STANDARD & POOR'S RATINGS SERVICES
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Summary:

Highlands Ranch Metropolitan District, Colorado; General Obligation

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Credit Profile		
Highlands Ranch Metro Dist GO rfdg bnds ser 2008		
Long Term Rating	AA+/Stable	Affirmed
Highlands Ranch Metro Dist #1 GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Highlands Ranch Metro Dist #2 GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Highlands Ranch Metro Dist #3 GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Highlands Ranch Metro Dist #4 GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' long-term rating on the Highlands Ranch Metropolitan District, Colo.'s general obligation (GO) bonds. Standard & Poor's also affirmed its 'AA+' underlying rating (SPUR) on the Highlands Ranch Metropolitan District Nos. 1, 2, 3, and 4, Colo.'s GO bonds. The outlook is stable. The four districts were merged effective September 2006.

The ratings reflect our opinion of the district's:

- Mostly built-out area tied to the deep and diverse Denver metropolitan area economy;
- Very strong income and extremely strong wealth levels;
- Very strong financial position; and
- Low overall debt levels, with a rapid amortization rate.

Somewhat offsetting these credits strengths, in our view, are the district's plans to spend down its reserves by half during the next several years.

The district's unlimited ad valorem property tax pledge secures the bonds. Any other legally available funds of the district, credited to the bond fund, and the reserve fund provide additional bond security.

The district, which serves about 90,000 residents in unincorporated northern Douglas County, is located 12 miles south of Denver. The 21,800-acre master-planned community, known as Highlands Ranch, was developed by Shea

Homes, a subsidiary of J.F. Shea Co. Inc. At buildout, the community is planned to have about 36,000 dwelling units, 28,365 (99% of anticipated) single-family and 6,573 (91%) multifamily homes of which have been completed as of December 2014. Residents enjoy access to the greater Denver metropolitan statistical area via State Highway 85, Interstate 25, and C-470, and a light-rail system links the district to downtown Denver and the Denver Tech Center. County income levels are very strong, in our opinion, at 185% and 162% of the national household and per capita medians, respectively. After declining by about 5% in 2012, the district's assessed value (AV) has since increased at an average annual rate of 2.5% to $1.2 billion in 2015. Total actual market value in 2014 was $11.6 billion, or $128,000 per capita, which we view as extremely strong. The tax base is primarily residential and is very diverse, in our view, with the 10 largest taxpayers accounting for about 6% of AV.

As of Jan. 1, 2007, all four districts' financial accounting, revenues, and expenditures were shifted to Metro District No. 3 as the "parent" district. The combined district's financial position is stable, in our view, supported by available general fund reserves that we consider very strong. With operating surpluses reported in each of the last three audited fiscal years, available general fund reserves have increased to roughly 100% of operating expenditures. The district reported a $1.0 million surplus in fiscal 2013, which boosted the available (assigned and unassigned) general fund reserve to $15.9 million, or 100.7% of expenditures, which we consider very strong. The district plans to reduce reserves in the future to a target of 40% of budgeted expenditures. We understand that, in fiscal years 2014 and 2015, the district plans to utilize its accumulated reserves for nonrecurring expenditures allocated for major repairs for these two years. For 2014, the district budgeted for a $2.5 million deficit; however, based on current estimates, district officials have indicated that the district would end the year better than projected, with a deficit of approximately $1.5 million. For fiscal 2015, the district budgets for a $1.2 million use of reserves, which, if realized, will reduce the available reserves to approximately 70% of operating expenditures. We understand the district plans to spend down the reserves to 40% of expenditures by 2018. Further, the district has approximately $9.3 million reserves in its debt service fund, equal to 79% of future maximum annual debt service, which we consider good.

The district's ongoing activities consist of fire service under contract with Littleton, retail water and wastewater service (the districts contract for wholesale service from the Centennial Water and Sanitation District), parks, open space, and landscaping. In addition to property taxes, which account for 91% of the total revenues, each district collects tap and system development fees to pay for prior and anticipated capital projects associated with the water system, which is operated on a contract basis. We note the district's direct mill levy has remained fairly stable for the past several fiscal years and in fiscal 2015 is 19.7 mills. The total overlapping mill levy is affordable, in our view, at slightly more than 95 mills.

We consider the district's management practices "good" under Standard & Poor's Financial Management Assessment (FMA) methodology, indicating our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

The district's overall debt burden is low, in our view, at $1,900 per capita and 1.5% of market value. Debt service carrying charges are elevated, in our view, typically accounting for nearly 20% of total governmental funds expenditures, but they are partly offset by the district's rapid amortization schedule, with 100% of outstanding principal scheduled to be retired in 2024. We understand the combined district plans to repay the debt in advance of maturity and does not currently have additional debt plans. The district participates in Highlands Ranch Special District's Employees Retirement Plan and contributes equal to the annual required amount.

Outlook

The stable outlook reflects our view of the district's consistent financial performance, maintenance of very strong available reserves, and low overall debt burden. Despite these strengths, we do not expect to raise the ratings during the two-year outlook horizon due to the district's planned use of reserves in coming years. Although unlikely, if the district draws down its reserves to below its target level of 40%, we could lower the ratings.

Related Criteria And Research

Related Criteria

USPF Criteria: Methodology And Assumptions: Rating Unlimited Property Tax Basic Infrastructure Districts, March 17, 2009

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