

**Piper Sandler Municipal Advisory Services**

**Crystal Valley Metropolitan District No. 2  
2020 Debt Refinancing Plan**

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**SPECIAL MEETING/WORK SESSION (VIA TELECONFERENCE)  
CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2**

Wednesday, June 24, 2020

**Agenda:**

- 1. Introduction – Kristen Bear, District General Counsel**
- 2. Presentation Framework – Kristen Bear**
- 3. District Background and History – Kristen Bear (5 minutes)**
- 4. Proposed Refinancing Plan – Creig Veldhuizen, Municipal Advisor (25 minutes)**
- 5. Q & A**

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## District Board Members & Key Consultants

### Crystal Valley Metropolitan District No. 2 Board

- \*Mark Turner, President – Term to May 2022 (Resident)
- Jerry Biesboer, Vice President – Term to May 2023 (Resident)
- Matt Katona, Treasurer – Term to May 2023 (Resident)
- Jerry Richmond, Secretary – Term to May 2022 (Developer)
- \*Linda Sweetman, Assistant Secretary – Term to May 2022 (Resident)

### Crystal Valley Metropolitan District No. 1 Board

- Jerry Richmond, President – Term to May 2023 (Developer)
- Joe Knopinski, Vice President – Term to May 2022 (Developer Consultant)
- Gregory Brown, Treasurer – Term to May 2022 (Subordinate Bondholder, Legacy Developer)
- Jim Mill, Secretary – Term to May 2023 (Legacy Consultant)
- Linda Sweetman, Assistant Secretary – Term to May 2022 (Resident)

### Consulting and Legal Team

- Kristen Bear – White Bear Ankele Tanaka & Waldron (General Counsel)
- Creig Veldhuizen & Jonathan Heroux – Piper Sandler (Municipal Advisor)
- Tom Wynne – Wells Fargo (Underwriter)
- Mike McGinnis – Greenberg Traurig (Bond Counsel)
- Kim Reed – Ballard Spahr (Disclosure Counsel)
- Joe Knopinski – Land and Districts (Consultant)

\* District No. 2 Finance Committee Members

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## Presentation Framework

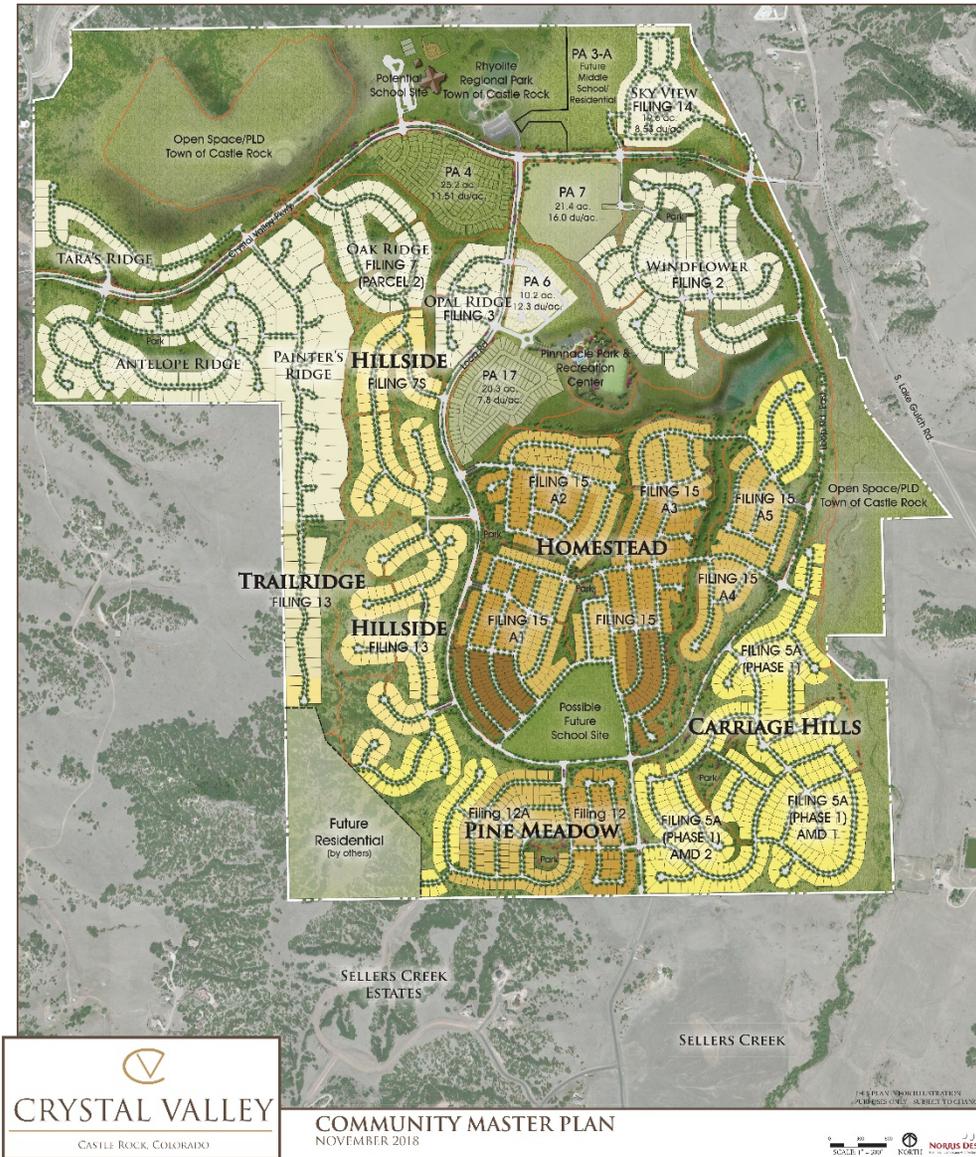
- 1. Questions will be addressed at the conclusion of the presentation.**
- 2. Questions should be sent to Kristen Bear, General Counsel, through the chat function.**
- 3. All questions will be grouped by topic. Your specific question may not be answered but the subject matter of your question will be addressed during the Q&A session.**
- 4. The presentation is being recorded and a digital video copy of it will be made available for viewing at [www.crystalvalley.org](http://www.crystalvalley.org)**
- 5. Thank you for participating in the presentation today!**

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## What is a Metropolitan District?

- A Metropolitan District is a local unit of government created to fund public infrastructure for new development with debt repaid by taxes and/or fees levied only within the new district's boundaries.
- The new taxes do not burden the existing taxpayers of that City or County.
- Public infrastructure can include streets, water, sewer, storm drainage, parks, and other similar improvements.
- Our districts are the Crystal Valley Metropolitan District No. 1 ("District No. 1") and Crystal Valley Metropolitan District No. 2 ("District")
  - ❑ Completely unrelated entities to the Crystal Valley Ranch Homeowners Association
  - ❑ District No. 2 has no duties or authority relative to the parks, trails, landscaping, design review or trash collection which all fall under the authority of the HOA
  - ❑ District No. 2 is the district that holds the current debt and will be the issuer of the new debt under the proposed refinancing plan
  - ❑ Taxes are collected by Douglas County on the property tax bill and appear as Crystal Valley Metropolitan District No. 2
  - ❑ District No. 1 serves as the project management entity for new development projects and collects new System Development Fees from the homebuilders

# District Boundaries Map



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## Crystal Valley Metropolitan District No. 2 History

- Crystal Valley Metropolitan Districts No. 1 and No. 2 (“Districts”) were organized under a Service Plan approved by the Town of Castle Rock in August 1986 to undertake the design, financing and construction of improvements needed to serve the Crystal Valley community
- The majority of developing commercial and residential projects use districts to finance public infrastructure and there are currently 38 metropolitan districts within Castle Rock town boundaries
- The original service plan stipulated a debt limit of \$45,000,000 exclusive of cost of issuance, organization costs, accrued interest, contingencies and other similar costs and further limits the maximum Debt Service Mill Levy as adjusted based on changes in the residential assessment ratio
- The current total district debt including principal and accrued unpaid interest is approximately \$70.9mm; unpaid interest accrued during two economic downturns
- The service plan was amended in 2014 to restructure debt outstanding at that time
- The maximum Debt Service Mill Levy under the service plan is currently 49.854 mills
- The operations mill levy is not capped, but is currently 5 mills and was recently reduced from 10.776 mills.
- The District No. 2 Board is homeowner controlled with 4 of the 5 board seats occupied by residents

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## How are Taxes Calculated?

- Metropolitan district taxes function in the same manner as other property taxes in Colorado. The district imposes a “mill levy” that is applied to the Assessed Value of all property located within the district’s boundaries. The calculation is:

Actual Value (assessor’s market value) x Assessment Ratio x Mill Levy = Annual Tax Obligation

- Actual Value of a property, residential or commercial, is established by the county assessor
  - The Assessment Ratio is set by the Colorado state legislature every odd year and is currently 7.15%
  - One “mill” is defined as \$1 in property tax revenue per \$1,000 of property assessed value
- How are my taxes for OUR metropolitan district calculated?
    - In 2019 the District No. 2 board set the Debt Service Mill Levy to 49.854 mills and the Operations Mill Levy to 5 mills for a total Mill Levy as shown on your property tax bill of 54.854 mills
    - Assuming the Actual Valuation of your home is \$500,000 your metropolitan district property taxes would be calculated as follows:  
$$\$500,000 \times 7.15\% \times .054854 = \$1,961/\text{year}$$
 (this is ONLY the Crystal Valley Metropolitan District No. 2 portion of your property tax bill)

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## The District's Opportunity

- The District has an opportunity to refinance its current outstanding debt with new, higher credit quality and lower cost debt that is repaid within the **SAME** term (2049)
- The current debt does **NOT** allow the District Board to lower the debt service mill levy
- The District **must** refinance the current debt with new debt to provide residents future tax relief
- Refinancing the debt **now** is attractive due to the following factors:
  1. Negotiations with subordinate bondholders have been successfully completed to refund their bonds. This allows the District the flexibility to reduce future property taxes levied residents' property
  2. Bond market rates are at historic lows allowing the District to lower its cost of debt
  3. Developer reimbursement terms provide tangible benefits to the community and District
  4. Provides framework for future Filing 19 and Filing 20 water tank financing
  5. District has engaged Piper Sandler as municipal advisor to assist it with the District refinancing process
  6. The District Board assessed several refinancing options and voted to pursue a financing plan that provides potential future tax relief for the residents

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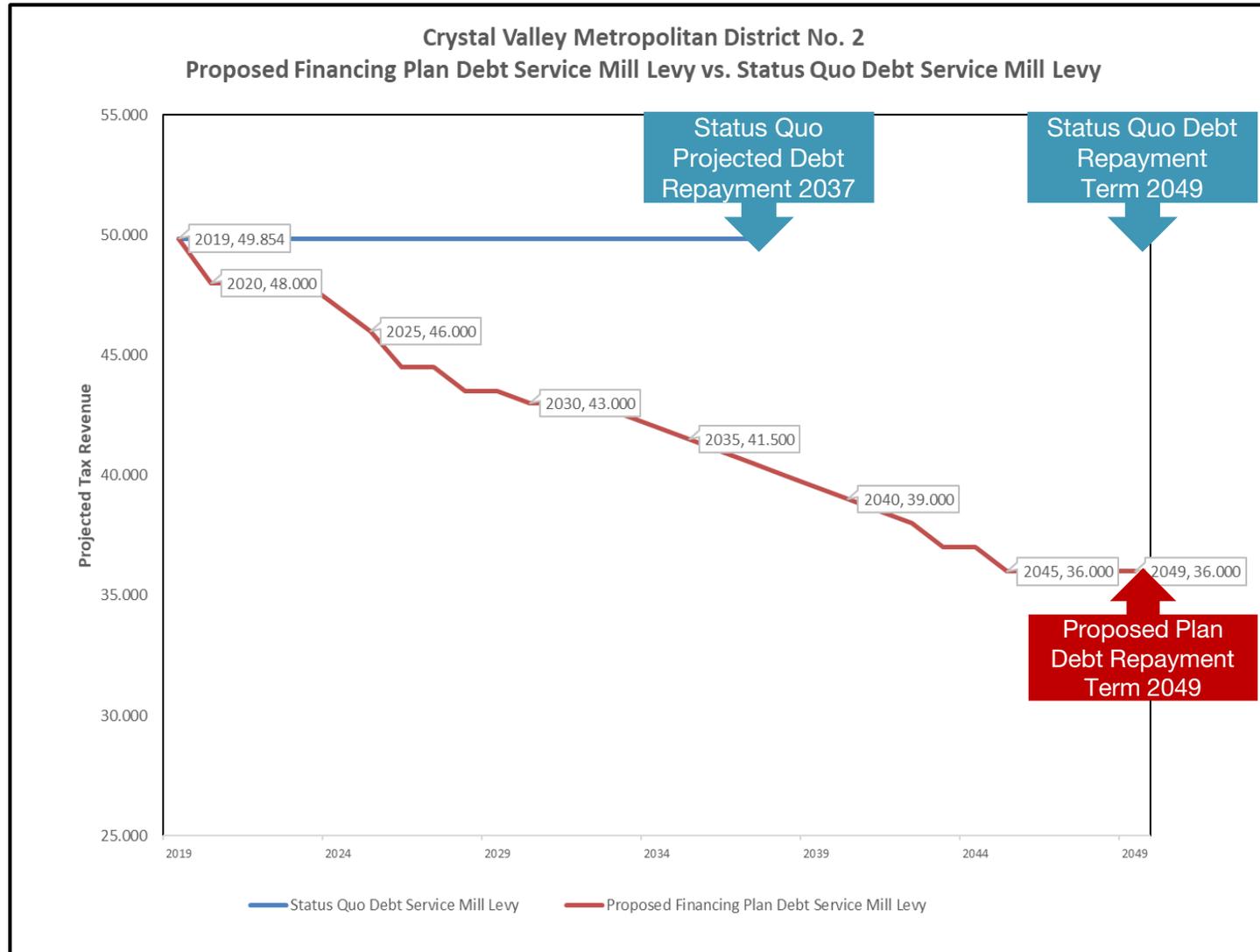
## What is a ‘Municipal Advisor’?

- The key role of a Municipal Advisor (“MA”) is to act as a ***Fiduciary*** to the governmental entity that they represent
- Someone acting in a fiduciary capacity must place their client’s interests ahead of their own
- “Municipal Advisors often possess specialized capital markets knowledge and can use that knowledge in order to mitigate information asymmetries between state and local governments and the investment banks that underwrite their bonds.”<sup>1</sup>

## Municipal Advisor Services

- Municipal securities structuring and financial analysis;
- Advice on selection of other professionals or underwriters;
- Advice on pricing of new and refunded securities issues through competitive and negotiated issuances

# Primary Consideration: Accelerate Debt Repayment or Lower the Debt Service Mill Levy?



- ❑ Current outstanding debt has same term as proposed refinancing plan debt - 2049
- ❑ Projected status quo debt repayment date is based upon future growth projections
- ❑ Proposed debt will likely be refinanced in the future which could generate additional interest cost savings and potential additional tax relief
- ❑ It is also possible that the debt repayment term could be shortened in a future refinancing of the proposed debt

District No. 2 property taxes only; excludes operations mill levy; Assumes Full New Residential Growth Projected by MetroStudy

## Projected Property Tax Savings for a \$500,000 home

Year	Home Actual Value	Home Assessed Value @ 7.15%	Status Quo Mill Levy:	Proposed Financing Plan Mill Levy:	Status Quo Annual Property Taxes	Proposed Annual Property Taxes
2020	\$500,000	\$35,750	54.854	54.85	\$1,961	\$1,961
2025	\$500,000	\$35,750	54.854	51.00	\$1,961	\$1,823
2030	\$500,000	\$35,750	54.854	48.00	\$1,961	\$1,716
2035	\$500,000	\$35,750	54.854	46.50	\$1,961	\$1,662
2040	\$500,000	\$35,750	54.854	44.00	\$1,961	\$1,573
2045	\$500,000	\$35,750	54.854	41.00	\$1,961	\$1,466
2049	\$500,000	\$35,750	54.854	41.00	\$1,961	\$1,466

- Projections include both debt service mill levy and operations mill levy assumed at 5 mills/year
- No home value growth is assumed
- Assessment ratio assumed constant at 7.15%
- Proposed financing plan mill levy assumes full buildout of future housing within the District boundaries

## Proposed Refinancing vs. Status Quo – The Numbers

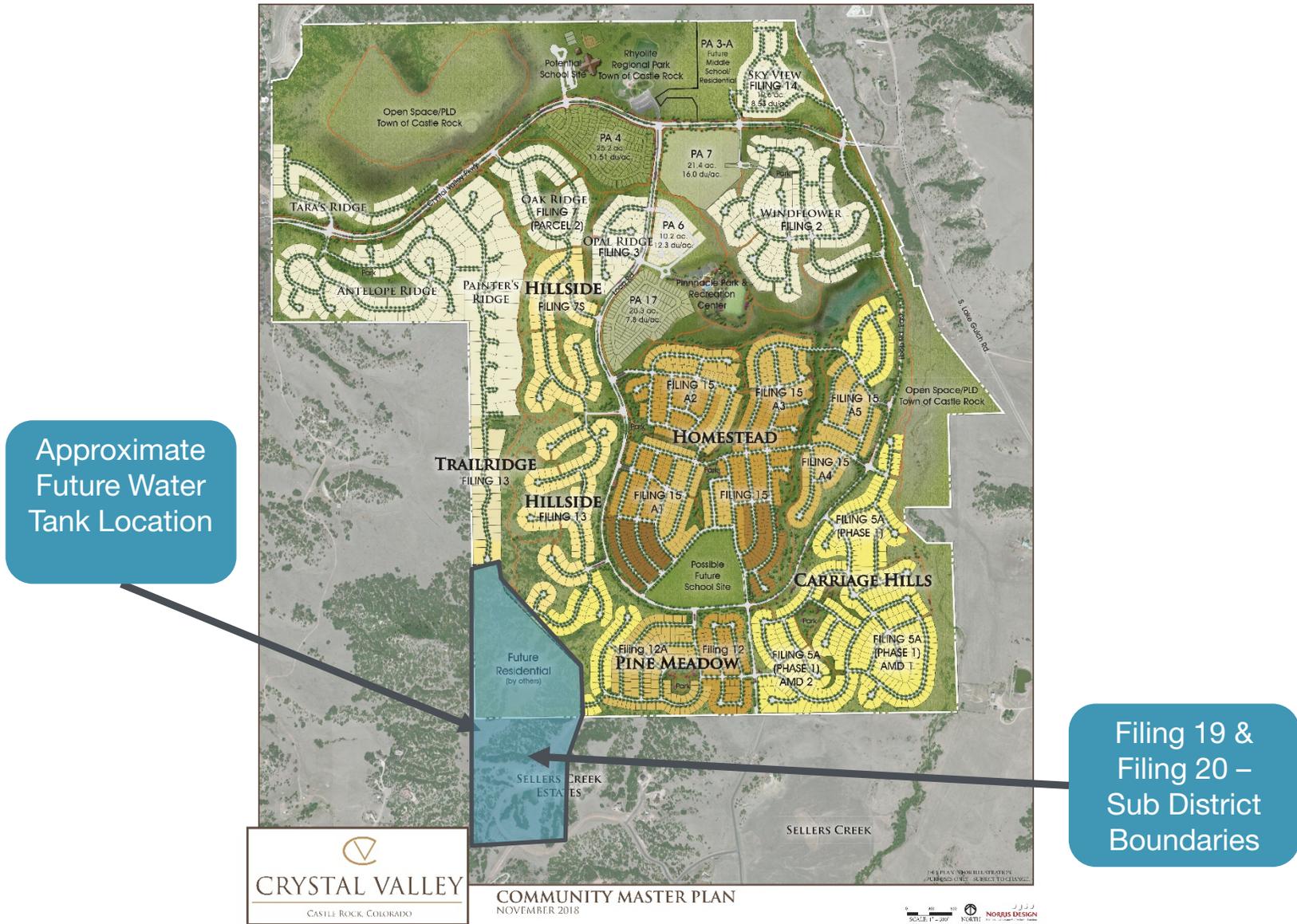
Metric	Status Quo	Proposed	Variance
Senior Debt (“1 <sup>st</sup> mortgage”)	\$21.7mm	\$58.3mm	+\$36.6mm
Subordinate Debt (“2 <sup>nd</sup> mortgage”)	\$49.2mm	\$17.1mm	- \$33.5mm
<b>Total Debt</b>	<b>\$70.9mm</b>	<b>\$75.4mm</b>	<b>+\$4.5mm</b>
Series 2014B Subordinate Bond Debt Amount	\$10.0mm	\$4.0mm	<b>- \$6mm</b>
Developer reimbursement debt amount	\$0	\$4.05mm	+ \$4.05mm
<b>Avg. Interest Rate %</b>	<b>5.14%*</b>	<b>3.73%</b>	<b>- 1.41%</b>
Debt service mill levy 2025	49.854	46.000	<b>- 3.85 / -7.7%</b>
Debt service mill levy 2035	49.854	41.500	<b>- 8.35 / -16.8%</b>
<b>Debt service mill levy 2049</b>	<b>49.854</b>	<b>36.000</b>	<b>- 13.85 / -27.8%</b>
Projected total debt service	\$103.9mm	\$127.9mm	+ \$24mm
Debt Term	2049	2049	0
Projected Debt Repayment Date	2037	2049	+12 years

\* Assumes senior debt rate adjustments in 2023

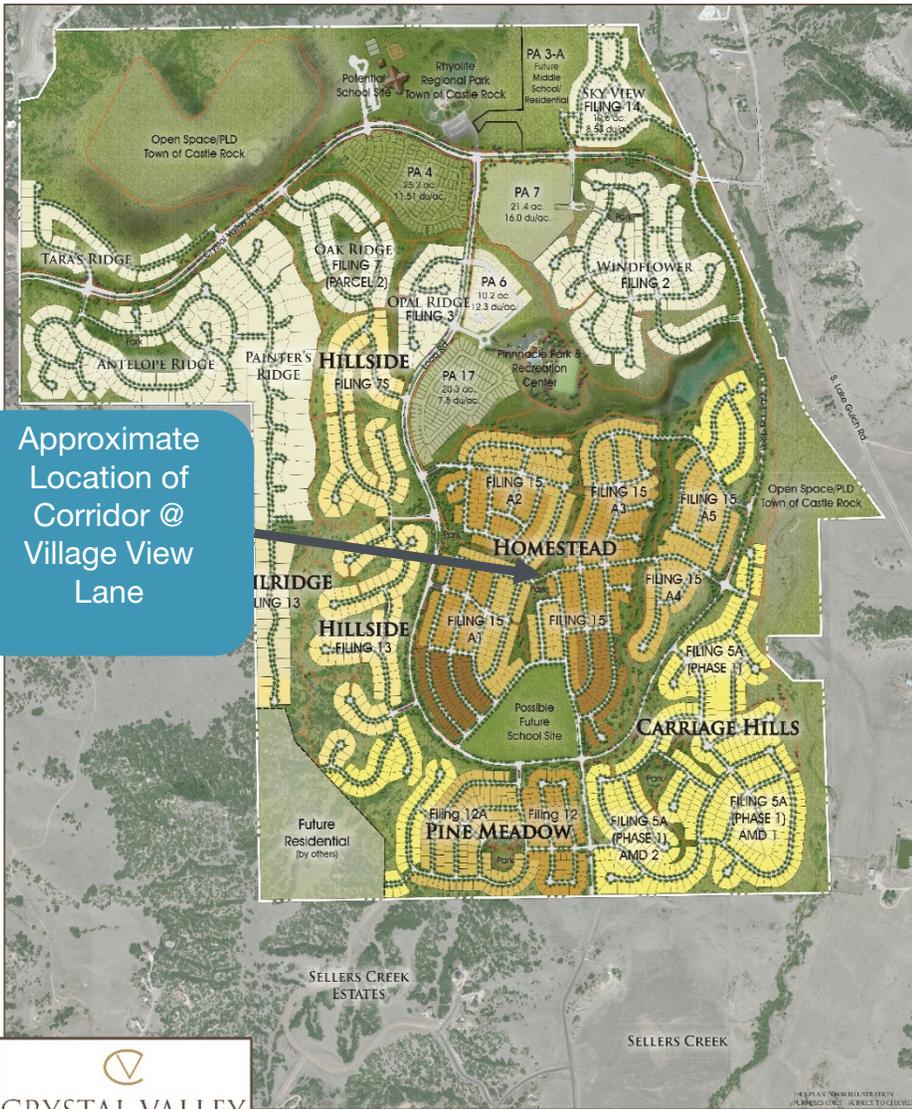
## Proposed Refinancing vs. Status Quo – Key Factors

Metric	Status Quo	Proposed
Allows for resident property tax relief		✓
Senior loan balloon payment due in 2023	X	
Senior loan interest rate adjustment in 2023 to 2x current rates	X	
Negotiated \$6mm reduction in subordinate debt		✓
Developer incentive for future development investment and housing growth		✓
Developer to deed recreation center to HOA		✓
\$300k funding paid by developer to HOA		✓
Central corridor landscaping project funding & construction		✓
Future water tank financing available for Filing 19 & Filing 20		✓

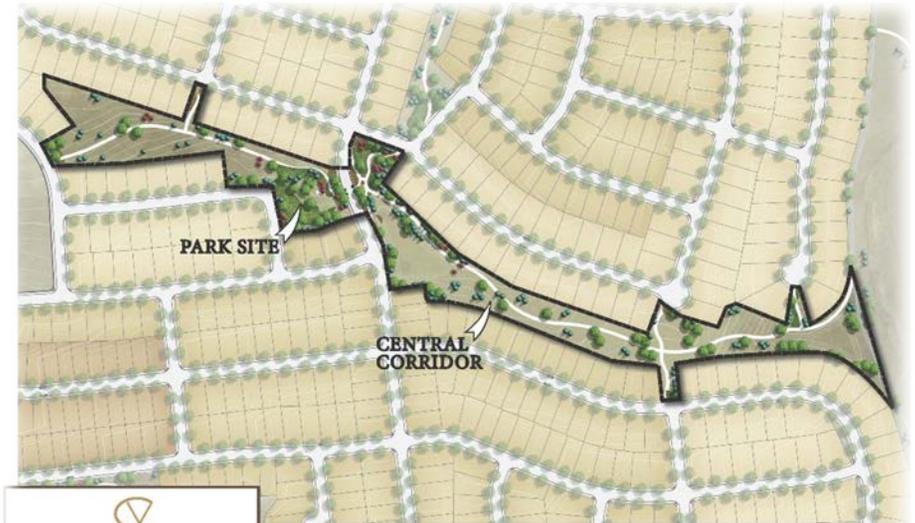
# Sub-District Boundaries and Planned Water Tank Location



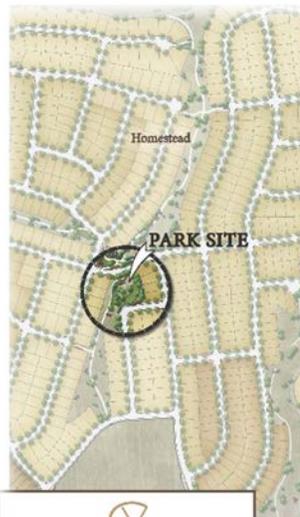
# Central Corridor Landscaping project



COMMUNITY MASTER PLAN  
NOVEMBER 2018



HOMESTEAD CENTRAL CORRIDOR LANDSCAPE PROJECT  
June 2020



HOMESTEAD PARK CONCEPT PLAN  
June 2020



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## Refunding Milestones Reached to Date

- District No. 2 board engaged Piper Sandler & Co. as its municipal advisor in November 2019 to assist in structuring its debt refinancing and with selecting an underwriter
- To date, Piper and the Board have completed the following key milestones toward a refunding in 2020:
  - ✓ Completed negotiations with subordinate bondholders of a tender offer for their bonds at a significant discount and savings;
  - ✓ Reached agreement with current developer for reimbursement of previously constructed public infrastructure;
  - ✓ Wells Fargo was selected as the District's underwriter/placement agent for the proposed refunding transaction;
  - ✓ Selected and assembled other members of the transaction team including bond counsel, disclosure counsel and market study consultant;
  - ✓ Analyzed financing structure options and selected preferred direction in concert with underwriter, municipal advisor, and board
  - ✓ Preliminary meeting with Town of Castle Rock to discuss a service plan amendment
  - ✓ Submitted 2<sup>nd</sup> Service Plan Amendment to the Town of Castle Rock on 6/10/2020

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## Service Plan Amendment

- To accomplish the proposed refinancing we need to amend the current service plan. The amendment submitted to the Town of Castle Rock includes the following changes:
  - ❑ Allows for the reimbursement to the developer not to exceed \$5,300,000 for certain public improvements previously constructed that benefitted District No. 2 constituents; consisting of \$4,051,111 out of bond proceeds and reimbursement to the developer for new construction costs up to \$1,248,889 for the Central Corridor Landscaping Project funded by System Development Fees
    - ***This reimbursement request is a small portion of the total public infrastructure constructed by developer to date (almost \$20mm spent to date)***
  - ❑ Forms a new 'sub-district' to be organized within the boundaries of the current Filing 19 and Filing 20 properties that will be allowed to issue up to \$3,600,000 in new long term financial obligations solely to finance the design and construction of a new water tank
  - ❑ Authorizes the District No. 2 proposed refinancing transaction with new debt not to exceed \$82,000,000, replacing the original \$45,000,000 limit (excluding accrued interest, issuance costs, etc.)
  - ❑ Maintains the current Maximum Debt Service Mill Levy cap of 49.854 mills, as adjusted, for future changes in the residential assessment ratio; the operations mill levy will be unlimited, however, it was recently reduced from 10.776 mills to 5.0 mills
  - ❑ The Maximum Debt Service Mill Levy shall terminate and any bonds still outstanding will be discharged no later than 12/31/2052
  - ❑ The Maximum Debt Service Mill Levy to pay the Sub-District Bonds will terminate and any bonds still outstanding will be discharged on 12/31/2060

# Financing Timeline

JUNE 2020						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

JULY 2020						
S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

AUGUST 2020						
S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

\*to be updated as necessary

DATE	EVENT
6/24/2020	Presentation to District No. 2 homeowners
7/21/2020	Town of Castle Rock service plan amendment hearing
8/20/2020	Price bonds
8/28/2020	Bond closing

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## Summary of Proposed Refinancing Benefits

- ✓ Lowers District cost of debt
- ✓ *Allows District to lower property taxes imposed on residents immediately and into the future*
- ✓ Title transfer of recreation center to the HOA
- ✓ \$300k payment made by Developer to HOA at closing
- ✓ Facilitates construction of Central Corridor landscaping project by the Developer

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## Call to Action – How Can Residents Help?

- ❑ Write a letter in support of the proposal addressed to the Town of Castle Rock Council, and in particular to your council member George Teal; email: [gteal@CRgov.com](mailto:gteal@CRgov.com)
- ❑ Attend the scheduled Town of Castle Rock public hearing on July 21, 2020 to speak in support of the proposal during public comment period
- ❑ Spread the word of support to your fellow residents!