

# Holiday Island

## Suburban Improvement District

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**TO:** HISID Board of Commissioners  
**FROM:** Kevin Crosson, District Manager *hac*  
**DATE:** August 30, 2010  
**SUBJ:** *Consideration and Approval, Extension of Agreement Between the District and the Holiday Island Development Corporation*

You are being asked to make a significant decision for this community of Holiday Island on Monday. Mr. Tom Dees, President of the Holiday Island Development Corporation, has asked that the District consider an extension of our agreement (Attachment #1), which is scheduled to expire on November 15, 2010. Mr. Dees has reached a tentative purchase agreement with CapitalSource, Inc., owner of record of 928 lots originally acquired by National Recreational Properties of Holiday Island, LLC (NRP), contingent upon District approval of our agreement.

We may be at what can best be described as "the fork in the road". We are currently the only "planned" community (SIDs, POAs) of the five largest in Arkansas that operate with the partnership of a developer. Hot Springs Village, Bella Vista Village, Cherokee Village, and Fairfield Bay have all operated without the benefit of a developer for years. These communities all have an in-house lot sales program of some kind – not out of choice, but out of necessity. With almost 50% of the District's income dependent upon property assessments, and given the current condition of the real estate market, it is critical that the District choose a marketing approach that will expedite lot sales as quickly as possible.

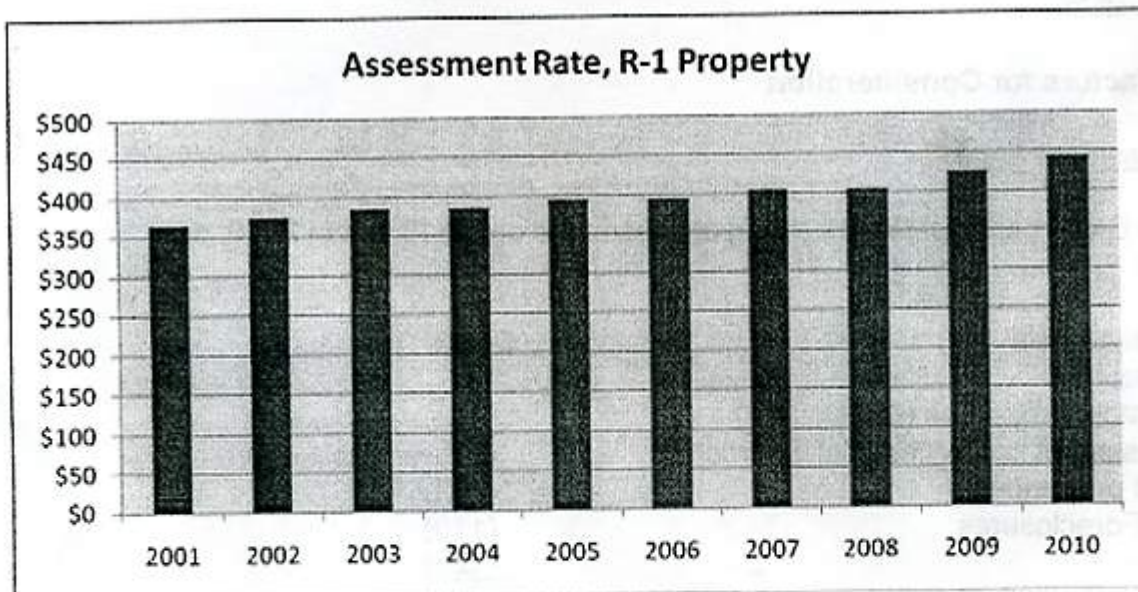
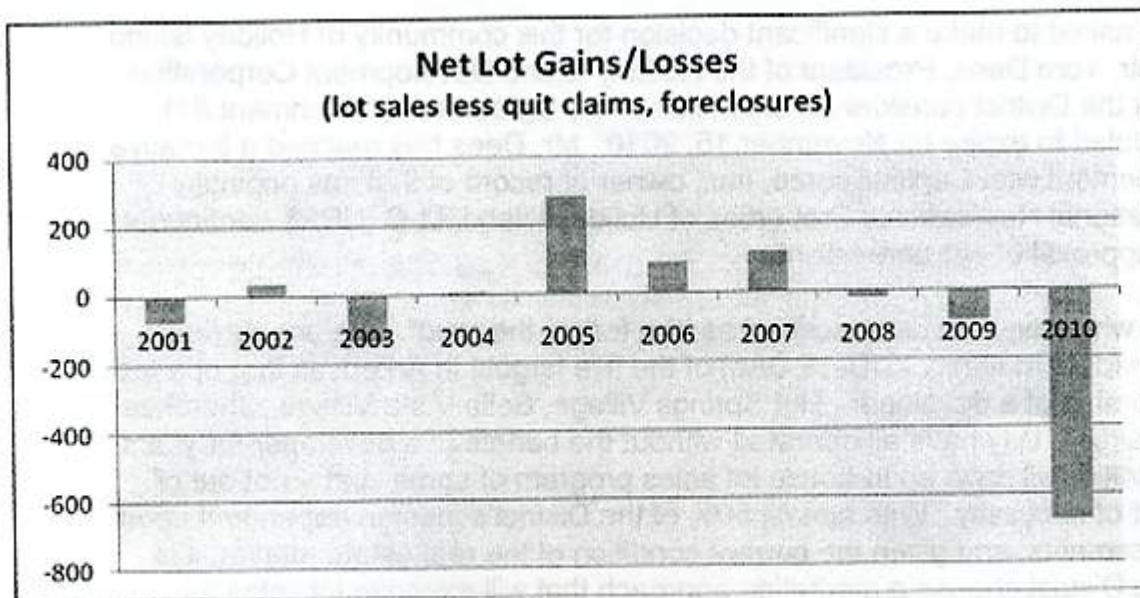
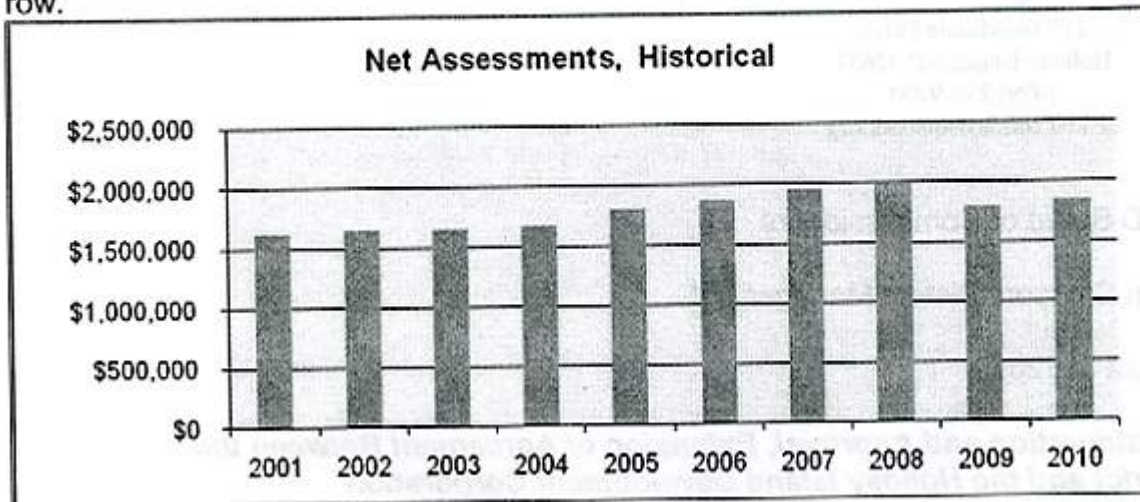
### Significant Factors for Consideration

#### Eroding Assessment Base

Currently, the District anticipates collecting assessments on 3,813 lots in 2010, as shown below:

Holiday Island Lots	5,000
Less:	
NRP inventory properties (CapSource)	(309)
NRP assessment properties (CapSource)	(540)
HIDC-held properties	(203)
Tentative Foreclosures	(110)
Quit Claims	<u>(25)</u>
Anticipated 2010 Collections -	3,813

In examining the historical tables below, it is clear that District assessment income is in serious decline, with collected assessments experiencing a third year of net loss in a row.



This significant decline in assessment income is attributable to (1) non-payment of assessments by CapitalSource on over 500 lots previously held by NRP; and (2) the accelerated rate of District foreclosures, due in large part to the depressed real estate market and the economy.

### NRP/CapitalSource

In 2004, National Recreational Properties purchased HIDC's inventory of Holiday Island lots and established a nation-wide marketing and sales program in Holiday Island. In the course of operations, the company, over a three-year period, purchased hundreds of individual lots to supplement their inventory. While the original purchases from HIDC were assigned assessment waiver rights, the District collected annual assessments on the balance of properties purchased by NRP.

With the collapse of the real estate market in 2008 and the nation's slip into the most significant recession since the Great Depression, NRP defaulted on its financing obligations with CapitalSource, their financial institution; CapitalSource is currently the owner of record and holds title on the majority of properties originally held by NRP. While CapitalSource paid the District over \$225,000 in delinquent assessments for 2008, they have not remitted payment for 2009 (\$287,000, including the 25% penalty).

As of August 1, 2010, CapitalSource holds title to 309 inventory properties and 619 assessment properties, for a total of 928 Holiday Island lots – 19% of the total platted lots in Holiday Island. Of that total, 604 of those properties were turned over the State Commissioner of Lands in July for non-payment of county property taxes for the 2007 and 2008 tax years. CapitalSource apparently has no plans to redeem those properties from the State of Arkansas at this time. Without some form of acquisition of the NRP holdings, another substantial block of properties will be turned over to the State in 2011.

### District Financial Position

The District has responded to the economic downturn and the resultant loss of assessments over the past 2 years by significantly scaling back operations to bare minimums and reducing capital expenditures by over 50%. As was pointed out in this year's mid-year review, District operations at this reduced level is not sustainable for a prolonged period of time.

If the District is to continue to rely on assessments for a significant source of operating income, it will be critical for the Board to support a marketing approach that will return lots to the real estate market for sale as quickly as possible. The following are factors that will make it difficult for the District to accomplish this task on its own:

- The District's emergency reserve is currently at minimum as per Code of Regulations
  - Sec. 2-203. Undesignated reserve fund. To secure and maintain investment-grade credit ratings, generate interest income, meet seasonal shortfalls in cash flow, and reduce the susceptibility to emergency or unanticipated expenditures or to revenue shortfalls, the Holiday Island Suburban Improvement District will adopt budgets that provide for an undesignated reserve fund of not less than 35 percent nor more than 45 percent of operating expenditures.
  - Emergency reserve as of July, 2010 = \$1,075,439

