Town Meetings
Proposed New Master Lease for Shelter Bay

Presenters: Lease Negotiating Committee Chair Larry Kibbee
Attorney Philip Buri
Moderator: Hermann Wolz
Meeting Agenda

• Review Meeting Ground Rules
• Member Take-Aways from the Meeting
• History of Master Lease Negotiations
• Current Master Lease Structure
• Proposed New Master Lease Terms
• Differences Between the Current and Proposed New Lease
• Sublease Concerns
• Rent Comparisons
• What’s at Issue
Presentation Ground Rules

• After the presentation, Moderator Wolz will monitor a Q&A Session.
• Please hold your questions until the Q&A session. Questions will not be entertained during the presentation.
• Initially one question per member and after everyone has had a chance, time permitting, second questions may be asked.
• When recognized, please come to one of the microphones, provide your name and lot number, and ask your question.
• During the question and comment period, please be brief so that all have a chance to speak. This is not a debate.
• Finally, this meeting is regarding the Master Lease issue and is not on the property tax issue. Let us please stick to the topic.
Member Take-Aways from this Meeting

• Information provided in a unbiased and neutral manner

• What We Can Do:
  • Provide the best and most complete information we have

• What We Can’t Do:
  • Predict the Future

• Information provides members with the ability to make a decision on a new Master Lease based on their individual circumstances.

Disclaimer: The information being provided to you is based on our best estimates given the general terms of the proposed Master Lease. Values are based on today’s dollars with no escalation factor applied.
History of the Master Lease Negotiations

January 2012
Request to Tribe for Lease Extension

June 2012
Negotiations Begin

2012-2015
13 meetings held between SB and Tribe

March 2015
Tribe’s Best and Final

April 2015
Tribal Senate Approves Proposal

2013 survey 95% of Members responded “important” to secure a New Master Lease
Current Master Lease Sublease Relationship

MASTER LEASE
- Owned by Shelter Bay Company
- Rent adjusted every 10 years based on Raw Land Value in Fee
- Administers 870 subleases
- Expires 2044
- At termination, all Community improvements must be removed

SUBLEASE
- Owned by Sublessees
- Rents adjusted every 10 years based on the change in CPI.
- Continues to 2044 even if Company defaults
- At termination, all personal improvements must be removed
Current Master Lease Structure

Term
  • 29 more years (expires in 2044)

Rent Structure
  • Rent adjusted every 10 years based on raw land value in fee as determined by appraisal/arbitration.
  • Rental Rate of 7% on raw land value of $29.2 Million = $2,044,000/year until 2023.

Capital Improvements
  • Paid entirely through Capital Assessment.
  • Master Lease requires the Community be maintained in “...good order and repair”.

Marina Operations
  • Tribe will retain 3.5% of gross receipts.
Proposed New Master Lease Terms

Term
• 75-Years (to 2089)

Rent Structure
• No change in rent until 2023
• Rent adjusted annually thereafter based on two factors:
  • Rental rate of 3.5% starting in 2023 increases by 0.1% per year to 7% in 2059. Full return is reached over 35 years in 2059.
  • Beginning in 2023 rent at 3.5% of improved land value in fee as determined by an appraisal and then adjusted annually based on the 10-year moving average of the 2013 Rent Adjustment Index.
• At 10 year intervals option of appraisal to reset to market.
• Based on a current improved land value of $120 Million ($80.1 Million in 2003), rent in 2023 would be $3,874,500.
Proposed New Master Lease Terms (continued)

Rent Credit

- Administration credit of 2.25% (2023=$94,500, 2059=$186,300)

Capital Improvements

- Requires $600,000 to be deposited into a Capital Reserve account for first 25 years of the lease. (Currently, FY 2015-2016 Capital Assessment totals $572,832.)
- Capital Improvement 5.5% rent credit (2023=$231,000, 2059=$455,400).
Proposed New Master Lease Terms *(continued)*

Renewal Fee

- Equal to 1.5% of contract sale price will be assessed on home sales from the time of signing the New Lease and continue until 2044

Infrastructure

- Option for Tribe to assume operation of water, sewer, and roads

Marina Operations

- Tribe will retain 3.5% of gross receipts (same as current lease).
- Operation must be conducted as a commercially viable entity.
- Commitment to improve Marina Infrastructure per Marina Business Plan.
# Current vs Proposed Master Lease

## Major Changes in Terms

<table>
<thead>
<tr>
<th>Current Lease Term</th>
<th>Proposed Lease Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expires 2044 – 29 more years</td>
<td>Expires 2089 – 75 more years</td>
</tr>
</tbody>
</table>

## Raw Land Value

<table>
<thead>
<tr>
<th>Raw Land Value</th>
<th>Improved Land Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Value of the land in its original state with no improvements.</td>
<td>The Value of the land as an improved residential subdivision, platted and ready for homes to be constructed. Includes roads, utilities, amenities.</td>
</tr>
</tbody>
</table>

## Rent @ Raw Land Value

<table>
<thead>
<tr>
<th>Rent @ Raw Land Value</th>
<th>Rent @ Improved Land Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>7% @ 29.2 Million = $2,044,000</td>
<td>2023 - 3.5% @ 120 Million = $3,874,500</td>
</tr>
<tr>
<td></td>
<td>2044 – 5.5% @ 120 Million $6,088,500</td>
</tr>
<tr>
<td></td>
<td>2059 – 7% @ 120 Million = $7,749,000</td>
</tr>
</tbody>
</table>

## Renewal Fee

<table>
<thead>
<tr>
<th>Renewal Fee</th>
<th>Renewal Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>1.5% @ time of sale through 2044</td>
</tr>
</tbody>
</table>
Raw vs Improved Land
Rent Cost Comparisons through 2044

<table>
<thead>
<tr>
<th>Default to Sublease Rents through 2044</th>
<th>Rent at Current Master Lease through 2044</th>
<th>Rent at new Master Lease through 2044</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 15,283,754</td>
<td>$59,276,000</td>
<td>$120,963,500</td>
</tr>
</tbody>
</table>

*Note: Values are based on today’s dollars*
Projected Rent Under New Lease and Current Lease

Point where rent reaches 7.0% of improved land value in 2059
## Rent By View Category: Current vs Proposed

### Average Monthly Rent Calculations by View Category - Current Dollars No escalation factor *

<table>
<thead>
<tr>
<th>View Category</th>
<th># of Lots</th>
<th>Total 2014 Land AV</th>
<th>Rent @ Current</th>
<th>% of Total</th>
<th>Monthly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-View</td>
<td>391</td>
<td>26,285,100</td>
<td>539,967</td>
<td>29%</td>
<td>115.08</td>
</tr>
<tr>
<td>View</td>
<td>210</td>
<td>15,809,600</td>
<td>337,376</td>
<td>18%</td>
<td>133.88</td>
</tr>
<tr>
<td>Good View</td>
<td>63</td>
<td>6,341,300</td>
<td>135,708</td>
<td>7%</td>
<td>179.51</td>
</tr>
<tr>
<td>Prime View</td>
<td>39</td>
<td>5,377,700</td>
<td>114,372</td>
<td>6%</td>
<td>244.38</td>
</tr>
<tr>
<td>Waterfront</td>
<td>167</td>
<td>38,636,600</td>
<td>712,178</td>
<td>39%</td>
<td>355.38</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>870</strong></td>
<td><strong>92,450,300</strong></td>
<td><strong>1,839,600</strong></td>
<td><strong>100%</strong></td>
<td><strong>176.21</strong></td>
</tr>
</tbody>
</table>

Marina Rent @ 10% = $204,400

The calculation of the average monthly rents by view category are provided for reference only. Actual monthly rents for each lot will vary based on land value.

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The calculation of the average monthly rents by view category are provided for reference only. Actual monthly rents for each lot will vary based on land value.

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Rent By View Category: Proposed

<table>
<thead>
<tr>
<th>View Category</th>
<th>Rent</th>
<th>% of Total</th>
<th>Monthly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-View</td>
<td>1,608,409</td>
<td>29%</td>
<td>342.80</td>
</tr>
<tr>
<td>View</td>
<td>1,004,948</td>
<td>18%</td>
<td>398.79</td>
</tr>
<tr>
<td>Good View</td>
<td>404,237</td>
<td>7%</td>
<td>534.70</td>
</tr>
<tr>
<td>Prime View</td>
<td>340,680</td>
<td>6%</td>
<td>727.95</td>
</tr>
<tr>
<td>Waterfront</td>
<td>2,121,376</td>
<td>39%</td>
<td>1,058.57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,479,650</td>
<td>100%</td>
<td><strong>524.87</strong></td>
</tr>
</tbody>
</table>

Marina Rent @ 10% = $608,850

The calculation of the average monthly rents by view category are provided for reference only. Actual monthly rents for each lot will vary based on land value.

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Rent By View Category: Proposed

The calculation of the average monthly rents by view category are provided for reference only. Actual monthly rents for each lot will vary based on land value.

* Please note that all of the values used in this summary are in today’s dollars - no escalation factor has been applied. It is generally accepted that inflationary factors will influence values and costs over time.

<table>
<thead>
<tr>
<th>View Category</th>
<th>Rent</th>
<th>% of Total</th>
<th>Monthly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-View</td>
<td>2,047,066</td>
<td>29%</td>
<td>436.29</td>
</tr>
<tr>
<td>View</td>
<td>1,279,024</td>
<td>18%</td>
<td>507.55</td>
</tr>
<tr>
<td>Good View</td>
<td>514,483</td>
<td>7%</td>
<td>680.53</td>
</tr>
<tr>
<td>Prime View</td>
<td>433,593</td>
<td>6%</td>
<td>926.48</td>
</tr>
<tr>
<td>Waterfront</td>
<td>2,699,933</td>
<td>39%</td>
<td>1,347.27</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,974,100</strong></td>
<td><strong>100%</strong></td>
<td><strong>668.02</strong></td>
</tr>
</tbody>
</table>

Marina Rent @ 10% = $774,900
Affect on the Subleases

• How does the new Master Lease affect your current sublease?
  • Members may retain their current sublease, however their rents would still be due based on the new Master Lease rent.

• What about a new sublease?
  • All current Sublessees would be able to acquire a new updated Sublease terminating in 2089.
  • Existing Subleases have a higher rent calculation after 2044 (½ or ¼ of 1% of the total Master Lease Rent). New Subleases would be structured to only collect the amount of Master Rent due.
Gradually by 2044, all equity in the property is transferred to the Tribe.
Transfer of Equity

Gradually over the term of the lease equity will be transferred from the Sublessees to the Tribe.
## What’s at Issue

<table>
<thead>
<tr>
<th>Majority of Advisory Vote is to Proceed</th>
<th>Majority of Advisory Vote is Not to Proceed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tribe and Shelter Bay Attorneys draft language for full Master Lease Agreement</td>
<td>Status Quo - Current Master Lease remains in effect with 10-year Rent Adjustments through 2044. Mortgages become more difficult to obtain and property values continue to decline, or</td>
</tr>
<tr>
<td>Master Lease Agreement to be reviewed and approved by:</td>
<td>Status Quo – Current Master Lease remains in effect until the parties agree to enter into negotiations. We think this is unlikely, or</td>
</tr>
<tr>
<td>Bureau of Indian Affairs/Department of Interior</td>
<td></td>
</tr>
<tr>
<td>Individual Indian Landowners</td>
<td></td>
</tr>
<tr>
<td>Swinomish Tribal Senate</td>
<td></td>
</tr>
<tr>
<td>Shelter Bay Community makes plans for the future.</td>
<td></td>
</tr>
</tbody>
</table>
Advisory Vote

• Special Membership Meeting July 15th, 2015 – Results @ 7:00 p.m.
• Threshold for passage: 50% plus 1 of those who vote...simple majority.
• If passes, full Master Lease language is drafted and goes before the Community for a final vote.
• It is estimated that it will take 6 to 8 weeks for Shelter Bay to draft the new Master Lease agreement language. We do not have a timeline for full approval of the finished document by all parties.
Questions and Answers