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July 21, 2009

Mr. William I. Brownlee
M3 Eagle, LLC
533 E. Riverside Drive, Suite 110
Eagle, ID 83616

Dear Mr. Brownlee:

This letter reviews the community infrastructure district ("CID") authority in Idaho and describes how it is an appropriate vehicle for financing substantial portions of infrastructure in the approximately 6,000 acre M3 Eagle project ("Project") in Eagle, Idaho. I am quite familiar with the CID procedure in Idaho and elsewhere where this type of financing vehicle has been implemented. In an effort to: (i) assist jurisdictions in the state of Idaho finance the growing costs of public infrastructure; (ii) create a public financing mechanism for the state of Idaho similar to those currently being utilized by other rapidly growing states such as Arizona, Nevada, New Mexico, and Texas and, (iii) allow for growth to pay for growth, our firm was engaged to assist in the drafting of Idaho's community infrastructure district legislation which was passed by the Idaho legislature and became effective as Idaho Code 50-3101 on July 1, 2008 (the "Act").

CID Background Information

A CID is a special purpose taxing district and separate political subdivision from that of the jurisdiction in which the CID is established. CIDs are utilized to finance the construction and/or acquisition of eligible public infrastructure (in phases) through the issuance(s) of tax exempt bonds. Eligible infrastructure under the Act include all public facilities as defined by section 67-8203 (24) of Idaho Code:

1. Water supply production, treatment, storage and distribution;
2. Wastewater collection, treatment and disposal facilities;
3. Roads, streets and bridges including right-of-ways, traffic signals, landscaping and any local components of state or federal highways;
4. Storm water collection, retention, detention, treatment and disposal facilities, flood control facilities and bank and shore protection and enhancement improvements;
5. Parks, open space and recreation areas, and related capital improvements;



6. Public safety facilities, including law enforcement, fire, emergency medical and rescue and street lighting facilities.

The Act further identifies the following as eligible public infrastructure items:

1. Highways, parkways, expressways, interstates, other such designation, interchanges, bridges, crossing structures and related appurtenances;
2. Public parking facilities, including all areas for vehicular use for travel, ingress, egress and parking;
3. Trails and areas for pedestrian, equestrian, bicycle or other non-motor vehicle use for travel, ingress, egress, and parking;
4. Public safety facilities;
5. acquiring interests in real property for community infrastructure;
6. Financing costs related to the construction of items listed above and;
7. Impact fees.

The types of bonds a CID may issue are described below:

Special Assessment Bonds – Special assessment bonds are secured by a specific assessment lien on a specific parcel of property.

General Obligation Bonds – Secured by an increase in the ad valorem property tax rate of all property contained within the boundaries of the CID.

Revenue Bonds - Secured by the revenue stream generated by an asset (e.g. public parking garage revenue).

The security for the bonds as illustrated above vary by type of bond however, in all cases the land or an asset of some type is the only underlying security required for the bonds; meaning that if the debt service of the bonds is not made, the CID may foreclose on the property/asset and sell the property/asset to recoup the amount of bonded indebtedness outstanding at the time of the default. The maximum term allowed for CID bonds is thirty (30) years.

As the Act became law in July 2008 to our knowledge there have not been any CIDs established in the state of Idaho. However, we are currently in the planning stages for several around the State. A key factor in underwriting the CID bond issuance is the valuation of the collateral and the track record of the sponsor. M3 Eagle, with its financial structure, its developer and type and value of its collateral meets all of these qualifiers.

Why are Special Taxing Districts Necessary?

While the CID funding mechanism is new in Idaho, it is well developed and has been very successful in other states. For over 25 years, we have been involved in the planning, implementation and administration of over 2,000 special taxing districts in Arizona, California, Florida, Nevada, New Mexico and Texas. The use of special taxing district financing has increased over time, primarily because these districts: (i) provide local governments a way to have "growth pay for growth," and (ii) fund backbone improvements and thereby provide institutional lenders an additional source of security for construction loans. They also provide the same security for equity investors.

In our experience, local governments understand that such funding mechanisms are particularly well suited to infrastructure financing in new planned communities (such as the Project). This is because planned communities are not just build-as-you-go subdivisions or community add-ons dependent primarily on existing city improvements. Rather, they increasingly are recognized as well-planned additions to a city's economic and cultural vitality that require essentially stand-alone infrastructure. Local governments with whom we've worked understand that for these reasons, planned communities require large up-front investments if they are to be done correctly.

For these reasons, we believe the use of special taxing districts will continue to advance, especially in rapidly growing states such as Idaho. Given the size of the M3 Eagle project, its status as a planned community, and the anticipated cost of public improvements to see it through, the use of special taxing district financing such as a CID is particularly appropriate.

Status of the M3 Eagle CID

M3 Eagle has submitted to the City of Eagle ("City") an application to create a Community Infrastructure District for the Project, and this is currently under the City's review. It is anticipated that the M3 Eagle CID ("M3 CID") will be established upon the annexation of the Project into City boundaries, which we anticipate being completed by December 2009. This will allow the M3 CID to issue special assessment bonds, general obligation bonds and revenue bonds to finance the construction and/or acquisition of public improvements pursuant to the Act. It is anticipated that a general obligation bond election of no less than \$400 million will be held upon the establishment of the M3 CID. The general obligation bond authorization is based upon the estimated CID eligible construction cost estimates of \$217.3 million prepared by Stanley Consultants included hereto as Exhibit A (all in 2009 dollars) adjusted for inflation over the course of construction; (ii) the estimated cost of CID eligible real property interests not included in the Stanley cost estimates, and (iii) other CID financing costs also not included in the Stanley cost estimates.

The estimated off-site and on-site backbone public infrastructure costs (excluding subdivision improvements) for the Project total \$325.5 million, of which approximately

\$19.8 million of the total Project costs represent water system costs. These amounts are well within the ranges we have seen in other projects, including planned communities, for which CID financing has proven successful. Based on our experience as consultants involved in the financing over \$15 billion in public improvements in over 2,000 development projects—and on our review of M3 Eagle’s financial structure, sponsor and equity partner—it is our opinion that there is a high likelihood that M3 Eagle will be able to finance its water and wastewater improvements and other backbone infrastructure costs through the M3 CID.

The fact that M3 Eagle is seeking a water right for the entire project over its build-out horizon makes CID financing particularly well-suited for the Project. This is because repayment of the expense of building infrastructure up-front, such as water, sewer, and water reuse facilities, is dependent upon the sale of properties in future phases. Bond purchasers likewise can be expected to rely upon the ability of the Project to be completed throughout its planned phases. One of the critical factors is the reliance upon a water permit for the full build out of the Project.

Given standard underwriting criteria¹ for the issuance of general obligation and special assessment bonds, we estimate that over the life of the Project, M3 Eagle will be capable of financing approximately \$172.8 million in public facility costs related to the Project through the M3 CID. Based upon our discussions with M3 Eagle management, we understand it is their intention to finance all or a portion of the water supply system (\$19.8 million) and the wastewater facilities (\$34.1million) with a portion of the \$172.8 million in bond proceeds. Certainly they could finance 100% of the system using the CID.

As you know, our firm has been actively assisting M3 Eagle and the City in the planning and implementation of the M3 CID. To date the M3 Eagle team has:

1. Prepared the CID Financing Guidelines and discussed the same with the City of Eagle’s Attorney (“City Attorney”);
2. Completed the draft CID Application and delivered to City Attorney; and
3. Completed the CID formation documents and delivered them to the City Attorney for review.

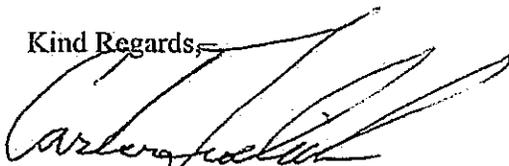
¹ Assumes the following: 7,153 residential units with an average home price of \$400,000, 157 acres of commercial acreage with a .30 FAR and an average cost of \$150/PSF. General obligation bond assumptions assume a \$0.005 ad valorem property tax increase, 7% interest rate, 30 year term, 4% cost of issuance and 2% underwriter discount. Special assessment bonds assume an average assessment of \$7,500 per unit, one year of capitalized interest, 4% cost of issuance, 2% underwriter discount and a 10% reserve fund. To the extent that actual events do not resemble the assumptions utilized in our bond sizing analysis actual results will vary from those presented.

The formation documents include:

- a. Petition for Formation and Adoption of Resolutions Declaring Intent to Form M3 Eagle Community Infrastructure District No. 1;
- b. General Plan for the Proposed M3 Eagle Community Infrastructure District No. 1;
- c. District Development Agreement No. 1 for M3 Eagle Community Infrastructure District No. 1;
- d. Proposed Resolution of the Mayor and Council of the City of Eagle, Idaho to Hold a Public Hearing and to Declare Their Intent, Pending Said Public Hearing to Form a Community Infrastructure District; Ordering and Declaring Formation of the Tax Levying M3 Eagle Community Infrastructure District No. 1 Pending such Public Hearing and Election; Approving District Development Agreement No. 1 with such District Pending Hearing and Election;
- e. Proposed Resolution of District Board of M3 Eagle Community Infrastructure District No. 1 Appointing District Officers; Approving the General Plan; Taking Certain Other Actions with Regard to Organization of the District; Calling a Special Bond Election for the District; and Entering into District Development Agreement No. 1 with the City.

In our discussions with City representatives, we have been given no reason to believe that the M3 CID will not be established pursuant to the terms and guidelines outlined here. Once the M3 CID has been established, we anticipate that special assessment and general obligation bonds will be issued and the bond proceeds utilized to finance the construction and/or acquisition of the eligible public facilities supporting the development of the M3 Eagle Project pursuant to the terms of the Act.

Kind Regards,



Carter T. Froelich, CPA
Managing Principal

CTF/kbb



EXHIBIT A

SUMMARY ITEM or DESCRIPTION	GRAND TOTAL					GRAND TOTAL PER LOT		
	%CID Eligible	% Developer	Amount CID	Amount Developer	TOTAL AMOUNT	Amount CID	Amount Developer	COST
Developable Acres					6005			6005
Total # Sites					7153			7153
HARD COSTS								
GRADING	47%	53%	\$15,904,000	\$17,628,000	\$33,531,685	\$2,230	\$2,460	\$4,690
SEWER	99%	1%	\$33,828,000	\$291,000	\$34,118,865	\$3,520	\$40	\$4,770
WATER	95%	5%	\$18,733,000	\$1,063,000	\$19,795,710	\$2,610	\$150	\$2,770
DRY UTILITIES	0%	100%	\$0	\$8,700,000	\$8,700,380	\$0	\$1,220	\$1,220
ROAD IMPROVEMENTS - ARTERIAL	100%	0%	\$13,147,000	\$25,000	\$13,170,627	\$1,840	\$0	\$1,840
ROAD IMPROVEMENTS - COLLECTOR	100%	0%	\$22,102,000	\$48,000	\$22,149,181	\$3,080	\$10	\$3,100
OFFSITE ROAD IMPROVEMENTS	100%	0%	\$45,565,000	\$0	\$45,565,259	\$6,370	\$0	\$6,370
LANDSCAPE & AMENITIES	20%	80%	\$19,189,000	\$77,612,000	\$96,801,000	\$2,690	\$10,870	\$13,530
MISCELLANEOUS	100%	0%	\$7,288,000	\$0	\$7,288,250	\$1,020	\$0	\$1,020
Sub-Total:			\$175,756,000	\$105,367,000	\$281,120,956	\$23,360	\$14,750	\$39,310
10% Contingency			\$17,575,600	\$10,536,700	\$28,112,096	\$2,336	\$1,475	\$3,931
Amount per Lot			\$27,028	\$16,204	\$43,231			
TOTAL HARD COSTS:	63%	37%	\$193,331,600	\$115,903,700	\$309,233,052	\$25,696	\$16,225	\$43,241
SOFT COSTS								
DESIGN ENGINEERING/CONSULTING	63%	37%	\$19,333,000	\$11,590,000	\$30,923,305	\$2,700	\$1,620	\$4,320
GENERAL CONDITIONS	63%	37%	\$5,800,000	\$3,477,000	\$9,276,992	\$810	\$490	\$1,300
AGENCY & IMPACT FEES	24%	76%	-\$3,338,000	-\$10,729,000	-\$25,438,178	-\$460	-\$1,500	-\$3,560
Sub-Total:			\$21,795,000	\$4,338,000	\$14,762,119	\$3,050	\$610	\$2,060
10% Contingency			\$2,179,500	\$433,800	\$1,476,212	\$305	\$61	\$206
Amount per Lot			\$3,352	\$667	\$2,270			
TOTAL SOFT COSTS:	83%	17%	\$23,974,500	\$4,771,800	\$16,238,331	\$3,355	\$671	\$2,266
TOTAL COSTS								
TOTAL HARD COSTS:			\$193,331,600	\$115,903,700	\$309,233,052	\$25,696	\$16,225	\$43,241
TOTAL SOFT COSTS:			\$23,974,500	\$4,771,800	\$16,238,331	\$3,355	\$671	\$2,266
TOTAL COSTS:	64%	36%	\$217,306,100	\$120,675,500	\$325,471,383	\$29,051	\$16,896	\$45,507