



June 15, 2011

Mr. Mitch Chambers
Mulhern MRE, Inc.
2 Inverness Drive East, Suite 200
Englewood, CO 80112

Subject: **Final Letter Report**
Stonegate Village Metropolitan District Inclusion Analysis Peer Review

Dear Mr. Chambers:

At your request, SAIC Energy, Environmental & Infrastructure (SAIC), formerly R. W. Beck, conducted a high level peer review of the financial analysis related to Stonegate Village Metropolitan District's (SVMD) proposed inclusion with Parker Water and Sanitation District (PWSD). This review consisted of reviewing the analysis developed by StepWise Utility Advisors (StepWise) and a series of communications and meetings with StepWise and yourself, on behalf of SVMD. The purpose of this high-level review was to assess the appropriateness of the analytical approach conducted by StepWise, the reasonableness of the assumptions made for that analysis, as well as any suggestions for potential improvements, as appropriate. This letter report provides a summary of our findings and opinions developed for this assignment.

Information Provided

To facilitate our review, StepWise provided a series of electronic print-outs from its spreadsheet-based proprietary model. These printouts consisted of three near identical model results related to water utility operations for a SVMD stand alone case, a PWSD stand alone case and a "Consolidated Utility" case (combining SVMD and PWSD as proposed for the inclusion analysis). Additionally, near identical model results related to wastewater (sewer) utility operations for each of the three utility scenarios were also provided. These model runs were dated May 12, 2011 for PWSD and Consolidated Utility and May 24, 2011 for SVMD. Additionally, StepWise included three task force presentations (a draft, and two final presentations dated February 3 and March 1), as well as an Average Cost Chart, and a Super Table Draft (both dated May 24). The "Super Table" provided a tabular presentation of the data presented in the Average Cost Chart, and includes an SV Alone (also identified as Stonegate or SVMD), a PW Alone (also identified as Parker or PWSD), and a Combined case (also identified as the Consolidated or Regionalized case).

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Methodology

Our assignment consisted of reviewing the cost determination and methodology utilized by StepWise to identify the potential savings associated with the inclusion process. The model results from StepWise consisted of a series of projected cash flow statements that included two years of actual results (2008, 2009), one year of estimated results (2010), one year of budget (2011), and 19 years of projected results (2012-2030). Our review included identifying the total Utility Revenue Requirements, as labeled on the Super Table document, and matching those to the specific model results, labeled “Required User Charge Revenue”. The Required User Charge Revenue is derived from the “Total Revenue Requirement” less “Total Non-Rate Related Revenue / Income”. The major components of the Total Revenue Requirement include the Operations and Maintenance Expenses, the Annual Debt Service (for existing and projected issues), Capital Projects and Change in Fund Balance. The major components of the Total Non-Rate Related Revenue / Income consist of Other Revenues, Projected Debt Proceeds, Total Other Capital Inflows, Development Fees, and Investment Earnings.

The Super Table / Average Cost Chart documents include a projection of selected years from the cash flow model results discussed above (2012, 2015, 2020, 2025, and 2030). Additionally, the Super Table includes projections of Units of Service (Water Demand and Sewer WWTP Influent, both in million gallons (MG)) for those selected years. The Super Table also includes a projection of Property Taxes for PWSD, the three independent districts of SVMD (Lincoln Park, Corporate Park and E470, all combined), and Stonegate (separate from SVMD). The property taxes are based on assessed value and mill levies and serve as a revenue source to the utilities for debt service. Due to bond financing restrictions, the inclusion proposal does not include transferring ownership of assets from SVMD to the Consolidated Utility. Therefore, the existing debt of SVMD will continue to be paid by taxpayers in those districts. This is identified in the StepWise projections as the “Legacy Tax Burden”.

As indicated above, this process also included several discussions and correspondence with StepWise and SVMD. This included a discussion of the various assumptions utilized for the modeling process. The significant assumptions included the following:

- PWSD recently upgraded its wastewater treatment facilities, which allows it to treat wastewater flows from SVMD with minimal capital additions (conveyance structures would be required). This results in a minor increase in revenue requirements to existing rate / tax payers in SVMD in the Consolidated Utility case.
- The existing SVMD wastewater treatment plant is at or near its expected useful life. This facility would require significant capital upgrades under the SVMD Alone case, which would be avoided under the Consolidated Utility case. Under the Consolidated Utility case, the



facility would be retired and the sale of the land on which it exists would be expected to sufficient to pay for its decommissioning.

- Future projections of water needs for SVMD would include the proposed Water, Infrastructure and Supply Efficiency (WISE) project as a solution, based on the then current understanding of the economics of that proposed project. However, the current water needs projections for PWSD do not include significant, if any, participation in the WISE Partnership. Further, PWSD has indicated that it has sufficient water resources to provide for SVMD existing and future needs under the Consolidated Utility case.
- It is assumed that the existing Rueter-Hess debt service payments made to date by SVMD would be retuned via a long-term agreement to provide irrigation water to SVMD parks and open space operations under the Consolidated Utility case. However, this “equalization” process was not included in the model, as it is reported to provide a more compelling case for the Consolidated Utility. Under the existing model assumptions for the Consolidated Utility case, SVMD will be subject to the current PWSD mill levy, which is financing the Rueter-Hess project.

Findings / Limitations

There are economies of scale that apply in utility economics in general and specifically to the inclusion proposal. This is because retail rates that are developed to support utility operations are generally applied in a fair and equitable manner across all users of a system. This is also because most utility costs are fixed in nature, therefore having more users within a system over which to spread those costs results in lower unit costs. This is identified as the “economies of scale” in utility economics. Therefore, in general, the consolidation of utility operations would be expected to decrease unit costs going forward, holding all other things equal, compared to unit costs associated with status quo operations.

The key driver to the estimated unit cost savings to SVMD ratepayers appears to be associated with the assumption regarding future costs for both “Utility Revenue Requirements” (operating costs) and “Property Taxes” (i.e. future debt issues). For example, in 2012, total unit costs (\$/MG, including Legacy Taxes) are slightly less for the SV Alone case than for the Combined case. However, by 2015 these costs are estimated to be approximately equal, and by 2020 (and beyond) these costs are reversed, in that the unit costs for the SV Alone case is higher than the Combined case. Given the significant cost-related assumptions identified above these results appear to be reasonable.

Our review was limited to model result outputs based on StepWise’s proprietary model. This review did not include verification of the mathematics of the modeling effort or the inputs to the model. We did not review independent projections of capital needs for each utility scenario, such as those described in respective Water Resource Plans. It was assumed that these items were appropriately captured by StepWise in its financial modeling effort. Further, assumptions with regard to financing



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costs (rates, issuance costs, etc.) as well as growth rates for SVMD and/or PWSD were beyond the scope of this review.

Recommendations / Conclusions

It is our opinion, based on the limited review conducted and as described herein, the analysis conducted by StepWise with regard to the consolidation of SVMD and PWSD is based on appropriate analytical techniques and reasonable assumptions.

We did find some very minor errors with regard to labeling of years (the 2011 in the Super Table was actually 2012), as well as minor issues with industry terms and consistency in case names. However, we did not find any issues that would materially impact the results. We do recommend that the modeling results continue to be improved with updated data, as we understand some of the WISE Partnership costs have changed since the models were developed, resulting in potentially higher revenue requirements for the SVMD Alone case.

We appreciate the opportunity to provide our services to you and SVMD. We look forward to providing our presentation to the SVMD board on June 15, 2011, as part of completing our assignment. If you have any questions, please feel free to contact myself at 303.299.5342 or Cortney Brand at 303.299.5225.

Sincerely,

SAIC Energy, Environment & Infrastructure, LLC



Scott Burnham
Vice President – Professional Resources



Cortney Brand
Program Manager/Local Practice Leader

