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March 6, 2008

HAND DELIVERY

El Paso Water Utilities – Public Service Board
Attn: President/CEO
1154 Hawkins Boulevard
El Paso, Texas 79925

HAND DELIVERY

City of El Paso
Attn: City Manager
2 Civic Center Plaza
El Paso, Texas 79901

Re: Master Planned Community Development Agreement (“Agreement”), dated November 20, 2007, between El Paso Water Utilities – Public Service Board (“EPWU”) and the City of El Paso, Texas (“City”) (EPWU and the City herein collectively referred to as the “Seller”) and Hunt Communities, LLC, a Texas limited liability company (“Purchaser”) for the sale of the master planned community parcel consisting of approximately 4,832 acres (“Parcel MPC”).

Ladies and Gentlemen:

Hunt Communities has previously identified and discussed the regulatory deficiency that exists with respect to Parcel MPC and requested that the Seller address this issue. Specifically, we have objected to the failure of the City to amend its existing ordinances so that the Purchaser could timely develop and utilize the land as required by the terms of the Agreement. The most basic assumption of the Agreement was that the City would amend its ordinances to permit the Purchaser to legally do what the City required of it in the Agreement. Hunt Communities bid on Parcel MPC with the understanding that the City was committed to the successful realization of a master planned community that was the embodiment of Smart Growth Principles and that the City had been proactively engaged in a public process to build a consensus vision for future development in El Paso based upon “Smart Growth” principles (See EPWU Request for Qualifications dated October 15, 2006). The City indicated that it would work with the successful bidder to minimize regulatory delays and the PSB committed to be flexible on the terms of an agreement with the successful bidder (See EPWU Request for Qualifications). Additionally, the General Conditions and Instructions to Bidders required that “in all aspects of project design, development and construction process, the successful bidder shall incorporate Smart Growth Principles.”

The City has been leading a subdivision ordinance rewrite for well over a year and originally projected adopting the new ordinance in December 2006. In a letter dated April 21, 2006, the City indicated that it had retained the services of a consultant to undertake the subdivision code

rewrite. The letter indicated a willingness to "assure an outcome that meets the community's values for quality neighborhood development and the developer's/builders' needs and desires for flexibility in design and smart code standards." In December 2007, after receiving a draft of the new subdivision ordinance, Hunt Communities communicated to the City, that while the draft ordinance was a comprehensive update, it failed to allow development that met El Paso Adopted Smart Growth Principles and Objectives. Hunt Communities proposed that the City codify specific language in the current ordinance rewrite that would permit developers to build communities based on Smart Growth Principles. In exchange, a developer using Smart Growth Principles would be required to (1) follow current City parks dedication ordinances, (2) dedicate a minimum of its land as permanent open space (minimum of 15%) and/or (3) make a fixed contribution per lot (e.g. \$500 per lot) for regional amenities such as parks, libraries, or community centers. This proposal recognized that choice in development outcome was important and suggested a mechanism whereby developers could choose between conventional development outcomes or Smart Growth communities. Hunt Communities was clear that, until the subdivision rewrite considered Smart Growth principles and allowed them without the need for requests for variance, design standard modification, or special reviews, the rewrite would not result in Smart Growth development in El Paso. By way of example, we cite Hunt Communities' efforts to get a variance for a Westside subdivision incorporating Smart Growth principles which was not recommended favorably to the City Planning Commission and, after some delay, was ultimately denied.

In response to our December letter, the City indicated a willingness to receive a concrete proposal from Hunt Communities. Working under a tight deadline, Hunt Communities engaged its own consultant and submitted a proposal to the City that modeled an ordinance adopted by the City of Denton, Texas. This strategy was recommended by the then acting City Planning Director for the City of El Paso. This written submittal was rejected by the City and further attempts to provide the City with proposals that it is willing to consider have been met with resistance. Hunt Communities' most recent written communication to the City on this matter was an email asking for clarification regarding the City's strategy going forward. The response from the City said that much of what Hunt Communities had previously submitted regarding the proposed new Subdivision Ordinance was confusing, problematic, and in some cases inappropriately placed. The City's communication to Hunt Communities closed with a request that Hunt Communities limit and distill any additional changes that it proposed.

At Tuesday's City Council meeting, our representatives again pointed out that the Bid Documents (which are incorporated into the Agreement and which were written by the Seller), specifically require that "all aspects of the project design, development and construction process for Parcel MPC shall incorporate Smart Growth Principles as outlined in Exhibit "B" of the Bid Documents". The items described in Exhibit "B" are not yet incorporated or permitted by existing ordinances. It is impossible to perform the obligations required under the Agreement (and the Bid Documents) to design, develop and construct using Smart Growth Principles if we do not know for certain what those requirements are and if there is no legal way to do so. We cannot agree that the Purchaser can simply seek variances or exceptions from existing Ordinances to develop Parcel MPC using the required Smart Growth Principles. While this process is burdensome, time consuming and of uncertain outcome, you will recall that Section 16(f) of the Agreement signed by the City states that the Purchaser would not be required to seek or obtain a variance with respect to the requirements of any City ordinance if such ordinance would not legally permit the Purchaser to develop and use Parcel MPC in accordance with the terms of the Agreement without such special exception for variances. In answer to our concerns about the City's failure to amend its ordinances to legally provide the methodology to develop Parcel MPC, the Purchaser is told that it must now do exactly what the Seller contractually agreed that it would not have to do. This solution violates the terms of the Agreement and is unacceptable. We also note that at Tuesday's City Council meeting, strong opposition was expressed to the idea of extending the closing deadline to permit the adoption of a Smart Growth ordinance. The City Council, after executive session, suggested a two week window during which the parties could meet to work together on a Smart Growth ordinance. In light of (1) recent public statements (2) the City's

reluctance to consider our proposals, and (3) the fact that the City has been working on this ordinance for well over a year without making significant progress in adopting a subdivision ordinance with Smart Growth principles, Hunt Communities believes it is unrealistic to resolve these issues within the timeframe suggested.

The Bid Documents are clear that the property was intended to be of high quality design and based on Smart Growth principles that create pedestrian oriented places. The City created the Smart Growth master planned community vision for Parcel MPC, embarked on a national campaign to attract bidders to implement the vision, required that the successful bidder sign a contract requiring development based on those principles, but now appears unwilling to give the Purchaser the tools necessary to implement the vision. At the City Council meeting, the suggestion was made that the obligation to come up with an effective ordinance be passed to the Purchaser. Hunt Communities believes that this is an obligation of the City, not the Purchaser. Great communities are not developed by mistake and building great communities is the result of clear vision along with the tools necessary to implement the vision. The City and the PSB have created the vision, but the City does not appear to be willing to adopt the tools to implement it.

The City's reluctance, if not refusal, to amend its regulatory scheme to permit the development of Parcel MPC in accordance with the vision and the requirements which the City and the PSB imposed on the Purchaser was not anticipated at the time the Purchaser submitted its bid. It creates a legal impediment that renders the Purchaser's performance impossible. Given today's economic environment, we cannot accept the risk that the City will eventually get around to amending its ordinances in a manner that will permit the development of Parcel MPC in accordance with requirements in the Agreement. In fact, it was suggested by a member of the City Council at yesterday's meeting that such an amendment may never occur. As of this date we have been unable to satisfactorily resolve these matters. We believe that the City's failure to adequately address these issues is of such magnitude that we have no adequate remedy other than to rescind the Agreement effective with your receipt of this letter. Please be advised that we deem the Agreement rescinded.

Hunt Communities continues to support master planning and Smart Growth Principles, the development of Parcel MPC in accordance with such Principles, and improving the quality of development in the City. Hunt Communities thanks the PSB, its management, and its board for striving for quality development in the City and hopes that the PSB and the City will work together to correct the deficiency and bring the property back to the market.

Regards,

HUNT COMMUNITIES, LLC

A handwritten signature in blue ink, appearing to read "Gary Sapp". The signature is stylized and cursive.

Gary Sapp, Chairman

cc: City Attorney
2 Civic Center Plaza
El Paso, Texas 79901