



Damon Run Conservancy District

P.O. Box 472
Valparaiso, IN 46384

Phone: 219-395-1800
Fax: 888-877-7110

Newsletter February 8, 2011

2010 has seen tremendous growth in the District. With the construction market in the area slowing down some, but not to the extent the rest of the country has felt, we have seen our Assessed Valuation grow by over \$11 million. We expect to see this number continue to climb throughout 2011 as well as adding key properties in the district including Porter Hospital and finalizing Liberty Schools. These key properties will only help to strengthen the district and lower overall property tax for all.

We would like to take a moment to update you on several key issues going on in the district.

LONG TERM BONDS

In 2010, the district issued the final long term bonds to finance the infrastructure for the District. With these bonds in place, it takes out a level of uncertainty for the future expenditures as we know exactly what the debt service level will be for the next 20 years and simplifies the accounting projections for years to come. The district received a better interest rate than expected for the bonds leading to lower overall financing costs.

PORTER HOSPITAL CAMPUS

The district was awarded the contract to provide water and sewer services to the new Porter Hospital project. The current projection for completion of the project is September 2012 and we welcome our new neighbor to the district. This will have the effect of adding almost 150 homes to the district and will further spread our tax base resulting in decreases in the property tax.

INDIANA UTILITY REGULATORY COMMISSION

Since both the Hospital and Liberty Schools are located outside of the Damon Run Conservancy District's boundaries, we are required to submit a petition to the Indiana Utility Regulatory Commission (IURC). This is normal and customary for any Conservancy District that wishes to serve clients that are not within its physical boundaries.

During the IURC hearings, other entities that have interest in the property are permitted to intervene in the hearings. To date, there have been four (4) interveners: Indiana-American Water Company, Porter Hospital, Chesterton Municipal Water, and the Town of Chesterton Utility Service Board.

- Indiana American Water required an amendment to the District's current agreement to clarify the process of the District providing water service outside its boundaries. The amendment has been approved and reviewed by the board. The amendment was mailed to Indiana American for its signatures and we expect to receive the signed copy any day now.

- Porter Hospital, LLC has intervened in support of Damon Run providing services to the hospital property
- Chesterton Municipal Water & the Town of Chesterton Utility Service Board have intervened to block Damon Run from providing sewer service to the hospital property and are petitioning that the hospital should be serviced by Chesterton Utilities instead for sewer. Chesterton does not object to the provision of water service.

The board is taking Chesterton's petition to intervene very seriously and is working hard to ensure the District is successful in our bid to provide these services. The Board engaged Nikki Shoultz of Bose McKinney in Indianapolis to prosecute its petition before the IURC. Attorney Shoultz focuses her practice on utility matters and regularly handles cases before the IURC. We are confident that we will be successful in finalizing the contract with Porter.

The IURC proceedings are ongoing and the trial of the case is scheduled for March 14, 2011. We hope to have a final ruling sometime shortly after the hearing.

2011 TAX RATES

The Department of Local Government Finance released the final budget for Porter County. The 2010 payable 2011 tax rate for the district will be \$1.0135 per hundred dollars of assessed value. This is up from \$0.7194 in 2009 payable 2010. For a home valued at \$225,000 this equates to an increase of approximately \$55 per month over last year and an increase over Payable 2009 of \$17 per month.

So the question now is why the increase in tax rates when there was an \$11 million increase in assessed value. There are a couple of components involved.

First, the District issued long term bonds to finance the cost of infrastructure. Prior to 2011, the district was paying on Bond Anticipation Notices (BAN's). When paying these BAN's, the district was paying only interest on the debt and not any principal. We will now need to pay principal as well as interest creating a need for more funding. This would be much like converting an interest only mortgage to a 20 year fixed mortgage.

Second, the District will incur unexpected litigation costs associated with the IURC case. With the intervention of Chesterton Utilities, there will be additional legal, accounting, and engineering fees associated. The board has projected these costs and have been overly conservative and factored them high in order to ensure we have the funding to cover these fees, including the scenario where we will go through an appeals process after the final determination by the IURC. We certainly hope this is not the case, but needed to ensure the financial solvency of the District.

Going forward, the District anticipates a dramatic downward trend in the tax rates. While the rates are currently high, the addition of the Hospital in 2012 will have a significant impact as will the continued development in Timberland West and the projected Timberland Farms subdivision. The current district

financial plan shows tax rates to be relatively flat from 2011 to 2012, with significant decreases from 2012 to 2017.

FUTURE GROWTH

The district is seeing explosive growth right around us. The addition of the Hospital property is already spurring further development in the area and this trend is expected to continue over the next few years.

Recently, the proposed development just west of the Hospital property and South of the current St. Andrews subdivision received approval of their rezoning request. This property is expected to bring an entire medical office campus, technology center, and residential development. The Board Liaison is currently in discussions with the developer of the property to have them join with Damon Run for their utility services. Should this development occur, it will only lead to spreading our tax base further and lowering property tax bills for all. There are still many hurdles this project must face through the county boards before construction begins, however we feel this would be a welcome addition to Damon Run.

We also continue to contact other properties and field requests for sanitary sewer and water services. While many of these are still in negotiation and discovery phases, we believe some of these may come to fruition in the near future, again helping the district.

DAMON RUN BOARD ELECTIONS

Our annual meeting will be held on February 15th, 2011 at the Valparaiso Library. Additionally, the election of board members will take place.

In this year's election, each entity will be voting for up to four members to serve on the board due to an expansion taking place in 2010. Ballots are available through the district website at www.damonrunconservancy.com/publicmeetings.htm. If you are unable to attend the meeting, you can vote absentee by returning your ballot to the Duneland Group before Noon on February 14, 2011. Detailed instructions are on the ballot.

The district is anticipating a very busy and bright 2011 with many new opportunities before us. We are preparing for growth and working hard to ensure we provide you with consistent and reliable utility services. Feel free to contact us with any questions or concerns.

Sincerely,

Damon Run Board of Directors