

**PALOMINO VALLEY GENERAL
IMPROVEMENT DISTRICT**

**THE HISTORY
OF LAND OWNERSHIP
AND AREA PLANNING**

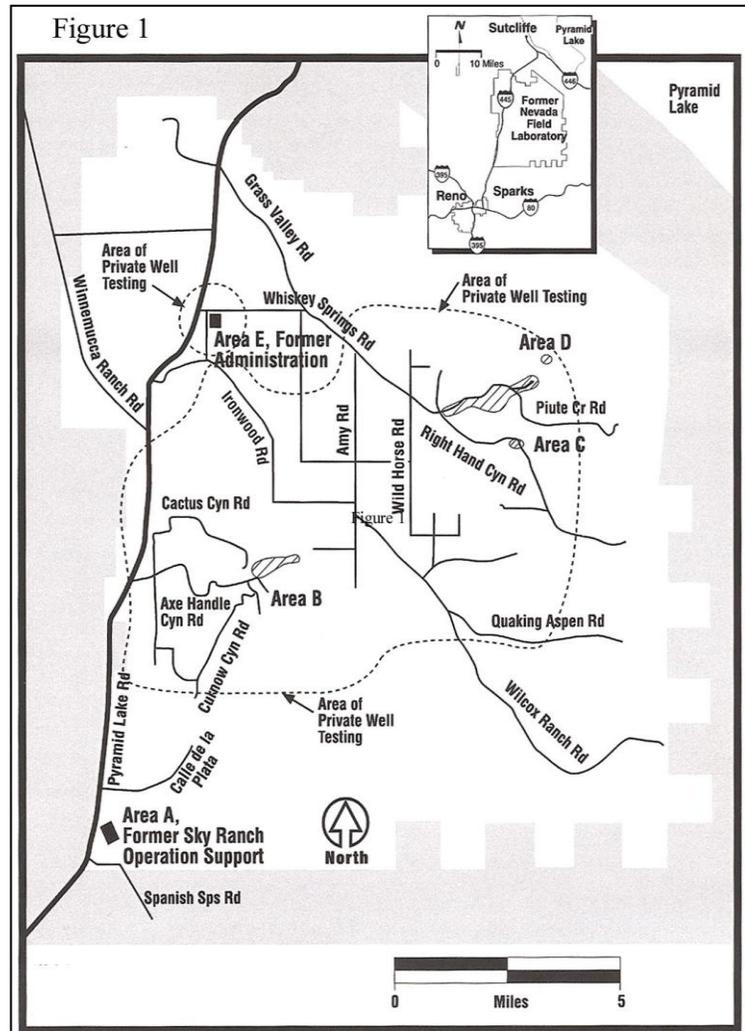
ROCKETDYNE

(aka North American Aviation, North American Rockwell Corporation (NARC), Rockwell Aerospace, and Boeing)

The History of Rocketdyne in Palomino Valley (the following excerpt is from Boeing's "Fact Sheet" dated June 2005):

From 1962 to 1970, Rocketdyne, then a division of North American Aviation, operated a rocket engine testing facility known as the Nevada Field Laboratory (NFL), located approximately 20 miles north of the Reno/Sparks area (see Figure 1). Rocketdyne, formerly a division of Rockwell International, is now a part of The Boeing Company.

In the early 1970s, the majority of the 126,000-acre property was sold to McCulloch Properties, Inc. McCulloch subdivided this property and sold parcels to private parties.



Discovery of solvents in private wells led to an extensive groundwater remediation program. That program, began in 1994, is still ongoing and Boeing's commitment to the community is ongoing as well. In January, 2007, Boeing donated \$50,000 to the GID to pay for a well to be drilled on GID property.

At the March 13, 2008 GID meeting, President Harold Shotwell announced the completion of the well drilling. By August of 2008, the GID was pumping water from the well.

McCULLOCH PROPERTIES, INC. (MPI)

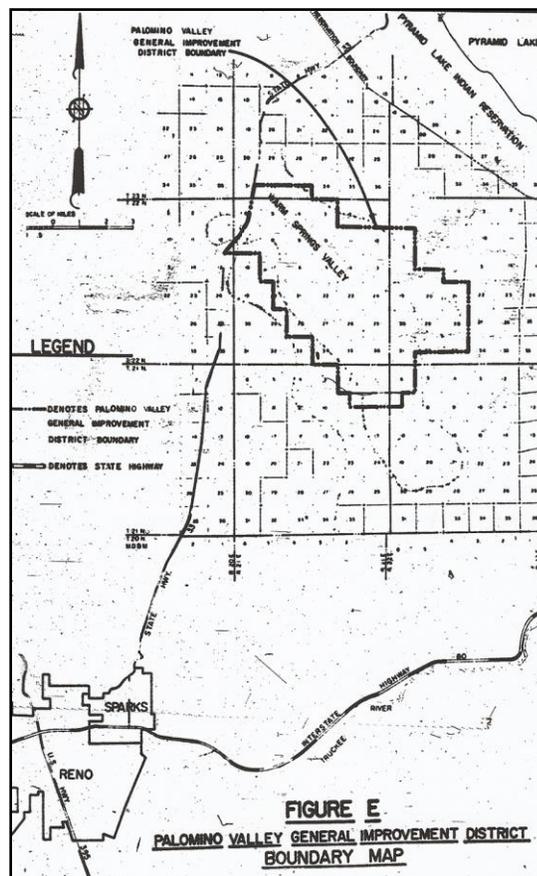
In the early 1970s, McCulloch purchased 110,000 acres of Rocketdyne's 126,000-acre property. McCulloch had plans for a 5,000-lot residential community, which was to include a Horseman's Center, Community Park and Golf Course.

In January 1973, the General Plan of Development and Service Plan, Palomino Valley General Improvement District (PVGID) was drafted by Trico International, Inc., Engineer of Work.

The process to officially create the PVGID consisted of the filing of the Service Plan with the Washoe County Board of County Commissioners (BoCC), a Petition for Public Hearing, the Public Hearing, a Resolution by the BoCC to Approve the Service Plan, Adoption of Bill No. 331, Ordinance No. 206 Initiating the Formation of the PVGID, and Adoption of Bill No. 333, Ordinance No. 208 Creating the PVGID: "This ordinance shall be in full force and effect from and after July 28, 1973 ..."

The Secretary of State of the State of Nevada issued a Certificate certifying that PVGID (Organized Pursuant to NRS - Chapter 318) did on the first day of August, 1973 file a certified copy of its Articles of Incorporation and is duly qualified to exercise the powers as stated in its Charter or Articles and transact business according to the laws governing Corporations in Nevada.

Under its Charter, the PVGID had all the powers enumerated in NRS 318 (see Appendix B). The January 1973 Service Plan (hereinafter "Original Plan") called for the construction and maintenance of roads, sewer (limited service area), drainage, and recreational facilities (community recreation center and park complex, a riding park, a gun club, a rodeo arena, and an 18-hole golf course).



Service Plan Dated January 1973
Trico International Inc., Engineers

On January 29, 1974 the Organizational Meeting of the Board of Trustees was held.

At the September 10, 1974 PVGID meeting, McCulloch's Senior Vice President and Project Manager, B. Wells O'Brien presented copies of proposed contracts for Roads, Sewers, Drainage, Horseman's Center, Community Park and Golf Course to the Trustees for their consideration. Under the Original Plan, the GID was responsible for the construction of the "basic" access roads and McCulloch was obligated to construct the remainder of the roads. All roads within the District were to be constructed to County specifications (for paved roads) which was also to be the specifications of the District.

Subsequently, the Board voted to accept the agreements for the construction of facilities. It was noted that Washoe County had approved the agreements as written.

A dramatic change of events occurred a year later when B. Wells O'Brien appeared before the Board on September 8, 1975 to report on the status of the project. Mr. O'Brien informed the Board that due to the drastic change in national and local economic conditions and particularly the energy crisis, McCulloch had determined that the present and future marketing of the community as planned was not feasible. McCulloch had requested the County Commissioners revoke the Special Use Permit and the right of Palomino Valley General Improvement District to hold power to issue bonds and construction of improvements in abeyance. MPI proposed to liquidate its property by selling it in approximately 700 parcels (Note: The original plan was for 5,000 parcels), the smallest of which would be forty acres and increasing to in excess of one thousand acres in size.

Furthermore, McCulloch proposed to construct approximately 97 miles of "ranch" roads (Note: Originally all roads were to be paved.) to provide access to each parcel sold. The Board was asked to annex all of the property owned by McCulloch, approximately 110,000 acres, and to accept the proposed roads for maintenance. McCulloch agreed to subsidize the GID until such time as it could raise tax revenue with which to maintain the roads. The Board unanimously agreed to McCulloch's proposals.

Accordingly, McCulloch and the GID began the process of amending the Original Plan. Two "Inclusions of Real Property" into the PVGID were executed (Inclusions 75-1 and 75-2 aka Resolutions 75-R1 through R5). A petition to amend the Service Plan was submitted to the BoCC. On October 15, 1975, a public hearing was conducted by the BoCC, and the Commission passed a resolution approving the amendment to the Service Plan.

Besides annexing all 110,000 acres into the District, the amended Service Plan (hereinafter Amended Plan) restricted the PVGID's powers to road maintenance. The pertinent section of the Amended Plan is as follows:

" ... said Service Plan, as approved by this Board [BoCC] on June 5, 1973, is hereby amended in the following respects: ...

2. That no improvements or facilities will be constructed by [PVGID] and [PVGID] will not furnish sewer or recreation services, but will ***only provide for operation, repair and maintenance of roads*** [emphasis added] within the District which will be constructed by McCulloch Properties, Inc. The funds for said road services will be derived from ad valorem taxes."

At the July 14, 1977 GID meeting, President Shirley Weise informed the Board that McCulloch Properties, Inc. was being sold to Lorne Pratt Enterprises who will assume the responsibilities and liabilities previously held by McCulloch Properties, Inc.

LORNE PRATT ENTERPRISES

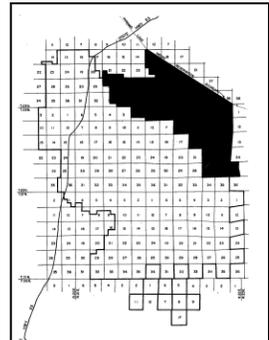
(aka Lorne Pratt Properties, Double "P" Partnership, Pratt Properties Inc., Area-West, Inc., Tehama Holdings)

At the January 12, 1978 GID meeting, Mr. Donald Kinder, a representative of Pratt Properties, Inc. reported that the sale of McCulloch Properties, Inc. to Pratt Properties, Inc. (PPI) was finalized on December 28, 1977. Mr. Pratt purchased 49% of McCulloch Properties, Inc. and had an option to purchase the remaining 51% by 1982. Area-West, Inc. was the sole sales agent for PPI, and the sales program in Palomino Valley was started in November of 1975. Mr. Kinder stated that \$1,300,000 has been spent on this project - for the land, for proving-up water rights, the engineering services, the sales program and for construction of roads. The property was sold at an average price of \$150.00 per acre. An independent firm of engineers, Harding, Lawson & Associates, of Reno, was hired to inspect the roads and they determined they were properly built to the required standards and specifications.

PPI eventually purchased the remaining 51% of McCulloch's holdings, which included Palomino Valley "Units" 1 through 14, and A, B, C, and E; Monte Cristo Ranch, and Wilcox Ranch. Before Rocketdyne bought them out, both Monte Cristo and Wilcox were cattle and "Dude" ranches.

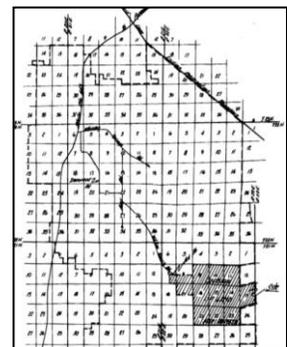
MONTE CRISTO RANCH

Monte Cristo Ranch (MCR) is located in the northeast corner of the District (see inset map). After acquiring MCR, the Pratts further divided the region into two "Units." (See list of Land Maps in Appendix C for land map numbers.) On December 14, 1978, the GID Board passed Resolution No. F78-R3 (aka No. 19), in which they rejected the dedication of the roads for maintenance located in "Monte Cristo."



WILCOX RANCH

Wilcox Ranch is located in the southeast region of the District (see inset map). Formerly designated by McCulloch on a Division of Land Map as Palomino Valley Unit F, the Pratt's renamed it Wilcox Ranch - 2. Further divisions of land within Wilcox Ranch resulted in additional land maps being recorded (see list of Land Maps in Appendix C for land map numbers). In 1981, the GID received a copy of the booklet being given to purchasers of property in Wilcox Ranch. This included a "Declaration of Reservations" which stated that, "The Property is located within the boundaries of the Palomino Valley General Improvement District ('District'). The District has, or will, accept the roads within certain units of Palomino Valley for maintenance. None of these roads are within the Property. The District levies an ad valorem tax each year to cover its general operations, Notwithstanding the fact that none



of the roads which the District has accepted for maintenance are within the Property, the Owners will be required to pay the ad valorem tax levied by the District against their parcels." The Pratt's also established the Wilcox Ranch Property Owners Association to maintain the roads within its boundaries.

PALOMINO VALLEY EQUESTRIAN ESTATES (PVEE)
(Formerly Known As: PALOMINO VALLEY VISTAS UNIT #1)

Nothing happened for years with Pratt Properties, Inc. until April 17, 1986. At this GID meeting Lorne Pratt, Tom Pratt, and Cathy Nash of Double "P" Partnership were present. Lorne Pratt gave a status report of their proposed development (PVEE) in the vicinity of Pyramid Highway and Whiskey Springs Road. The main topic of discussion at this point was regarding the paving of Whiskey Springs and water management to prevent the serious flood damage that occurred in February 1986 from happening again.

Damage to Whiskey Springs Road due to flooding occurred again in 1987, and in a letter (see following pages) to Charles Fulkerson, Vice President of the Palomino Valley Homeowners Association, Lorne Pratt (Double "P" Farms) outlined the history of his development project in Palomino Valley, and that his alternatives were:

1. *To continue to explore the selling of its [Double "P" Farms] water rights - which it prefers not to do.*
2. *Sell the property and its water rights as an alfalfa farm, which is unlikely due to pumping costs for a low "dollar" crop.*
3. *Stop farming, and take the risk of losing the water rights to the state in five years, which doesn't make sense.*
4. *Wait for the county to complete a general development plan which could take several years with unknown results.*
5. *To modify the present approved development plan to make it economically [feasible].*

A condition outlined in the Development Handbook was an agreement between the developer (Double "P" Partnership) and the GID regarding road maintenance and storm water management. On May 3, 1988, a letter from the GID to Mr. Pratt fulfilled that requirement. Besides setting forth the specifications for the paved entrance road (notably *not* Whiskey Springs Road, but a completely new entrance north of the intersection of Pyramid Highway and Whiskey Springs Road) for the PVEE development. It included the paving of an approximately 450 yard section of Whiskey Springs Road west of Youngs Road. The GID was to be responsible for installing, "... an adequate culvert to handle water flow on the South side of Whiskey Springs Road ..." The GID also agreed to accept for maintenance the graveled roads within the PVEE subdivision. The final clause in the agreement was Double "P" Partnership's commitment of \$50,000 to the GID to use to protect Whiskey Springs Road from "flooding and wash out."

Area-WEST INCORPORATED, A Nevada Corporation



CATHY NASH, Licensed Real Estate Broker
Corporate and Brokerage Office

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Charles W. Fulkerson
Vice President
Palomino Valley Home Owners Assoc.

October 29, 1987

Dear Chuck:

Thank you for your assistance in, perhaps, resolving some of the problems that we have in the development and growth pattern of Palomino Valley.

A little history will help put it in perspective.

First: My son and I aquired various Double "P" Farm properties between 1979 - 1982, for the purpose of future subdivision. To protect our water rights, 3,240 acre feet, as well as 1,600 acre feet of rights owned by others, it was necessary to put the rights to beneficial use through farming. Since the acquisition we have incurred farm losses in excess of a million dollars in the protection of those rights. Obviously, affordable farming is not a profitable endeavor, mainly due to high electrical pumping cost.

Second: Considerable monies were expended between 1983 and 1986 for engineering, planning, water quantity and quality tests, soil and septic tests, flood flow patterns, Pyramid traffic flow and demographic studies of the area.

Third: In May of 1986 a graveled road development plan of 86 five and ten acre parcels, an equestrian center, a park site and a commercial site was approved by Washoe County. It had one main contingency - that we pave Whiskey Springs Road, 21 feet wide, from Pyramid Highway to Grass Valley Road at our cost.

Fourth: In both 1986 and 1987, Whiskey Springs Road had areas washed out due to flooding. The engineers estimated that the flooding problem, plus paving Whiskey Springs road as required, would cost almost \$500,000 dollars, (almost 2 1/2 times the original cost estimate). This additional, unexpected cost made the economic cost of development of only 86 parcels prohibitive.

1-4

OTHER LORNE PRATT COMPANIES:

Pratt Holding Co., Inc.
Area West, Arizona
Calico Land & Cattle Co.

Arlington Towers
Cattlemen's Title Guarantee Co.

Double "P" Ranch, Inc., Arizona
Double "P" Partnership, Nevada
Sage Land Corp., California

Arizona Office: P.O. 4100, 85261, 8233 Via Paseo Del Norte #200, Scottsdale, Arizona 85258

Fifth: In November of 1986, Westpac utilities approached us and offered to buy 2100 acre feet of water rights for \$2,480,000 cash. They purchased a 6 month option to acquire the purchase right at that price, subject to state transfer approval. Last July their request for an extension of the option at no cost was denied by Double "P" farms.

Sixth: A "work shop", meeting was arranged by Commissioner Larry Beck in October of 87. It was held with the county board of commissioners and involved county department heads to explore a higher density development of approximately 250 two and a half to ten acre parcels. If approved, Double "P" would have given the county 800 - 1000 acre feet of water rights to be used for the costs of future development of the Palomino Valley area. The county commissioners felt that this lot density could cause additional traffic flow problems for Pyramid Highway and it was their feeling that the density should be lowered, or plans held in abeyance, until a general development plan for the Valley could be completed by the county.

At this point in time, Double "P" Farms has the following alternatives:

1. To continue to explore the selling of its water rights - which it prefers not to do.
2. Sell the property and its water rights as an alfalfa farm, which is unlikely due to pumping costs for a low "dollar" crop.
3. Stop farming, and take the risk of losing the water rights to the state in five years, which doesn't make sense.
4. Wait for the county to complete a general development plan which could take several years with unknown results.
5. To modify the present approved development plan to make it economically feasible.

Obviously, from all standpoints, the fifth alternative amending the present plan would be the best for all concerned. We would appreciate the help and backing of the Property Owners Association and the General Improvement District in pursuing this plan and believe it would be extremely beneficial to the residents of the valley for the following reasons:

1. It will insure that the water rights stay within the area.

2. A large parcel development (3.5 to 10 acres) will fit the character of the valley and reasonably limit population expansion.
3. It will provide a 7 - 10 acre park site, with a baseball diamond, tennis court and other facilities at no cost to Valley residents.
4. We would build a new attractive paved access road which would intersect Whiskey Springs Road 250 yards west of the Youngs Road intersection.
5. A commercial site would provide a general store, gasoline station and other needed facilities.
6. Equestrian facilities and a 5/8 mile training track with a 330 yard quarter horse chute would be available to area residents as well as other horse related facilities.
7. The equestrian center would have a 3,000 square foot building available for community meetings and church services.
8. All new roads, paved and graveled, would be provided, funded and maintained at no cost to the General Improvement District by the Equestrian Home Owners Association.
9. The development parcels, equestrian center, commercial area, and the new home bulding will increase assessed valuation, which will provide additional revenues at no cost to the General Improvement District.
10. The equestrian center would provide employment opportunities for qualified Valley residents.

The above benefits would result from limited amendments to the present county approved plan over five construction years. The proposed amendments are:

1. The approved parcels would be increased from 86 to 112, a net gain of only 26.
2. A new paved access road would be built, as paving and providing flood control costs for Whiskey Springs Road is Prohibitive.

3. To reduce density until Pyramid Road is widened;
A) eliminate the commercial area, B) hold off on construction of grandstand, C) not hold any horse or show events. This will reduce the future traffic density problems.

4. The proposed park site and the equestrian center have been moved from the South side of Whiskey Springs Road to the North side, a more "out-of-the way location".

5. The building and property restrictions within the development and Home Owners Association by-laws will be amended to reflect the additional 26 parcels.

6. Pastures will be placed in the center area of the training track, rather than the proposed lake.

We believe, that with the cooperation of the Property Owners Association and the General Improvement District in obtaining the amendment approvals from the county we can develop a quality subdivision which would benefit the residents of the area and commence a stable limited growth pattern which would be a credit to our valley.

Thanks again for everything

Yours,



Lorne B. Pratt
General Partner
Double "P" Farms

cc: Commissioner Larry Beck

In July 1988, Lorne Pratt wrote a letter to then PVGID President, Jim Clark, in which he relayed the news that they had received approval of a portion of their PVEE project. Mr. Pratt also informed Mr. Clark as to the status of their decision on whether or not to proceed with the development. Mr. Pratt wrote:

The determining factors, as to whether we will proceed with the project or not, will be the satisfactory solution of the problems relating to the developers handbook and its construction standards. Once these standards are agreed upon, we will obtain final bids for the construction work, to determine the feasibility of the project.

A year later (July 12, 1989), Lorne Pratt responded to a letter from the PVGID regarding the possible sale of his PVEE development. Mr. Pratt informed the PVGID that the property was on the market. He wrote, "The reason is simply that the costs of doing the proposed development have risen substantially, while the Real Estate market in the greater Reno area has declined." Furthermore, Mr. Pratt stated, "By the Spring of 1990, we will determine which course to follow: (a) Proceed with the development; (b) Continue to farm this property until the County's master plan is developed; or (c) Sell or trade the property."

The October 22, 1991 GID minutes show that the Pratts brought in a developer, Carl Durling of Terra West.

For years there was very little mention of the Pratts and their Palomino Valley Equestrian Estates development, because the Warm Springs Area Plan (WSAP) and the Warm Springs Specific Plan Area (SPA) Plan were being formulated. [Note: The history of the WSAP and the SPA follow this section.]

WARM SPRINGS RANCH

An item listed on the October 12, 2001 agenda for the Washoe County Agency Review Meeting was, "Preliminary Development Agreement Case No. DA01-001(Warm Springs Ranch)" Described as follows:

To develop a 750-lot, single-family subdivision ... Included with the project are two Special Use Permits, one for a golf course and the other for the water system. An Administrative Permit is requested for the equestrian center. The Warm Springs Specific Plan requires a Development Agreement be adopted.

The "Property Owner" was listed as Tehama Holdings, Inc. with Bobbi Pratt listed as the contact person. The "Applicant/Developer" was Palomino Valley Associates, LLC. Randal Walter, Planning Manager for MacKay & Soms was listed as the "Professional Consultant." And, "Other Persons to be Contacted" was Len Fryer, Mission Valley Properties, Pleasanton, California. The property description listed in this notice, reveals that the Warm Springs Ranch development and the Palomino Valley Equestrian Estates property are one and the same.

Deeds and Deeds of Trust filed on August 4, 2003, in the Washoe County Recorder's Office, show the property was sold to Palomino Valley, LLC by Tehama Holdings, Inc. The promissory notes totaled \$3,899,500 (see document numbers 2899163 - 2899168). The Washoe County Assessor's Office records show a total sale price of \$4,274,500 (see Sale Information for APN 077-090-14).

Then in June 2004, a new Agency Review Agenda was received by the GID, again with the Warm Springs Ranch development scheduled for review. However, this time the review was for a new Tentative Subdivision Map (Case No. TM04-005), and a sewer treatment plant and system. The golf course, equestrian center, and water system which were previously applied for, were again listed for review. Another change since Palomino Valley, LLC purchased the property, was the "Property Owner" was now listed as Palomino Valley Associates, LLC, Attn: Len Fryer, and "Applicant/Developer" was now Vista Land Corporation of NV, Attn: Buzz Schulte. Randy Walter, MacKay & Soms Civil Engineers, was, as before, the "Professional Consultant" for this project.

Both Mr. Schulte and Mr. Walter were invited to and did attend the GID's July 8, 2004 Board meeting, and answered questions posed to them by the Board and audience members.

Over the next several years the Warm Springs Ranch developers attended numerous Citizens Advisory Board (CAB) meetings to review with the public their progress, which centered around the sewer treatment plant. Mr. Schulte and Mr. Walter also attended some of the Warm Springs Area Plan Update (APU) meetings as the APU also affected the Warm Springs Specific Plan Area (SPA), where their development was located.

The minutes from the July 6, 2009 CAB meeting reflected a public comment that "... Buzz Schulte has withdrawn from the Specific Plan Area." Filings of Notices of Default (Document numbers 3781818, 3781824, and 3781825) confirmed that Palomino Valley, LLC had defaulted on their promissory notes held by Tehama Holdings. Tehama Holdings was the highest bidder at the "Courthouse Steps" auction held in December 2009.

As of May 31, 2011, Tehama Holdings (Pratt) is the current owner of the property.

WARM SPRINGS SPECIFIC PLAN AREA (SPA)

In his July 1989 letter, Mr. Lorne Pratt of Double "P" Partnership alluded to Washoe County developing a Master Plan, and that the future of his project, the Palomino Valley Equestrian Estates, might be impacted by the resulting plan.

By January 1990, the Department of Comprehensive Planning (now known as the Community Development Department) had informed the GID of the desire of several property owners to develop a new community based on the "County Village" concept; the same concept used to plan the Lake Tahoe community of Incline Village. This detailed plan was also known as a "Specific Plan."

Late in 1990, records show that the Warm Springs Planning Area (formerly called the Pyramid Planning Area), the Warm Springs Area Plan, and the Integrated Water Budget were approved by the Washoe County Commissioners. The Commissioners wanted a task force formed to work on future development. The task force was to be comprised of one representative from the Citizen Advisory Board (CAB), one representative from the GID (Trustee Raymond Joseph represented the GID on the task force); four landowners within the Specific Plan Area (SPA); and one landowner outside the SPA.

On September 22, 1992, the Washoe County Commission adopted the Warm Springs Specific Plan. Yet to be determined, was the financing plan for the roadway improvements, storm drainage and other infrastructure and facilities.

A "Financing Concept Plan & Development Standards Handbook [for] 2.5 Acre & 5.0 Acre Plus Parcels" dated June 9, 1994 was submitted to the Department of Comprehensive Planning by SEA, Incorporated, Consulting Engineers, on behalf of four developers within the SPA: James E. and Ann D. Hess, Timothy W. and Patricia H. Hess, Brent and Katherine Douglas, and George W. and Lolita L. Newell. This submission led to numerous and lengthy meetings in which the GID Board and their Legal Counsel, Louie Test, worked hard to protect the interests of the District's constituents.

After a number of revisions, on April 18, 1995, the County Commissioner's came out to the Volunteer Fire Station in Palomino Valley to conduct the public hearing for the review of the Financing Plan. The County Commission did approve the Financing Plan that evening, which became Appendix G of the Warm Springs Specific Plan (dated March 7, 1995).

A concern of the GID's was the possibility that the "Spine Road" would not be built and that the existing roads that were to be paved, would not be paved. It's now mid-2011; 16 years have passed and there is no Spine road and no roads have been paved in the SPA.

The Warm Springs Area Plan update process began in 2005 and is still ongoing. The update will more than likely affect the Warm Springs Specific Plan and the Financing Plan.