

Memo

To: Fossil Ridge Metropolitan District Nos. 1-3
From: James A. Mann
Cc: Kelley Duke
Dino Ross
Jim Harrington
Date: September 7, 2018
Subject: Fossil Ridge Projected Cash Flow

Ehlers has been engaged to review the current and projected cash flow of the Fossil Ridge Metropolitan District Nos. 1-3 to make recommendation as to whether it would be financially prudent for the Districts to issue subordinate and sub-subordinate debt under the terms of the Second Amended and Restated Service Plan. The nexus of this engagement arises from the developer's request for the Districts to immediately issue additional debt to reimburse developer for improvements made in the Districts.

In connection with our review we analyzed the current cash flow projections of the Districts based on current information available, and projected additional growth/development commensurate with, and extrapolated from, existing values. Ehlers has not opined on the pace of future development and when build-out will occur; however, we have updated the future build-out absorption that was contained in the most recent projection prepared by DA Davidson dated February 26, 2018.

Currently the Districts have a 2018 mill levy of \$38.21/\$1,000 for debt service and \$5.458/\$1,000 for operations, aggregating a total mill levy of \$43.67. The maximum combined debt and operational mill levies authorized (Gallagherized) is \$55.27/\$1,000, leaving the Districts room to increase the levy by \$11.60/\$1,000.

However, based on a study conducted by Aspen Reserve Strategies, and in addition to the existing mill levy (\$5.458/\$1,000) for operational expenses, the Districts should have established a capital reserve account to address future maintenance of assets. The study identifies that the Districts should plan on an annual capital reserve/expenditure in the \$209,000 range (2016 dollars), indexing to meet inflationary increases, which will utilize a portion of the available mill levy cap.

Ehlers also evaluated the rate of growth that was projected to occur over the remaining life of the bond amortization schedules, which DA Davidson shows at 6.00%. Based on a random sampling of ten (10) properties that were constructed between 2009-2012 (sample chosen to ensure the properties were considered fully valued with the data available from the Jefferson

County Assessor's office) we believe that 6.00% is unrealistic. Ehlers cursory analysis indicates that the property appreciation since 2012 of those 10 properties was growing slightly less than 1.00% biennially. While this information is preliminary, the data certainly calls into question whether the 6.00% biennial growth factor is valid.

Based on the above, we conclude that it would be financially imprudent for the Districts to issue subordinate and sub-subordinate debt. Issuance of the subordinate and sub-subordinate debt will negatively impact the Districts given the current appreciation rate of the Districts, the needs of the Districts to undertake deferred maintenance on the Districts' assets, the need for future funds to be available for the Districts' assets and the need for continued maintenance of those assets.

Our conclusion is based on, in part, the following reasons:

- We do not believe the issuance of subordinate and sub-subordinate debt has a reasonable expectation that the debt will be repaid.
- The issuance of subordinate and sub-subordinate debt is financially imprudent based on the current growth assumptions of the Districts.
- The financial projection relies on a 6% biennial increase in assessment values in all Districts, which has not been historically achieved, and likely will not be achieved for a significant period.
- Additional funds should be set aside to meet the ongoing and future maintenance of the District's assets.
- The District's outstanding 2010, 2014 and 2016 Bonds are callable in 2020. This may allow for reduction of interest costs which would improve the District's cash flow and allow for additional repayment of developer advances. However, the issuance of subordinate and sub-subordinate debt may impact the District's ability to undertake a refunding.
- The issuance of subordinate and sub-subordinate debt may negatively impact the District's ability to obtain an investment grade bond rating.

Attached you will find the following schedules:

- DA Davidson Growth Projections
- Cash flow of the Districts assuming DA Davidson Growth Projections and the Districts projected operational costs
- Growth Projection assuming historical appreciation rates growing to an average assumed biennial growth rate
- Cash flow of the Districts assuming historical appreciation and projected operational costs
- Fossil Ridge appreciation study



Fossil Ridge Metropolitan District Nos 1-3
Development Projection



Fiscal Year	Residential					Platted/Developed Lots Market		Commercial				Total Assessed	Fiscal Year
	Units	Reassessment	Actuals	Cumulative	Assessed	Assessed	Reassessment	Actuals	Cumulative	Assessed			
		6.00%			7.20%		29.00%	6.00%			29.00%		
2009	170											7,812,860	2009
2010	109											14,798,330	2010
2011	89				4,668,720		11,101,210				108,440	15,878,370	2011
2012	165				8,329,594		12,819,758				71,664	21,221,016	2012
2013	151			321,806,771	12,966,088		10,514,984		250,003	250,003	107,910	23,588,982	2013
2014	79			445,626,683	18,077,382		10,985,457		214,990	464,993	157,630	29,220,469	2014
2015	91			531,795,176	25,615,819		5,925,685		(53,700)	411,293	72,501	31,614,005	2015
2016	126			705,886,333	35,471,884		11,857,463		628,124	1,039,417	134,848	47,464,195	2016
2017	102			759,319,667	42,330,896	13,198,901	7,163,472			1,039,417	119,275	49,613,643	2017
2018	55	45,559,180	30,503,433	835,382,280	50,823,816	12,432,144	5,610,617	62,365		1,101,782	301,431	56,735,864	2018
2019	71		45,677,394	881,059,674	54,671,016	8,797,548	3,827,681			1,101,782	301,431	58,800,128	2019
2020	63	52,863,580	42,449,791	976,373,045	60,147,524	4,100,488	3,605,322	66,107		1,167,889	319,517	64,072,363	2020
2021	37		25,092,888	1,001,465,933	63,436,297		2,551,289			1,167,889	319,517	66,307,102	2021
2022	0	60,087,956	0	1,061,553,889	70,298,859		1,189,142	70,073		1,237,962	338,688	71,826,689	2022
2023	0		0	1,061,553,889	72,105,547					1,237,962	338,688	72,444,235	2023
2024	0	63,693,233	0	1,125,247,123	76,431,880			74,278		1,312,240	359,009	76,790,889	2024
2025	0		0	1,125,247,123	76,431,880					1,312,240	359,009	76,790,889	2025
2026	0	67,514,827	0	1,192,761,950	81,017,793			78,734		1,390,974	380,550	81,398,342	2026
2027	0		0	1,192,761,950	81,017,793					1,390,974	380,550	81,398,342	2027
2028	0	71,565,717	0	1,264,327,667	85,878,860			83,458		1,474,433	403,383	86,282,243	2028
2029	0		0	1,264,327,667	85,878,860					1,474,433	403,383	86,282,243	2029
2030	0	75,859,660	0	1,340,187,327	91,031,592			88,466		1,562,899	427,586	91,459,178	2030
2031	0		0	1,340,187,327	91,031,592					1,562,899	427,586	91,459,178	2031
2032	0	80,411,240	0	1,420,598,567	96,493,488			93,774		1,656,673	453,241	96,946,728	2032
2033	0		0	1,420,598,567	96,493,488					1,656,673	453,241	96,946,728	2033
2034	0	85,235,914	0	1,505,834,481	102,283,097			99,400		1,756,073	480,435	102,763,532	2034
2035	0		0	1,505,834,481	102,283,097					1,756,073	480,435	102,763,532	2035
2036	0	90,350,069	0	1,596,184,550	108,420,083			105,364		1,861,438	509,261	108,929,344	2036
2037	0		0	1,596,184,550	108,420,083					1,861,438	509,261	108,929,344	2037
2038	0	95,771,073	0	1,691,955,623	114,925,288			111,686		1,973,124	539,817	115,465,104	2038
2039	0		0	1,691,955,623	114,925,288					1,973,124	539,817	115,465,104	2039
2040	0	101,517,337	0	1,793,472,960	121,820,805			118,387		2,091,511	572,206	122,393,011	2040
2041	0		0	1,793,472,960	121,820,805					2,091,511	572,206	122,393,011	2041
2042	0	107,608,378	0	1,901,081,338	129,130,053			125,491		2,217,002	606,538	129,736,591	2042
2043	0		0	1,901,081,338	129,130,053					2,217,002	606,538	129,736,591	2043
2044	0	114,064,880	0	2,015,146,218	136,877,856			133,020		2,350,022	642,931	137,520,787	2044
2045	0		0	2,015,146,218	136,877,856					2,350,022	642,931	137,520,787	2045
2046	0	120,908,773	0	2,136,054,991	145,090,528			141,001		2,491,023	681,506	145,772,034	2046
	1,308	1,233,011,818	143,723,506										

Based on DA Davidson Development Projection dated 02/26/18.

Fossil Ridge Metropolitan District Nos 1-3
Development Projection



Analysis of Appreciation Trends and Expected Growth

Fiscal Year	Units	Appreciation	Residential				Platted/Developed Lots		Commercial				Total Assessed	Fiscal Year
			Reassessment	Market	Cumulative	Assessed	Market	Assessed	Reassessment	Market	Cumulative	Assessed		
						7.20%		29.00%				29.00%		
2009	170												7,812,860	2009
2010	109												14,798,330	2010
2011	89												15,878,370	2011
2012	165												21,221,016	2012
2013	151				321,806,771	12,966,088	20,433,397	10,514,984	250,003	250,003	107,910	23,588,982	2013	
2014	79				445,626,683	18,077,382	40,887,803	10,985,457	214,990	464,993	157,630	29,220,469	2014	
2015	91				531,795,176	25,615,819	24,701,628	5,925,685	(53,700)	411,293	72,501	31,614,005	2015	
2016	126				705,886,333	35,471,884	19,346,955	11,857,463		1,039,417	134,848	47,464,195	2016	
2017	102				759,319,667	42,330,896	13,198,901	7,163,472		1,039,417	119,275	49,613,643	2017	
2018	55	0.93%	7,094,225	38,597,580	805,011,472	50,823,816	12,435,144	5,610,617	9,711	1,049,128	301,431	56,735,864	2018	
2019	71				50,268,966	855,280,439	54,671,016	8,797,548		1,049,128	301,431	58,800,128	2019	
2020	63	1.45%	12,413,712	44,604,857	912,299,008	57,960,826	4,100,488	3,606,192	9,802	1,058,930	304,247	61,871,265	2020	
2021	37			26,557,878	938,856,886	61,580,192		2,551,289		1,058,930	304,247	64,435,728	2021	
2022	0	2.90%	27,253,515	0	966,110,401	65,685,529		1,189,142	9,893	1,068,823	307,090	67,181,760	2022	
2023	0			0	966,110,401	67,597,696				1,068,823	307,090	67,904,786	2023	
2024	0	4.35%	42,066,961	0	1,008,177,362	69,559,949			9,986	1,078,809	309,959	69,869,908	2024	
2025	0			0	1,008,177,362	69,559,949				1,078,809	309,959	69,869,908	2025	
2026	0	5.81%	58,531,555	0	1,066,708,917	72,588,770			10,079	1,088,889	312,855	72,901,625	2026	
2027	0			0	1,066,708,917	72,588,770				1,088,889	312,855	72,901,625	2027	
2028	0	5.81%	61,929,710	0	1,128,638,627	76,803,042			10,173	1,099,062	315,778	77,118,820	2028	
2029	0			0	1,128,638,627	76,803,042				1,099,062	315,778	77,118,820	2029	
2030	0	5.81%	65,525,151	0	1,194,163,777	81,261,981			10,268	1,109,330	318,728	81,580,709	2030	
2031	0			0	1,194,163,777	81,261,981				1,109,330	318,728	81,580,709	2031	
2032	0	5.81%	69,329,332	0	1,263,493,109	85,979,792			10,364	1,119,695	321,706	86,301,498	2032	
2033	0			0	1,263,493,109	85,979,792				1,119,695	321,706	86,301,498	2033	
2034	0	5.81%	73,354,371	0	1,336,847,480	90,971,504			10,461	1,130,156	324,711	91,296,215	2034	
2035	0			0	1,336,847,480	90,971,504				1,130,156	324,711	91,296,215	2035	
2036	0	5.81%	77,613,091	0	1,414,460,571	96,253,019			10,559	1,140,715	327,745	96,580,764	2036	
2037	0			0	1,414,460,571	96,253,019				1,140,715	327,745	96,580,764	2037	
2038	0	5.81%	82,119,059	0	1,496,579,630	101,841,161			10,658	1,151,372	330,807	102,171,968	2038	
2039	0			0	1,496,579,630	101,841,161				1,151,372	330,807	102,171,968	2039	
2040	0	5.81%	86,886,629	0	1,583,466,259	107,753,733			10,757	1,162,129	333,898	108,087,631	2040	
2041	0			0	1,583,466,259	107,753,733				1,162,129	333,898	108,087,631	2041	
2042	0	5.81%	91,930,989	0	1,675,397,248	114,009,571			10,858	1,172,987	337,017	114,346,588	2042	
2043	0			0	1,675,397,248	114,009,571				1,172,987	337,017	114,346,588	2043	
2044	0	5.81%	97,268,208	0	1,772,665,457	120,628,602			10,959	1,183,946	340,166	120,968,768	2044	
2045	0			0	1,772,665,457	120,628,602				1,183,946	340,166	120,968,768	2045	
2046	0	5.81%	102,915,290	0	1,875,580,747	127,631,913			11,061	1,195,007	343,344	127,975,257	2046	
	1,308		956,231,798	160,029,282										

Residential New Construction reflects average price point of all previously constructed units, including inflation multiplied by number of units proposed to be absorbed.
Commercial market inflation based on same inflationary rate of residential.

Valuation Study - Market Appreciation

Area 3 - Lakewood			Jefferson County Location Factor 3											Average % of Area 3											
			Fossil Ridge Properties																						
Monthly	Biennially		Property 1 Pin 300453704 100% 2010	Property 2 Pin 300456514 100% 2011	Property 3 Pin 300453688 100% 2010	Property 4 Pin 300456955 100% 2012	Property 5 Pin 300453676 100% 2010	Property 6 Pin 300453678 100% 2009	Property 7 Pin 300455224 100% 2010	Property 8 Pin 300455186 100% 2010	Property 9 Pin 300455201 100% 2010	Property 10 Pin 300455244 100% 2011													
1997	0.50%	11.50%	1.12																						
1998			1.12																						
1999	0.50%	11.50%	1.24																						
2000			1.24																						
2001	1.20%	27.60%	1.59																						
2002			1.59																						
2003	0.75%	17.25%	1.86																						
2004			1.86																						
2005	0.20%	4.60%	1.95																						
2006			1.95																						
2007	0.50%	11.50%	2.17																						
2008			2.17																						
2009	0.00%	0.00%	2.17																						
2010			2.17																						
2011	-0.08%	-1.84%	2.13																						
2012			2.13	78,972	50,068	51,302	51,121	54,989	60,790	49,632	61,491	48,405	44,050												
2013	0.10%	2.30%	2.18	75,655	-4.20%	46,881	-6.37%	51,689	0.75%	49,857	-2.47%	53,629	-2.47%	58,251	-4.18%	51,289	3.34%	58,785	-4.40%	46,606	-3.72%	45,285	2.80%	-2.09%	-90.91%
2014			2.18	75,655		46,881		51,689		49,857		53,629		58,251		51,289		58,785		46,606		45,285			
2015	0.95%	21.85%	2.65	76,546	1.18%	52,495	11.98%	56,499	9.31%	53,672	7.65%	57,769	7.72%	61,651	5.84%	55,803	8.80%	62,224	5.85%	51,088	9.62%	48,851	7.87%	7.58%	34.70%
2016			2.65	76,546		52,495		56,499		53,672		57,769		61,651		55,803		62,224		51,088		48,851			
2017	0.89%	20.47%	3.20	70,021	-8.52%	54,103	3.06%	52,462	-7.15%	57,647	7.41%	56,319	-2.51%	61,702	0.08%	51,158	-8.32%	62,651	0.69%	51,941	1.67%	44,854	-8.18%	-2.18%	-10.64%
2018			3.20	70,021		54,103		52,462		57,647		56,319		61,702		51,158		62,651		51,941		44,854			
Annual % Growth	7.01%	7.01%			-1.99%	1.30%	0.37%	2.02%	0.40%	0.25%	0.51%	0.31%	1.18%	0.30%									0.47%	6.65%	
													Biennial Growth Factor for Fossil Ridge		0.93%	5.81%									

Properties were randomly sampled based on construction completion by close of 2012 to ensure full value tracked.