What is a Metropolitan District?

In order to fund the infrastructure needed in a development, developers can form a metropolitan district (metro district) that has the authority to issue bonds. A metro district is a taxing entity, separate from the Town of Castle Rock, that exists primarily to finance public improvements that benefit property owners in the district. The proceeds from the bond issuance are then used to fund infrastructure construction. The metro district assesses a mill on properties within the district and uses property tax revenue generated from that mill to fund the debt service payments. Metro districts are also allowed to levy a general operating mill, as approved in their service plan, to cover administration and operation expenses.

What is the Town's responsibility?

There are currently 41 Metro Districts within the Town, of which five are currently inactive. The 36 active Metro Districts are:

Bella Mesa	Dawson Ridge 1, 2, 3, 4, 5
Castle Oaks	Hillside at Castle Rock
Castle Oaks 3	Lanterns 1, 2, 3
Castle Pines Commercial 1, 3, 4	Maher Ranch 4
Castleview	Meadows 1, 2, 3, 4, 5, 6, 7
Castlewood Ranch	Promenade at Castle Rock 1, 2, 3
Crystal Crossing	Villages at Castle Rock 1, 4, 6, 7, 9
Crystal Valley 1, 2	

In accordance with the Municipal Code Section 11.02.040, active Metropolitan Districts are required to file an annual report with the Town Clerk. Each active District is required to submit the following information to the Town within nine months of year end:

A. A narrative summary of the progress of the District in implementing its service plan for the report year;

B. Except when an exemption from audit has been granted for the report year under the Local Government Audit Law, the audited financial statement of the District for the report year, including a statement of financial condition as of December 31 of the report year and the statement of operations for the report year;

C. Unless disclosed within a separate schedule to the financial statement, a summary of the capital expenditures incurred by the District in development of public facilities in the report year, as well as any capital improvements or projects proposed to be undertaken in the five years following the report year;

D. Unless disclosed within a separate schedule to the financial statements, a summary of the financial obligations of the District at the end of the report year, including the amount of outstanding indebtedness; the amount and terms of any new District indebtedness or long-term obligations issued in the report year; the amount of payment or retirement of existing indebtedness or long-term obligations issued in the report year; the total assessed valuation of all taxable properties within the District as of January 1 of the report year; and the current mill levy of the District pledged to debt retirement in the report year;

E. The District's budget for the calendar year in which the annual report is submitted;

F. A summary of residential and commercial development that has occurred within the District for the report year;

G. A summary of all fees, charges and assessments imposed by the District as of January 1 of the report year;

H. Certification of the Board that no action, event, or condition of Section 11.02.060 (Material Modification of Service Plan) of the Municipal Code has occurred in the report year;

I. The names, business addresses and telephone numbers of each member of the Board and its chief administrative officer and general counsel, together with the date, place and time of regular meetings of the Board.

Quinquennial Review

The Town of Castle Rock has begun to take a more active role in reviewing the Metropolitan Districts within its jurisdictional boundaries in accordance with the Municipal Code Section 11.02.210 (Quinquennial Review) and Colorado Revised Statutes, Title 32, Section 32-1-1101.5, Special District Debt – quinquennial findings of reasonable diligence.

In every fifth year after the calendar year in which a Special District's ballot issue to incur general obligation indebtedness was approved by its electors, the Town of Castle Rock may require the Board of such Special District to file an application for a quinquennial finding of reasonable diligence. Thereafter, subsequent applications shall be filed within 60 days after receipt of such notice but no more frequently than every five years until all of the general obligation debt that was authorized by the election has been issued or abandoned.

When we have received the above information from all the districts, the Town of Castle Rock will establish a rotating schedule for conducting quinquennial reviews and will notify each respective district in which year their application will be required for a quinquennial finding of reasonable diligence.

It shall be our intention to consider whether the approved service plan and financial plan of the district are adequate to meet the debt financing requirements of the authorized and unissued general obligation debt based upon present conditions within the district. We will be examining the adherence to the service plan and financial plan, reporting any variances and material modifications that have occurred since the Town Council approved the plans.

On July 1, 2019, Promenade Metro District Nos 1, 2 and 3 submitted their application and report for a quinquennial review. Staff has reviewed their submission and has reported to Council under separate cover.

Summary of the 2018 Review

The Town has received the required information from each of the 36 active Districts, as required by the Town code.

Our purpose in reviewing the Annual Metro District submission is to 1) identify Metro District compliance with the filing requirement (completeness and timeliness); 2) note any unusual items or items of note in the District submission including the Audited Financial Statements and Budget document; and 3) identify any significant circumstances that could potentially impact future repayment of long-term debt.

Town staff has reviewed each of the submissions for the year ended December 31, 2018, and is highlighting certain considerations of the Metro Districts in this report **(Attachment B, Exhibits 1 – 12)**. These considerations include the mill levy assessment, size of the outstanding debt, ability to timely service debt and other considerations. We will continue to monitor the considerations as noted and will continue to comment on the Districts in subsequent years.

NOTE: Staff has not performed a full audit of the information provided by the Metro District Annual Reports in accordance with Municipal Code Section 11.02.040. The statements and conclusions in this report represent the Town's analysis of the information provided and do not predict future performance of the Metro Districts.

Upon review of the submissions, the Town staff noted the following items of interest:

Bella Mesa Metropolitan District

The District was organized by order of the District Court on November 18, 2004, under the name of Vistas at Rock Canyon Metropolitan District. On August 25, 2016, the District's name was changed to Bella Vista Metropolitan District. The Bella Mesa service plan was approved by Town Council on August 24, 2004, and was amended on May 4, 2006 and June 19, 2018.

The organizational election for the District approved authorization to increase property taxes up to $100,000 annually, as necessary, to pay for the operations and maintenance expenditures of the District. Total debt authorization was also approved in the amount of $40,474,600 for facility construction and $100,000 for operations and maintenance costs. Additionally, District voters approved $40,474,600 for refunding debt.

(**NOTE**: It is important for the reader to understand that the voted debt for any given metro district is further limited by the amount of debt in the district's service plan. Town Council has the authority to approve or deny metro district service plans, and subsequent major amendments to such service plans.)

The areas of development within the District are currently foreseen:

1. Founders Village Filing 24, Phases 1 (117 Single Family (SF) lots) and 2 (69 SF lots); Phase 1 is currently under construction, with anticipated total development cost of approximately $8,000,000. Phase 2 is expected to start in 2020, with a total development cost of approximately $5,000,000.
2. Bella Mesa Planned Unit Development (PUD) – South: This project will be about 110 duplex homes, with development costs totaling some $4,000,000 or more.

3. Bella Mesa PUD – North: This section of Bella Mesa is 239 Acres, with PUD zoned for 525 SF lots. Development of this land in the future will total over $60,000,000 dollars at today's cost.

The final plat for Phase 1 Founders Village Filing 24 is currently being developed with funding by the project developer, Richmond American Homes. The public improvements therein will be paid for and acquired by the District (or other public entities) in accordance with an Advance and Reimbursement and Facilities Acquisition Agreement dated December 28, 2018, by an amount the District, Fourth Investment USA, LLA and Richmond American Homes of Colorado, Inc.

No development occurred within the District during 2018.

See **Exhibit 1** for additional detail and analysis.

Castle Oaks Metropolitan Districts (Terrain)

District Overview

The Castle Oaks area has three Metropolitan Districts within the development. Castle Oaks Metropolitan District 1 (COMD 1) was created in 2001 and operates as a taxing and debt District.

Castle Oaks Metropolitan District 2 (COMD 2) has been inactive since 2015.

Castle Oaks Metropolitan District 3 (COMD 3) was established on June 27, 2006, under the provisions of the Colorado Special District Act, and serves as a taxing and debt District.

COMD 1 and COMD 3 were established to provide financing for the District's operations and maintenance, as well as for the design, acquisition, installation, construction, and completion of public improvements and services, including water, sanitation/storm sewer, streets, park and recreation, transportation, mosquito control, safety protection, television relay and translation, and security.

Debt Authorization

On November 7, 2000, COMD 1 voters authorized COMD 1 to issue $250,750,000 of general obligation bonds or other financial obligations for infrastructure development, parks and recreation, performance of intergovernmental agreements, formation of a regional water authority, refinancing of district debt, and other uses. However, COMD 1's Service Plan limits its general obligation debt to $25,000,000.

On November 3, 2015, District voters authorized COMD 3 to issue $504,000,000 of general obligation bonds or other financial obligations for the infrastructure development of the services noted in the preceding paragraphs; however, the District's amended Service Plan limits it general obligation debt to $36,000,000.

Outstanding Debt

On October 24, 2018, the COMD refunded $18,210,000 of Nontaxable Refunding Loan, Series 2015A and Series 2015B, by the issuance of $16,415,000 General Obligation Limited Tax Refunding Bonds, Series 2018. The refunding bonds bear interest at 5.00 percent and mature in 2040.

During 2017, COMD 3 issued $34,105,000 in General Obligation Bonds to refund the Series 2015 and 2016 GO Bonds. The Bonds include a $12,325,000 term bond maturing in 2037 and a $21,780,000 term bond maturing in 2047 with an interest rate of 5.00 percent.

In 2018, COMD incurred an additional $40,671 in developer advances, bringing the total developer advance for the district as of December 31, 2018, to $110,291.

Other Information – COMD 1

Twenty-six residential lots were developed in COMD 1 in 2018. No commercial development occurred in 2018.

COMD 1 imposes a facilities development fee on the property within the District in the amount of $3,465 on each Single Family Equivalent.

Other Information – COMD 3

Planned development in the next 5 years includes:

- Castle Oaks Drive South – Construction to begin late 2019 / early 2020. Estimated budget is $4,009,000.
- Castle Oaks Drive North (Includes Rocky View North Section) – Construction to begin in 2020. Estimated budget is $5,400,000.

A summary of residential and commercial development that has occurred within the District for the report year:

- Ravenwood Park – Construction began in fourth quarter 2017. Budget is $664,800
- Highway 86 (South Side) – Construction began in third quarter 2018 and will be completed in early 2019. Estimated budget is $1,172,000
- PA 48-49 – Construction began on 120 SF attached lots. Sales anticipated to begin early 2019
- South Sewer Outfall – Construction began in third quarter 2018 and was completed in fourth quarter 2018. Estimated budget is $370,000

COMD 3 imposes a one-time facilities fee on property within the District in the amount of $4,000 per Type I residential unit (each single family, town home and patio home) and $1,500 per Type II residential unit (apartments or other multi-family residential unit).

Review Findings:

COMD 3 has received an unqualified audit opinion, with an explanatory item of note. As disclosed in Note 10 to the audited financial statements, the District has not yet established a revenue base sufficient to pay the District’s operational expenditures. Until an independent revenue base is established, the District may be dependent upon the Developer of the District’s service area for funding of continued operations. Accordingly, the auditor has noted an economic dependency on the Developer. Staff will continue to monitor progress within the District.

Additional information received from the COMD legal counsel follows:

“Thank you for sending the summary and providing an opportunity to comment.

I am general counsel for the Castle Oaks MD and Castle Oaks MD No. 3. I wanted to provide some additional information that might be useful.

· The Castle Oaks 2018 refunding was approved by two homeowner representatives on the District Board, the purpose of which was to refund a short term 7 year bank loan with a $6.6mm balloon payment due in 2022, to a 22 year rated bond with a 5% interest rate. As a result of the refunding, the debt service mill levy actually decreased from 50.855 in tax collection year 2018 to 46 mills in tax collection year 2019. In addition, the operations mill levy decreased from 4.422 in 2019 to 3.000 mills in 2020.

· Castle Oaks 2 intends to dissolve.

· As part of the 2017 refunding for Castle Oaks MD No. 3, the developer agreement to waive over $5.7mm in advances. See the attached waiver. Also, on the top of page 5 there is a reference to developer advances to COMD in 2018 in the amount of $40,761. That reference should be to Castle Oaks MD No. 3." {Staff corrected this reference above.}

See **Exhibit 2** for additional detail and analysis.

Castle Pines Commercial

District Overview

Castle Pines Commercial Metropolitan District 1 (CPCMD 1) was created on March 25, 1987. CPCMD 1, 3 and 4 operate under an Amended and Restated Consolidated Service Plan for Castle Pines Commercial Metropolitan Districts 1-4, approved by Council on January 6, 2015. CPCMD 3 and 4 are Taxing Districts, and CPCMD 3 is considered the operating district.

Pursuant to a Capital Pledge Agreement, CPCMD 3 and 4 ("Taxing Districts") have limited tax general obligations to CPCMD 1. Property taxes to be generated from the Taxing District debt service mill levies, including specific ownership taxes to be received as a result of imposition of such mill levies, are expected to be transferred, net of fees, to CPCMD 1 to pay for debt service expenditures.

CPCMD 3 is considered the operating district. Effective November 7, 2018, CPCMD 3 ceased its role as the operating District and will operate fully independent from CPCMD 1 and 4.

CPCMD 1 has entered into an intergovernmental agreement with Promenade at Castle Rock Metropolitan District No. 2 (PCRMD 2) for district construction administration, whereby PCRMD 2 is to undertake construction of public improvements on behalf of CPCMD 1, and CPCMD 1 will, in turn, requisition proceeds from its bond issue to transfer to PCRMD 2 for payment of capital costs related to the same. In the report year, PCRMD 2 undertook public infrastructure as required for residential and commercial development within and without CPCMD 1. Construction is ongoing, and requisitions are filed with the Town by PCRMD 2 detailing that requisition period's construction and identifying construction of public improvements for review and authorization by the Town. Such public improvements include, but are not limited to, street, water and sanitary sewer infrastructure, overlot grading, retaining walls, and landscape improvements.

Outstanding Debt

Pursuant to the Amended and Restated Consolidated Service Plan, dated January 6, 2015, the Districts can issue bond indebtedness of up to $12,000,000. The District has a maximum debt service mill levy of 50.000 mills and a maximum operation mill levy of 15.000 mills, as adjusted for changes in the ratio of actual to assessed value of property within the District.

On January 16, 2015, CPCMD 1 issued $5,875,000 of Limited Tax Supported Revenue Bonds, Series 2015, for the purpose of financing 1) the reimbursement and payment of construction costs of public improvements benefitting the consolidated CPCMD, 2) reserve fund and 3) the costs of issuing the bonds. The Bonds mature in 2039 and have an interest rate of 5 percent. The outstanding balance on the Series 2015 Bonds was $5,595,000 at December 31, 2018.

Castleview

District Overview

The Castleview Metropolitan District (CVMD) was created on November 7, 2006 and operates under a Service Plan approved by Council on July 11, 2006, subsequently amended on August 21, 2018.

Although the CVMD has voter authorized debt of $8,670,000, further limited by the service plan approved by Council on July 11, 2006, CVMD has not yet issued debt and is operating solely off of developer advances at this point. In 2018, there was no mill levy pledged to debt retirement. For 2018, CVMD had an assessed valuation of $6,390, and no mill was certified.

No public improvements were constructed by the District during the reporting year.

See **Exhibit 3** for additional detail and analysis.

Castlewood Ranch

District Overview

Castlewood Ranch Metropolitan District's (CRMD) service plan was approved by Town on June 18, 1998, and subsequently amended on April 14, 2003, whereby the District was granted the authority to finance additional improvements through acknowledgment of increased construction costs and through additional debt authority. On October 24, 2006, the Town approved a modified Financial Plan, lifting limitations on the District's Mill Levy in order to allow the District to refund $22,495,000 in general obligation bonds on more favorable financial terms. CRMD issued its $22,495,000 General Obligation Refunding Bonds in 2006.

Outstanding Debt

In 2016, CRMD refinanced the 2006 Bonds, lowering its interest rate to 2.58 percent. CRMD has no plans to issue any additional debt. The 2016 Loan matures in 2031. CRMD may, at its option, prepay the 2016 Loan in whole or in part on any interest payment date, plus a prepayment fee. At December 31, 2018, CRMD had $16,805,000 outstanding on the 2016 Loan.

Other Information

The CRMD Service Plan includes the imposition and collection of System Development Fees and Facility Development Fees. It imposes a fee of $1,500 on each single-family residential unit or equivalent and a fee of $975 per multi-family residential or equivalent unit.

See **Exhibit 4** for additional detail and analysis.

Crystal Crossing (Heckendorf)

District Overview

Crystal Crossing Metropolitan District (CCMD) submitted a Service Plan that was approved by the Town of Castle Rock in June 2002. CCMD issued $6,330,000 in bonds on June 22, 2006. Proceeds from the bonds and Facilities Development Fee revenues are being used to construct public improvements as disclosed in the Limited Offering Memorandum for the bonds. Castle Star Investment Company, LLC (the Developer), has entered into a Project Funding Agreement with the CCMD providing that, in the event that the CCMD revenues are insufficient to pay public improvement costs, the Developer will advance funds to pay such shortfall amounts.

In June 2008, CCMD received approval by the Town of Castle Rock for an Amendment to the Service Plan, which acknowledged the exclusion of the commercial property from the CCMD boundaries and amended the District's financial plan to reflect a change in build-out projections.

Outstanding Debt

On May 12, 2012, CCMD issued $1,000,000 in Taxable Subordinate Limited Tax Bonds, Series 2012 to repay the Developer for a portion of advances made under the Capital Funding and Reimbursement Agreement.

On January 28, 2016, all of the District's debt was refunded through the issuance of the CCMD Series 2016 General Obligation Limited Tax Refunding Bonds in the par amount of $8,500,000.

Other information

In February 2018, Lennar Homes purchased CalAtlantic Homes. A special meeting of the District was held on August 29, 2018. Two homeowners presently reside on the board, with one seat occupied by Lennar.

Additional information provided by District management, "Crystal Crossing Metropolitan District is fine with the information you are providing."

See **Exhibit 5** for additional detail and analysis.

Crystal Valley Metropolitan District

Crystal Valley Metro District 1 is intended to serve as the "Operating District," while Crystal Valley Metro District 2 is intended to serve as the "Taxing District." CVMD 1 is responsible for providing the day-to-day operations and administrative management for both Districts.

CVMD 1

As of December 31, 2018, the District had remaining voted debt authorization of approximately $93,543,989. Per the District's Service Plan, CVMD 1 debt is limited to $45,000,000, of which

$1,043,989 is remaining. However, as part of the Quinquennial findings issued by the Town on May 6, 2008, the District is precluded from issuing any general obligation debt, specifically excepting "the refunding of any outstanding bond, note or other debt or financial obligation of the Districts."

On February 24, 2012, CVMD 1 remarketed the Series 2004 Bonds. $10,499,000 of the remarketed bonds, Series 2004A, will mature on December 1, 2018. $9,681,000 of the Series 2004 Bonds were remarketed as subordinate Series 2004B Developer Bonds, maturing on December 1, 2041. These bonds were subsequently refinanced in 2015 and 2017, respectively, by CVMD 2.

CVMD 2

CVMD 2 has a voter-authorized debt limit of $137,500,000. As of the December 31, 2017, the amount of the debt authorized but not issued was $99,130,000. Per the CVMD Service Plan, CVMD 2 debt is limited to $45,000,000, of which $6,630,000 remains.

On August 1, 2014, CVMD 2 issued $28,370,000 of General Obligation Refunding Subordinate Bonds, Series 2014A, at an interest rate of 5.5 percent, and $10,000,000 of General Obligation Refunding Bonds, Series 2014B, at an interest rate of 0 percent. The 2014A and 2014B Bonds mature on December 15, 2049. Both sets of bonds were issued for the purpose of refunding developer notes, including any accrued interest, held by CVMD 1.

The amounts of all other subordinate debt of CVMD 1 that are not otherwise restructured into Series 2014A and Series 2014B Bonds have been discharged in their entirety. Per a Limited Mutual Release between the District and the Subordinate Bondholders, dated July 2, 2014, both the Series 2014A and 2014B Bonds are subject to discharge in their entirety thirty-five years after issuance, unless litigation is filed against the developer entity, Bondholders or current or past Board members, by or through the Districts challenging the enforceability or terms of the Bonds, or relating in any way to the operations of the District. The Subordinate Bondholders also agree to release the Districts, the successors, administrators, principals, Board members, officers and assigns, and any construction management fees, of any possible challenges on the past, present or future operations of the Districts. If such litigation is filed by either party, the principal and interest due on the Series 2014A and 2014B Bonds will not be discharged at year thirty-five, but rather will be due and payable until paid in full.

On December 23, 2015, CVMD 2 issued Limited Tax General Obligation Refunding Loan Series 2015 to refund outstanding Series 2004A and a portion of the 2004B bonds held by CVMD 1.

On November 1, 2017, CVMD 2 issued Limited Tax General Obligations Refunding Loan, Series 2017 to refund the remaining portion of the Series 2004B bonds.

Other Information

On June 4, 2001, the Districts adopted and approved the Joint Resolution Concerning Imposition of a District Development Fee, subsequently amended on October 19, 2011. Residential units and multi-family attached dwelling units are assessed a one-time "development fee" of $2,100 and $1,260, respectively. Commercial property is assessed a one-time development fee at an SFE rate of $2,100 and applied on the basis of 4 SFEs per each acre of commercial property, or $8,400 per acre, of zoned commercial property.

These development fees are subject to increase at the discretion of the Board of Directors of CVMD 1 and are limited to annual increases of 5 percent, rounded to the nearest $25.00, commencing on January 1, 2012, until no further single or multi-family dwelling units or commercial property remain to be constructed within the Districts.

Review Findings:

CVMD 2 has received an unqualified opinion from its independent auditors on the District's December 31, 2018, Financial Statements. Upon staff review of the financial statements, it appears that CVMD 2 has a significant amount of debt outstanding, approximately $60.6 million. CVMD 2 is approximately 51 percent built out. As the District continues to grow, the revenue base will increase and, thus, allow CVMD 2 to generate additional revenue to meet its debt service. Staff will continue to monitor progress within the district.

See **Exhibit 6** for additional detail and analysis.

Dawson Ridge 1, 2, 3, 4, 5

District Overview

Dawson Ridge Metropolitan Districts 1-5 (DRMD 1-5) are currently operating under a suspension agreement with the Town of Castle Rock, dated October 8, 1992, which does not allow the DRMD to exercise their powers other than those administrative functions necessary to remain in lawful existence and in compliance with State law, until the Districts submit amendments to their service plans that are approved by the Town of Castle Rock.

Founders Village Metropolitan District (FVMD) includes ***Villages at Castle Rock Metropolitan District No. 4*** (component unit)

FVMD 1

FVMD 1 generally encompasses the northwesterly 734.14 acres of the Founders Village Planned United Development.

FVMD 1 collects and transfers all property tax revenues and system development fees to FVMD 4. FVMD 4 constructs major public infrastructure and maintains certain landscaping and fencing facilities for the benefit of FVMD 1.

FVMD 4

FVMD 4 encompasses 17.04 acres and functions as the “lead” or “master” district. FVMD 4 also services the major bond debt on behalf of FVMD 1 and Villages at Castle Rock MD 9.

FVMD 4 entered into a Chapter 9 Bankruptcy in 1989 and negotiated a new Bond Resolution in 1991. FVMD 1 and Villages at Castle Rock MD 9 are required to contribute ad valorem Property Taxes and System Development Fees to FVMD 4 under separate Intergovernmental Financing Agreements.

On two separate occasions, FVMD 4's Board of Directors has actively solicited bondholders to restructure the current bond debt, which efforts have proven unsuccessful.

FVMD 4 constructs all capital improvements benefiting and serving FVMD 1.

Other information

Pursuant to the Third Amended and Restated Intergovernmental Financing Agreement between the FVMD 1 and FVMD 4, the water component of the System Development Fee to be collected by FVMD 1 and 4 is 100 percent of the Town's fee. The wastewater component of the System Development Fee to be collected by FVMD 1 and 4 is 30 percent of the Town's fee. The Transportation Impact Fee to be collected by FVMD 1 and 4 is 100 percent of the Town's fee. The Town also collects a regional facilities surcharge of $1,098.30 for SFD and $878.64 for MF/SFD on behalf of FVMD 1 and 4.

Review Findings:

In 1986, FVMD 4 issued Revenue Bonds valued at $32,000,000. As part of a Chapter 9 bankruptcy plan, the District subsequently restructured these Bonds through a Dutch auction* bond sale, resulting in new Exchange Bonds face-valued at $25,911,000. These bonds have an interest rate of 8.5 percent per annum. Payments are made to current interest first, then to unpaid interest, then to principal. The bonds mature on June 1, 2031 and will be deemed to be discharged, satisfied and no longer due and payable.

Interest on the bonds accrues and is determinable in each year, but a failure to pay accrued interest because of lack of revenue does not constitute a default. The actual amount of payment to be made in future years will depend on future revenue and cannot be predicted with certainty.

Through December 31, 2018, FVMD 4 outstanding bond principal is $25,911,000. The accrued unpaid Bond interest is $101,867,001. In 2018, FVMD incurred $10,370,971 in interest and paid debt service of $2,800,000 to the Bond Trustee, for distribution to FVMD 4 bondholders.

Total outstanding debt for FVMD 4 as of December 31, 2018, including accrued interest, is $127,778,001.

See **Exhibit 7** for additional detail and analysis.

* A "Dutch auction" is a method for pricing shares whereby the price of the shares offered is lowered until there are enough bids to sell all of the shares. All the shares are then sold at that price.

Hillside at Castle Rock

District Overview

Hillside at Castle Rock Metropolitan District (HCRMD) is the newest metro district created in the Town. The Service Plan was originally approved by Town Council on May 3, 2016. A first amendment to the service plan was approved by the Town in July 2018 to revise the District's financing plan and estimated cost of public improvements.

There were no capital expenditures incurred by HCRMD during 2018. HCRMD anticipates completing the public improvements described in its service plan within the next five years.

HCRMD had no outstanding debt as of December 31, 2018. Additionally, there was no commercial or residential development in the district during 2018.

Lanterns 1, 2, 3

District Overview

On August 1, 2018, Lanterns Metropolitan Districts 2 and 3 (LMD) each adopted a resolution of return to active status. In 2018, LMD underwent boundary adjustment to reflect the revised boundaries as contemplated in the service plan approved by the Town on August 21, 2018.

During 2018, no capital expenditures were incurred by LMD in development of public facilities. All capital improvements for the development are being constructed by Toll Southwest LLC.

According to Toll Southwest, construction of the public improvements to serve Phase 1 of the development commenced in October 2018, is 30 percent complete and is expected to be completed in mid-2020. Construction of the public improvements for Phase II of the development is expected to be completed in mid-2020, with the construction of the public improvements for Phase III of the development expected to be completed mid-2022.

In the 5 years following the report year, it is expected that LMD will finance the construction and acquisition of all or part of the public improvements within their respective boundaries.

Outstanding Debt

The service plan for LMD 1-3 limits the aggregate amount of debt that they may issue together to $87,000,000.

As of December 31, 2018, LMD had not issued outstanding indebtedness or long-term obligations. Costs are currently being funded through developer advances.

See **Exhibit 8** for additional detail and analysis.

Maher Ranch 4

District Overview

The Maher Ranch Metropolitan District No. 4 (MRMD 4) was organized in 1987, concurrent with MRMD 3 and 5. In 2000, MRMD 3 was consolidated into MRMD 4, and in 2007, MRMD 5 was dissolved. All public improvements for development within MRMD 4 have been completed. MRMD 4 is in bonded debt repayment mode.

Outstanding Debt

On December 16, 2016, MRMD 4 issued $10,000,000 of General Obligation Limited Tax Refunding Bonds, Series 2016A, and $8,260,000 of General Obligation Limited Tax Refunding Bonds, Series 2016B, for the purpose of advance refunding MRMD 4 General Obligation Refunding Bonds, Series 2007. The Series 2016A and 2016B Bonds have an interest rate of 4.95 percent and mature in 2036.

The amount of MRMD 4 indebtedness on December 31, 2018, was $17,219,000, which is the outstanding principal amount of the MRMD 4 Series 2016A and 2016B limited tax refunding bonds.

Other Information

MRMD 4 imposes a $3,000 per residential lot facility fee due at building permit. The building permit timing results in the homebuilder paying the fees.

Additional information received from MRMD legal Counsel, White Bear Ankele Tanaka & Waldron:

"We serve as general counsel for the Maher Ranch Metro District No. 4.

I have reviewed the TOC's draft executive summary regarding metro districts. As Maher Ranch Metro District No. 4 is mentioned in the summary, I offer you the following background on this district.

The majority of the Board of Director for Maher Ranch Metro District No. 4 has been made up by residents since February 2009 (the past 11 years). In 2016 the resident board of directors evaluated the then existing Series 2007 Bonds and made the decision to go through a refunding via the issuance of the Series 2016 refunding bonds. The refunding lowered the average interest rate of the 2007 bonds from an average 5.23% rate, to the new lowered average rate of approximately 3.367%, resulting in present value savings and lowered annual debt service payments (approximately 13% savings from the Series 2007 bonds), while staying with the same 12/1/2036 final maturity.

The Board of Directors annually, at its budget meeting, evaluates the District mill levy and has been able to lower the mill while being able to meet annual operation/administrative expenses and required debt service payments. Exhibit 9 of your report shows the significant lowering of the debt service mill levy from where it was in 2015 before the 2016 refunding to the much lower level after the refunding.

Again for the last 11 years the residents of the District have controlled the board and have worked to restructure the public improvement debt, lower the interest rate, and reduce the annual debt service mill levy."

See **Exhibit 9** for additional detail and analysis.

Meadows Metropolitan Districts 1-7 (MMD 1-7)

Meadows Metropolitan Districts 1-7 were organized on July 11, 1985. The Consolidated Service Plan for Meadows Metropolitan District 1-7 was amended and restated on October 1, 1993.

Under agreements between the seven Meadows Metro Districts, it is established that the Meadows Metropolitan District 4 (MMD 4) will be the Master District for all of the Districts. The Master District is otherwise responsible for completion of all capital improvements within the Districts. However, the Districts are jointly responsible for financing.

MMD's General Obligation Bonds, Series 1989A, 1989B and 1989C, are characterized as general obligation bonds with a "capped mill levy." Effective June 1, 2002, MMDs 1-7 entered into the First Amendment to the Amended and Restated Indenture of Trust, which states that the remaining payment to the bond holders on the Series 1989 GO Bonds will be made on a quarterly basis, instead of semi-annually. Any interest that is due and not paid at the end of each quarter is charged interest at a rate of 7.999 percent per annum. The Districts required payment on the bonds is limited to the proceeds generated from the limited mill levy of 35 mills and certain other revenues, less priority expenses.

Meadows Metropolitan Districts 1, 2, and 7 have outstanding debts that are paid through a Regional Facilities Cost-Sharing Agreement between MMD 1-7. The General Obligation Bonds held by MMDs 1-7 have a capped mill levy of 35 mills and an interest rate of 7.999 percent. Any interest that is due and not paid at the end of each quarter is charged interest at 7.999 percent per annum.

The bonds mature as of June 1, 2029, and interest will not continue to accrue after that date. However, MMDs 1-7 will continue to set the limited mill levy until the bonds and the accrued interest are paid in full. MMDs 1-7 are not entitled to any sort of prepayment on the bonds.

Interest on the bonds accrues and is determinable in each year, but a failure to pay accrued interest because of lack of revenue does not constitute a default. The actual amounts of payment to be made in future years will depend on future revenues and cannot be predicted with certainty.

The total outstanding debt for MMDs 1-7 as of December 31, 2018, including accrued interest, is $339,172,552.

Town staff has prepared a forecast of revenue and debt requirements for MMDs 1-7 and estimates the debt for the Districts will be paid off in the 2056 – 2062 timeframe. Fluctuations in the assessed valuation for property within the District will impact the rate at which the revenue is generated for the full repayment of the debt. In addition, MMD has a longer estimate of the payoff timeframe and, based on their last calculation (performed 5-6 years ago), estimate a payoff timeframe of 96 years.

Additional information received from MMD legal and administration, shows an estimated payoff of the bonds in 2082, rather than the timeframe noted above.

See **Exhibit 10** for additional detail and analysis.

Promenade at Castle Rock Metropolitan Districts 1, 2, 3

District Overview

Promenade at Castle Rock Metropolitan Districts 1-3 (PCRMD 1-3) were originally organized pursuant to a consolidated service plan approved by the Town Council on January 7, 2014. PCRMD was established for the purpose of financing and providing public improvements and related operations and maintenance services within and outside of the boundaries of PCRMD. The public improvements include water, streets, sanitation, parks and recreation, traffic and safety controls, transportation, mosquito and pest control, and television relay and translator.

The PCRMD 1-3 service plan allows for the ability to pay for administration, operations and maintenance associated with the public improvements as necessary from the PCRMD operating revenue. The General Fund Mill Levy at December 31, 2018, was 10.000 mills for PCRMD 1 and 3. The property taxes generated, net of fees, were transferred to PCRMD 2, the operating district, which pays all administrative expenditures for the Districts pursuant to the Districts' Administrative Services Agreement.

The maximum debt mill levy allowed by the service plan is 50.000 mills, as adjusted for changes in the method of calculating assessed value. The maximum debt mill levy at December 31, 2018, was 40.000 mills for Promenade at Castle Rock Metropolitan District No. 1 and No. 3. The property taxes generated, net of fees, were transferred to PCRMD 1, the financing district, which pays all debt service payments.

The service areas of the Districts include approximately 200.2 acres. At estimated build out (over a period of 4 years, 2015-2018, for residential and 6 years, 2015-2020, for commercial), it is anticipated that the Districts would contain a mix of approximately 350 multi-family units, representing a build-out population of approximately 525 residents, and 900,000 square feet of commercial space. The initial estimate of improvement costs was $35,701,000, which would be built in several phases. The maximum general obligation bonded indebtedness for the Districts was not expected to exceed $28,000,000, which when issued, will mature not more than thirty 30 years from the date of issuance. The maximum permissible mill levy, which the District may covenant to impose for the payment of such general obligation bonds, was limited to 40 mills.

Outstanding Debt – PCRMD 1

Series 2015A - On August 25, 2015, the District issued $34,615,000 in Limited Tax General Obligation Bonds. The proceeds from the 2015A Bonds were used for the purposes of (i) paying a portion of the costs of public improvements or reimbursing the Developer for the advancement of those costs, to the extent of available proceeds; (ii) providing capitalized interest; (iii) providing the Series 2015A Reserve Fund; and (iv) paying costs of issuance of the Series 2015A Bonds.

Series 2015B - On August 25, 2015, the District also issued $2,825,000 Taxable Special Revenue bonds, Series 2015B. Proceeds from the sale of the Series 2015B Bonds were used to (i) pay a portion of the costs of public improvements or reimbursing the Developer for the advancement of those costs, to the extent of available proceeds; and (ii) pay costs of issuance of the Series 2015 Bonds. The Series 2015B Bonds are cash flow bonds, and principal and interest are payable to the extent of the Series 2015B Pledged Revenues; therefore, there are no scheduled payments of principal and interest on the Series 2015B Bonds.

Outstanding Debt – PCRMD 2

District No. 2 has a Funding and Reimbursement Agreement (Capital and O&M) with the developer. The Developer has agreed to loan the District money on the condition that the District agrees to repay the Developer Advances based on the terms set forth in the agreement. Advances bear interest per annum at prime plus 3 percent on all unpaid amounts. As of December 31, 2018, PCRMD 2 had $18,259,534 in outstanding developer advances, including accrued interest.

Villages at Castle Rock Metro District (Cobblestone Ranch)

Villages at Castle Rock Metropolitan District 6 (VCRMD 6) encompasses the Cobblestone Ranch area.

On May 4, 2004, electors of VCRMD 6 authorized the issuance of indebtedness in an amount not to exceed $60,000,000 for general obligation bonds at an interest rate not to exceed 18 percent per annum. In addition, the electors authorized the refunding of up to $60,000,000 in general obligation bonds at a higher interest rate. As of December 31, 2018, VCRMD 6 has $95,760,118 of remaining debt authorization.

Pursuant to the Service plan, any additional debt issued by VCRMD 6 will require prior approval by the Town. The maximum debt service mill levy per the service plan is 50.000 mills, subject to adjustment due to Gallagher. As of December 31, 2018, the maximum debt service mill levy per the service plan, as adjusted, is 55.277 mills.

On December 21, 2007, the District issued $22,647,882 in Limited Tax General Obligation Capital Appreciation Bonds (CABs). The CABs were converted to current interest bonds on December 1, 2010. The proceeds were used to pay for bond issuance costs and to reimburse the Developer for advances made on behalf of VCRMD 6 for capital infrastructure costs.

The annual debt service requirements on the CABs are not presented, as the current revenue stream is not sufficient to pay the debt, according to the debt service schedule presented at the time of bond issuance. Payment is subject to monies being available, pursuant to provisions of the Indenture of Trust. VCRMD 6 was unable to make full principal and interest payments on the CABs in 2018. The inability to pay principal and interest on the 2007 CABs when due does not constitute an event of default, so long as VCRMD 6 imposes the required mill levy.

On December 21, 2007, VCRMD 6 authorized the issuance of Subordinate Bonds in the aggregate principal amount not to exceed $37,352,118. VCRMD 6 issued $1,592,000 in Subordinate Bonds on December 21, 2007. Any additional debt against the aggregate principal amount will require approval from the Town.

Other Information

On June 3, 2005, VCRMD 6 adopted a resolution to impose a system development fee, at the rate of $2,000 per residential unit, as contemplated in the service plan.

Fire Protection and Emergency Response Intergovernmental Agreement

VCRMD 6 entered into a Fire Protection and Emergency Response IGA with the Town in 2007. Under the agreement, the Town is obligated to provide fire protection and emergency response services to property within VCRMD 6, and VCRMD 6 shall impose a mill levy of 10 mills dedicated and pledged to the Town for the purpose. In 2018, the amount collected under this agreement totaled $253,489 and was remitted on February 13, 2019.

See **Exhibit 11** for additional detail and analysis.

Villages at Castle Rock Metropolitan District 7 (Woodlands / Escavera)

VCRMD 7 encompasses the Woodlands and Scott II PUD. On November 2, 1992, VCRMD 7’s plan for adjustment of debts was approved by the United States Bankruptcy Court and, accordingly, the Town and VCRMD 7 negotiated a new Master Intergovernmental Agreement (MIGA) and amended the Service Plan. The amendment to the MIGA clarified and amended Development Fee collections, credits, utility capacities, services and the capital improvement obligations of VCRMD 7, Founders Village MD 4 and the Town. Although the majority of the infrastructure has been dedicated to the Town, the District maintains certain landscaping improvements located within the District.

On September 29, 2005, VCRMD 7 issued $3,495,000 of General Obligation Refunding Bonds, with an interest rate of 3.0 percent to 4.0 percent, maturing in 2025. These bonds were issued to advance refund the GO Variable Rate Bonds, Series 2000.

During 2017, VCRMD 7 elected to optionally redeem $100,000 of the Series 2005 Bonds, prior to the scheduled maturity date. The District is anticipating full payoff of the debt on or before their original maturity schedule.

As of December 31, 2018, the District had no remaining voted debt authorization. All previously unissued authorized debt expired in December 2005.

Other information

Pursuant to the Master Intergovernmental Agreement between the Town of Castle Rock and VCRMD 7, the water component of the System Development Fee to be collected by VCRMD 7 is 90 percent of the Town's fee, and the wastewater component of the System Development Fee to be collected by VCRMD 7 is 27% of the Town's fee. The Town also collects a street oversizing fee of $445 per SFE and a regional facilities surcharge of $2,727.07, on behalf of VCRMD 7.

See **Exhibit 12** for additional detail and analysis.

Villages at Castle Rock Metropolitan District 9 (Memmen)

FVMD 9 encompasses 206.4 acres, which is currently zoned as undeveloped. The underlying property is owned by the Memmen Family Trust and the William Memmen Living Trust. The Board of Directors was reconstituted by Town Council on August 21, 2018, and is in the process of bringing the District current and assessing the outstanding obligations and needs of the District.

NOTE: Staff has not performed a full audit of the information provided by the Metro District Annual Reports in accordance with Municipal Code Section 11.02.040. The statements and conclusions in this report represent the Town's analysis of the information provided and do not predict future performance of the Metro Districts.

Staff Report Attachments

Attachment A: Metro District Map
Attachment B: Summary of Metro District Mills and Property Tax

- Supporting Exhibits by Metro District:
  1: Bella Mesa
  2: Castle Oaks, 3
  3: Castleview
  4: Castlewood Ranch
  5: Crystal Crossing
  6: Crystal Valley 1, 2
  7: Founders Village
  8: Lanterns 1, 2, 3
  9: Maher Ranch
  10: Meadows 1-7
  11: Villages at Castle Rock Metro District 6 (Cobblestone Ranch)
  12: Villages at Castle Rock Metro District 7 (Woodlands/Escavera)

Attachment C: Summary of Metro District Debt by Maturity Date
Attachment D: DOLA: Special Districts: a Brief Review for Prospective Homeowners