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**MEMORANDUM**

TO: CASTLE PINES NORTH METROPOLITAN DISTRICT  
FROM: BOND COUNSEL/KRISTINE LAY/KUTAK ROCK LLP  
DATE: FEBRUARY 29, 2016; UPDATED MARCH 3, 2016  
RE: MAY 2016 BALLOT ISSUE FOR WATER INFRASTRUCTURE

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The following is the form of the ballot issue for the proposed \$64,000,000 in debt proposed to be issued for the purpose of funding water infrastructure, together with the corresponding mill levy for the payment of such debt of up to 15 mills. The ballot issue has been broken out into sections with explanatory notes.

1. SHALL CASTLE PINES NORTH METROPOLITAN DISTRICT DEBT BE INCREASED \$64,000,000 WITH A REPAYMENT COST OF \$125,000,000, AND SHALL CASTLE PINES NORTH METROPOLITAN DISTRICT TAXES BE INCREASED \$2,600,000 (FIRST FULL FISCAL YEAR DOLLAR INCREASE) ...

Subsection (3)(c) of Article X, Section 20 of the Colorado Constitution (TABOR) requires that this language be used for all debt and tax increase ballot questions. The \$2,600,000 represents the dollar amount of the tax increase 15 mills is expected to produce in the first fiscal year of the tax increase (collection year 2018). This number should include a bit of “wobble room,” because if the assessed valuation of the District increases before it is certified in levy year 2017 and such increase results in tax revenue actually collected in 2018 to exceed this amount (of \$2,600,000), the District would be required to refund the excess.

2. ...AND BY ADDITIONAL AMOUNTS THAT ARE RAISED ANNUALLY THEREAFTER BY THE DISTRICT’S IMPOSITION OF AN AD VALOREM PROPERTY TAX LEVY OF UP TO 15 MILLS (BEGINNING NOT EARLIER THAN COLLECTION YEAR 2018), OR SUCH LESSER AMOUNT AS MAY BE NECESSARY FOR THE PAYMENT OF SUCH DEBT, ...

This language authorizes the imposition of up to 15 mills each year by the District for the purpose of paying the debt proposed by the ballot issue. If less than 15 mills are needed to pay the debt after taking into account other District revenue available for such purpose, the District

need not levy all 15 mills. After the first fiscal year of collection (which shall not be earlier than 2018), regardless of the amount generated each year by the imposition of 15 mills (or fewer mills, if that is the case), the District can collect and retain that tax revenue without regard to the limitation of the first full fiscal year increase of \$2,600,000.

3. ...SUCH DEBT TO BE IN THE FORM DETERMINED BY THE DISTRICT...

This language allows flexibility to the District with respect to the nature of the debt proposed to be issued. For example, the District could obtain a direct loan from a lending institution or issue revenue bonds pursuant to a public offering, in each case as determined by the Board.

4. ...AND ISSUED FOR THE PURPOSE OF FINANCING THE COSTS OF IMPROVING, EXPANDING, UPGRADING, CONSTRUCTING, INSTALLING, COMPLETING AND OTHERWISE PROVIDING SUSTAINABLE AND RENEWABLE WATER RESOURCES AND WATER INFRASTRUCTURE FOR THE DISTRICT, INCLUDING, WITHOUT LIMITATION:

\*ACQUISITION OF WATER RIGHTS

\*WATER STORAGE FACILITIES

\*WATER TREATMENT FACILITIES

\*WATER DISTRIBUTION SYSTEMS

TOGETHER WITH ALL NECESSARY, INCIDENTAL AND APPURTENANT EQUIPMENT, LAND, EASEMENTS, AND EXTENSIONS OF AND IMPROVEMENTS TO SUCH SYSTEMS AND FACILITIES; ...

This language in the ballot issue identifies the things that the District can pay for with the proceeds of the debt.

5. ...SUCH DEBT TO BE ISSUED FROM TIME TO TIME, AND MATURE, BEAR INTEREST, BE SUBJECT TO REDEMPTION WITH OR WITHOUT PREMIUM, BE SOLD AT, ABOVE OR BELOW PAR,...

This language authorizes the District, at the discretion of the Board, to issue the debt in increments or all at one time, and authorizes the Board to negotiate with a lender or work with an underwriter to determine the most favorable terms on which the debt can be issued by the District based on market forces in effect at that time. "Redemption" is another way of saying "prepay" and in some cases the Board may determine that a redemption premium is worth paying in light of other benefits a particular financing structure may offer. Similarly, this language authorizes the Board to determine the price at which the debt may be offered. For

example, the debt may be sold for the principal amount of such debt (being 100% of par) or the Board may determine that it is beneficial to issue the debt below par (e.g., 98% of par) or above par at a premium (e.g., 101%).

6. ...AND PAID FROM ANY LEGALLY AVAILABLE REVENUES OF THE DISTRICT, INCLUDING REVENUE DERIVED FROM FEES AND CHARGES OF THE DISTRICT AND AD VALOREM TAXES IMPOSED ON ALL TAXABLE PROPERTY OF THE DISTRICT IN A MAXIMUM AMOUNT OF UP TO 15 MILLS LEVIED IN EACH YEAR (BEGINNING NOT EARLIER THAN COLLECTION YEAR 2018) FOR THE PURPOSE OF PAYING THE PRINCIPAL OF, PREMIUM IF ANY, AND INTEREST ON SUCH DEBT, ALL OF THE ABOVE AS DETERMINED BY THE DISTRICT; ...

The language above indicates that the District may use revenue other than the ad valorem tax revenue derived from up to 15 mills to pay the proposed debt, which is important in order to “de-bruce” all revenue used to pay the debt. See explanation in #6 below for more information about “de-brucing.”

7. ...AND SHALL THE PROCEEDS OF SUCH DEBT AND INVESTMENT EARNINGS THEREON AND THE REVENUE FROM SUCH TAXES, FEES AND CHARGES AND ANY OTHER REVENUE USED TO PAY SUCH DEBT BE COLLECTED, RETAINED AND SPENT BY THE DISTRICT AS A VOTER-APPROVED REVENUE CHANGE WITHOUT REGARD TO ANY SPENDING, REVENUE-RAISING, OR OTHER LIMITATION CONTAINED WITHIN ARTICLE X, SECTION 20 OF THE COLORADO CONSTITUTION AND WITHOUT LIMITING IN ANY YEAR THE AMOUNT OF OTHER REVENUES THAT MAY BE COLLECTED, RETAINED AND SPENT BY THE DISTRICT?

This language is commonly referred to as “de-brucing.” More specifically, this language exempts all of the above mentioned moneys from the revenue and spending limitations of TABOR, thus authorizing the District to collect, retain and spend all such moneys without regard to the provisions of TABOR that would otherwise require the District to refund excess funds (as more particularly described in Sections 7 and 8 of TABOR, being ARTICLE X, SECTION 20 OF THE COLORADO CONSTITUTION). The phrase “...VOTER APPROVED REVENUE CHANGE...” is used to mirror the language in TABOR thus making it inherently clear that these revenues are authorized to be retained by the District.