PINNACLE
CONSULTING GROUP, INC.

TO:	Castle Pines North Metropolitan District Board of Directors
FROM:	Amanda Castle Pinnacle Consulting Group, Inc.
SUBJ:	Inclusion
DATE:	03/02/2022

As the District is keenly aware, an inclusion agreement was signed with PWSD in early 2021 and subsequently approved by the voters of Castle Pines North Metropolitan District in May of 2021. Based on much negotiation and due diligence of both Districts, the inclusion agreement explicitly stated that Castle Pines North would be responsible for paying an inclusion fee totaling $34,800,000.

From the beginning of negotiations, Castle Pines North understood that the enterprise funds would be unable to pay off all necessary obligations, including paying off the CoP's which, by nature of the debt, were always carried by the General Fund. Therefore, Castle Pines North agreed to sell to ***assist*** in paying off the debt.

It is extremely important to understand that the proceeds from the CoP's were used to fund assets that were held in the Enterprise fund, and strictly benefited the enterprise funds. The Enterprise funds did not have the wherewithal to assume/pay for debt when the CoP's were taken on (many moons ago), and as such the General Fund needed to assume the debt, allowing for necessary enterprise fund infrastructure. It was not ideal, but it was what needed to be done. It is also important to note that at no time has the general fund ever had a transfer of funds from the Enterprise funds to cover the debt of the CoP's. Having said that, the opposite has been true as proceeds were transferred to the enterprise fund to pay for assets.

In late July Parker Water & Sanitation began to request cash flow information that would demonstrate how much additional cash the enterprise funds would have at year-end (above and beyond the inclusion fee) that would be turned over to Parker upon inclusion. To answer their requests, we provided several cash flows clearly demonstrating the Enterprise Fund's inability to pay off total debts, requiring additional transfers ofcash from the General Fund, and leaving no cash remaining above and beyond the noted inclusion fee.

After much discussion and back and forth, District staff and members of the board believed we could add the additional $5.6 million from additional proceeds on the sale of assets into the enterprise funds, leaving additional cash for distribution to Parker of $5 million, for a total payment of $39,800,000.

In November, requests of the District's financial projections became increasingly urgent, as Parker pushed for even more cash. By December, it became clear that Parker was adamant about receiving, additional cash to help close the $11 million funding gap they believed existed.

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The District Board and staff worked tirelessly to provide clear information, and even requested an additional meeting with the Parker board. Parker denied the District's request and delayed the inclusion.

In February, our team scheduled a meeting with Parker's staff to discuss the year-end cash flow, which demonstrated the District's ability to pay the nearly $39,800,000, but no more. The discussion with Parker happened on February 10th, and our team walked away feeling confident that we had made good progress, and that Parker's staff clearly understood our position and the funds available. Unfortunately, shortly afterour meeting, the Board voted to terminate the inclusion agreement, which came as a complete shock.

As the Finance Director, I had a responsibility to ensure this agreement was in the best interest of our residents, and to ensure that the General Fund would remain whole upon inclusion. While we attempted many times to clearly articulate the financial position of the enterprise funds, we continued to get requests that would have placed the General Fund in a position to fund a large amount of cash toward the inclusion, which I could not stand behind.

As previously stated, the General Fund has carried the burden of the CoP's for many years, at a very large benefit to the Enterprise funds. Having the General Fund provide additional cash for the inclusion was simply out of the question.

The abrupt termination of the agreement frustrates me for multiple reasons. First and foremost, we were not provided with an opportunity to sit down with the Parker's board to collaborate on a plan of action. Instead, we were continually trying to feed information to staff, hoping it would be relayed to the board.

Second, there was no discussion of alternative options that Parker may have had in obtaining additional funds. Per the inclusion agreement, Parker could have sought to increase the renewable water component of the inclusion agreement (as explicitly stated on page 6 of the signed document) if they believed more funds were necessary. While we the District would have been unable to fund the large differential Parker was looking for, it was an option they could have sought and billed for if we all agreed.

I am confident in the information Castle Pines North provided and stand by the fact that no more than $39,800,000 could have been transferred for the inclusion. As the Finance Director, I could not support pulling millions of dollars from the General Fund to appease Parker. It would have been irresponsible and would have left the General Fund in a difficult situation for years to come.