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August 14, 2020

Via Email (mhyman@crgov.com)

Michael J. Hyman, Esq.
Town of Castle Rock
100 North Wilcox Street
Castle Rock, CO 80104

RE: Castle Rock Metropolitan District No. 3

Dear Mr. Hyman:

As you know, White Bear Ankele Tanaka & Waldron represents Castle Oaks Metropolitan District No. 3 (the “District”), which services a portion of the project commonly known as Terrain (the “Project”). The District operates pursuant to a Service Plan approved by the Town of Castle Rock (the “Town”) on November 22, 2005 (the “Original Service Plan”), as amended by a First Amendment to Service Plan approved by the Town on March 17, 2017 (the “First Amendment” and together with the Original Service Plan, the “Service Plan”). The District intends on issuing its General Obligation Limited Tax Refunding and Improvement Bonds, Series 2020 in the approximate principal amount of \$35,000,000 (the “2020 Bonds”) for the purpose of refunding all of the District’s outstanding 2017 Bonds (as further defined below) as well as financing additional project costs.

The Service Plan governs the parameters within which the District can issue debt. Section X.A of the First Amendment provides:

Bonds, notes, or other multiple-fiscal year obligations of the District for the payment of which the District is obligated to impose ad valorem taxes (“general obligation bonds”) will mature as determined by the Board of Directors consistent with the applicable law at the time of issuance and the debt capacity of the District. The maximum interest rate for general obligation bonds will be eighteen percent (18%) and the maximum underwriter's discount will be five percent (5%). The exact interest rates and discounts will be determined at the time the general obligation bonds are sold by the District and will reflect market conditions at the time of sale but shall not exceed the maximum voted interest rate or underwriter's discount.

...The District may issue up to a maximum amount of Thirty-Six Million Dollars (\$36,000,000) in new money general obligation bonds ("Maximum Debt Amount"), exclusive of refundings. Proposed issuance of new money general obligation bonds in excess of the Maximum Debt Amount shall be considered a material modification to this Service Plan requiring the approval of the Town. Except as provided above, the District will have the authority to finance and construct the Improvements without the need to seek approval of any modification of this Service Plan, provided the District is not then required to obtain an amendment to the Service Plan as required under Section 11.02.060 of the Code. ...Notwithstanding any other provision of this Service Plan, obligations of the District to guarantors, including developer, insurance providers, and in support of other credit facilities related to bond issuances shall not be subject to the Maximum Debt Amount.

Section X.B of the First Amendment provides:

The District may issue general obligation bonds only if the mill levy pledged for repayment of the general obligation bonds, together with the mill levy pledge on any other general obligation bonds of the District, including any subordinate general obligation bonds issued by the District will not exceed fifty-five (55) mills (the "Mill Levy Cap"); provided, however, that if there are changes in the method of calculating assessed valuation or any constitutionally mandated tax credit, cut or abatement after January 9, 2001, the Mill Levy Cap shall be increased or decreased to reflect such changes, such increases or decreases to be determined by the District in good faith (such determination to be binding and final) so that to the extent possible, the actual tax revenues generated by the mill levy, as adjusted for changes, are neither diminished nor enhanced as a result of such changes...

The 2020 Bonds will be issued for the purpose of: (1) refunding the District's \$34,105,000 General Obligation Limited Tax Refunding Bonds, Series 2017 Bonds (the "2017 Bonds"), currently outstanding in the principal amount of \$34,105,000; and (2) funding additional public improvements necessary to serve the Project. The proceeds from the 2020 Bonds are approximately \$4,700,000, which will be used by the District to pay for project costs incurred between 2018 through 2020, including, but not limited to, water, sanitation, storm water, and street improvements, and more specifically costs related to Highway 86, McMurdo Gulch Drainage, Crimson Sky Traffic Signal, Sunstone Trail, Filing No. 3, and Ravenwood (the "Costs"). The District has engaged an independent engineer to review these Costs, perform a site visit, and certify to the District that such Costs are reasonable and consistent with costs of similar improvements constructed for similar purposes during the same timeframe in similar locales. The District engineer will certify these Costs to be approximately \$7,880,000. In addition, the District engineer is currently in the process of certifying additional Project costs for construction-in-progress estimated to be approximately \$10,120,000. Furthermore, the total estimated amount of future costs related to the completion of the public improvements necessary to serve the Project is an additional \$26,000,000. In 2017, as part of the 2017 Bond transaction,

the developer waived approximately \$5,700,000 in reimbursable costs. However, with respect to the issuance of the 2020 Bonds, the developer has agreed to waive its right to any and all past and future reimbursements, which waiver amount is estimated to be approximately \$43,000,000. The District has also hired Piper Sandler as an independent External Financial Advisor to evaluate options and alternatives with respect to the 2020 Bonds and to assist in establishing the structure of the 2020 Bonds. Simultaneous with closing on the 2020 Bonds, Piper Sandler will certify to the District the market reasonableness relative to the interest rate, structure, and redemption features for the 2020 Bonds.

In addition, upon issuance of the 2020 Bonds, the District will have reached its debt limit as set forth in the Service Plan and will not be able to issue any additional debt (other than refundings), without a Service Plan amendment approved by the Town.

Key financial terms of the 2017 Bonds and 2020 Bonds are as follows:

	Service Plan	2017 Bonds	2020 Bonds
Debt Cap	\$36,000,000, not including refundings	\$4,764,030 (after issuance)	\$0 (after issuance)
Interest Rate (all-in TIC)	18% (maximum)	5.17%	3.14% (estimated)
Term/Maturity	As Determined by the Board	2047	2050
Mill Levy Cap	55 mills, as adjusted	55 mills, as adjusted	55 mills as adjusted
Projected Mill Levy for Repayment	N/A	51.211 mills	48.50 mills, declining starting in 2026 (projected to decline to ~37 mills)
Refunding Amount	N/A	\$34,105,000	\$29,840,970
New Money	N/A	\$0	\$4,764,030
Present Value Savings	N/A	3%	23%

Section 11.02.110 of the Town of Castle Rock Municipal Code provides:

A District shall not issue any indebtedness or refinance any outstanding indebtedness without first submitting the proposed financing to the Town for *review and comment*. The submission shall include the dollar amount of the issue, the interest rate and other financing costs, the type of revenues pledged to repayment, including the amount of the mill levy pledged, and a description of the credit enhancements, together with any preliminary official statement or other prospectus for the debt issue. The submission shall be accompanied by a certification of the Board that the proposed issuance or refinance of indebtedness is authorized by and in compliance with the service plan for the District. *The Town Council shall review such proposed financing at a regular meeting within thirty (30) days of receipt of the required submittal and forward any comments to the Board within ten (10) days of such meeting. The approval or authorization of the Town Council for the proposed financing is not required under this Section,* unless required under the express terms of the service plan or intergovernmental agreement. *The Town Council at the request of the Board or of its own initiative may waive the review, in its discretion.* Upon request, an officer of the Town shall certify to the Board or its underwriter when compliance with this Section has been met. The failure of a District to substantially comply with this Section shall empower the Town Council to impose the sanctions authorized in Section 11.02.230 of this Chapter. *(emphasis added)*

As you can see, the terms of the 2020 Bonds are in compliance with the Service Plan, will result in more favorable financial terms for the District, and will also facilitate a waiver of any and all past and future reimbursement rights from the developer, which will generate savings to the District in an estimated amount of \$43,000,000, in addition to present value savings amounts which are expected to be generated by the refinancing of the 2017 Bonds. The District held properly noticed public meetings on June 16, 2020 and July 28, 2020 at which it discussed the proposed 2020 Bonds and authorized moving forward with the transaction. The District has a public meeting scheduled for August 26, 2020 at which it anticipates authorizing the issuance of the 2020 Bonds, currently scheduled to close on September 10, 2020.

Attached hereto is the District's Financing Submission required by Section 11.020.110 of the Town Code, which includes a certificate of the District that the 2020 Bonds are authorized by and in compliance with the Service Plan. Per the Town Code, approval or authorization of the 2020 Bonds is not required from the Town Council, rather, the Town is to review at a meeting within 30 days of receipt of the Financing Submission, and provide any comments within 10 days thereafter. The District does not have a separate agreement with the Town requiring Town approval of the 2020 Bonds.

The District respectfully requests the Town review the Financing Submission and execute the attached Acknowledgment at its regular meeting scheduled for September 1, 2020, but no later than thirty days from the date of this submission, as required by the Town Code.

Michael J. Hyman, Esq.

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Alternatively, the District is agreeable to the Town waiving its review as authorized by the Town Code. In the past, these submissions have been fairly routine, with the Town Attorney preparing the staff report and presenting at council meetings.

The District and its consultants are available to answer any questions you may have.

Sincerely,

WHITE BEAR ANKELE TANAKA & WALDRON

A handwritten signature in blue ink that reads "Kristin B. Tompkins". The signature is written in a cursive, flowing style.

Kristin Bowers Tompkins
Shareholder

KBT/maj

Enclosures

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