

REUNION INDUSTRY CENTER METROPOLITAN DISTRICT

PROJECT NARRATIVE

The proposed Reunion Industry Center Metropolitan District (the “**District**”) is anticipated to provide public improvements, funding and related services to the Reunion master planned community. The District itself contains approximately 24 acres of property that will be developed with 23 oil and gas wells and will exist as part and in coordination with the overall master planned Reunion community. The developer for the project is Clayton Properties Group II, Inc., doing business as Oakwood Homes.

1. **Proposed Service Plan.**

(a) **Single District Structure.** The proposed Service Plan for the Reunion Industry Center Metropolitan District (the “**Service Plan**”) provides for a single district structure. The District is being organized as a financing district with revenues to be applied to various construction and service needs within the Reunion master planned community. It is anticipated that the District will enter into one or more intergovernmental agreements with other existing Title 32 metropolitan districts within the master planned Reunion community identifying the nature of the functions and funding to be provided by the District for the benefit of the Reunion community, and the mechanisms by which the District will cooperatively fund the costs of the public improvements and provide services to such other existing districts. The exact structure governing the relationship among the District and the other existing Title 32 metropolitan district has not yet been finally determined. As such, drafts of such intergovernmental agreements have not yet been prepared.

(b) **Service Plan Powers.** The District will have the power and authority to provide Public Improvements (including street improvements, safety controls, water improvements, sanitation improvements, stormwater improvements, and park and recreation improvements), mosquito control, and covenant enforcement and design review services, within and without the District’s boundaries as such power and authority is described in the Special District Act and other applicable statutes, common law, and the Colorado Constitution, subject to specific limitations set forth in the Service Plan.

(c) **Preliminary Engineering Survey.** An estimate of the costs of the Public Improvements that may be planned, designed, acquired, constructed, installed, relocated, redeveloped, maintained and/or financed by the District was prepared based upon a preliminary engineering survey and estimates derived from the zoning on the property within and without the District’s proposed boundaries. The estimated cost of such Public Improvements is \$438,000,000.

(d) **District Debt.** The Service Plan places the following limitations on the Debt that may be issued by the District:

- (i) Total Debt Issuance Limitation: \$25,000,000.

(ii) **Maximum Debt Mill Levy:** If the total amount of the District's aggregate Debt exceeds fifty percent (50%) of the District's assessed valuation, the Maximum Debt Mill Levy is fifty (50) mills, subject to Gallegherization as of January 1, 2003. If the total amount of the District's aggregate Debt is equal to or less than fifty percent (50%) of the District's assessed valuation, either on the date of issuance or any time thereafter, the mill levy to be imposed to repay such portion of Debt is not subject to the Maximum Debt Mill Levy.

Metro District Name	Public Improvements	Debt Limit	Debt Limit Includes ARI?	ARI Debt Limit	Total Debt Capacity	Organizing and Operating Reimbursement	First Year Operating and Maintenance
(Location in Service Plan)	V.B	V.A.14	No	N/A	Calculate	VI.H	VI.H
Reunion Industry Center Metropolitan District	\$438,000,000	\$25,000,000	N/A	N/A	\$19,385,000	\$150,000	\$50,000

(e) **Operations and Maintenance.** The District shall dedicate the Public Improvements to the City or other appropriate jurisdiction or owners association in a manner consistent with the approved PUD Zone Document and other rules and regulations of the City and applicable provisions of the City Code. The District will not be authorized to operate or maintain any part of the Public Improvements unless provision therefor has been made pursuant to the District Activities IGA. Notwithstanding, the District will be required and obligated to cause the operation and maintenance of park and recreation improvements, which, unless otherwise specified in the District Activities IGA, shall be open to the general public free of charge. The Maximum Debt Mill Levy shall not apply to any District's ability to increase its mill levy for the provision of such operation and maintenance services.

(f) **Compliance with the City of Commerce City's Model Service Plan.** The District is located within the master planned Reunion community within the City of Commerce City. There are six existing Title 32 districts (the "**Reunion/North Range Districts**") that have been previously organized, which encompass a large portion of the area within Reunion that has already been developed. The intent of the proposed Service Plan is to, as closely as possible, mirror the authorization, limitations and powers set forth in the service plans of the Reunion/North Range Districts so that all residents and property owners within the greater Reunion community are on an equal basis in regard to district services afforded to the overall community and district financial and mill levy burdens imposed by and through the various districts. Additionally, there are provisions in the Model Service Plan which, if included, could impact the ability of the District to provide the Public Improvements as intended. As such, certain deviations from the Model Service Plan are requested. The following summarizes areas where the proposed Service Plan deviates from the City of Commerce City's Model Service Plan:

(i) *Maximum Debt Mill Levy Imposition Term:* The City's Model Service Plan prohibits districts from imposing a debt service mill levy for repayment of

debt which extends beyond 40 years after the year of the initial imposition of such mill levy unless a majority of the Board are residents of the district and have voted in favor of a refunding of all or a part of the debt and such refunding will result in a certain net present value savings. This limitation is not contained in the service plans for the Reunion/North Range Districts, and has been removed from the proposed Service Plan in order to ensure consistency in the district financial burdens in Reunion.

(ii) *Conveyance Limitation.* The City's Model Service Plan would require each District, upon 90 days' written notice from the City, to convey property owned by the applicable District to the City that is necessary for any City capital improvement project for transportation, utilities or drainage. If significant construction, especially vertical construction of Public Improvements, has been commenced or completed on any particular property, required conveyance to the City pursuant to this provision could be detrimental to the overall course of development and/or financing of the Public Improvements in the District. Accordingly, this provision has been removed from the proposed Service Plan.

(iii) *Eminent Domain Limitation.* This limitation in the Model Service Plan would prevent the District from exercising the power of eminent domain except as otherwise provided in the District Activities IGA. As a consideration whether an entity exists as a political subdivision, the Internal Revenue Service looks at numerous elements. Currently, the analysis involves whether an entity has substantial authorization to exercise on or more of the following powers: (1) police power, (2) taxing power, and (3) condemnation power. In the context of ever-changing tax analysis applicable to Title 32 districts for a developing district, tax counsel has found that the taxing power against a minimal number of property owners is not a "sufficient" taxing power. This obviously changes as residential development progresses and third party owners purchase property within a district. As a consequence, the power of eminent domain has become increasingly important for Title 32 districts where bonds are issued early in the development phases. As such, we have removed this limitation from the proposed Service Plan.

(iv) *Exclusion Limitation.* The City's Model Service Plan provides that a District shall not exclude from the District Boundary any property within the Service Area without the prior written consent of the City Council. We have slightly modified this language to prohibit exclusions of any property within the District Boundary once debt encumbers property within the District Boundary.

(v) *Sales and Use Tax.* The Model Service Plan would prohibit the District from invoking or exercising any actual or perceived City sales and use tax exemption. Because the District will be tax exempt entities, this limitation would prohibit the District from exercising the benefit to be exempt from sales and use taxes on materials, etc. purchased by the District and have a consequential financial burden to the property owners and residents. This provision has been modified in the proposed Service Plan to allow the District to utilize sales tax exemptions if permitted by the District Activities IGA or other intergovernmental agreement with the City.

(vi) *Debt Mill Levy Limitation.* The City's Model Service Plan states that if the total amount of aggregate debt of a district exceeds fifty percent (50%) of the District's assessed valuation, the Maximum Debt Mill Levy is fifty (50) mills, subject to Gallagher adjustments for changes occurring after January 1, 2004. This is similar to the debt mill levy cap contained in the service plans for the Reunion/North Range Districts. However, in order for the Maximum Debt Mill Levy applicable to the District to be the same as that which can be imposed by the Reunion/North Range Districts, this benchmark should be 2003. The Proposed Service Plan has been revised accordingly.

2. Metropolitan District Criteria and How the District Addresses the Same.

(a) *There is sufficient existing and projected need for organized service in the area to be serviced by the District.* The Financial Plan projects a total 23 oil and gas wells for development in the District. However, it is contemplated that the District will cooperate with other Title 32 districts in the greater Reunion community to assist in the financing of Public Improvements, including street, water, sanitary sewer, stormwater, and park and recreational improvements.

(b) *The existing service in the area to be served by the District is inadequate for present and projected needs.* No other entities are able or willing to finance the necessary costs for the Public Improvements for the development. It is appropriate to require the developable area to pay its own way in connection with the costs of the Public Improvements.

(c) *The District is capable of providing economical and sufficient service to the area within and without the District Boundaries.* The Financial Plan shows an ability of the District to finance \$19,385,000 in Public Improvement costs with a debt service mill levy of not more than 63.541 mills, as adjusted per the Service Plan, based upon current development projections.

(d) *The area to be included in the District has, or will have, the financial ability to discharge the proposed indebtedness on a reasonable basis.* The Finance Plan describes the manner in which the District will be able to reasonably discharge its debt with a debt mill levy of 63.541, as adjusted per the Service Plan, and within the other limitations set forth in the Service Plan.

(e) *Adequate service is not, and will not be, available to the area through the City or county or other existing municipal or quasi-municipal corporations, including existing special districts, within a reasonable time and on a comparable basis.* Again, no other entities are able or willing to finance the costs of the Public Improvements necessary for the project.

(f) *The facility and service standards of the District are compatible with the facility and service standards of the City within which the District is to be located and each municipality which is an interested party under Section 32-1-204(1), C.R.S.* The Service Plan requires the District to design and construct the Public Improvements in accordance with the standards and specifications of the City and of other governmental entities having proper jurisdiction.

(g) *The proposal is in substantial compliance with a comprehensive plan adopted pursuant to the City Code.* The Service Plan is in compliance with the City's Model Service Plan, except as otherwise indicated above. All development plans, site plans, etc. have been or will be reviewed and/or approved by the City, as required in accordance with the City's standard practice.

(h) *The proposal is in compliance with any duly adopted City, regional or state long-range water quality management plan for the area.* All water quality management plans will be submitted to the appropriate jurisdictions for review and/or approval, as required.

(i) *The creation of the District is in the best interests of the area proposed to be served.* Without the formation of the District, there would be no other entities able or willing to finance the costs of the Public Improvements necessary for the project. The District will be part of a component part of the overall financing for the project and will allow the project to be competitive with other adjacent areas in terms of home pricing and amenities provided. Creation of the District is in the best interest of the area to be served as it will allow for the timely and organized development of the property on the most efficient basis.