20) in order to include all neighborhoods. This will take 2-3 months.
- In the meantime, the Chapter 11 bankruptcy process continues
  - Current owner has submitted a re-organization plan with decision tentatively scheduled for September 24th.
  - HOA is not in a position to submit an alternative plan within that timeframe because we have no authority under our CC&R's.

# Friends of ArrowCreek

- **We are fortunate that a number of our residents are willing to step in and submit an offer to purchase the Club**
  - They would operate the Club until the HOA has voted to approve purchase.
  - They take considerable risk that the homeowners will not vote to approve our recommendation. The Club cannot continue to operate for any extended period of time without HOA support.
  - The HOA, upon purchase, would assume the debts of the Club from the FOA, make them whole for any losses and pay them interest on their cash-out purchase price. These numbers have already been factored into our financial projections.

# Next Steps

- HOA Board votes to approve our recommendation.
- Committee continues to work with APG to finalize legal agreements, open deal points.
- Committee works with APG to create content for our Town Hall meetings.
- FOA <u>successfully</u> acquires Club out of Chapter 11 on September 24, 2014.
- Town Hall meetings conducted (September-November?).
- Positive homeowner vote - year-end 2014.

# Appendix

# Property Value Studies

Augmenting Housing Sales Data to Improve Hedonic Estimates of Golf Course Frontage, Steven D. Shultz and Nicholas J. Schmitz, University of Nebraska, January, 2009

- "Private non-equity courses had the greatest impact on adjacent housing prices (28%), followed by public courses (15%), municipal courses (9%), and private-equity courses (5%).

Does Proximity to a Golf Course Matter, Kwame Owusu-Edusei and Molly Espey, Clemson University, January, 2003.

- "Results also show that houses abutting golf course generally sell for 27 percent more than those beyond 1100 feet. Houses between 300 and 1100 are 15 percent more in value than those beyond 1100 feet." "For … attractive medium size parks, there was a positive impact on houses within 200 feet but no significant impact between 200 and 1500 feet. Houses within 200 feet are 23 percent more in value."

# Property Value Studies

The impact of open spaces on property values in Portland, Oregon, B. Bolitzer and N. R. Netusil, Journal of Environmental Management, 2000.

- "Open space size is statistically significant in both models. Using the mean size of public parks (20 acres) and golf courses (116 acres) in the sample, the effect of being near a 20 acre public park is estimated to equal US$2780 in the linear and US$1360 in the semi-log model. The effect on the sale price of a home located with 1500 feet of a 116 acre golf course is estimated to equal US$6408 in the linear and US$6926 in the semi-log model." (The median home value in this study was $66,000)

# D'Andrea vs. ArrowCreek Values

- We compared the average sale price per sq. ft. during the one year prior and 2 years after the D'Andrea golf course closing for both D'Andrea homes and ArrowCreek Homes.
- While both communities showed increased values, ArrowCreek values increased by 16-18 percentage points more than D'Andrea between the two periods.
- During that same timeframe, home value increases favored less expensive homes, which should have worked in D'Andrea's favor, but clearly did not.

| Sales excluding Short Sales and REO | # Sales | Avg $ per sq ft |
|---|---|---|
| | | |
| D'Andrea pre-closing | 14 | $118 |
| D'Andrea post-closing | 71 | $124 |
| **D'Andrea change in home value** | | **5.10%** |
| | | |
| ArrowCreek pre-closing | 19 | $153 |
| ArrowCreek post-closing | 96 | $185 |
| **ArrowCreek change in home value** | | **20.90%** |
| | | |
| **Difference between D'Andrea and AC** | | **15.80%** |

| Sales including Short Sales, excluding REO | # Sales | Avg $ per sq ft |
|---|---|---|
| | | |
| D'Andrea pre-closing | 21 | $111 |
| D'Andrea post-closing | 111 | $115 |
| **D'Andrea change in home value** | | **3.60%** |
| | | |
| ArrowCreek pre-closing | 32 | $146 |
| ArrowCreek post-closing | 119 | $178 |
| **ArrowCreek change in home value** | | **21.90%** |
| | | |
| **Difference between D'Andrea and AC** | | **18.30%** |