

DECEMBER 2006

CURRENT STATUS – LAS CAMPANAS RECREATION CENTER

In 1995, an Agreement commonly known as the Developer Member Agreement (DMA) was executed by GVR with Fairfield Homes and the WLC Partnership for the development of the Canoa Ranch and Las Campanas Recreation Centers. This Agreement was subsequently amended in 2003 by the Developer Member Side Agreement (DMSA) that included Meritage Homes as the homebuilder and clarified a number of issues that included more involvement by GVR in the design and construction of the facilities and the establishment of an escrow trust account for the collection of future Initial Fees. The sale of homes generates Initial Fees to the Developer that are then provided to build these facilities. There are no funds provided by GVR toward the construction of either facility. In Las Campanas, the DMA provided that commencement of Phase III could not start until 850 homes were sold. That event occurred last May and GVR has been actively involved in the planning since then.

Prior to Meritage Homes taking over from Fairfield, all Initial Fees went to the WLC Partnership with no accounting to GVR. Information requested from WLC indicated that 444 sales were made by WLC before Meritage entered the scene. The Initial Fees collected indicated that there was a small shortfall between what WLC had collected and they had paid for Phases I and II.

WLC's attorney offered a lump sum amount based upon an estimated cost of \$1,436,743 stated in the 1995 Facility Plan (part of the DMA) and the difference in the Initial Fee between 1995 (\$1500) and 2006 (\$1,988). That resulted in construction funds of \$1,904,115 – a 32.53% increase over the estimated cost. Because Phase III would not be built until 2007, GVR countered with the 2007 Initial Fee of \$2,064. This resulted in \$1,976,958 in construction funds – an increase of \$72,643 over the first proposal and \$400,000 plus over the sales projection. The counter offer has been accepted by WLC and as provided in the DMSA, GVR will act as owner and execute the Construction Contract subject to receiving a Letter of Credit or other negotiable instrument from WLC in the aforementioned amount.

Because of escalating construction costs, Phase III had to be reduced by 3,000 s.f. to approximately 10,000 s.f. Consideration by the Board to advance some future Initial Fees from other developments to build out the facility to its maximum size will be presented at the January Board meeting. If things continue to fall into place, construction of Phase 3 could begin next summer with a 10 month schedule for construction.

CURRENT STATUS – CANOA RANCH RECREATION CENTER

In Canoa Ranch, GVR went through four sites before selecting the one we now have that is located across from the Meritage Model Center off of Canoa Ranch Road. Phase 1 of the Recreation Center is approximately 12,900 s.f. Working with the selected General Contractor, T. L. Roof, the total estimated cost is approximately \$3.8 million.

As provided in the Developer Member Side Agreement, GVR exercised its option to execute the Contract with T. L. Roof subject to obtaining a Letter of Credit or other negotiable instrument from Meritage Homes in the amount of \$3.8 million. Currently, there is in excess of \$1 million in Initial Fees less \$250,000 that has been released to GVR for architectural and pre-construction services. The net amount is on deposit in an escrow trust account. In a meeting in November with Jeff Grobstein, Meritage Division President, we informed him that we needed a Letter of Credit by December 1st as we anticipated that the Board of Supervisors would approve the Lot Split Application later in the month and we could then move forward in executing the T. L. Roof contract. In a telephone conversation with Mr. Grobstein on December 4th, he advised that there was ongoing discussion with Fairfield and their attorney relating to their participation on the Letter of Credit and further an agreement to reimburse Meritage for any funds advanced should Meritage decide to cease building operations on future phases of Canoa Ranch. As of this writing, neither one of these two issues had been resolved. In the meantime, engineering delays placed the Lot Split Application submittal on the Board of Supervisors meeting agenda of December 12th. Once that Application is approved, processed and recorded, Pima County officials have advised that they have approved all of the various plans and documentation related to the project and will then release the permits so as to proceed with construction. Until GVR receives the Letter of Credit, execution of the Construction Contract with T. L. Roof will be placed on hold. Mr. Grobstein indicated that he planned to have his issues resolved and could provide a firm commitment to GVR by no later than December 15th. If GVR receives the Letter of Credit on a timely basis following the Lot Split approval, construction would start shortly after the first of the year and the contractor estimates approximately ten months to completion with the opening of the Center in the fourth quarter of 2007.

Stan A Riddle, Developer Chair