



# Bathgate Capital

PARTNERS

May 19, 2009

Board of Directors  
Woodmen Hills Metropolitan District  
PO Box 63479  
Falcon, CO 80831

Dear Board Members,

Bathgate Capital Partners has been asked to consult for and place new Metro District enterprise and water lease bonds in order to assist in reducing the Metro District's debt service payments in response to this challenging economic environment and the new requirement for a new sewer plant that has created a cash flow problem within the District. Negotiations started in October of 2008, with many practical alternatives and options examined and discussed. The final proposed structure requires the homebuilders to pay increased impact fees, to help supplement the cost of the financing and serve to keep user fees affordable, competitive and stable. Document preparation has begun. While much is still to be examined and negotiated, Bathgate believes in principal the new debt structure is one that should be agreeable to the majority of the existing bondholders. The new debt structure is a significant reduction in the District's debt service for a period of years to coincide with future tap fee, impact fee and increased user fee income.

We have reviewed your financial condition and District operations and management. We are aware of the conduct of the Board in facing the District's many challenges, including the Board's ability to maintain the support of the residents. We believe you are doing a commendable job.

Apart from declining tap fee revenue because of the building slowdown, the District appears to be operating within its budget and is keeping operating costs stable. We are happy that you are maintaining a cash reserve. Given the severity of the current recession, a cash reserve would seem imperative.

The District has raised fees modestly, as needed, with consideration for the competitiveness that must be maintained to build out the District and the current users. Reasonable fees support home values and future home purchases.

The bond documents obligate the District to maintain a licensed and qualified staff. They also require the District to maintain and operate its facilities in compliance with the law. A motivated and dedicated workforce is the only way to insure a continuation of essential services and the continued maintenance of vital facilities and equipment. It appears that the Board is in compliance with these requirements. The new bond documents, as with

the current ones, will require management to be certain that the District has adequate personnel, has facilities that are being operated legally and has facilities that are being maintained as needed.

Because the District has aging infrastructure, repair and maintenance continue to be an increasing responsibility. We are pleased that the 4<sup>th</sup> cell in the lagoon system will be under construction soon. We are aware that the District is operating under a cease and desist order from the state. It is our understanding, that the 4<sup>th</sup> cell will bring you into compliance with state law until a new wastewater treatment plant is completed.

We are informed that the process to build a new wastewater treatment plant has begun. The requirements by the State of Colorado and the EPA must be complied with to insure continuation in service, sales of homes, affordable monthly user fees and the eventual retirement of the District's bond debt.

It is our understanding that the District does not want to substantially increase residential user fees to service bond debt. The Board has decided to charge fees to the homebuilders and developers to supplement the District's cash flow; which will in turn help the District refinance the existing debt, alleviate the burden the current homeowners are bearing and keep monthly user fees competitive for homebuilders and developers to sell homes and lots once the economic environment allows.

The Board of the District should know that continued compliance with the bond documents, the vigilant management of the wastewater and water systems and the success of your recreation program is central to the decision of the bondholders, the Trustee and Bathgate, as Placement Agent, to proceed with the refinancing. We are experiencing unprecedented challenges and economic turmoil. You are, and will likely continue to be, successful in facing those challenges exercising the above discipline. We appreciate the Board's continued cooperation with the investors and both parties' steadfast commitment to the success of Woodmen Hills.

Sincerely,



Greg Wilton