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HARVARD INVESTMENTS
A HILL COMPANY

Ms. Jennifer Bartos, Manager
ICR Sanitary District c/o
I.D.S., Inc.
219 Grove Avenue
Prescott, Arizona 86301

May 17,2002

Re: Request for Special Meeting of ICR Sanitary District and Resolution to Some Outstanding Issues

Dear Ms. Bartos:

I am writing on behalf of Harvard Simon I, L.L.C. and its affiliates developing the Talking Rock property (collectively "Harvard") to request that the ICR Sanitary District Board hold a special meeting on June 3, 2002, to resolve several issues that have been raised over the last few weeks by the District and its attorney.

Recently, in March, Harvard was first given notice that the District now has concerns regarding some of the terms of the Development Agreement and Order to Extend the Boundaries of the ICR Sanitary District ("Development Agreement"). Specifically, the District has questioned (1) whether the Talking Rock property was properly annexed into the District; (2) whether the District approved the Development Agreement; and (3) whether the District had the legal authority to enter into an agreement to pay refunds.

Overview

Harvard initially contacted the District concerning wastewater utility service for Talking Rock in early 2000. Over the next several months the parties worked together to negotiate the terms upon which the District would provide wastewater utility service and extend its boundaries to annex those portions of Talking Rock not already within the current District boundaries. During that period, the District retained the law firm of Cochran & Dahl to represent the District in negotiating the Development Agreement and, as you know, we retained Fennemore Craig. The Development Agreement was executed by the parties on December 8, 2000, and soon thereafter recorded with Yavapai County. Upon recordation, the County Recorders Office returned the document to the District's attorney, Mr. Dahl.

By the expressed terms, the Development Agreement addresses construction of a wastewater treatment plant and collector sewer facilities by and at the sole expense of Harvard

and to date Harvard has and will continue to incur the expense of constructing all of the plant and facilities to be conveyed to the District. As a result, the District will become owner of a state of the art treatment facility that can be utilized to provide safe and reliable wastewater treatment services, not only within the Talking Rock development, but also to other properties within the Inscription Canyon subdivision. Moreover, the District and other landowners within the District will benefit because the construction and installation of additional treatment capacity will reduce reliance on septic systems within the District's boundaries. Finally, Harvard's willingness to accept and utilize effluent generated by the District's treatment of wastewater allows the District and landowners to realize further benefit. In short, a win-win, no risk proposition for the District.

Annexation Issues and Harvard's Reliance on the Agreement

Since the Development Agreement, was signed and recorded almost 18 months ago, Harvard has proceeded with its development of the Talking Rock property and, as of today, based upon the agreements signed with the District and in reliance on the District's commitment, Harvard has invested over $20,000,000.00 in this project. Furthermore, Yavapai County, the Arizona Department of Real Estate and Harvard's lender, GMAC RFC (General Motors Acceptance Corporation), and over 50 individuals who have purchased homesites in the Talking Rock development have also relied on the District's agreements. To have the District's new attorney question the validity of the annexation as well as other provisions of the agreement more then 18 months after they were accepted by the District and recorded is shocking, to say the least.

Concerning annexation, the parties agreed in the Development Agreement that A.R.S. § 48-262(H) governed the expansion of the District to include all of the Talking Rock development. A copy of A.R.S. § 48-262(H) is attached hereto for your reference. Pursuant to A.R.S. § 48-262(H), the District may extend its boundaries to include Talking Rock without a petition or vote of the qualified electors and without an impact statement. This method was available because the property seeking annexation (the Talking Rock development) was adjacent to and partially within the District boundaries, and the property owner, owning the Second Beneficial interest in the Trust (First American Title Insurance Agency Of Yavapai County, Inc., Trust No. 4750), was, at the time of annexation, the 100% owner of the property.

A.R.S. § 48-262(H) provides that if a district determines that the inclusion of the property will benefit the district and the property owner, the boundary change is final upon the recording of a district order that includes a description of the property. By its explicit terms and conditions, the Development Agreement constitutes an order of the District wherein the District found that the inclusion of the property would benefit the District and the Talking Rock property. Additionally, the Development Agreement and District Order included a description of the Talking Rock development, including the portion not previously within the District, and provided that the District shall record the Agreement. The District and Harvard mutually agreed that the District had taken all necessary steps to annex the Talking Rock development and that the annexation would be final upon recording of the Development Agreement. Nevertheless, in recent letters from the District's attorney, as well as my discussions with you, the District has acknowledged that it made mistakes in correctly "perfecting" the annexation. These included

some minor items such as confirming the validity of the signature of the property owner, confirming that the legal description of the new boundaries were correct and notifying the Department of Revenue of the annexation. In addition, we learned that the annexation map the District provided Harvard was incorrect in that it showed a portion of land owned by the State of Arizona as part of the original annexation area.

On May 15, 2002, we met with you to respond to questions raised by the Board. Harvard has now provided you with absolute, verifiable and indisputable proof that there was only one property owner for all of the Talking Rock property at the time of the annexation and that Harvard was the only party whose signature was required. In addition, Harvard provided you with a corrected map and on May 15, 2002, you notified Yavapai County of the corrected documents and are proceeding with notification to the Department of Revenue. Thus, annexation (which in our opinion has never been an issue) appears to no longer be an issue even for the District.

Repayment Provisions in the Agreement(s)

The District has challenged the validity of the repayment provisions stating simply that a municipal or quasi-municipal body cannot legally enter into a repayment agreement. The District has failed to provide any legal basis for this claim. As Harvard is financing 100% of the costs of the new plant, it is sought to re-capture some of its investment. However, the Agreement is quite clear that after a certain period of time, the right to repayment goes away. Thus, if people do not purchase lots in the Talking Rock development in a timely manner or purchase lots but delay in constructing homes, Harvard will never recoup even a fraction of its investment. Thus, we, as the Developer, not the District, bear all of the financial risk under the Agreement.

We have attached at the end of this letter a summary of our legal research with cited statutes that affirms the repayment provisions of the agreement(s) are legal and that Sanitary Districts can enter into agreements with repayment provisions.

Benefits to the District Under the Agreement

As you are well aware, the District's Board negotiated a very favorable agreement for the District whereby it would annex all of the Talking Rock development in order to provide wastewater service to and within the property, while 100% of the costs associated with providing the service were to borne by Harvard as the developer. The design of the plant, the permitting process and the construction of all horizontal infrastructure (collection systems, lift station etc.) were to be paid for by Harvard. In addition, because the District was concerned that the existing plant serving the residents of the Inscription Canyon subdivision was functioning poorly, was not built as designed, and could not process solids (requiring all Inscription Canyon residents to purchase a septic tank at considerable expense), the District asked if Harvard would consider increasing the capacity of the plant and the design to include all of Inscription Canyon. Harvard agreed to this request, and as the new plant comes on line in a few months and the old plant is decommissioned (which Harvard is also going to pay for) all Inscription Canyon residents will have a state of the art wastewater treatment plant. The facility will generate high quality effluent that can then be used to water Talking Rock's golf course, eventually reducing the withdrawal of

groundwater. Perhaps more importantly for Inscription Canyon residents, this was all done at no cost to them with the added bonus that they will no longer have to pay for and install septic tanks.

Costs

The District also requested that Harvard bear the costs of correcting past District mistakes as they related to the annexation. As you know, Harvard has already paid the District once to reimburse the District for its legal expenses as well as those of its engineers and consultants associated with the annexation in December, 2000. As the District has acknowledged it, not Harvard, made a mistake. It seems patently unfair to ask Harvard to pay twice. Still, Harvard, to assist the District, is providing $1,500 to cover costs associated with correcting some past errors or omissions. This was the amount you requested on behalf of the District.

The Proposed Draft Ordinance

At our meeting, I reviewed the new draft ordinance. For the most part, Harvard supports the draft ordinance, as it would regulate the construction of treatment, capacity and collector sewers. Yet Harvard, like any other entity working under currently approved regulations, has already received approval from the District for the design of its facilities and is nearing completion in the process of obtaining approval from the Department of Environmental Quality. We have expended considerable time and expense in developing the plans for the facilities in accordance with the Development Agreement. As the plans have been designed consistent with the Development Agreement and reviewed by the District's engineers, it would be inequitable to impose any further restrictions that would require us to modify or expand the plans currently being processed by ADEQ. In that regard, we believe the Talking Rock plant as designed should be grandfathered and the District should confirm this to be the case.

In addition, the draft ordinance imposes new fees that are contrary to those agreed to by the parties during the negotiation of the Development Agreement and Amendment. On May 11, 2001, Harvard and the District amended the Development Agreement to clarify the parties' agreement concerning the waiver of the Tie-in (Hook-up) fees or similar fees related to the establishment of sewer service within Talking Rock.

As stated in the Amendment, waiver of the Tie-in fee is appropriate and fair because we are paying 100% of the costs for designing, constructing and installing the facilities necessary for the provision of sewer service for Talking Rock and Inscription Canyon. The Amendment, therefore, should also serve to waive the capacity fee contained in the draft ordinance. Why the District would charge anyone a capacity fee when Harvard is paying the costs for the entire plant makes no sense. Accordingly, we are requesting that the District confirm that the lots within Talking Rock will not be assessed the proposed capacity fee.

Sewer Service Agreement for Parcel 4A

Lastly, the District has delayed in signing the Sewer Service Agreement for Parcel 4A. Starting almost 18 months ago (from the time Talking Rock was annexed) until now, the District

has signed these agreements for other parcels without delay. The District's decision to delay signing the agreement for Parcel 4A is causing us significant financial harm. More importantly, the District's delay is without cause. Therefore, we request that the District promptly sign the Sewer Service Agreement for Parcel 4A.

Harvard's Request

We seek immediate confirmation by the District's Board that they:

A. Acknowledge the annexation question is no longer an issue and that you are taking the final, minor steps to perfect the annexation.

B. Acknowledge that Harvard has agreed to bear the costs of up to $1,500 to correct mistakes made by past District Boards and that Harvard has provided a check to you in this amount.

C. Acknowledge, based upon the irrefutable legal authorities offered herein, that the repayment obligations under the approved Agreement are lawful and that the District will honor the Agreement.

D. Acknowledge that despite what ultimately is approved under the draft ordinance, the plans for the wastewater plant for Talking Rock, the collection system and all appurtenances are grandfathered.

E. Acknowledge that despite what ultimately is approved under the draft ordinance, that the provision within the approved Agreement and Amendment relating to the waiver of hook up or capacity fees is honored as it relates to Talking Rock.

F. Acknowledge that the District will immediately sign the sewer service agreement for Parcel 4A.

Harvard, in turn, will continue to honor the agreements, to complete the design, construction and installation of the waste water treatment plant to serve both Talking Rock and Inscription Canyon, to receive treated effluent to be used on our golf so that we may reduce the demand on groundwater, to pay for the costs of de-commissioning the plant, to pay for a telemetry system to be located on the lift station on our property and to fence the lift station for the safety of all concerned.

We look forward to attending a special meeting of the District wherein these and any other issues are addressed. Further, we are hopeful that the parties can expeditiously resolve these matters and move forward in a cooperative fashion.

Sincerely,

TALKING ROCK RANCH
By: Harvard Investments, Inc.
Doug Zuber

Payment of Refunds Pursuant to the Development Agreement:

1. Express Powers. There are at least two express powers that authorize the district to enter the agreement:

a. Such a reimbursement provision for sanitary infrastructure is expressly authorized by statute.

i. As a special district, a sanitary district has "the status of a political subdivision of the State of Arizona and is vested with the rights, privileges and immunities of a municipality to the extent consistent with its stated purposes." A.R.S. § 48-271(B). Once established, a sanitary district is a "body corporate with the powers, privileges and immunities generally granted to municipal corporations by the constitution" and the laws of the State of Arizona consistent with its stated purposes. A.R.S. 48-2001(D). *Pinetop-Lakeside Sanitary District v. Ferguson*, 630 P.2d 1032, 1033 (Ariz. 1981) (sanitary district is political subdivision and thus has all powers of a municipal corporation).

ii. Among the express statutory powers of a municipality is entering into development agreements with any holder of an interest in real property as to, among other things, financing and other aspects of public infrastructure "and subsequent reimbursements over time." A.R.S. § 9-500.05(G)(1)(g).

b. Assuming for the sake of argument that the foregoing reimbursement power did not exist, a sanitary district nevertheless has the express power to purchase property.

i. Aside from the annexation provision, basically the Development Agreement sets forth the terms for conveyance to the district of certain property (i.e., the sewer system) and the consideration which the district will pay for same (in Section 10).

ii. The sanitary district statute itself expressly authorizes the district to purchase a sewerage system and real and personal property. A.R.S. §§ 48-2001(B)(1) (a sanitary district may be formed for the purpose of regulating, purchasing, establishing, constructing and operating a sewerage system) and 48-2011(3) (a sanitary district has the power to acquire any real or personal property by gift, purchase, condemnation or otherwise and own, control, manage and dispose of such property when necessary or convenient for the purposes of constructing, maintaining or operating a sewerage system).

iii. Indeed, given the net present value of the projected consideration to be paid by the district for the property, the district is getting a "bargain purchase," and the sewer system is partially a gift to the district.

2. Implied powers. Even in the absence of the foregoing express powers, the district would have the implied power to enter the agreement:

a. General.

i. The district statute states that the objective of the district is to, among other things, purchase, establish and operate a sewerage system. A.R.S. § 48-2001(B)(1).