

**Buttermilk Metropolitan District  
2009 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 accrual method of accounting in conformance with Generally Accepted Accounting Practices for Governments. The District's 2008 budget includes projected revenues and expenditures for its general operating fund and capital projects fund. Due to their small size, the District budget is developed and operated on a cash basis.

**IMPORTANT FEATURES OF THE BUDGET:**

The proposed 2009 budget and mill levies do not result in a violation of any applicable property tax or fiscal year spending limitations. Emergency reserves have been provided for as required by law (3% of fiscal year expenditures, not including debt service).

**GENERAL COMMENTS:**

In 2007 the Pitkin County Airport commenced work to regrade areas immediately adjacent to the runways and transported soils in 60 ton dump trucks across the District's well field and directly adjacent to the District's potable water wells. Impacts to the District were both financial and physical as water quality was affected negatively and the District was required to expend more than \$100,000 to ensure the safety and quality of water delivered into the BMD system. In December 2007, PW-2 was video taped, inspected, and reviewed and the well thoroughly cleaned and treated. Full capacity of the well has not been restored but pumping yield was increased to approximately 75 gpm.

The District Board of Directors has hired the legal firm of Brownstein Hyatt Farber and Shreck to pursue reimbursement of all costs associated with impacts to the BMD well field and wells. Monies not specifically budgeted for this action were allocated in 2008 and specifically allocated for 2009.

Management is also closely following the proposed plans to extend the Aspen Pitkin County Airport runway by an additional 1,000 feet. The result of which

would be the compacting of between seven and fourteen feet of soil in the immediate vicinity of the District's production wells. The Airport is required to go through an Environmental Assessment to determine all impacts associated with the runway extension and Management has budgeted additional funds for involvement of attorneys, engineers and consultants into the review and comment of the Environmental Assessment.

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. Micheal Latta is the current Class D certified Operator in Responsible Charge for water treatment and is also BMD's certified Distribution system operator. Mr. Latta is supported by Mr. James Korpela, Class D certified operator and District Engineer, and Kile Smith Operator in Training.

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

## **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; one 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 2009 to mitigate potential future shortfalls resulting from declining tax revenues. For 2009, 84% of the total operations budget is projected to be funded by property 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 2009 (for the '08 tax year) this generates a combined assessed value of \$71,610,380, representing a 5% increase in assessed value over 2008.

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 failure of Wacovia, Washington Mutual, Bear Stearns, Lehman Bros. and other financial institutions and the recently approved \$700,000,000,000 underwriting of bad debt, mortgages, Secured Investment Vehicles, et cetera, by the Federal Government, 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 increase requests from other local governments this November and if approved by voters that pay a very small percentage of the taxes levied, significant additional tax burdens could inure to 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 2009 have been set at 3% 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, there has been a reduction in the prime lending rate and news that the Fed is reviewing the potential for establishing other incentives to stimulate economic activity. A decrease in interest rates to improve a sluggish economy may simply exacerbate the decline in interest earnings, 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 plan for augmentation. For 2009 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 2009 it includes funds for reviewing the expansion plans of the airport and the required Environmental Assessment that will be produced as a result.

*Consultants:* This line item includes third party consulting on wells, water treatment and controls, pumps and motors and geologic and hydrologic consulting on additional or replacement water supplies, airport impacts, et cetera.

*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. The law firm of Brownstein Hyatt Farber and Shreck has been retained to pursue District claims for damage by the Airport and Pitkin County. 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, capital expenditures, and level of operating expenditures for 2009, an audit of the District's accounts will be 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 the Water System O&M budget item. 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.

*Insurance:* Per Neil-Garring, the 2009 cost includes an estimated 5% increase in premiums over 2008 costs.

*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 does not include any additional costs for impacts due to airport activities.

*Willow & Herrick Ditch Maintenance:* Includes annual assessments paid to the ditch companies for operations and maintenance. Planned improvements to the Ditch for 2009 are included in the Capital Water Budget.

*Road Maintenance:* Anticipate increased costs over those experienced in 2008 due to higher fuel and equipment prices. Includes costs for sweeping and cleaning of roads, snow plowing, weed control along roadways and minor road and guardrail repairs. Asphalt costs have also increased by approximately 40% since 2006.

*Drainage Maintenance:* Maintenance of all drainage ditches and drainage ways. For 2009 includes additional seeding for improved erosion control.

*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 2008. 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 life of the debt service. Debt service obligation for 2009 amounts to \$385,205 for both roads and water. This equates to debt service of \$306,966 plus \$395 in custodial fees for the water system and \$80,788 plus \$105 in custodial fees for roads. 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.

*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.