

Memorandum



Date: August 10, 2011

From: Fletcher Davis

To: Mitch Chambers, Stonegate Valley Metropolitan District

Re: Comprehensive List of Assumptions

This memorandum summarizes the assumptions used to compile the cost-benefit analysis and related tasks for the potential consolidation of the Stonegate Valley Metropolitan District's (Stonegate) water and sewer utility operations with the Parker Water and Sanitation District (PWSD).

Below is a table that lists the assumptions used in the Stepwise financial planning models.

Input	Assumption
Tap Fees	Tap fees are charged on a per equivalent unit basis as follows starting in 2010: PWSD Water: \$15,685 PWSD Sewer: \$2,920 SVMD Water: \$13,900 SVMD Sewer: No Charge Tap fees are increased at a rate of 3% annually .
O&M and Capital Cost Inflation	All models assume a 2.5% annual inflation rate based on the Federal Reserve Board's long-range estimate from its quarterly survey of 45 professional economists.
Bond Financing	For all models, bond interest rates are 4%, terms are 30 years, and issuance costs are 1%.
Debt Service Coverage	For all models debt service coverage is 1.25.
Rate of Return on Fund Balances	For all models, the rate of return on fund balances is 1.5%.
Timing and Purpose of Rate Increases	All projected rate increases, if necessary, are assumed to go into effect on the first day of the fiscal year. Revenue from rates is adjusted in the plan if needed to meet projected operating costs, and existing debt service requirements at a minimum.
Annual Capital Renewal & Replacement	In years after 2015, a minimum of 2.5% of total asset value is assumed as a budget for normal asset renewal and replacement.
Growth	Stonegate: 45 units per year starting 2012, to 2030 (based on absorption of remaining taps) PWSD: 48 units in 2012 building to 310 per year by

Input	Assumption
	2016 (based on absorption of Ridgeway inclusion area)
Timing of Debt Issue	All projected debt, if necessary to finance capital improvements, is assumed to be issued at the midpoint of the fiscal year.
Financing of Capital Needs	Available cash and debt is used in combination to minimize impact on rates and taxes to customers.
Capital Improvement Costs	All capital improvement plans were prepared by Stonegate with respect to the Stonegate stand-alone plan, and by PWSD with respect to the PWSD stand-alone plan. The capital improvements under the inclusion scenario were jointly prepared by Stonegate and PWSD.
W.I.S.E. Partnership Costs	The Stonegate stand-alone plan includes projected costs of participation in the WISE Partnership. Capital costs associated with WISE are taken from the SMWSA Regional Water Supply Master Plan Update dated Jan. 4, 2011. The cost of purchasing water from the WISE Partnership was assumed at 350 acre-feet starting in 2012, ramping up to 1,485 acre-feet by 2020.

Discrepancies between models as they existed yesterday, because they changed today:

1. No tap fee increase on WW consolidation plan or SVMMD stand alone plans.
2. Supplemental Water Resource Fee not included in tap fee calculation for SVMMD.
3. PWSD water DSC only at 1.0 (there was a reason for this)
4. PWSD and Cons WW RoR of 2.5%, SVMMD WW @ 1.3%
5. PWSD Stand Alone does not have a FCR, or it's 0.0 (did not change, want to talk to you first)
6. PWSD and Cons WW did not grow its non-rate revenue, 0%.
7. We should discuss fixed vs variable costs in the O&M projections.
8. Compark cost sharing revs were included in DSC calcs for stand alone WW(did not change, want to talk to you first)
- 9.