
RECORD OF PROCEEDINGS

Minutes of the Special Meeting of the Board of Directors of the Red Sky Ranch Metropolitan Districts June 27, 2016

The Special Meeting of the Board of Directors of the Red Sky Ranch Metropolitan District, Eagle County, Colorado, was held Monday, June 27, 2016, at 3:00 p.m., in the two elk conference room at 137 Benchmark Road, Avon, Eagle County, Colorado.

Attendance

The following Directors were present:

- Michael Connell
- Beth McGregor
- Jim Malernee
- Graham Frank

The following Director was absent and excused:

- Frederick Hudoff

Also in attendance were:

- Bill Ankele, Esq White Bear Ankele Tanaka and Waldron (via phone)
- Ken Marchetti, CPA, Marchetti & Weaver LLC
- Kathy Lewensten, Recording Secretary
- Tim Baker, HCMD Director
- Doug Lovell, HCMD Director
- Eric Pottorff, HCMD Director
- Greg Johnson, HCMD Director
- Dan Cudahy, McMahan & Associates LLC
- Matthew Miller, McMahan & Associates LLC

Call to Order

The Special Meeting of the Board of Directors of the Red Sky Ranch Metropolitan District was called to order at 3:00 p.m. by Director Connell noting a quorum was present.

Potential Conflicts

The Board reviewed the agenda for the meeting, following which each director confirmed the contents of any written disclosure previously made. The Board also confirmed that nothing appeared on the agenda for which disclosure certificates had not been filed. The Board noted, for the record, that these disclosures are restated at this time with the intent of fully complying with laws pertaining to potential conflicts. Additionally, the Board determined that participation by the directors with potential conflicts of interest was necessary to obtain a quorum or otherwise enable lawful action to occur.

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Minutes The Board reviewed the minutes of the May 16, 2016 Regular Meeting. Upon motion duly made and seconded, it was unanimously

RESOLVED to approve the minutes of the May 16, 2016 Regular Meeting.

2015 Audit Mr. Cudahy and Mr. Miller presented the 2015 audit. No issues or concerns were noted. Mr. Cudahy stated the District will receive a “clean opinion”. Director Connell asked whether the audit should include a note regarding the “Plath” Agreement. Mr. Marchetti pointed out the Holland Creek Metro District (HCMD) audit notes contain reference to the Plath matter. Upon motion duly made and seconded, it was unanimously

RESOLVED to accept the 2015 Audit.

Mr. Cudahy and Mr. Miller left the meeting.

Old Business

Water Rights: Mr. Baker handed out a letter from Vail Resorts (VR) which set forth terms and conditions related to water rights for discussion and comment. The terms included the potential purchase of water rights based on current usage under the current lease, with similar lease terms for additional water rights that will be required for build out. The ability to purchase the additional water rights in the future would be subject to conditions including pay off of HCMD debt and a price based on “fair market value”. If ERWSD were to include the District, the terms included provisions related to water right requirements of ERWSD for such an inclusion.

Director Connell stated he had reviewed the original District documents and minutes from Eagle County including the PUD. His conclusion after the review is that the intent was for the cost of the water to be borne by the Developer pointing out there was no price indicated in the PUD. If the cost of water rights were based on the current water lease the cost of adequate water rights for build out would be approximately \$80,000. He stated VR was now proposing the District pay “fair market value” or approximately \$845,000 for the additional water rights over current usage restating that he feels the water rights should be provided to the District at no cost per the originating documentation. He asked whether his analysis had been provided to the legal department at VR and requested an explanation as to why their conclusion appears to be different.

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Mr. Baker responded the original water rights calculations were based on the assumption the wastewater systems would NOT be 100% consumptive. When it was determined by the State and County that the wastewater systems are 100% consumptive the calculation of necessary water rights increased. He suggested the additional water rights were not part of the original assumptions. Director Frank reported the VR legal team had received Director Connell's notes and had reviewed those along with the other agreements such as the "Master IGA" and Water Lease. He said he expects VR's legal team would be willing to respond to Director Connell's question.

Mr. Marchetti asked for clarification as to the delivery costs associated with any water rights purchase, noting this may require a new agreement between the District and VR. It was also reported the Wolcott development is actively seeking financing which may have an impact to these discussions.

Director Connell stated his research of the County's records showed VR had represented that there were "enough water rights" to take care of the development including the "210" expansion. He expressed frustration with VR's interpretation of the original documentation and the length of time this has been discussed without any significant progress.

Debt Management: Mr. Baker reported VR would like to have certainty the HCMD debt will be paid off. The "Master IGA" states the requirements the District is subject to related to HCMD debt payoff such as the 50% debt to assessed value ratio that triggers the requirement to issue bonds.

Director Connell stated the viability of the community should also be considered in determining what is feasible. One option that had been suggested some time back was to keep the RSRMD mill levy at the current level while using the excess funds generated for a pay down on HCMD debt each year instead of issuing bonds and incurring the related cost of issuance. The repayment would be slower at the front end, but pay off of the debt would occur several years sooner. The issuance of bonds would allow larger upfront payments but would incur the costs of issuance.

Director Connell reminded the Board that the District had asked some time ago if VR would consider forgiveness of the subordinate HC Promissory note and related interest but had not received a response. He pointed out the subordinate HC Promissory Notes maturity date is prior to the maturity date of Series 2001 Bonds. Director Graham stated it was his impression that VR had not understood that forgiveness of the subordinate HC Promissory Note was a

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formal request that was awaiting a response noting again that VR's main priority is the payoff of the \$8 million of HCMD debt.

Mr. Baker stated there appears to be a misalignment of expectations at this point. It was suggested if the District were to present their requests in a more formal manner VR would be able to better respond.

The Board discussed various points for consideration related to District concerns and how to present them in a formal manner to allow VR to respond. Director Connell made the following motion,

RESOLVED To request release/forgiveness of the subordinate HCMD Promissory Note and related interest; and

To request adequate water rights be available for purchase at the rate calculation in the current water lease, at a cost of approximately \$80,000;

These requests being subject to indentifying the means or method by which the payoff of HCMD's \$8 million bond debt will be accomplished which is mutually acceptable to both parties.

The motion was seconded, and passed by a vote of three (3) Ayes and one (1) abstention (Director Graham)

Legal No separate legal report was necessary.

Financial Statements Mr. Marchetti reviewed the preliminary May 2016 financial statements. Upon motion duly made and seconded, it was unanimously

RESOLVED to approve the preliminary April 2016 financial statements as presented.

Accounts Payable Upon motion duly made and seconded, it was unanimously

RESOLVED to approve the accounts payable listing as presented.

Future Meetings The next regular meeting scheduled for July 18, 2016 was cancelled and re-scheduled to Tuesday, August 9, 2016, at 10:00 a.m. in the two elk conference room.

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Adjourn

Upon motion duly made and seconded, it was unanimously

RESOLVED to adjourn the June 27, 2016 Special Meeting of the Red Sky Ranch Metropolitan District Board of Directors.

Respectfully submitted,
/s/ Kathy Lewensten
Recording Secretary