

# Salt Pond Homeowners Association

May 25, 2007

Dear Salt Pond property owners:

This letter provides **extremely important information** on the recently completed transfer of the Salt Pond common areas to the Salt Pond Homeowners Association ( SPHA ).' **It also describes the Salt Pond Associates ( SPA )'offer to sell the Salt Pond golf course to the SPHA**, an offer made by the developer as a part of the negotiations on the transition. Both the transfer of common areas and the offer will be addressed at the June 2<sup>nd</sup> SPHA annual meeting (2 to 4 p.m.) at Lord Baltimore Elementary School in Ocean View, DE. In addition, a special informational meeting on the golf course offer will be announced soon by mail and on the SPHA website (<http://www.sphamembers.org>). All SPHA property owners are strongly encouraged to attend these meetings.

This offer is an extremely serious matter for your Board and SPHA owners. With SPA s'offer to sell the golf course land and business to SPHA, **we now have a unique opportunity to control the single biggest threat to this community and to protect that open space and our property values**. SPA, the developer of Salt Pond, has already expressed an interest in building homes on the golf course. If we fail to purchase the golf course and it is developed, our community will be negatively affected through significant loss of property value, loss of open space, and a decline in the quality of life and ambiance of the Salt Pond community.

## **Transfer of Common Areas Complete**

For many years, your SPHA Board (and its predecessor Transition Committee) have been in negotiations with the SPA 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. (A summary explanation of the transfer is provided at Enclosure A. In addition, the primary transition document will be available on the SPHA website by Tuesday, May 29th. A reference copy of the complete set of transition documents will be 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.)

## **Special SPHA Informational Meeting to be Scheduled Soon**

As Salt Pond property owners, you will be invited to a special informational meeting, where your Board will describe SPA s'golf course offer and what it would mean to individual owners and SPHA, as a whole. At that time, we will provide you with all available information and discuss your concerns. (A brief description of the offer is provided at Enclosure B.)

No votes will be taken at this meeting; however, you will help us determine whether there is sufficient support to move forward on the offer.

### **Option to Purchase the Golf Course**

SPA has offered to sell its 18-hole 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.

**In order to approve the purchase, two-thirds of the total votes eligible to be cast by SPHA owners must be cast in favor of both the purchase offer and a special assessment.** Owners would have the flexibility to choose among various payment plans to pay for the special assessment, including payment in a lump sum or in smaller amounts financed over a number of years. The special assessment would be in addition to the annual dues that are paid each year by owners of homes, townhomes, or lots in the Salt Pond for SPHA s `operating budget. At the option price, it appears that the cost of purchase with associated costs, if the option was exercised, would be approximately \$5,000 per lot, home or townhouse unit.

In exploring the implications of purchasing this golf course property, your SPHA Board retained a financial consultant to review and analyze data on the golf course business, and consulted SPHA s `legal experts. After review of the consultant s `findings, the Board unanimously confirmed its very strong support for SPHA to purchase the golf course. Your Board further confirmed that after negotiations on the details of the offer were complete, it would seek the advice of SPHA owners on this matter, and seek your approval to proceed with the purchase offer and special assessment to finance the purchase of the golf course.

In making its determination that the purchase is in the best interest of the community, your Board considered that the purchase of the golf course allows SPHA to:

- Ensure that the golf course property is under the control of SPHA and can remain as open space for enjoyment of owners, their families and guests;
- Protect the beauty, unique character, and ambiance of the Salt Pond community now and in the future;
- Protect, and thereby increase, the value of each SPHA owner s `property both those along and off the golf course;
- Protect the scenic views enjoyed by all Salt Pond owners, by retaining the open space;
- Gain a valuable asset that will enhance the financial condition of SPHA, and
- Avoid potential litigation, uncertainty, and increased costs, if undesirable development was to be proposed.

On the other hand, if SPHA rejects the proposal to purchase the golf course property, as a result of failure to obtain the requisite votes, the result would be to:

- Clear the way for SPA to offer the golf course for sale to another golf course operator or to one or more developers;
- Open up the golf course to potential development which will most likely not be consistent with the aesthetic values or architectural standards of the Salt Pond community;
- Increase wear and tear and costs of maintaining our SPHA roads, facilities, and common areas (both during the construction phase and resulting from increased density), if development should occur;
- Potentially reduce the owners property values significantly, if development of the golf course occurs or a new golf course owner does not maintain and operate the course adequately;
- Limit the ability of SPHA to influence changes to land use in the midst of our community;
- Limit the upward trend of property values; and
- Transform the Salt Pond from one of the area s premiere beach communities to just another development near the ocean, if golf course development occurs.

Your SPHA Board firmly believes that the advantages of owning the golf course property justify the cost of the special assessment needed to finance the purchase. As golf course negotiations have proceeded, your Board has done all it could to move to the point where we could present a firm, documented, legal offer to the community. It is highly unlikely that SPHA will ever again be in the position to buy this property. **This is SPHA s opportunity to protect property values, own and control the open space in our midst and ensure the beauty of our community in the years to come.**

Some of you may wonder whether there really is a big risk of development of the golf course, if we reject the option to purchase the golf course. However, all one has to do is look around Sussex County or right down Cedar Neck road -- to see that development is happening all over. The sale of the Neighborhood Commercial property at the two main Salt Pond entrances for the Salt Pond Plaza development is another example of the continuing pressure for more development. The question of whether development will occur is not IF , but WHEN .” This is SPHA s **one chance** to ensure that it does not happen to this golf course now or in the future. Certainly, SPHA owners would not want to have a developer maximize housing density without regard for the character and ambiance of the Salt Pond.

Your Board understands that this is a very large step for the homeowners association to take. After the June annual meeting and the special informational meeting to follow, there will be additional informational meetings, as needed, followed by a special meeting where owners will vote on the golf course purchase offer. (Please look for another SPHA mailing or check the SPHA website for details.) Owners will be able to vote in person or by written proxy. It will be very important that you exercise your right to vote, so that your voice will be heard.

Your SPHA Board is convinced that the purchase of the golf course property is the best way to protect SPHA owners' property values and to sustain the quality of life in Salt Pond. Your Board would not be doing its duty, if we failed to make you aware of this opportunity, or failed to encourage you to seriously consider voting to approve the purchase. To learn more, we urge you to attend the June 2<sup>nd</sup> annual meeting and the special informational meeting to be announced soon. If you cannot attend one of these meetings and want to discuss the issues by phone, please feel free to call any of your SPHA Board members. The phone numbers are listed below.

We know that there will be many concerns and will work hard to address them. For example, many will wonder whether SPHA would be responsible for directly managing the golf course. Our intention is to find a professional entity, like a golf course management company, to handle the operations of the golf course. If the community votes to purchase the golf course, your Board will work with other Salt Pond volunteers and appoint a Committee to help us explore the various options for golf course management and oversight.

There are many challenges ahead for the Salt Pond community, but the advantages that the golf course purchase option affords the community are immeasurable. Your Board strongly supports approval of the proposed purchase and looks forward to talking to each of you to ensure that this proposal receives the careful consideration it deserves.

The decision to move forward rests with a supermajority of owners and you, the owners, will decide what the future looks like for the Salt Pond community.

Sincerely,

The Board of the Salt Pond Homeowners Association

Enclosure A Explanation of the Transfer of Common Areas to SPHA

Enclosure B Description of the Offer to Purchase the Golf Course

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<b>SPHA Contacts</b>	<b>Phone Numbers</b>
Bev Thierwechter	302-537-4757
Don Praisner	301-572-4647
Gerry Buckley	302-539-2342
Chuck Gularson	301-840-8456
Katherine Coulson	302-539-3935
Dick Crawford	302-539-2450
John Gilsean	302-539-5873
Michael Headman	302-537-4395
Bill Kester	302-539-3939

### Explanation of the Transfer of Common Areas to SPHA

- 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, the developer (known as Salt Pond Associates or 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 with 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 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, will be 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.

### **Description of the Offer to Purchase the Golf Course**

- The developer (known as Salt Pond Associates or SPA ) has offered to sell the 18-hole, 59-acre Salt Pond golf course to SPHA for the price of \$2.3 million, to be financed over a three year period by SPA.
- The recently-executed transition documents include an option to purchase the golf course, which is time-limited and expires on Nov. 2, 2007.
- 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.
- The \$2.3 million price is very reasonable for land that might otherwise be sold to a developer.
- Agreement to purchase the golf course requires approval of two-thirds of the votes of the SPHA homeowners association. Each member (i.e., property owner) of SPHA in good standing may cast one vote per home, lot or townhouse unit owned.
- Approval by two-thirds of the association votes is required for both purchase of the golf course land and business and for the special assessment to finance the purchase.
- If approved, the special assessment 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.