

Letter from the Manager
October 9, 2008



James C. McGrady
General Manger
Castle Pines North Metropolitan District

Dear Castle Pines North Resident,

During the past several weeks the District has received numerous e-mails and phone calls asking questions about District operations, financing, and renewable water. Given this increased level of interest, it occurred to me that perhaps I could address many of the questions that we have been asked in a letter to you.

Background

The Castle Pines North Metropolitan District (CPNMD) was formed in 1984 and was tasked with providing water, wastewater, and storm water service along with parks and open space maintenance. Originally the District was also tasked with maintaining the roads within the District boundaries but this requirement was formally eliminated from the District's Service Plan in 1994. Douglas County assumed the responsibility for all road maintenance because the associated expense placed too heavy a financial burden on the District.

Today, the Castle Pines North Metropolitan District provides water and wastewater service to 3,200 homes, maintains over 350 acres of active park land and open space along with 14 miles of trail. In order to fund these services (CPNMD) collects 19 mills in property taxes to pay for various administrative expenses, pay for parks and open space maintenance, and construct various park improvements.

CPNMD also bills for water, wastewater, and storm water services. The money collected through monthly utility bills pays for various administrative expenses, the operation of eleven Denver Basin wells, water and wastewater treatment plants, over 85 miles of water and wastewater pipelines, eight wastewater lift stations, and numerous storm water detention ponds. Any revenue generated that is in excess of expenses is used to pay for renewable water infrastructure such as Rueter Hess storage, transmission pipelines, raw water pump stations, additional storage reservoirs, water rights, and treatment facilities. This substantial expenditure for renewable water, currently estimated at \$72,000,000, is needed to replace the District's existing water supply which is not sustainable.

In addition to providing park and open space maintenance and utility services, the District is also tasked with collecting money for the servicing of historical debt. This debt is paid for from a 24 mill property tax assessment. Originally the District had nearly \$60,000,000 in debt. This debt was created when the Castle Pines North community was first built. Over the years the District has reduced this debt down to its current level of \$23,495,000 *without incurring any prepayment penalties*. It has always been the District's goal to eliminate this debt as quickly as possible so that taxes could be reduced to the residents of Castle Pines North. Under the District's current plan, the District's mill levy could be reduced beginning in calendar year 2014; however, an alternate plan of reducing the mill levy now, thereby extending the debt service payments, is currently under review by the District. The board of directors believe that by eliminating historical debt and the mill levy associated with that debt, property values will increase. They

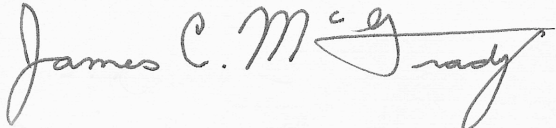
also believe that by eliminating variable interest rate debt, the District will not be vulnerable to the market volatility that we are experiencing today. Finally, eliminating historical debt will enable the District to issue additional debt to fund the renewable water effort, if needed. The board of directors strongly believes that having an aggressive renewable water program will increase property values for each and every resident. Failure to act at a time when partnerships are being formed, scarce water rights are being purchased by other municipalities, and precious pipeline capacity is being subscribed by others, would leave this community at risk. CPNMD is striving to be a leader in the development of a renewable water solution so that you, as residents, can be assured that your property values are maximized during these difficult economic times.

Overall Management

- ⇒ In order to maximize efficiency the District is operated by eight full time employees and one part time position. The District utilizes several outside consultants and maintenance companies that provide much needed expertise and labor. District staff manages these consultants and maintenance companies in the most efficient manner.
- ⇒ Other districts, such as Parker Water and Sanitation, South Adams County Water and Sanitation, and Southgate Water and Sanitation, all operate independently of the cities they serve so as to remain focused on their mission and not be distracted by other municipal demands. The board of directors of CPNMD is comprised of five members solely focused on providing renewable water to the District and managing parks and open space operations. This singular focus helps ensure that maximum efficiency is achieved.
- ⇒ The District enjoys a strong credit rating from Moody's of A3. Using this rating the District has been able to secure bond insurance and letters of credit to substantially reduce interest costs on debt issued since 2006 saving the taxpayers significant costs.
- ⇒ The District has operated strongly for the past 14 years establishing capital and O&M reserves which will be utilized to soften rate increases and help to acquire the renewable water resources the community needs going forward.
- ⇒ The District uses property taxes, fees, and charges as its revenue sources balanced against budgeted costs and allowing for a small positive balance each year to be used to build reserves.

I sincerely hope that this letter helps explain the District's overall structure, its current financial situation, and management philosophy. If you have any further questions please visit our website at www.cpnmd.org or call me at 303-688-8550.

Yours Truly,

A handwritten signature in black ink that reads "James C. McGrady". The signature is written in a cursive style with a large, stylized "M" and "G".

James McGrady
General Manager
Castle Pines North Metropolitan District