

**Buttermilk Metropolitan District - 12/9/2010
2010 Budget Message, Assumptions and Notes**

DISTRICT SERVICES:

The District provides municipal services to West Buttermilk, Eagle Pines, East Owl Creek Ranch and Owl Creek Ranch including a ground water based potable water supply, treatment and fire protection system, roads and street maintenance and improvements, storm drainage, traffic and parking control, signage and safety improvements, irrigation of landscaped community areas, weed control, operation and maintenance of wells and pump stations and maintenance of two potable water storage tanks totaling 400,000 gallons of storage. All services provided by the District are currently provided on a contract basis; the District employs no staff.

BASIS OF ACCOUNTING:

The District utilizes the modified accrual method of accounting in conformance with Generally Accepted Accounting Practices for Governments. The District's 2010 budget includes projected revenues and expenditures for its general operating fund and capital projects fund. Due to its small size, the District budget is developed and operated on a cash basis.

IMPORTANT FEATURES OF THE BUDGET:

The proposed 2011 budget and mill levies do not result in a violation of any applicable property tax or fiscal year spending limitations. Emergency reserves are provided for as required by law (3% of fiscal year expenditures, not including debt service).

GENERAL COMMENTS:

Beach Resource Management, LLC manages and oversees all operations, administration of the District's business, maintenance of required records, the filing of all state and local reports, organizes meetings with the Board of Directors and constituents, carries out the directives of the Board, responds to constituent questions and requests, and coordinates District activities with other entities and local governments. The District does not directly employ any staff and therefore bears no direct costs for employment benefits and insurance, taxes, rent, local telephone, equipment, et cetera. All maintenance work completed within the District is completed by contractors or staff of Beach.

Beach Resource also oversees all water system operations including tests for water quality, service call response, meter reading and billing, State and EPA reporting, execution of the plan for augmentation and protection of water rights and structure rights and the acquisition of additional water rights and storage rights. Kile Smith is the licensed Operator in Responsible Charge for water treatment and is also BMD's certified Distribution System Operator. Mr. Smith is supported by Mr. James Korpela and Mr. Barry Hamilton past system operators.

The District's management and staff respond to emergencies on a 24-hour per day basis, 365 days per year.

Due to impacts to the District's wells and well field in 2007, from construction activities at the Pitkin County Airport, the District undertook work to restore its wells while also investigating numerous replacement water sources. The District initially evaluated re-drilled wells immediately adjacent to the existing wells, and new wells further south on County Airport property. BMD also evaluated wells south of Owl Creek Road, municipal wells on Buttermilk Mountain, horizontal wells into Buttermilk Mountain, wells in the Owl Creek watershed, an infiltration gallery along Owl Creek, a modification of the Buttermilk Ski Area Snowmaking System to deliver surface water to a BMD treatment facility, direct diversions from Maroon Creek and the Roaring Fork River, diversions from East Brush Creek via an exchange, a connection to the Snowmass Water & Sanitation District water system, and finally a connection to the Aspen Water Department's water system. All were initially ruled out for various reasons. Snowmass showed an interest but was concerned about all current commitments to serve. Aspen was not interested in a permanent connection or permanent service.

Management also closely followed the proposed plans to extend the Aspen Pitkin County Airport runway by an additional 1,000 feet and submitted comments to the Environmental Assessment in March and April 2010. The proposed project would result in the placement and compaction of approximately fourteen feet of soil in the immediate vicinity of the District's production wells. The draft Environmental Assessment concluded that no impacts would occur from the project but the District's analysis arrived at a different conclusion. The District's evaluation and conclusions were based in empirical data developed by the District as well as data and information contained within the Environmental Assessment.

When the Final EA was issued the FAA issued a Finding of No Significant Impacts, which was an improvement over the Draft EA findings. The Final EA recognized the impacts to BMD's water source, supply and system and it conditioned the release of all funds for the Airport Runway Extension Project on the full mitigation of impacts to BMD's water system.

Pitkin County as project proponent met with the District in May to discuss how to resolve this issue. The District suggested the most logical alternative was a supply from the City of Aspen. The County agreed and met with the City to open negotiations. Water rate studies, water right studies and six months of negotiations between the District and the City resulted in a verbal agreement that will provide a permanent water supply through a bulk water sale agreement (via a master meter contract) between BMD and Aspen.

The 2011 budget contains some expenses that may no longer be required if water service to the District is provided by the City.

REVENUES

The majority of revenues of the District come from property taxes, specific ownership taxes and water rate revenues. The District operates with four separate mill levies, one for water system operations and maintenance, one for Water System Debt Service, one for Road operations and maintenance, and one for Road system Debt Service. This dual tax area system of mill levies recognizes that not all constituents within the District benefit from the roads and not all constituents within the District benefit from the water system. Road taxes are paid by property owners in Buttermilk and Eagle Pines, while water system taxes are paid by Buttermilk, East Owl Creek and Owl Creek Ranch. Two extra-territorial water users are currently served by the District; a third property is in the process of petitioning for inclusion into the District.

Other District revenues include interest earnings on deposits, water rates, fees and charges, and reimbursed costs. Revenues collected by the District are used for all budgeted purposes and revenues collected in excess of actual expenditures are added to the beginning fund balance for the following year. Since the District relies on property taxes for the majority of its revenue, and Gallagher Amendment ratio reductions are already producing negative impacts on these revenues, savings from budgeted line items are carried forward into the following budget year to mitigate potential future shortfalls resulting from declining tax revenues.

The Gallagher Amendment restricts the property taxes paid by residential properties to not more than 45% of the total taxes to be collected. When there is no growth or there is a decline in the assessed value of the property as a result of the Gallagher Amendment, the revenue from property taxes declines without a mill levy increase.

Property Taxes: Assessed values used to calculate tax revenues are provided by Pitkin County Assessor's Office and the most recent valuation reports were used to generate tax revenue estimates. Since property assessments are subject to dispute by property owners, revenue estimates may not be fully realized. The District's assessed private property value is a product of the property's actual fair market value multiplied by the Gallagher Amendment's assessment ratio of 7.96% (down from 9.15% in 2003). For 2011 this generates a combined assessed value of \$103,558,320, representing a slight decrease in assessed value from the prior year's budget. The mill levy for the District has been kept at 7.573 for water and 4.305 for Roads, resulting in a \$14,764 reduction in taxes collected.

Although vacant land within the District is assessed at 29% of the property's fair market value, as a property converts from vacant land to residential, the value of the property must currently increase by at least 364% in order for the property's taxable value to remain constant. Therefore, falling assessment ratios due to development of vacant land have a negative impact on District tax revenues. So

too do national and state economic trends. The recent actions by the Federal Government to stimulate the economy, have led to concerns over the continued ability of taxpayers to overcome the additional tax burdens that will be placed upon them. Pitkin County property owners also face numerous additional tax increases from other local governments and these increases will place additional tax burdens on Buttermilk Metro constituents. These conditions all suggest that management must continue to be prudent and conservative in its use of funds collected from valorem taxes, and this has been the policy of management since the District's formation.

Specific Ownership Tax: Due to declining local vehicle sales and lower SO tax revenues, budget estimates for 2011 have been set at 2% of property tax revenue. This revenue remains subject to the vagaries of vehicle sales and apportioned tax receipts and the amount received may not equal the budgeted amount.

Interest Earnings: Projected interest earnings reflect actions by the Federal Reserve Bank to stabilize the national economy. At the time of this writing, the prime lending rate remains at historic lows. A decrease in interest rates to improve a sluggish economy causes a significant decline in the District's interest earnings over prior years, but it may aid other revenues such as specific ownership taxes.

Water Rates: The District adopted a tiered rate system in 2004 in anticipation of deliveries and water sales to constituents in late 2004 and beyond. This tiered system has a base rate of \$45 per month, which includes the first 10,000 gallons of water delivered per month. The rates were changed in 2006 and again in 2007 in order to incentivize users to use only the amount necessary to beneficially serve their homes and properties.

Management monitors water use on a daily basis and records and logs uses throughout each month of the year to determine trends and to forecast water demands. Water use restrictions are used to reduce uses that negatively impact wells, the water source or facilities.

Fees and Charges: This includes fees for contractor heavy equipment/truck road use, road cut permits, late fees, finance charges, et cetera.

EXPENSES

Professional Fees:

Management: This management line item covers the cost of planning and directing all operations, administering the business of the district, maintaining required records, filing all state and local reports, meeting with the Board of Directors and constituents, carrying out directives of the Board and responding to constituent questions and requests and coordinating activities with other entities and local governments. This line item includes work on water system administration and permitting, protection of water rights and administration of the

LGID #49034

plan for augmentation. For 2011 this also includes time spent providing information to attorneys, consultants and others involved in the Airport expansion, impacts to the wells, et cetera.

Engineering: This line item is for engineering on all aspects of the District's municipal operations. It includes review of improvements, maintenance, repairs and rehabilitation of roads, and water treatment, distribution and pumping facilities. For 2011 it includes funds for reviewing plans for new infrastructure and inspection of facilities constructed to connect to City of Aspen's water system.

Consultants: This line item includes third party consulting on water treatment and controls, de-chlorination systems, pumps and motors and consulting on new contract requirements.

Legal: General legal counsel is provided by Grimshaw and Haring and covers all aspects of District laws, rules and regulations, water rates, election law, et cetera. G&H will be retained to confer on the proposed Water Service Agreement with the City. The law firm of Patrick Miller and Kropf continue to serve as the District's water attorneys, although their role is one of limited consultation at this time.

Accounting and Billing: This line item covers the costs to accurately track time, material and capital costs for all separate budget line items. Also includes preparation of periodic financial statements, budgets, record keeping, cash management, accounts payable, vendor management and the issuance of annual 1099 forms.

Audit: Due to the District's prior issuance of debt, an annual audit of the District's accounts is required. Costs for this line item includes the independent auditor's cost and accounting time to provide information to the auditor, and manager's time to address questions and provide the Management Discussion & Analysis.

Augmentation Plan: The District leases water from the Basalt Water Conservancy District to offset depletions to the Roaring Fork River. The annual cost of this lease is reflected in a separate budget item for Water Augmentation. Costs for administering the Plan for Augmentation are included in Management and Engineering. Legal costs for prosecuting the plan are in Legal General line item. The District may be able to forego this cost in 2011 and thereafter if the District is able to operate under the City's plan for Augmentation. For the time being the costs have been left in the 2011 budget.

Insurance: Per Traveler's, the 2010 cost will remain level or will increase only slightly over 2010 insurance costs.

LGID #49034

Water System O&M: Includes routine repair and maintenance of wells and pumps, transmission and distribution lines, valves, controls, water treatment and storage, hydrants, water quality monitoring, sampling, testing and reporting, and operator costs. Also includes the cost of monthly meter readings and emergency response to water system problems, utility locates, public water system permit fees, and state inspection fees. This budget line item has been modified for 2011 to include the cost of purchasing water from the City of Aspen. It also includes a reduction in monitoring costs but an increase in overall costs to accommodate expanded water use.

Willow & Herrick Ditch Maintenance: Includes annual assessments paid to the ditch companies for operations and maintenance. It is proposed that this water right be conveyed to the County resulting in a reduction of annual costs to BMD.

Road Maintenance: Budgeted at the same level as 2010. Includes costs for sweeping and cleaning of roads, snow plowing, weed control along roadways and minor road and guardrail repairs.

Drainage Maintenance: Maintenance of all drainage ditches and drainage ways.

Traffic Maintenance: Includes maintenance of street signs, painting of speed bumps, replacement of roadway markers, reflectors, et cetera.

Miscellaneous: Covers small incidental costs such as shipping, long distance calls, special postage costs, et cetera.

Contingency: This is a Board directed budget item and reserves funds each year for unanticipated expenses. Contingency funds not required to be expended in one budget year are carried forward into the next.

County Fees: Budgeted at 5% of property taxes, which is the prevailing county fee for collection of property taxes for special districts.

Capital Outlay: This line item covers the anticipated costs of capital improvements and capital projects during 2011. These project costs are detailed in the capital budget.

Debt Payments on Bonds and Custodial Fees: The District sold \$4,750,000 in general obligation bonds to finance the construction of all improvements described previously. The bonds mature at varying intervals during the twenty-year life of the debt service. Debt service obligation for 2011 amounts to \$386,395 for both roads and water. This includes debt service plus custodial fees for both the water system and the road system. The debt service schedule adjusts annually to meet the repayment obligations of the District. As a result, the debt mill levy also adjusts annually to precisely cover the full costs of servicing the District's debt.

LGID #49034

Tabor Emergency Reserve: This reserve is required by state constitution and applies to all expenditures except debt and county tax collection fees. Any reserve funds not used during one year are carried forward into the next budget period.

Balance to Operations: Funds not specifically allocated to reserves or debt service will be transferred forward to the next budget year.

H:\BMD\budget\2011 Budget notes & assump.doc