

March 17, 2011

Summary:

Stonegate Village Metropolitan District, Colorado; General Obligation

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Credit Profile

Stonegate Vill Metro Dist GO

Unenhanced Rating

A-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A-' underlying rating (SPUR) on Stonegate Village Metropolitan District, Colo.'s series 2006 general obligation (GO) refunding and improvement bonds outstanding. The outlook is stable.

The rating reflects our view of the district's:

- Essentially built-out and primarily residential tax base;
- Above-average and wealth and income levels;
- Access to the greater Denver area economy; and
- Solid general fund reserve position, further strengthened by additional revenue flexibility provided by the district's very liquid utility fund.

These strengths are offset, in part, by our view of:

- Recent declines in the district's assessed value (AV), and
- The district's impending future capital outlay needs.

The bonds are secured by an unlimited GO pledge of the district.

Stonegate Village Metropolitan District encompasses approximately 947 acres in the northern portion of Douglas County, about 18 miles southeast of the Denver central business district and eight miles southeast of the Denver Technological Center. The district provides utility, transportation, and recreation services to an estimated population of 8,500 in a predominately residential master-planned community. In addition, the district provides water and sewer services to the Lincoln Park Metropolitan District and the Compark Business Campus Metro District. Residential development within the Stonegate Metropolitan District is complete; the district consists of about 2,500 residential units. The district's commercial base, which accounts for 20% of taxable value, is not yet built out as there are three to four commercial water taps remaining.

AV increased at an average annualized pace of 4.2% between fiscals 2006 and 2009 to approximately \$78.88 million. Fiscal 2010 AV declined by about 2.3% to approximately \$77.06 million. Fiscal 2011 projections indicate AV will drop further by just under 1% to approximately \$76.56 million. The district's AV for fiscal 2011 equates to an estimated market value of approximately \$799.6 million. Market value per capita, an indicator of wealth, is very strong, in our view, at approximately \$95,406. Income levels for Douglas County remain very strong, in our

opinion, with median household effective buying income at about 174% of the nation. The district's tax base is what we consider diverse given its primarily residential composition, with the 10 leading taxpayers accounting for an estimated 15.6% of AV for fiscal 2011.

The district's financial position is strong, in our opinion. Following three consecutive years of general fund surpluses, the district ended fiscal 2009 with an unreserved general fund balance of approximately \$850,000, which equated to what we consider a strong 92% of operational expenditures. The district can advance funds from the utility fund to the general fund, providing additional revenue flexibility to the general fund. The utility fund closed fiscal 2009 with approximately \$6.98 million in cash and current investments, which was equal to what we consider a very liquid 886 days of utility-related operating expenditures. The district's principal source of general fund operating revenue is park and recreation fees (at 89% of fiscal 2009 general fund revenues), followed by property taxes (6%) and conservation trust fund entitlement (4%). The district's tax rate remains unchanged at approximately 27.4 mills: about 0.8 mills levied for operations and about 26.6 mills for debt service. Park and recreation fees apply to all households within the district and are included on the monthly water bills. Unaudited results for the district indicate an ending general fund balance of approximately \$1.03 million for fiscal 2010, or an estimated 116% of operating expenses. While district officials expect expenditures to remain stable for fiscal 2011, potential upcoming capital expenses include upgrades to the wastewater treatment plant and the acquisition of renewable water, as well as the infrastructure necessary to bring the renewable water to the district.

The district's overall net debt burden is moderate, in our view, at about 5.0% of market value and approximately \$4,687 per capita. Amortization of the district's debt burden is rapid, in our view, with about 57% of principal retiring over the next 10 years and all debt currently scheduled to retire by 2025. We understand the district currently has no additional GO debt authorized but unissued remaining, and has no confirmed future debt plans at this time.

Outlook

The stable outlook reflects our expectation that the district will continue to maintain its strong financial position. The outlook also reflects our view that it is unlikely the district will issue a substantial amount of additional debt given its mature phase of development. We do not expect to raise the rating during the two-year outlook timeframe.

Related Criteria And Research

USPF Criteria: Methodology And Assumptions: Rating Unlimited Property Tax Basic Infrastructure Districts, March 17, 2009

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