

**Special Information Meeting of the Salt Pond
Homeowners Association
Saturday July 14, 2007 at 10:00 AM**

Location: Ocean City Recreation & Park, Northside Park
200 – 125th Street, Ocean City, MD

Agenda Topic:

Discussion of option to purchase the Salt Pond Golf course by Salt Pond Associates.

Salt Pond lawyer and financial consultant will attend.

SPHA Annual Report of For June 3, 2007 SPHA Annual Meeting

Note: This year's SPHA annual report is focused primarily on issues of great importance to the Board and the SPHA homeowners: the recently-completed transfer of common areas to SPHA and the option to purchase the golf course. Reports of the Treasurer and Ponds & Wetlands Committee are also included. Reports of other SPHA Committees will be provided via upcoming newsletters and in postings on the SPHA website.

SPHA Report

Your SPHA Board has four main types of responsibilities:

- oversight over daily operations and upkeep of the common areas, facilities, and grounds;
- maintaining the financial records, along with preparation, approval and monitoring an annual budget and long-term financial projections for the association;
- making policies and amending rules and regulations governing the common areas and recreational facilities; and
- planning for the future of our Salt Pond community. In the past, this has involved negotiations with the developer, Salt Pond Associates (SPA) on issues related to the transition. For the rest of 2007, a main job of the SPHA Board will be to disseminate information to owners on the option to purchase the golf course and to help owners to decide whether the community will approve the purchase offer.

Each of the above areas is discussed below.

Oversight. Working closely with Legum & Norman (L&N), the association's property manager, the Board's oversees management, maintenance, and repair of the Salt Pond Community Center, indoor and outdoor recreational facilities, landscaping of common areas and roadways in the community. In this capacity, the Board solicits, reviews, and approves maintenance and repair contracts for the community center, pools, tennis courts, cleaning, heating/cooling systems, landscaping, street light maintenance, and roadways. The Board reviews recommendations made by the various Committees and individual homeowners, and works with Committees to implement approved projects, monitor necessary maintenance and repairs, and make improvements throughout the community. The Board also arranges for many of the smaller tasks (e.g., touch-up painting, small carpentry jobs, power washing) to be done by a handyman, thereby saving money and getting the work done faster.

Finances. In August of 2006, the SPHA Board initiated the 2007 budgeting process. This was a very thorough process, which involved every Committee and Board Member. Committees provided estimates for the upcoming year's expenses and the Board determined priorities, proposed funding for routine and special projects, and approved the

budget for the calendar year beginning in January 2007. Every year, the Board monitors the financial condition of the SPHA closely against the budget, based on monthly reports provided by L& N's accounting department. The Treasurer and L & N compare year-to-date income and expenses with the approved current year budget, make year-end projections, and prepare a draft budget for the next calendar year for Board review and approval. Before year-end, L & N mails out the budget approved by the Board and announces the amount of annual dues for the year. For 2007, the Board approved an increase in annual dues to \$847 for single-family homes and \$423.50 for undeveloped lots. This increase of 10 % was necessary to maintain the appearance and amenities of the Salt Pond, begin to care for the ponds and wetlands, and keep pace with rising prices due to inflation. As the 2007 summer approaches, this budget process will start for 2008.

During the same time period, the Board develops projections of longer-term revenue and expenses and updates its plan for longer-term capital improvements. In 2005, the Board hired an engineering firm to assess the condition of the community center and recreational facilities, and in early 2006, the Board authorized an evaluation of the Salt Pond roadways in order to get a better understanding of long-term expenses in these areas. In the three calendar years since the initial and resale capital assessments was instituted (\$500 levied when Salt Pond property is sold), SPHA has accumulated \$46,500 (93 sales/resales) and these monies are deposited in a separate capital fund for future capital improvements. If sales continue at about the same rate, the Board projects that these assessments will add up to approximately \$ 100,000 in six years. These monies will be used to finance capital improvements for roads, pools, etc., for the Salt Pond. In June 2007, a comprehensive Reserve Study was initiated to determine expenditures and capital requirements over the next 15 years.

Materials have also been prepared by the Board Treasurer that provide:

- a comparative income and expense statement for 2006 actuals, as well as the approved SPHA budgets for 2006 and 2007; and
- a balance sheet, as of December 31, 2006.

These statements are not included in this annual report but will be provided as a separate handout at the June 2, 2007 annual meeting.

L & N's monthly financial statements are available for owners' review at the L&N's Bethany office. An audit report for 2006 will be available by mid June 2007. Please call ahead to L&N to arrange a convenient time to view these documents.

Policies, rules, and regulations. Declarations of Covenants and Bylaws provide rules and regulations that govern planned communities, like the Salt Pond. The Salt Pond Covenants cover the common areas, recreational facilities, membership and voting rights, architectural control, use covenants and restrictions, and enforcement of covenant provisions. The Bylaws of SPHA cover powers and duties of the Board, annual and special meetings, membership and voting rights, and other procedural and organizational matters related to SPHA. Both documents also provide the Board with authority to make, amend, apply and/or interpret rules and regulations governing the use of and activity

upon the common areas and recreational amenities. All those buying in the Salt Pond agree to abide by the Salt Pond Covenants and Bylaws.

In the course of its monthly meetings, the Board is continually encountering new situations and making, adapting, or interpreting policies to cover them. The Board undertakes reviews of specific policies and rules and regulations from time to time, with goal of ensuring that our facilities are safe, well-maintained, and pleasant; our community's lovely appearance is maintained; and our property values protected.

Transition update: Transfer of the Common Areas is Complete.

For many years, your SPHA Board (and its predecessor Transition Committee) have been in negotiations with the SPA, the developer of the Salt Pond, working to finalize the transfer of common areas to the homeowners association. Your Board is very pleased to report that, as of May 25, 2007, the necessary legal documents have been signed and the transfer has now taken place. The SPHA now owns the Community Center, recreational facilities, non-golf course ponds and wetlands, Salt Pond beach area, street lighting, roadways and related infrastructure. The primary transition document is now available on the SPHA website (<http://www.sphamembers.org>) for owners to review. A reference copy of the complete set of transition documents will be made available at Legum & Norman soon and there will be another complete set available at the SPHA Community Center. The size and number of the transition documents makes posting on the website impractical.

A brief explanation of the transfer of common areas to SPHA follows.

- Typically, after a community is "built out", the developer divests "common areas" of the development to the homeowners association. The Salt Pond Covenants anticipated this transfer and that the homeowners association would manage, control, and maintain the common areas. With this transfer, SPA exits any role in the Salt Pond common area facilities, properties, and lands. (The Salt Pond golf course land and business are separate entities, owned by SPA and are not part of the transfer of common areas.) SPHA now owns the common areas, and has assumed complete responsibility for managing these areas.
- A major cause of the long duration of transition negotiations was related to the fact that the 1994 Consent Decree between SPA and the Corps of Engineers was still in effect. A main concern of your SPHA Board and Ponds and Wetlands Committee was to ensure that SPHA was protected against any transfer of legal or financial liability after the transfer of common areas was complete. The Corps is now satisfied with SPA's efforts to correct environmental violations in mitigation sites within the Salt Pond ponds and wetlands. Now that the transition documents have been signed, SPA is expected to petition the District Court to dismiss the Consent Decree. Our lawyers have advised us that once the Consent Decree litigation is dismissed, SPHA will no longer be potentially subject to legal or financial liability that might otherwise accrue from past actions or inactions of

SPA. This satisfactory result is due to many, many hours of work by SPHA, SPA, your Board, Ponds & Wetlands Committee, Transition Committee, and the lawyers.

- Your SPHA Board agreed to take the common areas in “as is” condition. In years of negotiations by your SPHA Board (and the predecessor Transition Committee), it became very clear that, without litigation, SPA would not be willing to undertake major repairs, upgrades, or improvements to the common areas, or contribute financially to SPHA for those purposes. Your Board became convinced that executing the transfer and obtaining total control of the common areas was more cost effective than continuing to negotiate indefinitely, considering the potential legal and other costs when compared to the potential benefits.
- Even though SPHA has accepted the common areas “as is”, we have received many benefits from the transition, including something of great value in exchange: SPHA has the opportunity to exercise an option to purchase the Salt Pond golf course and business. This option is of significant value to SPHA, giving us the chance to protect the golf course open space, our property values, and the quality of life in the Salt Pond.
- The common area land and property transferred includes the Salt Pond Community Center, its recreational amenities (including the indoor pool and spa, outdoor pool, exercise room, three tennis courts, basketball court, playground, and shuffleboard court), the north side of the parking lot, approximately 6 miles of roads in Salt Pond, and 11 ponds and wetlands, including the Salt Pond Beach area. The Conservation Easement, established by the 1994 Consent Decree is also a part of the land transferred to SPHA.
- The furniture and equipment (aside from pro shop/golf business inventory and equipment) in the Community Center are now the property of SPHA. Street lights, and other infrastructure facilities or utilities integral to the common areas in and around Salt Pond have also been transferred.
- The entire Community Center, including the pro shop and the portion of the basement where golf carts are stored, is owned by SPHA and leased by SPHA back to the developer for \$1 per year, as long as SPA owns the golf course.
- Excluded from the common areas is property owned by individuals (i.e., the detached homes and underlying land, undeveloped lots, and villages in the Salt Pond). The golf course land, golf learning center, maintenance building, and equipment owned by SPA and Neighborhood Commercial Area (where the Mini-Golf is and Salt Pond Plaza will be) are also excluded.
- Common areas in the five villages are excluded from common areas transferred to SPHA. The individual village common areas are to be transferred from SPA to

the respective villages' homeowners associations. Transfer of village common areas is the responsibility of the respective village homeowners' associations and SPA. SPHA has no responsibility for managing the villages and no role in negotiating these transfer agreements.

- In addition to the golf course purchase option, other important benefits related to the final transition agreement include:
 - finally gaining full control of common area assets,
 - having the ability to make improvements without obtaining permission of SPA,
 - no longer incurring costs related to the transition negotiations,
 - finally being able to begin to care for the ponds and wetlands, using permitted maintenance practices authorized by DNREC, and
 - knowing for certain that, once the Consent Decree is dismissed, SPHA is not subject to legal or financial liability that might accrue from SPA's actions or inactions before the transfer of common areas.

Option to Purchase the Salt Pond Golf Course Land and Business

SPA has offered to sell its 18-hole, 59-acre golf course to SPHA for the price of \$ 2.3 million, to be financed over a three year period by SPA. This is a very reasonable price for land that might otherwise be sold to a developer and payment of the purchase price over three years makes the purchase by SPHA possible. The option to purchase the golf course is included in the legal documents that resulted in the transfer of the Salt Pond common areas to SPHA and that option will expire on November 2, 2007.

A brief description of other details of the offer to purchase the golf course follows.

- Financing by SPA makes the purchase easier for SPHA and would require a payment of one-third of the purchase price annually for three years at an interest rate of 4.5%, which is considerably less than the current interest rate for comparable financing.
- In order to purchase the golf course, two-thirds of the votes eligible to be cast by SPHA owners must be cast in favor of both the purchase offer and a special assessment. Each member (i.e., property owner) of SPHA in good standing may cast one vote per home, lot or townhouse unit owned.
- At the option price, it appears that the purchase and associated costs, if the option is exercised, would be in the range of approximately \$5,000 in total, per lot, home or townhouse unit.
- There would be various options for a payment, so that the special assessment could be paid in a lump sum, or in smaller payments over three or more years.

The special assessment would be in addition to the annual dues that are paid each year by owners of homes or lots in the Salt Pond for SPHA's operating budget.

- Your SPHA Board retained the services of a consultant to analyze the financial condition of the golf course business. The consultant determined that the business is financially viable and has the potential to be operated successfully as a profit-making venture into the future. One option would be to conduct aggressive marketing and promotion of the golf course within the East Coast golf community.
- Your Board is taking other steps to ensure that SPHA owners will have the necessary information to make an informed decision on the golf course prior to the vote on the offer.
- Additional information will be available at special informational meetings called by your Board; SPHA owners are strongly encouraged to attend at least one of them.

Board meetings. Owners are welcome to attend the monthly Salt Pond Board meetings, which are usually held on the third Friday of the month at 2 pm at the Salt Pond Community Center. If Board meetings are rescheduled, a notice will be posted in the Community Center mail room.

If you wish to be on the agenda at a Board meeting, please notify a Board member or Donna Hemphill at L & N in advance, provide the topic you wish to discuss and any supporting written information, comments or suggestions in advance to the L&N by mail, fax (302-539-1447), or email (dhemphill@legumnorman.com). (Note Donna's new email address.) At these meetings, we ask that you limit your oral comments to three minutes.

The Board is committed to keeping owners informed and will continue to provide information on a regular basis through mailings, the newsletter, and the new SPHA website..

Ponds and Wetlands Committee Report

The Ponds & Wetlands Committee is finally seeing the culmination of many years of very hard work. Significant accomplishments during the course of the last year are as follows:

- The Corp of Engineers (COE), the Department of Natural Resources and Environmental Control (DNREC), and the US District Attorney's Office are now satisfied with SPA's efforts to correct environmental violations in mitigation sites within the Salt Pond ponds and wetlands. SPA is now expected to petition the District Court to dismiss the Consent Decree. Certain actions are still required, ,

e.g. placement of surveyor monuments and boundary designation signs but, with it in place, genuine progress could be made on transition.

- The Consent Decree established a Conservation Easement (CE) within the ponds and wetlands area of the Salt Pond community, under the trusteeship of DNREC. That CE was filed with the Recorder of Deeds in August 2006. The SPHA Board and Ponds and Wetlands Committee have worked with DNREC to determine appropriate care and maintenance of the ponds and wetlands, so as to avoid environmental violations in the future. With assistance from DNREC, SPHA's lawyers, an environmental consultant, and the Ponds & Wetlands Committee, a Memorandum of Agreement (MOA) was prepared to define clearly permitted maintenance practices for the ponds and wetlands, consistent with Federal and State law and regulations. The Board approved and signed the MOA and, by the time of the SPHA annual meeting, we understand that the MOA will have been signed off by the Secretary of DNREC. DNREC has also just agreed that SPHA can proceed with chemical treatment of the ponds to keep algae and related vegetation under control.
- A management plan, developed by the environmental consultant, is in place and bids have been solicited from a local management firm (Envirotech) to execute that plan. The Board is in the process of confirming that the bids are responsive to the requirements of the plan. Once satisfied with the bids, the Board will negotiate with the contractor and get contracts in place to allow treatment and management of the ponds and wetlands to commence immediately.
- The membership of the Ponds and Wetlands Committee has changed during the last year. Dick Register tendered his resignation as the Chair of the Committee but agreed to remain as one of its members. Three new members were added to the Committee: Dick Kimball, Jim Nist, and Louis Herndon. Louis has agreed to serve as Chairman of the Committee and Jim Nist has agreed to serve as the compliance officer to monitor the activities of the environmental firm executing the management plan to ensure compliance. Thanks to Paul Thompson for his continued service on the Committee. Note: If there are others who love our development and want to help us as we strive to keep it beautiful and environmentally compliant, we would welcome your service on the Committee.

A special thank you is in order to Dick Register. Dick has served as the chairman of the Ponds and Wetlands for a number of years and has been instrumental and influential in getting the above accomplishments in place. Without his leadership, we would not be where we are today. A special thanks is also due the SPHA Board. Thank goodness we have individuals that are willing to invest the time in our community and keep going and going, in spite of the challenges and roadblocks inherent in doing any kind of business with Government agencies.