
EXECUTIVE SUMMARY

Pursuant to the Public Improvement District Act, NMSA §§5-11-1 through 27 (2001, as amended) (the “Act”) and the City of Rio Rancho, New Mexico City Improvement District Guidelines and Application Procedures (the “Policy”), AMREP Southwest Inc., a New Mexico corporation (the “Petitioner”), in relation to a proposed Public Improvement District (a “PID”), submits this application (the “Application”) for the formation of the Lomas Encantadas/Enchanted Hills Public Improvement District (the “District”) pursuant to the Act and the Policy. The Application includes a formal petition to form the District. This Executive Summary contains the following sections: (A) Description of the District Financing and Improvements, the Project and the Petitioner, and (B) Summary of Application Contents.

A. Description of the District Financing and Improvements, the Project and the Petitioner.

The District project site contains approximately 357 acres of land wholly located within the City of Rio Rancho (the “City”), constituting 320 developable acres of land within the Lomas Encantadas subdivision (“Lomas Encantadas Area”) and 37 developable acres within the Enchanted Hills subdivision (“Enchanted Hills Area”). The Lomas Encantadas Area is a portion of the 800 acre master-planned community referred to as the Lomas Encantadas subdivision and is generally bounded on the north and east by the Enchanted Hills subdivision, on the west by Rio Rancho Estates Unit 20, and on the south by the Venada Arroyo. The Enchanted Hills Area is generally located in the northwesterly portion of the 2,000 acre Enchanted Hills development and is generally bounded on the north by US 550, on the west by Rio Rancho Estates Unit 20 and the south and east by Enchanted Hills Unit 11A. The proposed District is currently estimated to include 1,037 residential units. The improvements associated with the District (such improvements, the “Project”) are expected to include, but are not limited to, on-site and off-site roads, sanitary sewer, water, drainage improvements, park and trail improvement, landscaping, grading, and various soft costs. The Project is wholly located within the City and owned by the Petitioner and Pulte Homes of New Mexico, Inc., a Michigan corporation (“Pulte”). Pulte consents to the Application.

District Financing and Improvements

The estimated gross construction cost of the Project is approximately \$43,087,598. The Petitioner is seeking financing through the proposed District for approximately \$18.5 million of the on-site and off-site public improvement costs. The remainder of the costs of the private improvements and the public infrastructure will be the responsibility of the Petitioner.

The financing objective of the District is to create the most cost effective financial vehicle allowed by the Act and Policy for the ultimate benefit of the homeowners within the District. The Petitioner is proposing a direct reimbursement method of finance which is in compliance with the requirements and spirit of the Act and Policy without any expected net increase in costs to the City or the homeowners within the District.

The District will not be financed using bonds. Instead, financing will be accomplished through the District's direct reimbursement to the Petitioner. The proposed direct reimbursement method benefits both the District and its future homeowners because it eliminates bonding and underwriting expenses incurred in a typical PID bond financing transaction at an anticipated interest rate lower than traditional bonding transactions. The Petitioner will initially pay for all the costs of installing the PID eligible infrastructure from its own funding sources. Once the Petitioner completes construction of a portion of infrastructure and the completed infrastructure is approved for dedication to the City, the infrastructure will be acquired by the City concurrently with the District's execution of a reimbursement certificate for the acquired infrastructure, plus reimbursement to Petitioner for any District associated operation or formation costs or expenses (the "Reimbursement Certificate"). Each Reimbursement Certificate will be the written document affirming the District's obligation to reimburse the Petitioner for the costs and expenses associated with the PID eligible improvements approved for dedication to the City during the applicable cycle of construction, conveyance and reimbursement, plus any District administrative or organizational costs and expenses expended by Petitioner during the cycle. The direct reimbursement method is one of the financing methods allowed under the Act.¹ In addition, the direct reimbursement method is more advantageous to both the District and the eventual homeowner because it eliminates substantially all bond financing expenses. By using the direct reimbursement method, these cost savings benefit the eventual homeowners by

¹ NMSA 1978 Section 5-11-10(A) (1) and (11) (2001, as amended).

allowing the Petitioner to install additional infrastructure and amenities for the same PID expense.

Each Reimbursement Certificate issued by the District to the Petitioner will include interest at a fixed rate equal to the Wall Street Journal prime rate (the “Prime Rate”) plus 1%. Prime Rate will be established at the time such Reimbursement Certificate is executed and delivered. This proposed interest rate will be significantly lower than the interest rate generally applicable to bond sales. For example, the anticipated bond sale in April 2018 for the PID in the Stonegate subdivision will bear an interest rate of 6.50%, while the current Prime Rate has remained at 3.25 – 3.50 % over the last 5 years. The current Prime Rate will result in a fixed interest rate of approximately 4.25% – 4.50 % for a Reimbursement Certificate issued pursuant to the terms of this District, resulting in an approximately 2% interest rate saving over traditional bond financing. Furthermore, the Prime Rate is not susceptible to extreme increases due to lack of suitable bond purchasers. The Petitioner’s use of the direct reimbursement method results in a material decrease in the actual interest expense to the homeowner when compared to traditional bond financing mechanisms.

The District will repay the Reimbursement Certificates by imposing a special levy on the real property owners within the District receiving the benefit of the infrastructure. The special levy shall not exceed 1.99% of the anticipated market value of the residential property as determined by the MAI Appraisal, which is included in this application. The financing of the District will not be general obligations of the City. Neither the property, the taxing power, nor the full faith and credit of the City will be pledged to the payment of any District obligation or indebtedness.

The improvements to be financed by the District are expected to include, but are not limited to, on-site and off-site roads, sanitary sewer, water, drainage improvements, park and trail improvements, landscaping, grading, and various soft costs, which soft costs may include but are not limited to planning, design, engineering, construction, testing, construction management, inspection, fees, gross receipts taxes, contingencies, and incidental or necessary expenses or expenditures for the foregoing improvements constructed and installed by the Developer to serve the Lomas Encantadas Area and Enchanted Hills Area, in conformity with all relevant plans, specifications, requirements and standards of the City and in accordance with applicable plats, site development plans, and subdivision improvements agreements. Project improvements for the Lomas Encantadas Area are anticipated to include, but are not limited to,

the following:

- On-site roads including, but not limited to, the collector roads of Camino Encantadas, Kodiak Road, and Aldan Drive;
- Sanitary sewer collection facilities including, but not limited to, the on-site collection lines of 12" in diameter located in Camino Encantadas;
- Water transmission facilities including, but not limited to, the on-site collection lines of 16" in diameter located in Camino Encantadas and 8" in diameter located in Kodiak Road, Nacelle Road, and Nagoya Road;
- Storm drain lines of 54", 56", 60", 66", and 84" in diameter located in Camino Encantadas;
- Off-site road, sewer, and drainage improvements within the right-of-way for Camino Encantadas; and
- Park and trail improvements, landscaping along collector roads, and barrier walls.

PID Project improvements for the Enchanted Hills Area are anticipated to include, but are not limited to, the following:

- On-site roads including, but not limited to, the local roads of Colfax Place NE, Valencia Drive NE, Eddy Place NE, and Sandoval Drive NE;
- Sanitary sewer collection facilities including, but not limited to, the on-site collection lines of 12" in diameter;
- Water transmission facilities including, but not limited to, the on-site collection lines of 8" in diameter;
- On-site storm drains; and
- Local on-site park improvements.

Once completed, the improvements will be acquired by and dedicated to the City. It is anticipated that the applicable homeowner's associations will take primary responsibility in the maintenance and operation of the parks, trails and general landscaping of the District. The City will provide all operations and maintenance regarding the remaining public improvements, including, but not limited to, roadways, sidewalks, traffic signal and streetlights, water, sewer,

and drainage. Prior to the dedication, the owners of the Project will be responsible for maintenance costs for the public infrastructure, if any.

The Project

The District consists of the Lomas Encantadas Area and the Enchanted Hills Area. These Areas are comprised of residential properties within the planned communities of the Lomas Encantadas subdivision and the Enchanted Hills subdivision. The financing structure of the Project has allowed the Petitioner to place an emphasis on landscaping and the outdoor lifestyles of the residents by incorporating attractive landscaping, additional parks and an expansive trail system throughout the District, which is expected to connect up to seven parks within and adjacent to the Lomas Encantadas Area and Enchanted Hills Area. These additional amenities increase the development costs of the District by more than \$1,000,000. These additional amenities would not be possible absent the receipt by the Petitioner of financing from the District.

The proximity of the Project to the Enchanted Hills Commerce Center and Enchanted Hills Plaza will create a sense of place and community while gently completing the expansion of necessary housing in the area. The adjacent Highway 550 and Highway 528, and ease of access to Interstate 25, will create a smooth commute to both Albuquerque and Santa Fe for the future residents of the Project, while allowing easy access to the growing business development in the north Rio Rancho area. Without the public infrastructure improvements financed through the PID, residential development in the northern area of the City may become checkered and non-uniform without a cohesive attachment to the community at large.

The Project will be constructed in phases based upon the various local subdivision units within the Project. Construction of the public improvements within the Project is anticipated to be completed by 2025.

The Petitioner

The Petitioner has been the principal developer of the City since prior to the City's incorporation. The Petitioner has developed property within the City for residential, commercial and industrial utilization. Further information relating to the Petitioner and its experience is provided in Tab 14 to this Application.

B. Summary of Application Contents. The following provides a brief summary of the contents of each of the sections of the Application.

Tab 1: Executive Summary. This Executive Summary is Tab 1 of the Application.

Tab 2: Petition and Application. A formal Petition and Application is attached at Tab 2 of this Application. Through the Petition and Application, the Petitioner respectfully requests that the City approve the formation of the Lomas Encantadas/Enchanted Hills Public Improvement District by adopting the proposed Formation Resolution, which is attached to the Application at Tab 20.

Tab 3: Legislation. A copy of the Act and the Policy are attached at Tab 3 for ease of reference. Policy §2-10-5 outlines the majority of the requirements of any PID application. For ease of reference, the Application contents have been cross referenced to the applicable sections of the Policy. These cross references are also located in the table of contents.

Tab 4: (A) Legal Description of the District; (B) Identities and Addresses of Owners. Policy §2-10-5(A) requires a legal description of the proposed District, the identity and addresses of all persons or entitled with any interest in the property, and the names and addresses of any qualified electors (as defined in § 3-1-2(K) NMSA 1978) located within the proposed boundaries. The required legal description and owner identifications are attached at Tab 4.

Tab 5: Depiction of the District. Policy §2-10-5(A) requires a description of the proposed District. A pictorial depiction of the District, as described in Tab 4, is attached at Tab 5.

Tab 6: Title Report. Policy §2-10-5(A) requires that a current title report for the property be submitted as evidence of the names of persons with any interest in the land and qualified resident electors located within the proposed District boundaries. The required Title Report is attached at Tab 6. The title report shows that the Petitioner is the owner of the all the land within the District, except for certain lots within Lomas Encantadas Unit 2D owned by Pulte. Pulte consents to this Application and the District formation.

Tab 7: Consent of Owners. Policy §2-10-5(A) requires evidence of the irrevocable consent of the required property owners and qualified electors. The owner of the District property is the Petitioner and Pulte. There are currently no occupied houses within the District and no qualified electors exist on the District property. The District is therefore proposed to be formed without an election, as permitted pursuant to §5-11-7(I) NMSA 1978. The required Consent of Owners is attached at Tab 7.

Tab 8: General Development Plan. Policy §2-10-5(B) requires a General Development Plan (the "PID Plan"). The required PID Plan is attached at Tab 8. As required by §5-11-3-(3)

NMSA 1978 and Policy §2-10-5(B), the PID Plan includes the following:

- (1) An estimate of the construction or acquisition costs of the public improvement development project;
- (2) The projected working capital needs, including funds for repair and replacement of the public improvement development project and any private infrastructure development within the District;
- (3) A description of the types of public infrastructure to be financed by the District;
- (4) Annual operation and maintenance costs of the public improvements; and
- (5) The government approvals required for the construction and operation of the public and private improvements.

Tab 9: Projected Schedule. Policy §2-10-5(C) requires a proposed project schedule for estimated construction commencement and completion of (a) public improvements, and (b) the private development. The Project Schedule is a portion of the Preliminary Financing Plan, which is attached at Tab 10.

Tab 10: Preliminary Financing Plan. Policy §2-10-5(C) requires a proposed financing plan for public improvements, including both capital and operating/maintenance costs for all undedicated improvements undertaken by the District. The required Preliminary Financing Plan is attached at Tab 10.

Tab 11: Financial Feasibility Study. Policy §§2-10-5(D) and 2-10-7(D) (1) require a proposed financial feasibility study for the District. The required Financial Feasibility Study is attached at Tab 11. The financial feasibility study was prepared by David Taussig and Associates, and includes market absorption modeling by David Pearson, MAI. The Petitioner's proposed phases and respective timing for each phase are presented in the financial feasibility study.

Tab 12: MAI Appraisal. Policy §2-10-5(E) requires a current appraisal of the fair market value of the property within the District, prepared by a person who is designated as a Member Appraisal Institute and a verified general real estate appraiser. The required appraisal is attached at Tab 12.

Tab 13: Market Demand Study. Policy §2-10-5(F) requires, to the extent applicable, a market demand study for private development in the District, including estimates of the revenue to be generated by the development and estimated market absorption of the development. The Act and Policy do not require a Market Demand Study for this particular PID because the Application

does not anticipate revenue generated by the District. Therefore, no supporting documentation is attached at Tab 13.

Tab 14: Petitioner Information. Policy §2-10-5(G) requires a description of the Petitioner's professional experience and evidence demonstrating its financial capacity to undertake the development associated with the public improvements and private developments. Tab 14 provides a description of the Petitioner's proposed equity contribution, the timing and sources of such equity contributions, a description of past projects of the Petitioner, and a statement as to no known material litigation in relation to the Petitioner or the Project.

Tab 15: Statement as to Draft Disclosure regarding a PID Special Levy. Policy §§2-10-5(H) and 2-10-8(B) require an initial draft form of disclosure to prospective District landowners describing any anticipated and maximum tax, special levy, assessment, charge, and any other financial obligation that is anticipated to be imposed on the property within the District. A special levy is the only anticipated monetary imposition within the District. The required draft disclosure is attached at Tab 15.

Tab 16: Operating Plan. Policy §§2-10-3(A) and 2-10-5(I) require a draft operating plan for the PID describing the operation and maintenance of the public improvements and all other services in the District, the estimated costs of the same, and whether operation and maintenance is proposed to be provided by the PID or the City. Once completed and dedicated to the City, as applicable, it is anticipated that the City will provide all operations and maintenance relating to the public improvements. The required Operating Plan is attached at Tab 16.

Tab 17: Compliance Certificate as to Zoning. Policy §2-10-56(J) requires a certificate that the District will comply with the City's current zoning requirements. The required certificate is attached at Tab 17.

Tab 18: Environmental Site Assessment. Policy §2-10-7(I) requires an independent environmental report or assessment of the property within the District that will be dedicated to or otherwise owned, leased, or operated by the City or the District. The required environmental site assessment is attached at Tab 18.

Tab 19: Development and Reimbursement Agreement Proposed Form. Policy §2-10-6(E) requires third party applicants to enter into a District Development Agreement with the City. A proposed form of the District Development Agreement is attached at Tab 19. As required by the Policy, the proposed District Development Agreement addresses the obligations of the parties in

connection with financing, construction, inspection, dedication, acceptance, and operation of the public improvements, administration of the District and other related matters. In accordance with Policy §§2-10-7(I) and 2-10-8(C), the Development Agreement contains the required developer indemnities.

Tab 20: Formation Resolution Proposed Form. Policy §2-10-6(H) requires a proposed form of resolution for the formation of the District. The proposed Formation Resolution is attached at Tab 20.