

History of the Metropolitan District Finances

Castle Pines North Metropolitan District ("CPNMD") was established in 1984 to provide water, wastewater, storm water services, and oversee CPNMD parks, trails and open spaces for the new and highly desirable community of Castle Pines North.

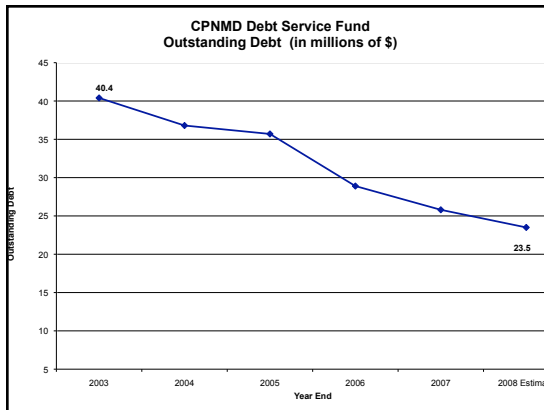
Soon after its establishment, the economy experienced a dramatic slow down and CPNMD was unable to generate sufficient tax revenue to stay current with their general obligation bonds. In 1989, CPNMD became insolvent as a result of not only the economic slow down, but it was also faced with high borrowing costs related to unrealistic home sales projections. In 1993, CPNMD, its residents and bondholders reached an agreement to reorganize the then outstanding bond debt. This agreement was approved by the U.S. Bankruptcy Court in 1994. The agreement provided for a predictable schedule of limited mill levies ("caps") and an extended bond repayment period at a lower interest rate. CPNMD was obligated at that time to pay back \$60 million of outstanding debt.

All revenue from CPNMD operations was pledged to this repayment of debt, including water tap fees.

Twelve years later at the beginning of 2006, approximately \$31 million

of outstanding debt remained. That existing debt was restructured at interest rate savings and restrictive bond covenants were removed. This restructuring also made it possible to issue new debt which up to this point was precluded as a result of the restrictive bond covenants that were placed upon the District in 1994.

During 2006, 2007 and 2008, CPNMD prepaid a substantial portion of that debt in the total amount of \$4.3 million *without incurring any penalties for such prepayment*. Additionally, the District has been paying approximately \$1.0 million per year in regularly scheduled principal payments. On December 31, 2008, CPNMD outstanding debt will have been reduced to \$23,495,000. Therefore, from May 2006 through December 2008, CPNMD has reduced its existing debt by \$7,515,000 million.



RENEWABLE WATER

WHY YOU SHOULD CARE

Current Situation

CPNMD philosophy *has always been* to payoff its debt as quickly as possible so that taxes may be reduced. Under CPNMD's plan, taxes could potentially be reduced in 2013 by 8 to 9 mills due to the early payment of some of the bonds. Additionally, because the debt will have been prepaid, the District and its residents should expect to save more than \$2.6 million in interest expense or approximately \$800 per household.

Under the City's proposed ballot initiative, if it passes a vote of the citizens, *and* the board of directors of Castle Pines North Metropolitan District elect to reduce the current 24 mill levy, the City could then impose an equal and offsetting mill levy. If this were to occur, the District would resort to paying debt according to the payment schedules established by the bonds and taxes could not be reduced until at least 2019.

Managing the revenues and expenses of CPNMD, as it relates to the current outstanding bond payment obligations, requires a carefully constructed balance of fixed and floating rate debt obligations. Both issuance types have been utilized to better manage the opportunity afforded by such a financial plan for the long-term renewable water program of CPNMD. Annual prepayment of floating rate debt allows for the planned insertion of longer term debt after the floating rate debt is prepaid which provides the best leverage for total borrowing cost reductions and debt burden containment. Constructing such a plan has utilized bond insurance and letter of credit support from major banks enabling CPNMD to borrow at the lowest possible interest rates in the market.

CPNMD is an efficient operation managing its resources carefully with a low administrative overhead of just 9 people controlling an annual budget of \$12 million. Long-term planning has been completed, budget projections have been prepared for the full renewable water plan and CPNMD is well on its way to completing the objectives.

7404 YORKSHIRE DRIVE
CASTLE ROCK, CO 80108
WWW.CPNMD.ORG



PRSR STD
U.S. POSTAGE
PAID
PARKER, CO
80134
PERMIT NO. 56

RENEWABLE WATER

WHY IS IT SO IMPORTANT?

FUTURE NEEDS

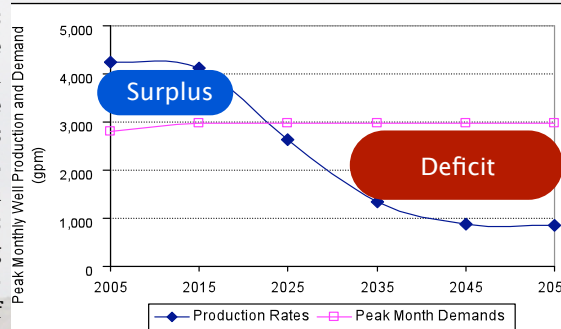
Existing Financial Structure

- **24 mills:** These mills are dedicated to historical debt. The current unpaid balance is \$23,495,000.
- **19 mills:** These mills are dedicated strictly for District operations and maintenance. In 2008 this mill levy generated approximately \$2,550,000.

Ten percent of this revenue goes to the Utility Enterprise Fund to keep rates and fees lower. This amount is equal to approximately \$500,000 per year. Additionally, approximately \$800,000 per year has been dedicated to renewable water infrastructure. Together, these two expenses take up 50% of the revenue generated from the 19 mills. The remaining 50% of the 19 mills is used for parks and open space activities and the District's administrative expenses.

CPNMD draws water from the Denver Basin Aquifer, a source of supply that is not sustainable. Water levels in Castle Pines North's existing wells are dropping at a rate of 30 - 40 feet per year.

Without an adequate water supply, home values are in jeopardy of decreasing. That directly impacts the financial well being of Castle Pines North's residents.



By approximately 2024, CPNMD will not be able to meet the maximum monthly water use demands of the community.

WHY HURRY IF WE HAVE UNTIL 2024?

The cost of obtaining renewable water resources in the State of Colorado is rising at a rate of 10% or more each year. Obtaining a renewable water source is a complex and expensive process. In order to achieve our goals, partnerships must be developed early to share the costs of supplying water, transmitting it, storing it and treating it. Putting together the components, which include purchasing water rights and then going to court to get them adjudicated to the District, purchasing storage space for the renewable water, purchasing transmission services to get the water to Castle Pines North community, and building treatment facilities to treat and distribute the water, takes time and long-term planning. Having available funds in place to act when agreements are made is crucial. This can only be achieved with careful budgeting and building of financial reserves over years of operation. CPNMD has set in motion a plan to achieve This goal and is well on its way to completing the plan.

WHAT WILL IT COST?

Approximate Cost	\$71,800,000
Less Existing Cash on Hand	<u>\$8,900,000</u>
Amount of Debt Financing Required	\$62,500,000

PROJECT	COST	STATUS	COMPLETION DATE
Rueter Hess	\$8,300,000	Complete	2008
Interconnect Pipeline	\$4,000,000	Pending	2009-2010
ECCV Pipeline N/S	\$3,000,000	Pending	2009
ECCV Pipeline E/W	\$3,000,000	Pending	2009
ECCV Treat & Pump Sta.	\$5,000,000	Pending	2010-2012
Water Rights (1,500 AF)	\$30,000,000	Pending	2008-2012
Chatfield Storage	\$4,500,000	Pending	2012
Rueter Hess Treatment	\$7,500,000	Pending	2012
Regulatory Storage	\$2,000,000	Pending	2009
Various Transmission Pipeline	<u>\$4,500,000</u>	Pending	2009-2013
Total Cost	\$71,800,000		

HOW WILL WE PAY FOR THIS?

The District has run two distinct scenarios. The first scenario assumes that the proposed Lagae Development is built relatively soon and Castle Pines North Metropolitan District is able to collect water tap fees from new home construction. Scenario 2 assumes that Lagae is not developed until after 2012. The table below summarizes the impacts on rates and fees that District residents are likely to pay under the two scenarios.

	Scenario 1	Scenario 2
Lagae Build-out Tap Fees	\$13M over 7 years	Lagae TAP Fees not planned
Debt Issues	\$8.6M-2008 \$16.4M-2009 \$12.5M-2010 \$12.5M-2011 \$12.5M-2012	\$8.6M-2008 \$16.4M-2009 \$12.5M-2010 \$12.5M-2011 \$12.5M-2012
Capital Improvement Fees	+\$1 month annually to max of \$30 in 2018	+\$5 month annually to max of \$40 in 2012
Water Rates	+5% annually through 2013 and +2% after	+10% annually through 2012 and +2% after

SUMMARY

It has been the District's 20-year management philosophy to pay down the historical debt so that taxes could be reduced as soon as the goals and needs of the District's utility operations have been met.

By pre-paying historical debt, CPNMD would be able to consider asking voters to re-direct a portion of the 24 mills that will no longer be needed to pay such historical debt in 2013. If voters would approve this future reallocation of tax revenue, CPNMD could substantially reduce the capital improvement fee, or issue additional bonds needed to complete the renewable water project.

CPNMD operates an efficient utility service and is well on the way to providing a renewable water source for its residents. We believe that the District plan will be the most cost effective method for providing this source of water as well as continuing to manage our other operations serving the community.

Questions may be directed to James McGrady, general manager, CPNMD - 303-242-3262.