

Phase 1 Findings

Castle Pines North Metropolitan District
May 16, 2011



"financial solutions that make a difference"

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Purpose and Scope of Study

Objective

- Determine the economic costs and benefits for CPNMD's drinking *water and wastewater utility* enterprises under various dissolution scenarios

Approach

- Fact-based
- Data-driven
- Independent
- Rigorous



About StepWise Utility Advisors



StepWise Utility Advisors is the ONLY firm in the Rocky Mountain Region providing financial and economic analysis services exclusively for drinking water and wastewater utilities.

Our Services

- Financial Planning
- Cost-of-Service
- Economic analysis
- Bond issuance support
- Legal services
- Water rate structuring
- Wastewater rate structuring
- Development fees/ Impact fees

Our Clients

- Denver Water
- Aurora Water
- City of Loveland
- City of Santa Fe, NM
- City of Sheridan, WY
- Parker Water & Sanitation District
- Stonegate Village Metro District
- Inverness Water & Sanitation
- Cottonwood Water & Sanitation
- City of Douglas, WY
- City of Pinedale, WY



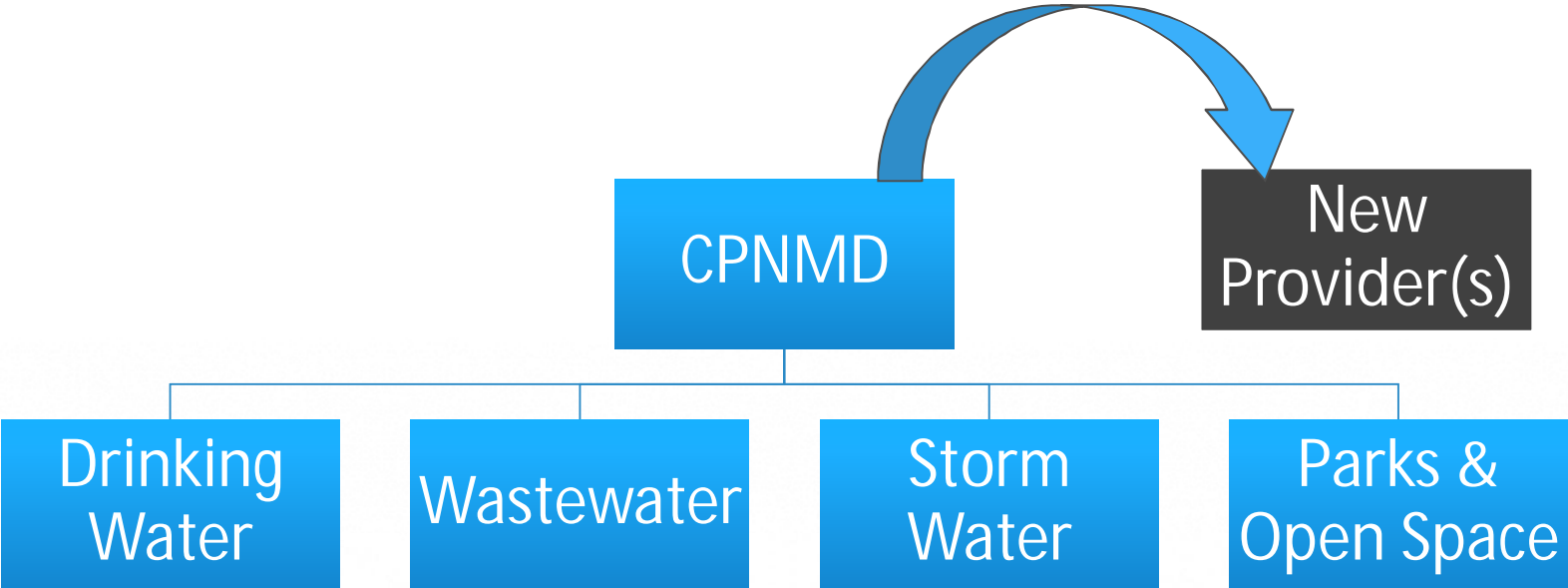
About Jason Mumm



- Colorado native
- 16 Years in Denver practice
- MBA Univ. of Colorado
- Accredited Valuation Analyst (NACVA)
- 15-year member AWWA and WEF
- Previous owner/partner Integrated Utilities Group
- Previous manager of business consulting services for major engineering firm
- Qualified expert by Colorado PUC
- Qualified expert by State of Hawaii PUC
- Court expert in State of Oregon
- Court expert in Nova Scotia, Canada
- Court expert in State of Texas
- Author of over 100 industry-relevant papers/articles
 - AWWA Journal
 - Rocky Mtn. AWWA
 - National & regional conferences



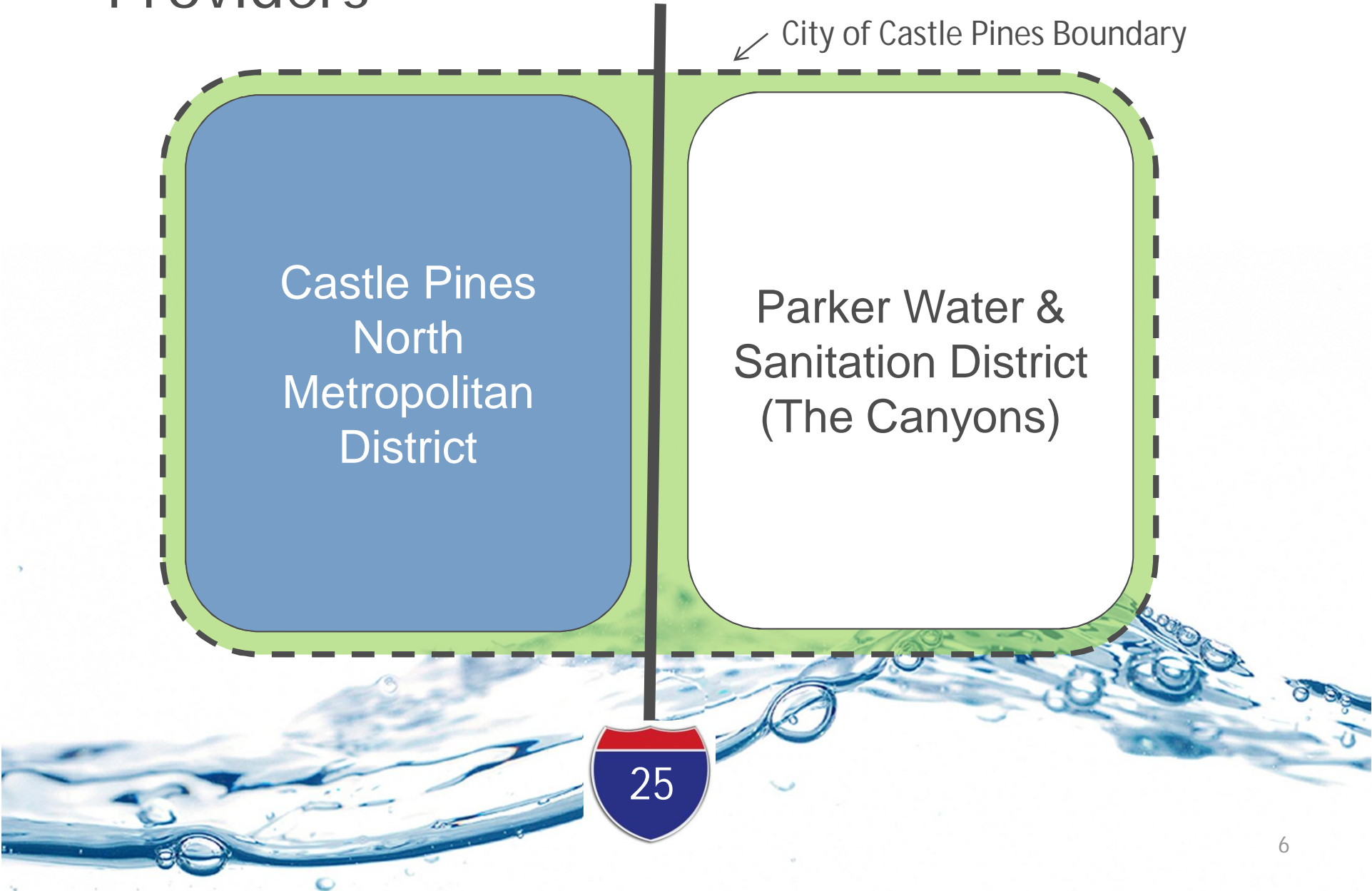
What Dissolution Means



The services currently provided by CPNMD would be provided by a new provider or providers



Current City of Castle Pines Service Providers



5 Potential Dissolution Partners

Opted In

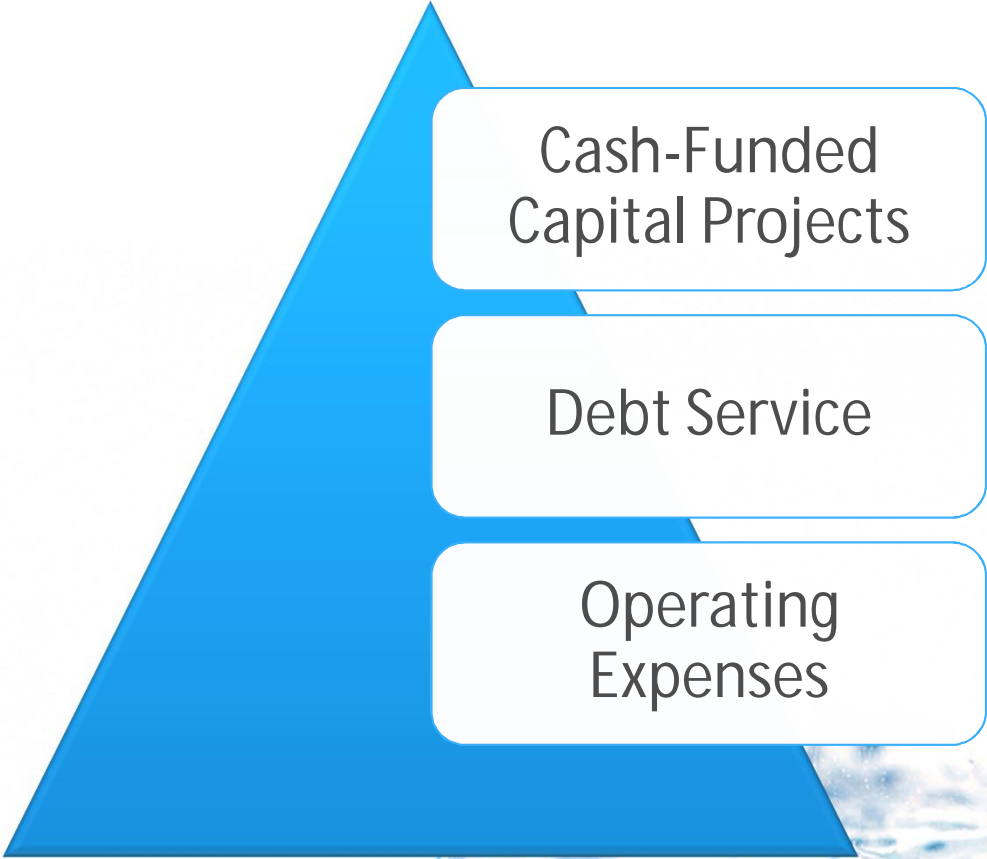
- City of Castle Pines
- Town of Castle Rock
- Parker Water & Sanitation District

Opted Out

- Centennial Water & Sanitation (Highlands Ranch)
- Castle Pines Metropolitan District (Village)



Key Principle: **TOTAL** Costs of Service



Cash-Funded
Capital Projects

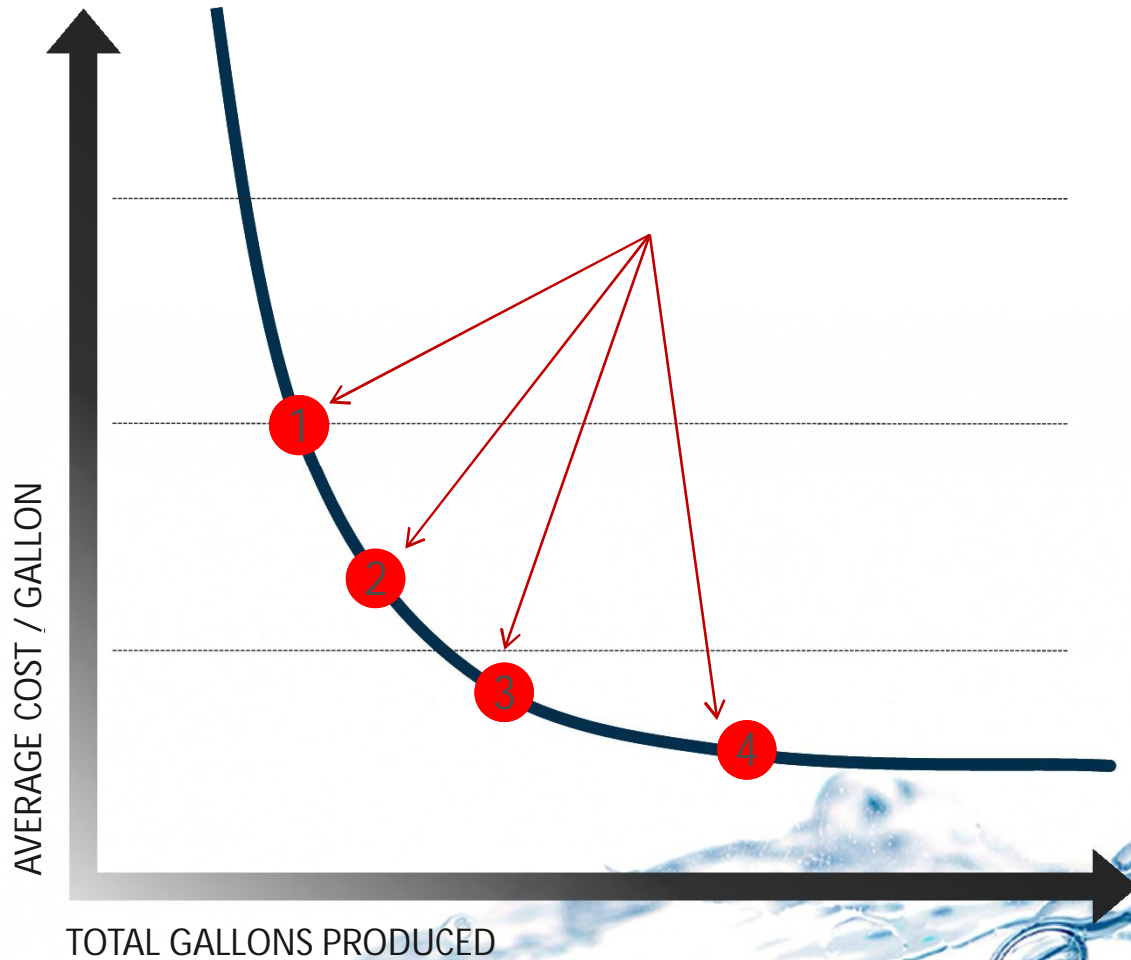
Debt Service

Operating
Expenses

DEFINITION

TOTAL cost of service is the sum of the cash obligations in a given year.

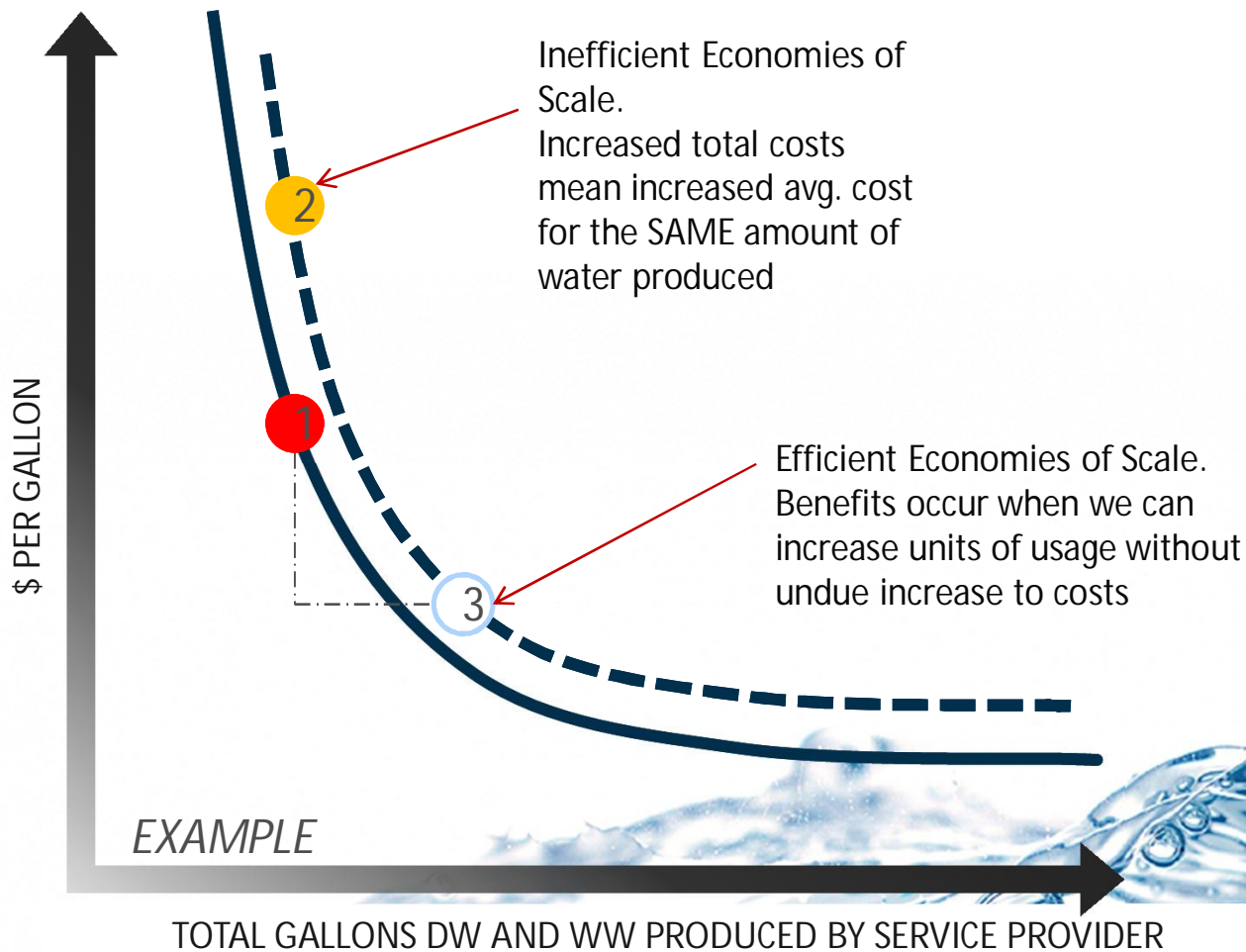
Key Principle: **AVERAGE** Cost of Service



DEFINITION

AVERAGE Cost of Service is what you get if you divide the TOTAL costs of service by number of units (in this case, gallons) produced.

Dissolution Changes Both **TOTAL & AVERAGE** Costs of Service to Produce Economies of Scale



Example of Scale Economies

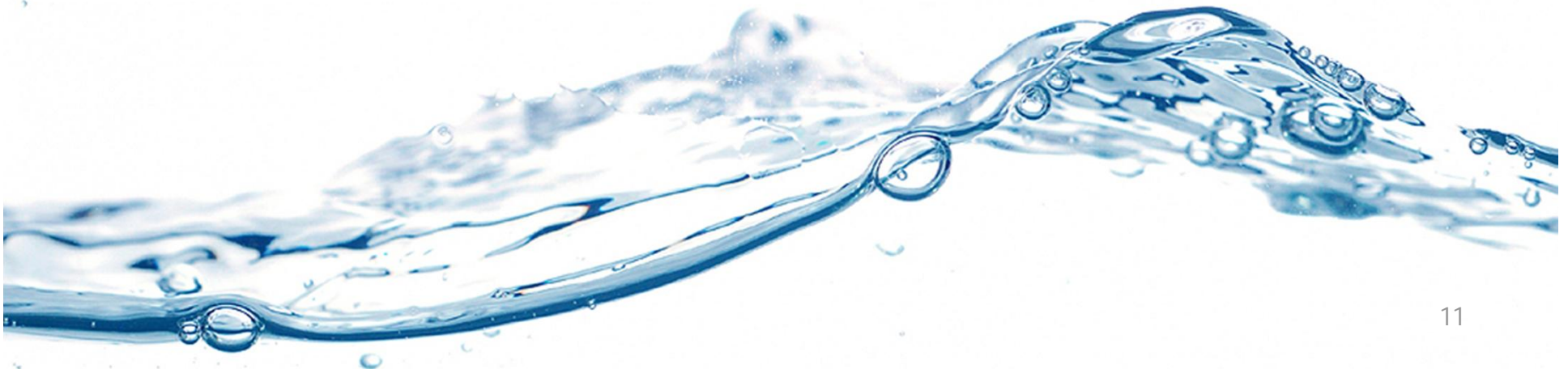
Total DW + WW Costs of Service
\$8.4 million

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**AVERAGE
COST**

\$12.26
per 1,000 Gallons

Total DW + WW Produced
687 million gallons



Efficient Economies Produce Savings

Total Water Costs of Service
\$33.3m (+ 296%)

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Total Water Produced
3,569 million gallons (+ 420%)

AVERAGE
COST

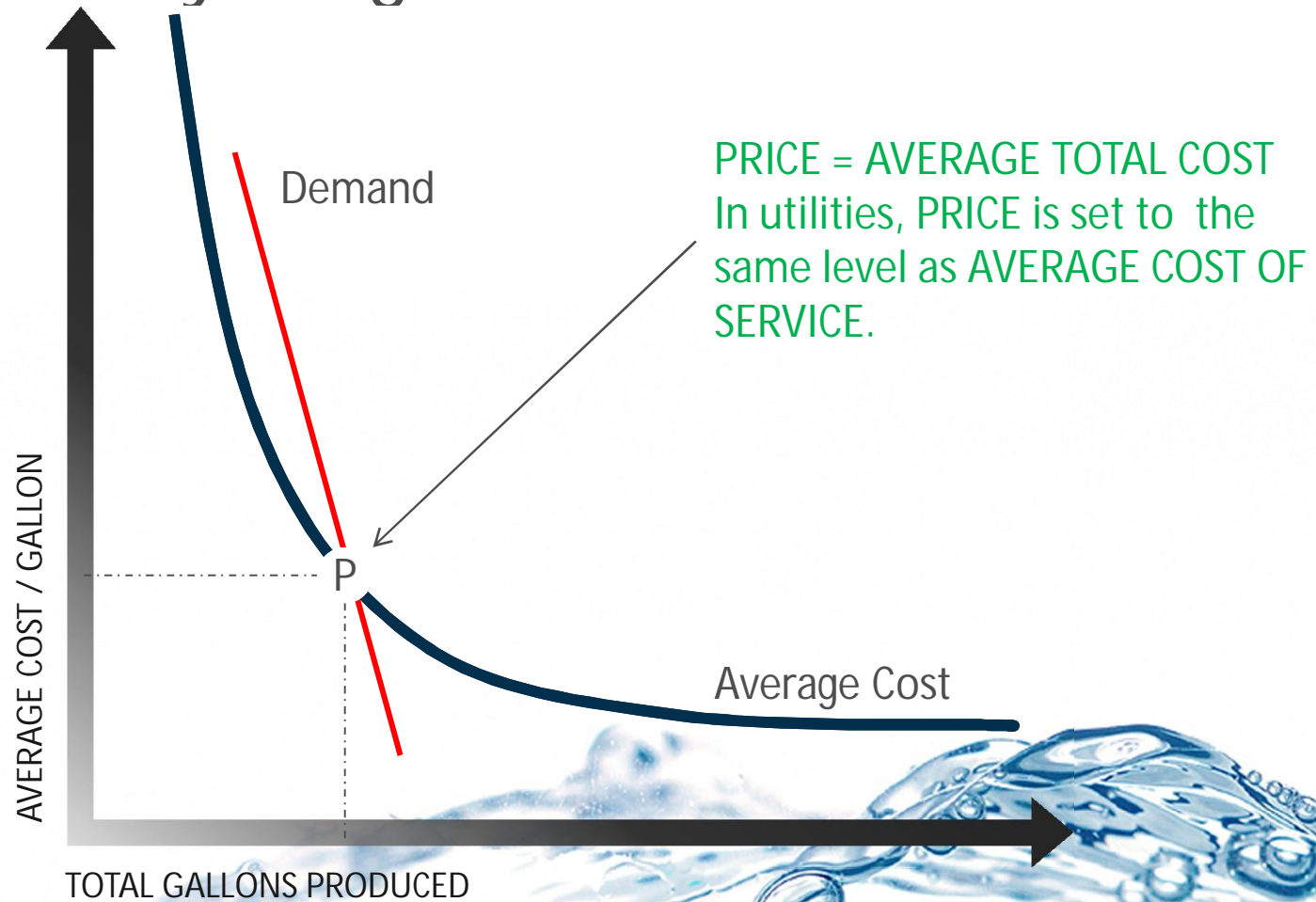
\$7.59

per 1,000 Gallons

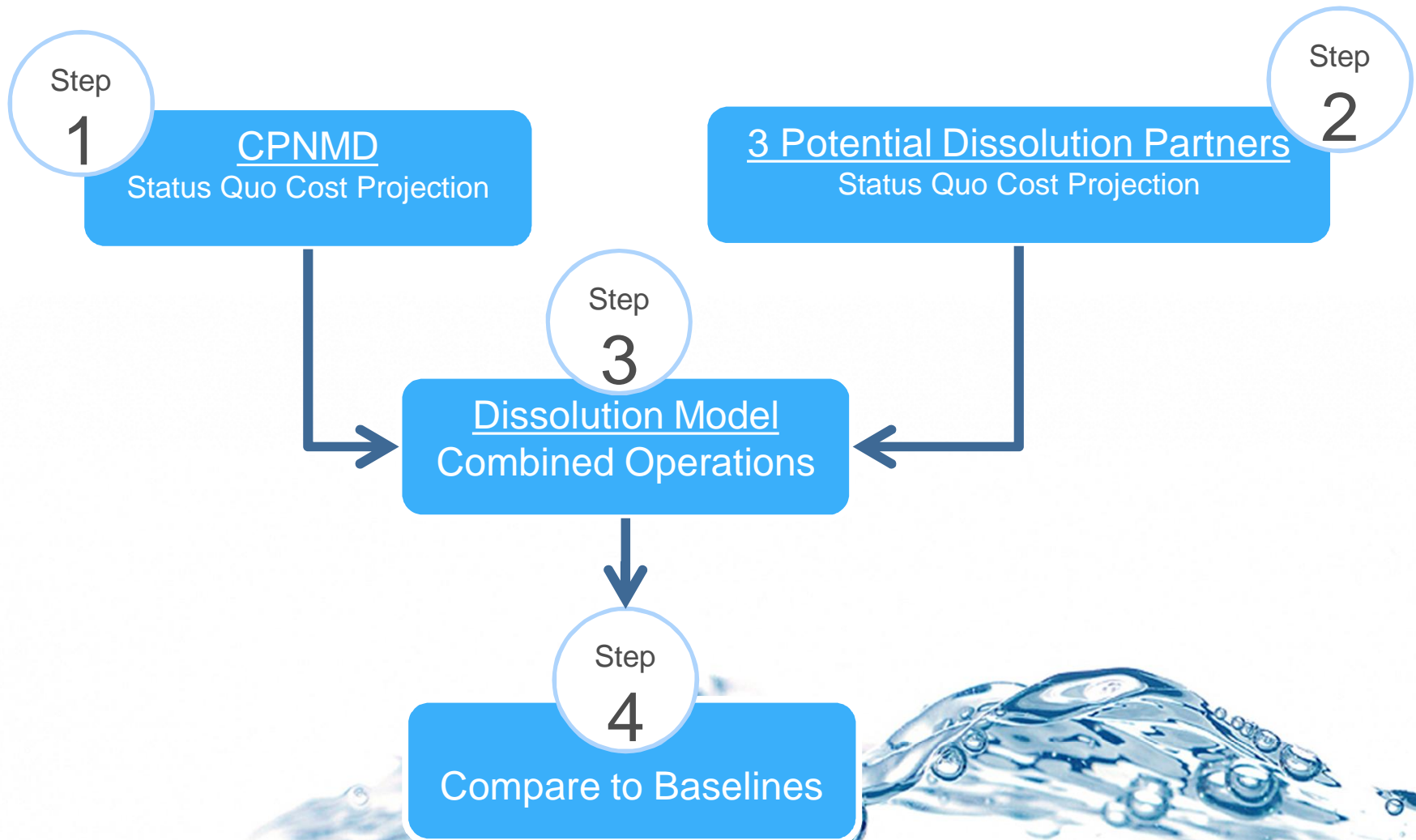
38%
Savings



What Does Average Cost Have to do With Anything?



The StepWise Phase 1 Process



Study Timeline

Basic Data Gathering and CPNMD Analysis.
StepWise gathers basic information about CPNMD and prepares initial analysis of the District's status quo cost projections.

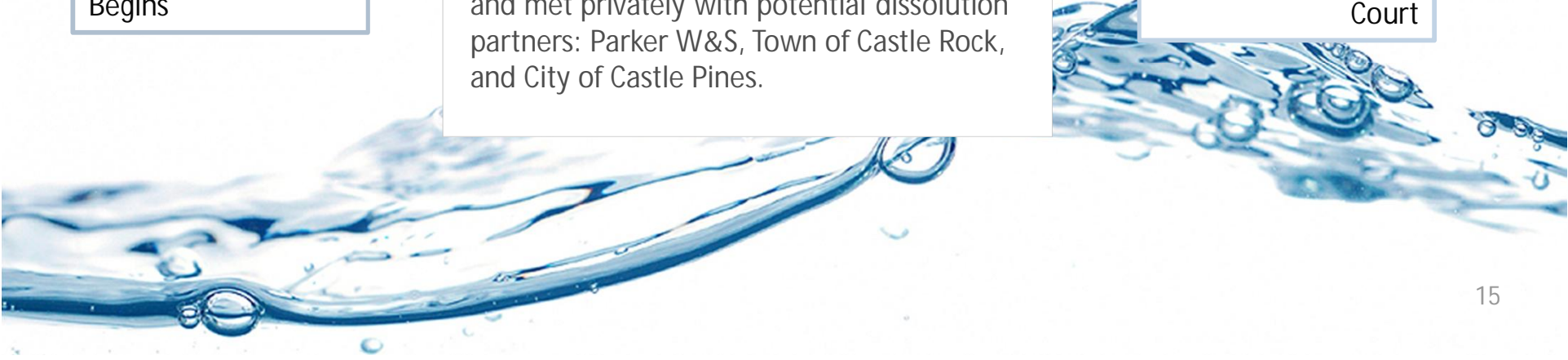
Phase 1 Completion and Presentation of Findings
StepWise completes Phase 1 analysis and presents findings to CPNMD



May 2010
StepWise Study Begins

Confidential Analysis of Potential Dissolution Partners.
StepWise gathered and analyzed information, and met privately with potential dissolution partners: Parker W&S, Town of Castle Rock, and City of Castle Pines.

June 2011
Filing with District Court



Fact Finding Approach

Each dissolution partner, in addition to CPNMD, was presented with a similar request for information.

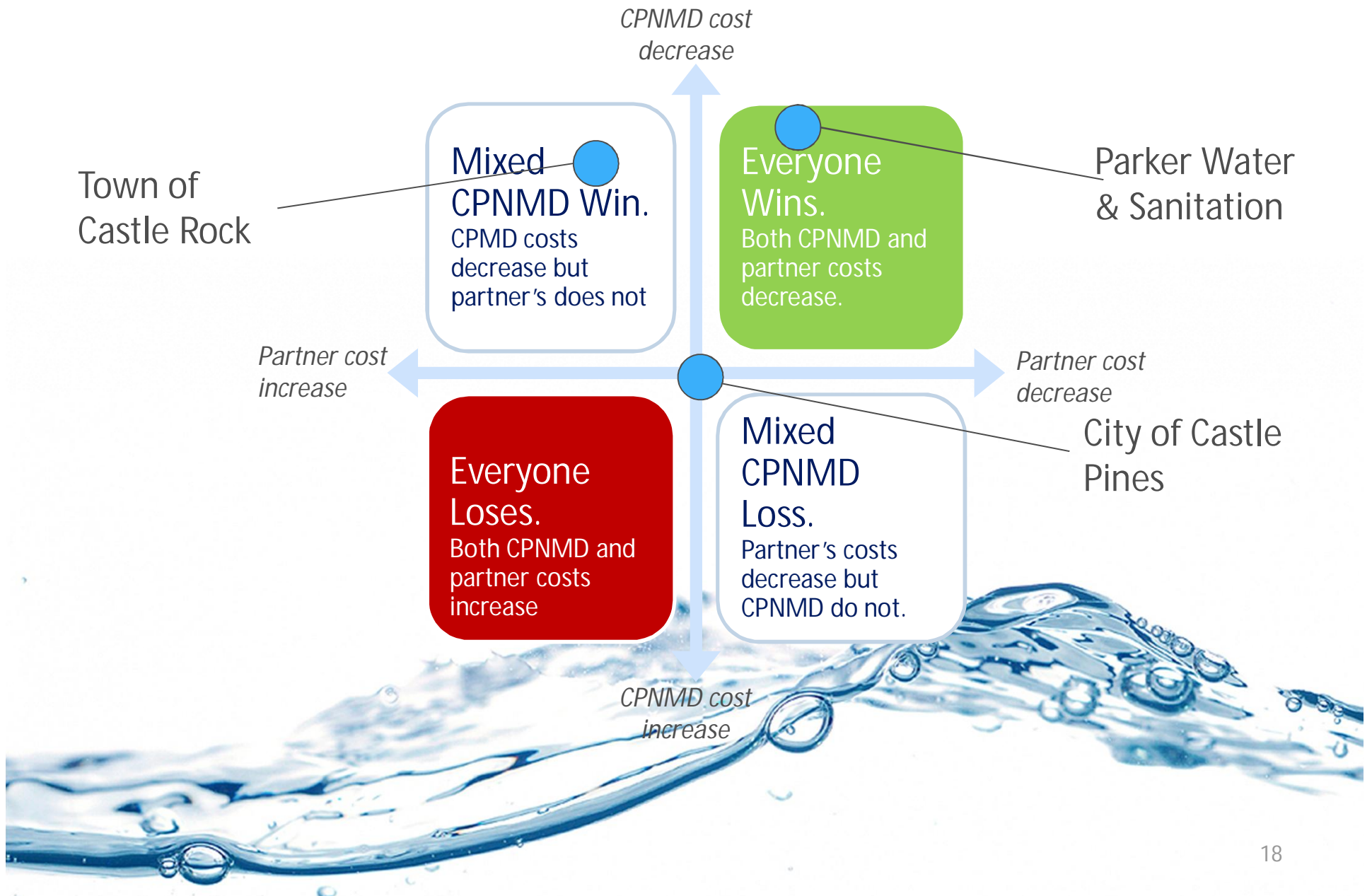
- Operating budgets
- Long-range capital spending plans
- Audited financial reports
- Water production reports
- Wastewater discharge reports
- Long-term water supply plans
- Assessed valuation data
- Mill levy information
- Utility master plans
- Growth projections
- Rate schedules
- Conceptual costs of incorporating CPNMD
- Credit rating reports



Possible Outcomes from Analysis

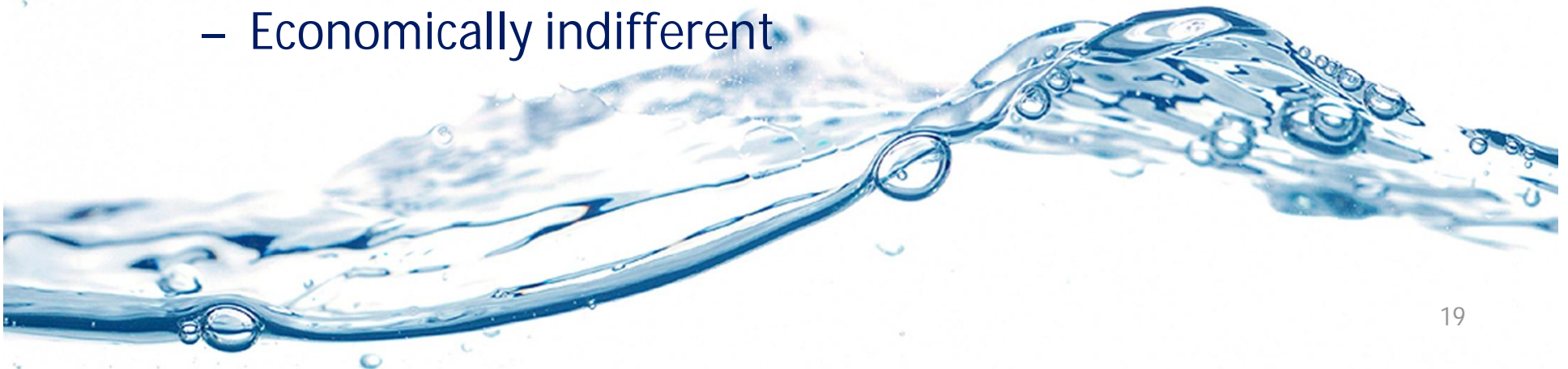


Plot of Phase 1 Findings



Phase 1 Findings

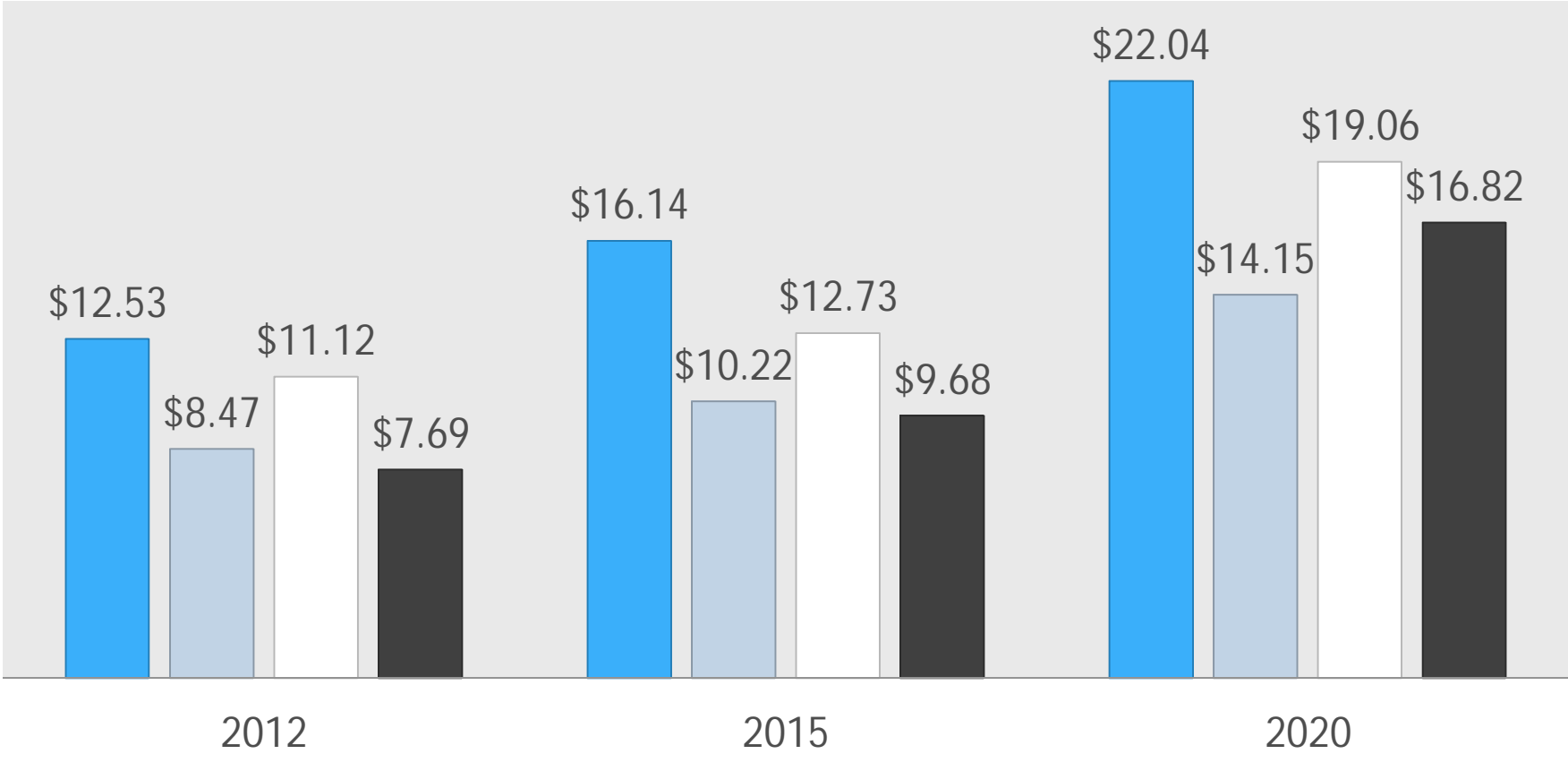
- Re: Town of Castle Rock
 - Dissolution offers potentially large benefit for the District but a net cost for Town of Castle Rock
- Re: Parker Water & Sanitation
 - Dissolution offers potentially large benefit for the District and a smaller benefit for PWSD
- Re: City of Castle Pines
 - Dissolution offers neither a material benefit nor cost
 - Economically indifferent



Town of Castle Rock

Average Cost of Providing 1,000 Gallons of Combined Water and Sewer Services

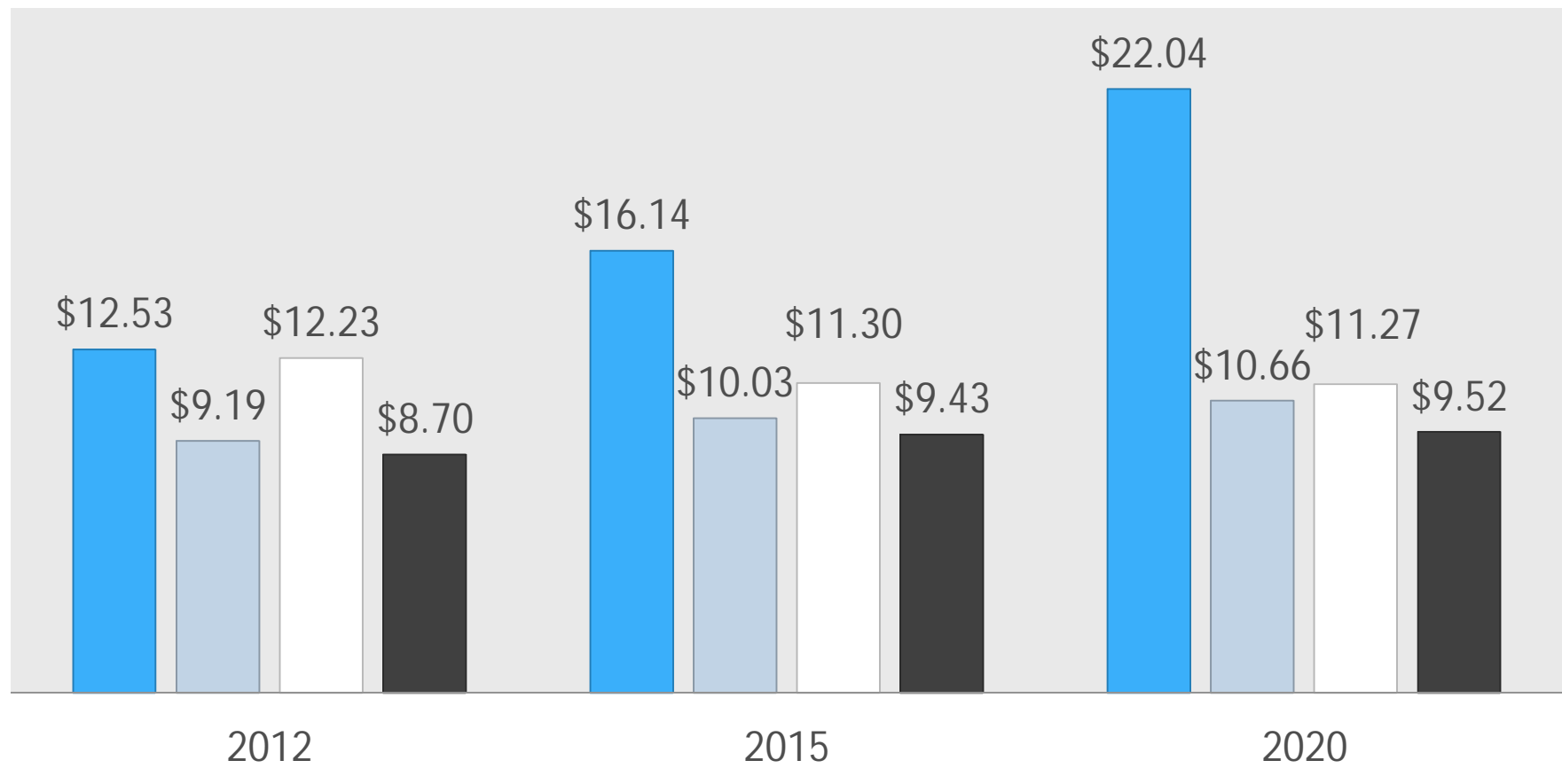
■ CPNMD ■ Town of Castle Rock ■ Combined for CPN ■ Combined for Castle Rock



Parker Water & Sanitation

Average Cost of Providing 1,000 Gallons of Combined Water and Sewer Services

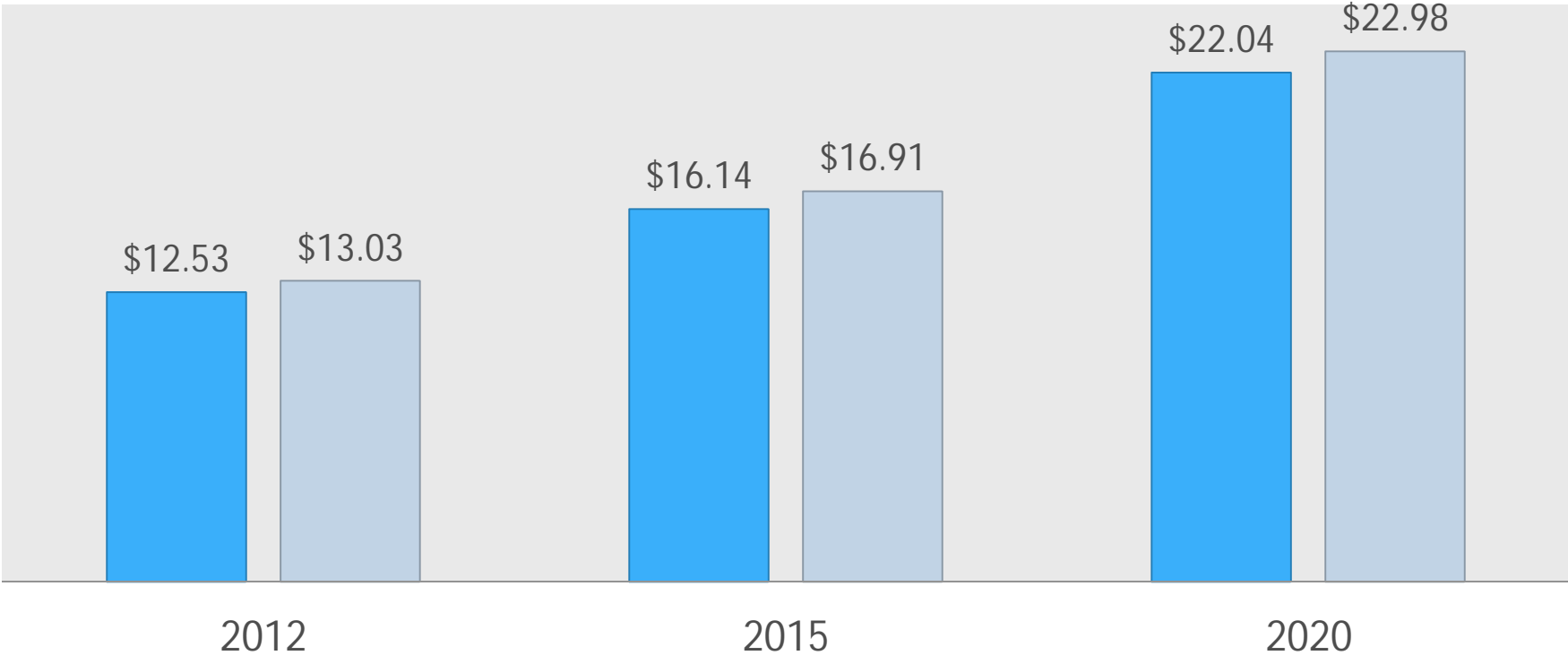
■ CPNMD ■ PWSD ■ Combined for CPN ■ Combined for PWSD



City of Castle Pines

Average Cost of Providing 1,000 Gallons of Combined Water and Sewer Services

■ CPNMD ■ City of Castle Pines



Comparative Overview

Average Cost of Providing 1,000 Gallons of Combined Water and Sewer Services

■ CPNMD Status Quo ■ City of Castle Pines ■ Town of Castle Rock ■ PWSD

