# RECORD OF PROCEEDINGS

**Minutes of the Regular Meeting**
**of the Board of Directors of the**
**Red Sky Ranch Metropolitan Districts**
**June 17, 2013**

The Regular Meeting of the Board of Directors of the Red Sky Ranch Metropolitan District, Eagle County, Colorado, was held Monday, June 17, 2013, at 8:00 a.m., in the Red Sky Ranch Sales Center conference room, 0376 Red Sky Road, Wolcott, Eagle County, Colorado.

**Attendance**

**The following Directors were present:**

- Michael Connell
- William Simmons
- Karen Braden-Butz
- Frederick Hudoff
- William Kennedy

**Also in attendance were:**

- Bill Ankele, Esq. White, Bear and Ankele PC
- Ken Marchetti, CPA Robertson & Marchetti, PC
- Kathy Lewensten, RMPC Recording Secretary
- Don Odell, VRDC Operations
- Mike Miner, RSR Director of Golf Maintenance
- Kyle Griffith, HCMD Director (joined at 8:30 a.m.)
- Sam Sharp, DA Davidson (via phone)
- Jonathan Heroux, Piper Jaffray (via phone)

**Call to Order**

The Regular Meeting of the Board of Directors of the Red Sky Ranch Metropolitan District was called to order at 8:10 a.m. by Director Kennedy noting a quorum was present.

**Potential Conflicts**

The Board noted that it has received certain written disclosures of potential conflicts of interest statements from each of the Directors more than seventy-two hours prior to the meeting, indicating the following conflicts: William M. Kennedy is Director of Land Development for Vail Resorts Development Co., a subsidiary of the Vail Corporation and an indirect operating subsidiary of Vail Resorts, Inc., all of which have significant business interests within the Districts; Karen Braden-Butz is the Project Accountant for Vail Resorts Development Co., a subsidiary of the Vail Corporation and an indirect operating subsidiary of Vail Resorts, Inc., all of which have significant business interests within the Districts; and William Simmons is Director of Village Operations for Vail Resorts

Management Company, an indirect operating subsidiary of Vail Resorts, Inc., which both have significant business interests within the Districts.

**Minutes**

The Board reviewed the minutes of the May 20, 2013 Regular Meeting and the May 30, 2013 Continued Meeting. Upon motion duly made and seconded, it was unanimously

> **RESOLVED** to approve the minutes of the May 20, 2013 Regular Meeting and the May 30, 2013 Continued Meeting as presented.

**Meeting Schedule**

The next regular meeting is scheduled for Monday, July 15, 2013 at the same time and location.

**Public Input**

It was reported a public notice sign was posted within the proposed Hermes development concerning non-potable water. Director Kennedy stated the development is expected to use non potable water for irrigation and conservation purposes so they are likely planning an independent system for that purpose. Matters related to providing water service to the new development remain under consideration. A meeting with representatives from ERW to negotiate terms related to potential water services remains to be scheduled. There are several alternatives available for water service to the Hermes property including having the District provide water at an extraterritorial rate, or alternately allowing ERW to tie into the current system and operate it or by RSR including into ERW and selling them the water assets. It was pointed out the property owners would like to have a voice in the negotiations as this directly affects them. Mr. Marchetti suggested a working group or committee could be appointed to discuss and negotiate terms. Once a consensus is reached the proposed terms could then be brought to the Boards for consideration.

**Bond Refunding**

Mr. Sharp joined the meeting by phone to discuss the bond refunding. He and Mr. Marchetti noted the interest rate index has been moving up. He referred to the updated information that had been included in the packet. The recommendation would be to move forward, based on a September closing.

Mr. Marchetti reported he had met with the new commercial appraiser from Eagle County regarding the increase reflected in the May preliminary AV for commercial properties in RSR. It is expected the new commercial values will be protested and may see a decrease back to the prior level. With that in mind the AV for RSR would reflect a slight overall decrease for the 2014 budget. Mr. Sharp used the lower estimated AV in the model.

The potential for adding additional capital over the refunding bond amount was discussed. Capital requirements appear to be covered for the next couple of years with fund balances, however longer term is not as clear. With the anticipated reduction in AV it does not appear the District would be able to include additional principal. The Board discussed the mill levy for debt service. If the AV on a property decreases the property taxes paid decrease a proportionate amount, if the mill levy is increased to offset the reduction in property tax to keep the property tax amount stable would this allow the District to issue more principal? Mr. Sharp cautioned the Board that if the ratio of AV to Debt is greater than 50% it would limit the offering to institutional investors which would negatively impact borrowing costs. To get the lowest rates it appears the District should not include any additional principal.

Mr. Marchetti reported bond, disclosure, and underwriter counsel fees have been negotiated to fall within the $75,000 cap requested at last meeting. Brownstein, Hyatt et al have agreed to reduce their fee to $57,500. The Board asked about fees that would be due if the refunding bond transaction does not close. Mr. Sharp explained his fee is only collected if the refunding closes. Mr. Ankele pointed out the other fees would be subject to the engagement letter terms. He noted Brownstein's engagement letter was not clear and offered to contact them to clarify that if the transaction doesn't close no fee would be due. The Board stated it is their intent to move forward and get the refunding completed however the volatility of interest rates may work against that goal if the refunding does not make economic sense when it is priced. The present value savings for the District decreases as interest rates rise. The Board has the option of not proceeding with the refunding if rates increase to the point present value savings are not enough to warrant continuing.

The Board agreed that moving forward with the preparation of documents for a long term refunding for the amount of the current bonds made sense at this time. Upon motion duly made and seconded, it was unanimously

> **RESOLVED** to approve Brownstein Hyatt Farber Schreck's engagement letter subject to clarification that if the Board determines it is not in the best economic interest of the District to close the transaction no fees would be due, and
>
> **FURTHER RESOLVED** to direct preparation of documents for refunding of the current debt.

**Legal**

Mr. Ankele provided a summary of agreements and obligations of the District and HCMD. He proceeded to review the types, terms and details of the various agreements. He explained the District has two major obligations, the RSR 2003 GO $7.5 million bonds and the capital and service obligations under the District Facilities Construction and Service Agreement (aka "Master IGA") which establishes RSR as the "finance District" with obligations to levy taxes and issue bonds to fund infrastructure and services provided by HCMD. The limitations on the Districts maximum annual obligations and mill levy were discussed. The District is obligated to annually review if it has the ability to issue debt up to certain thresholds. Currently the total outstanding District GO debt exceeds 50% of assessed valuation which means it is not in a position to issue additional GO debt.

Mr. Ankele then discussed HCMD agreements and obligations. HCMD has a 2001 $12 million variable rate bond; the debt service for this bond is covered by capital improvement fees and a letter of credit provided by VR. HCMD also has a promissory note in place for capital advances from VR with a $5.2 million maximum; this note is subordinate to HC's remaining 2001 Bonds and all other revenue and GO bonds issued by both HC and RSR. Both of these are subject to the District's ability to pay and are subordinate to the 2003 RSR GO bonds.

There are two contingent obligations. One is the contingent RSR Promissory Note for capital improvement fees related to the HCMD 2001 bond debt service. This note is only due if the

District fails to perform its obligations under the “Master IGA” and the Capital Improvement Fee and Reimbursement Agreement. The other is in the Plath Inclusion Agreement where the District agreed to reimburse the Plath’s for the cost of their infrastructure up to a maximum of $650,000 if the assessed valuation of the related lots reaches $2.6 million. The assessed valuation for these lots is not likely to reach this level for some time.

Directors Connell and Hudoff asked if the contingent debt has a negative impact on the District’s ability to refinance the current bonds. Mr. Marchetti explained since they are subordinate to the GO debt there is no negative impact.

Director Connell requested a representative from VR be asked to come to a Board meeting to discuss the contingent notes and related VR obligations. He is concerned there may not be a mutual understanding of the terms and obligations and would be more comfortable if there was confirmation from VR. He would like to discuss lowering the interest rate for the HCMD promissory note since it is currently calculated at 6%. Director Kennedy offered to share the memo provided by Mr. Ankele with the Controller at VA. Mr. Connell stated he felt it is important that the history and terms of the debt be understood.

Directors Hudoff and Connell asked about the potential cost of water rights as a future obligation for the District. It was noted the needs or cost of water rights is still under review. Mr. Odell reported he was meeting with Mr. Williamson in the next week to determine how the various meters were used in the calculations presented at the May 20th meeting. HCMD is currently paying the full amount due under the water lease which runs through 2017. Discussions regarding water service to the Hermes development have brought this matter to the forefront and it is anticipated the discussions will assist in better determining the water needs and requirements. Once determined a value can be calculated.

Director Kennedy left the meeting at 10:00 a.m.

**Financial Statements**

Mr. Marchetti presented the preliminary May 2013 financial statements for the District. Director Hudoff asked if capital costs related to the water plant have been reviewed by SGM. Mr.

Marchetti stated they were developed with SGM's assistance. Upon motion duly made and seconded, it was unanimously

**RESOLVED** to approve the preliminary May 2013 financial statement as presented.

**Accounts Payable** There was no Accounts Payable.

**Adjournment** Upon motion duly made and seconded, it was unanimously

**RESOLVED** to adjourn the June 17, 2013 Regular Meeting of the Red Sky Ranch Metropolitan District Board of Directors.

Respectfully submitted,
*/s/ Kathy Lewensten*

Kathy Lewensten
Recording Secretary