

Piper Sandler Municipal Advisory Services

Crystal Valley Metropolitan District No. 2 2020 Debt Refinancing Plan

TOWN OF CASTLE ROCK TOWN COUNCIL PUBLIC HEARING

CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 2 SERVICE PLAN AMENDMENT

Tuesday, July 21, 2020

Agenda:

- 1. Introduction, District Background and History – Kristen Bear,
District General Counsel**
- 2. Proposed Refinancing Plan – Creig Veldhuizen, Municipal Advisor**
- 3. Q & A**

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

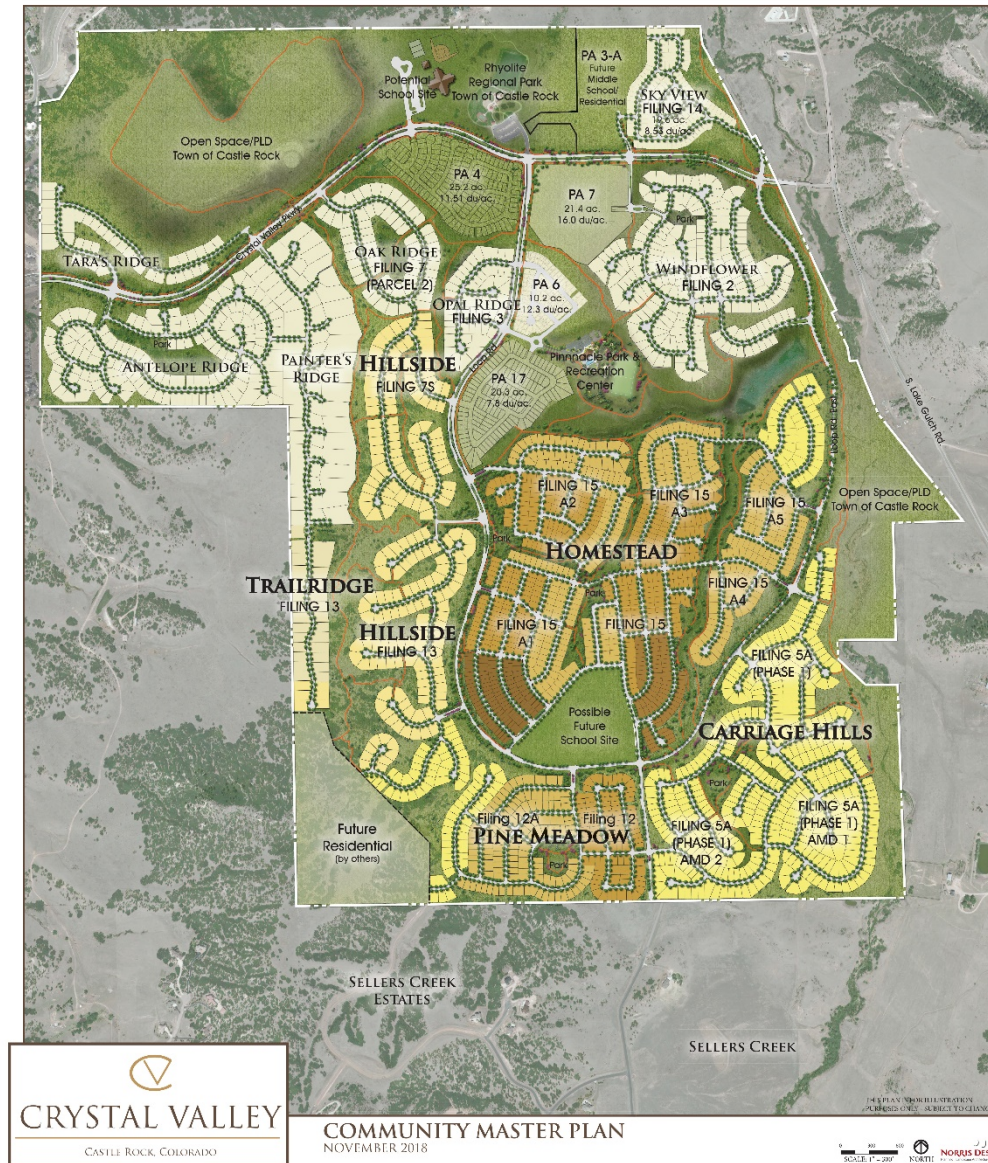
- Jerry Richmond, President – Term to May 2023 (Developer)
- Joe Knopinski, Vice President – Term to May 2022 (Developer Consultant)
- Gregory Brown, Treasurer – Term to May 2022 (Subordinate Bondholder, Legacy Developer)
- Jim Mill, Secretary – Term to May 2023 (Legacy Consultant)
- Linda Sweetman,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

Consulting and Legal Team

- Kristen Bear – White Bear Ankele Tanaka & Waldron (General Counsel)
- Creig Veldhuizen – 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

District Boundaries Map



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

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.”¹

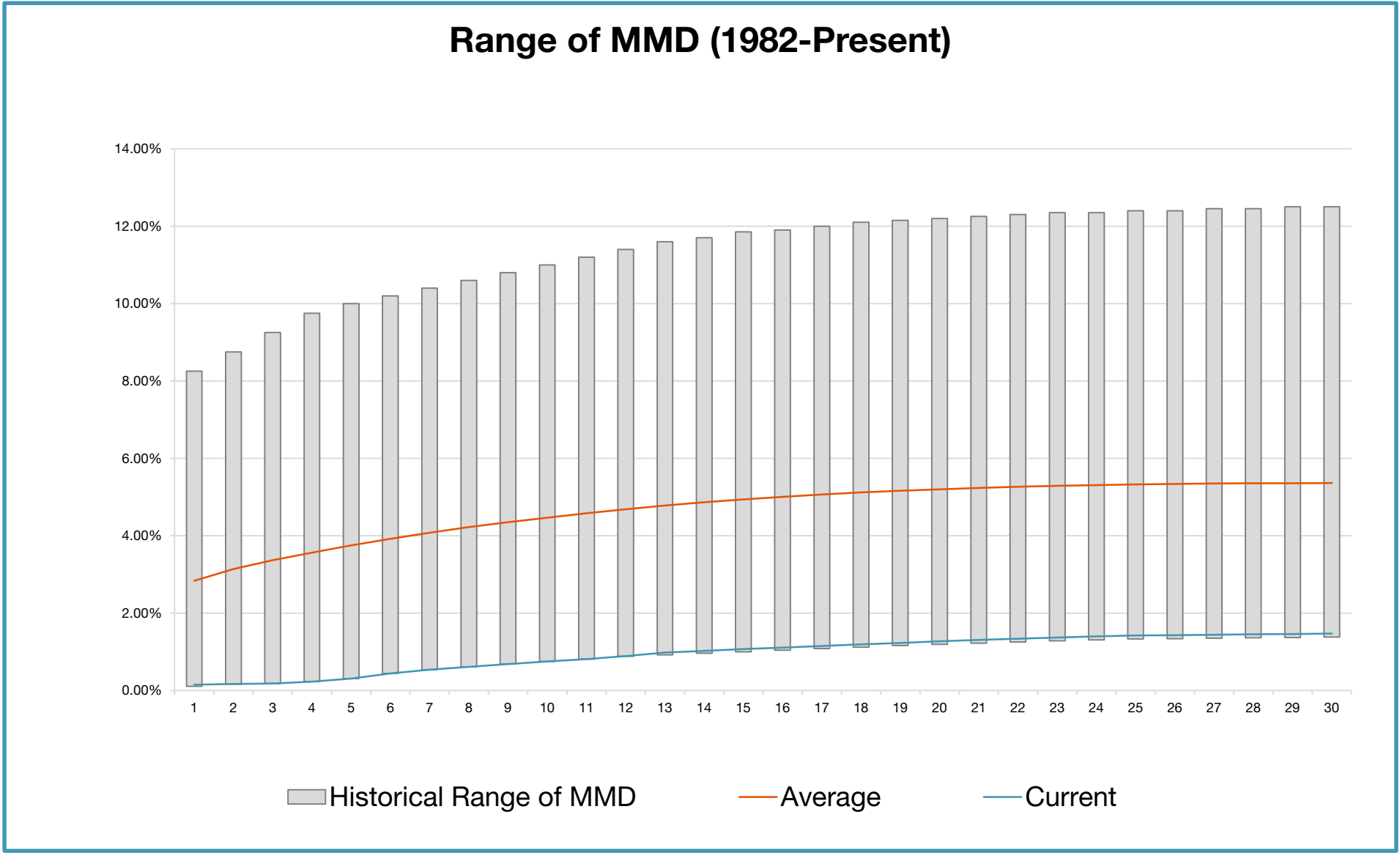
Municipal Advisor Services

- 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

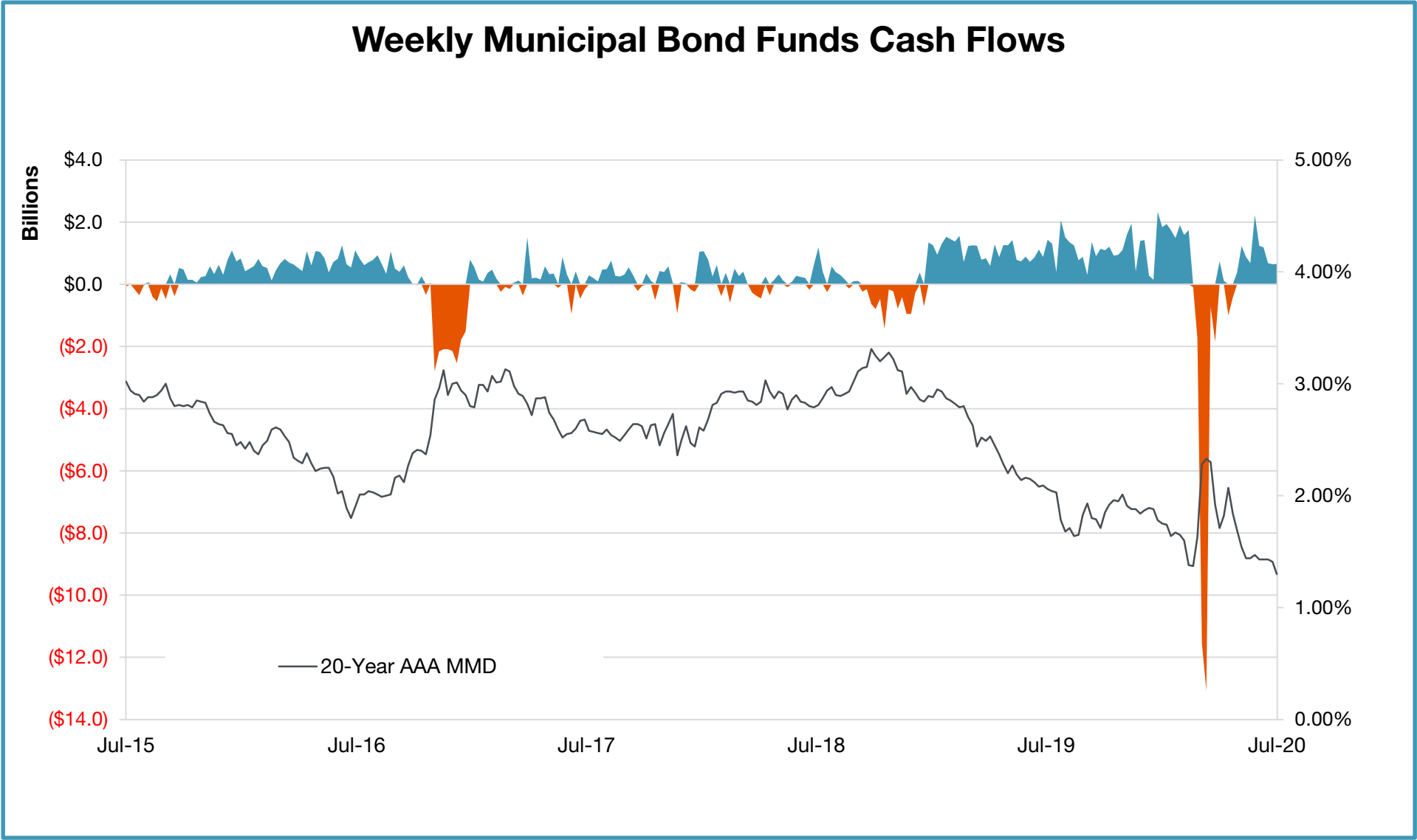
District Current Outstanding Debt

Debt Obligation	Principal Outstanding	Rate%	Accrued & Unpaid Interest*	Total Outstanding	Term/Call Date	Notes
2015 Senior Loan	\$15,795,000	3.54%	\$0	\$15,795,000	12/1/2023 /Current	Balloon payment due 12/1/2023; Converts to floating rate of 65% 1 month LIBOR +6.50%
2017 Senior Loan	\$5,925,000	3.25%	\$0	\$5,925,000	12/1/2023 /Current	Balloon payment due 12/1/2023; Converts to floating rate of 65% 1 month LIBOR +6.50%
2014A Subordinate Bonds	\$28,370,000	5.50%	\$10,848,990	\$39,218,990	12/1/2024	Includes accrued interest to 7/31/20
2014B Subordinate Bonds	\$10,000,000	0%	\$0	\$10,000,000	Non-Callable	Zero coupon bond, not callable
Total	\$60,090,000		\$10,848,990	\$70,938,990		

Historically Low Tax Exempt Rates



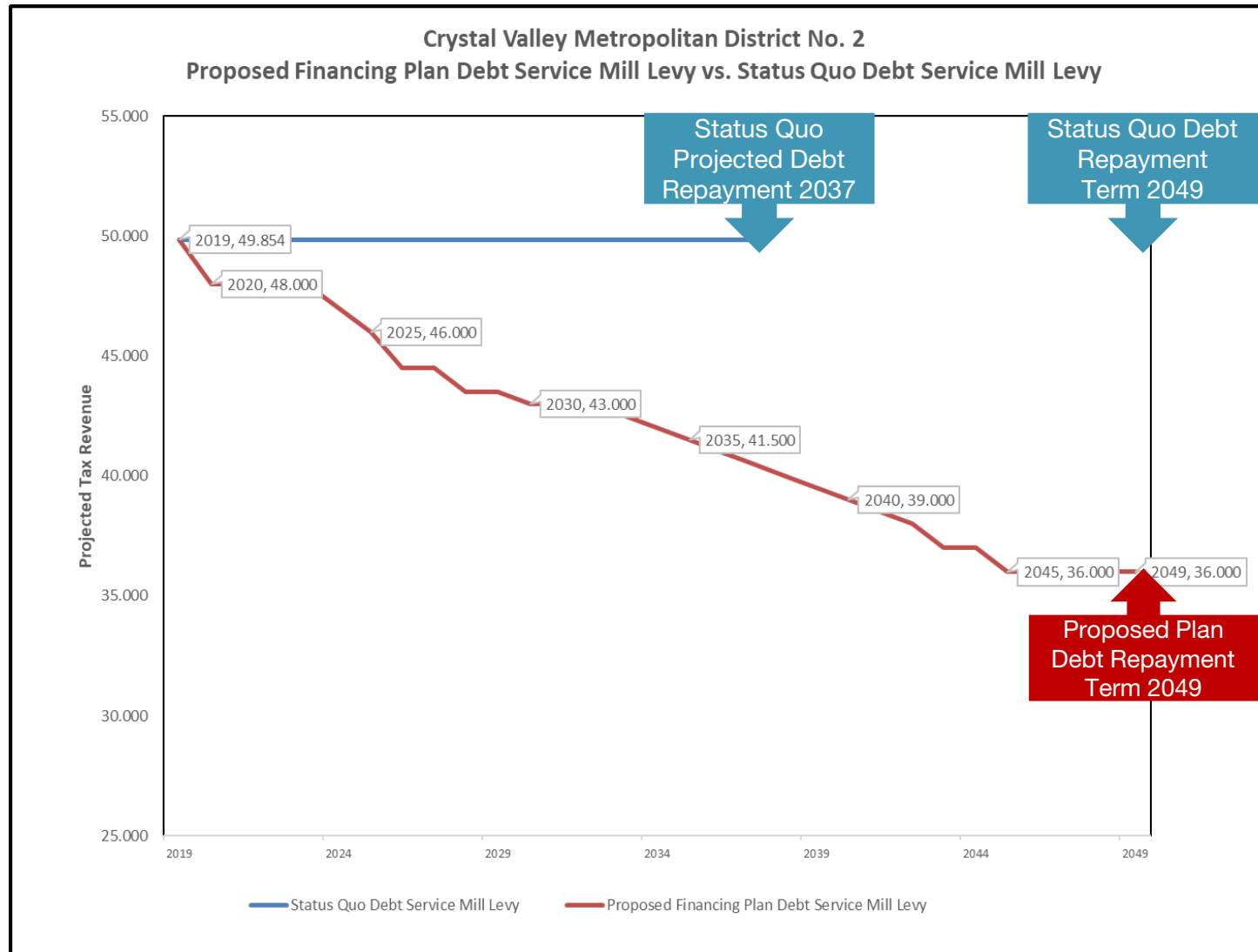
Rate Trends vs. Money Flows



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

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 Total Mill Levy	Proposed Financing Plan Total Mill Levy	Status Quo Annual District Property Tax	Proposed Annual District Property Tax	Projected Annual Property Tax Savings
2020	\$500,000	\$35,750	54.854	54.854	\$1,961	\$1,961	\$0
2025	\$500,000	\$35,750	54.854	51.000	\$1,961	\$1,823	\$138
2030	\$500,000	\$35,750	54.854	48.000	\$1,961	\$1,716	\$245
2035	\$500,000	\$35,750	54.854	46.500	\$1,961	\$1,662	\$299
2040	\$500,000	\$35,750	54.854	44.000	\$1,961	\$1,573	\$388
2045	\$500,000	\$35,750	54.854	41.000	\$1,961	\$1,466	\$495
2049	\$500,000	\$35,750	54.854	41.000	\$1,961	\$1,466	\$495

- Projections in the table above 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 st mortgage”)	\$21.7mm	\$58.3mm	+\$36.6mm
Subordinate Debt (“2 nd mortgage”)	\$49.2mm	\$17.1mm	- \$33.5mm
Total Debt	\$70.9mm	\$75.4mm	+\$4.5mm
Series 2014B Subordinate Bond Debt Amount	\$10.0mm	\$4.0mm	- \$6mm
Developer reimbursement debt amount	\$0	\$4.05mm	+ \$4.05mm
Avg. Interest Rate %	5.14%*	3.73%	- 1.41%
Debt service mill levy 2025	49.854	46.000	- 3.85 / -7.7%
Debt service mill levy 2035	49.854	41.500	- 8.35 / -16.8%
Debt service mill levy 2049	49.854	36.000	- 13.85 / -27.8%
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

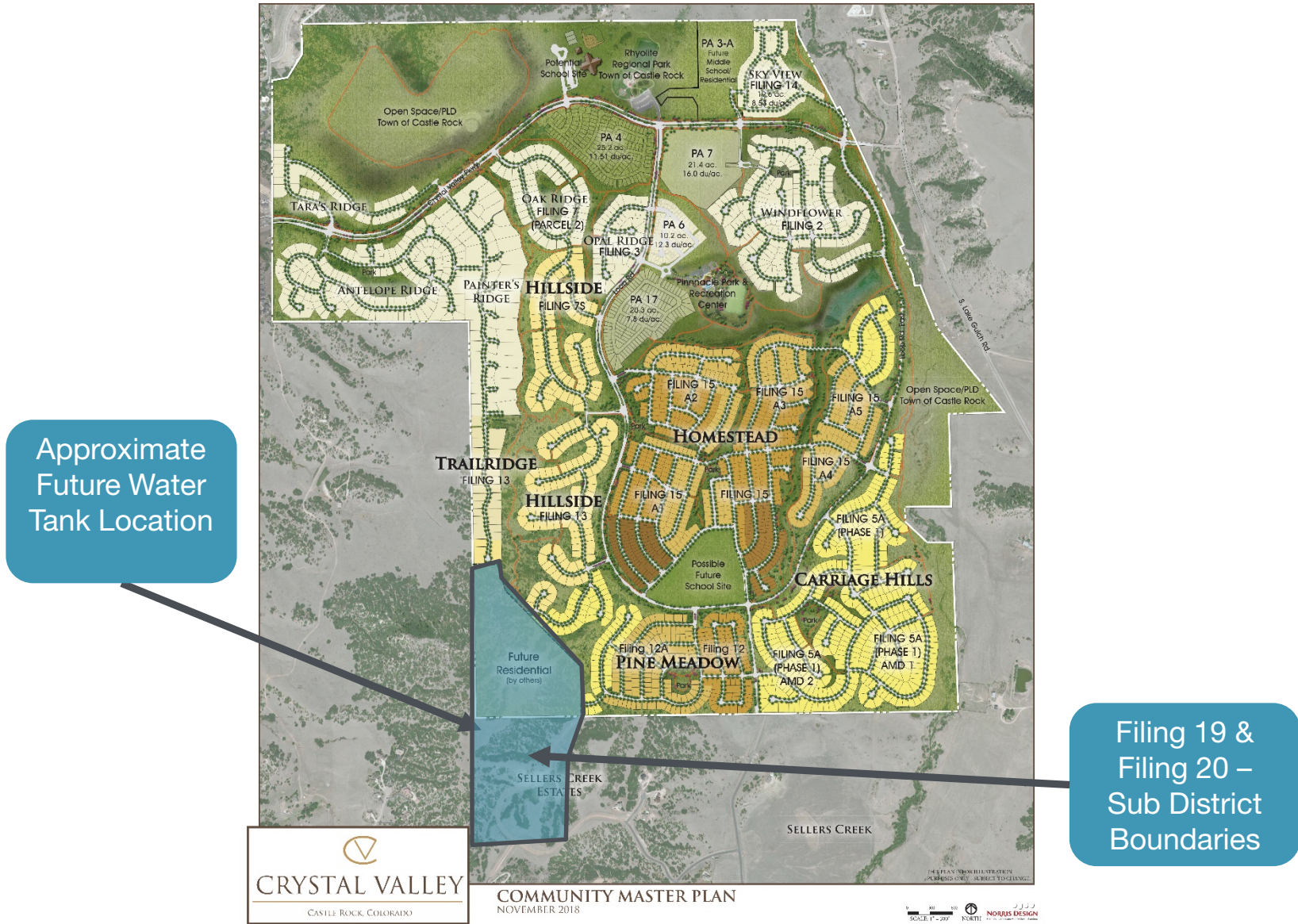
Proposed Refinancing vs. Status Quo – Key Factors

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 (CVRA)		✓
Developer to deed \$3.4 million recreation center to HOA (CVRA)		✓
\$300k funding paid by developer to HOA @ closing (CVRA)		✓
Central corridor landscaping project funding & construction (CVRA)		✓
Future water tank financing available for Filing 19 & Filing 20 (CVRD)		✓

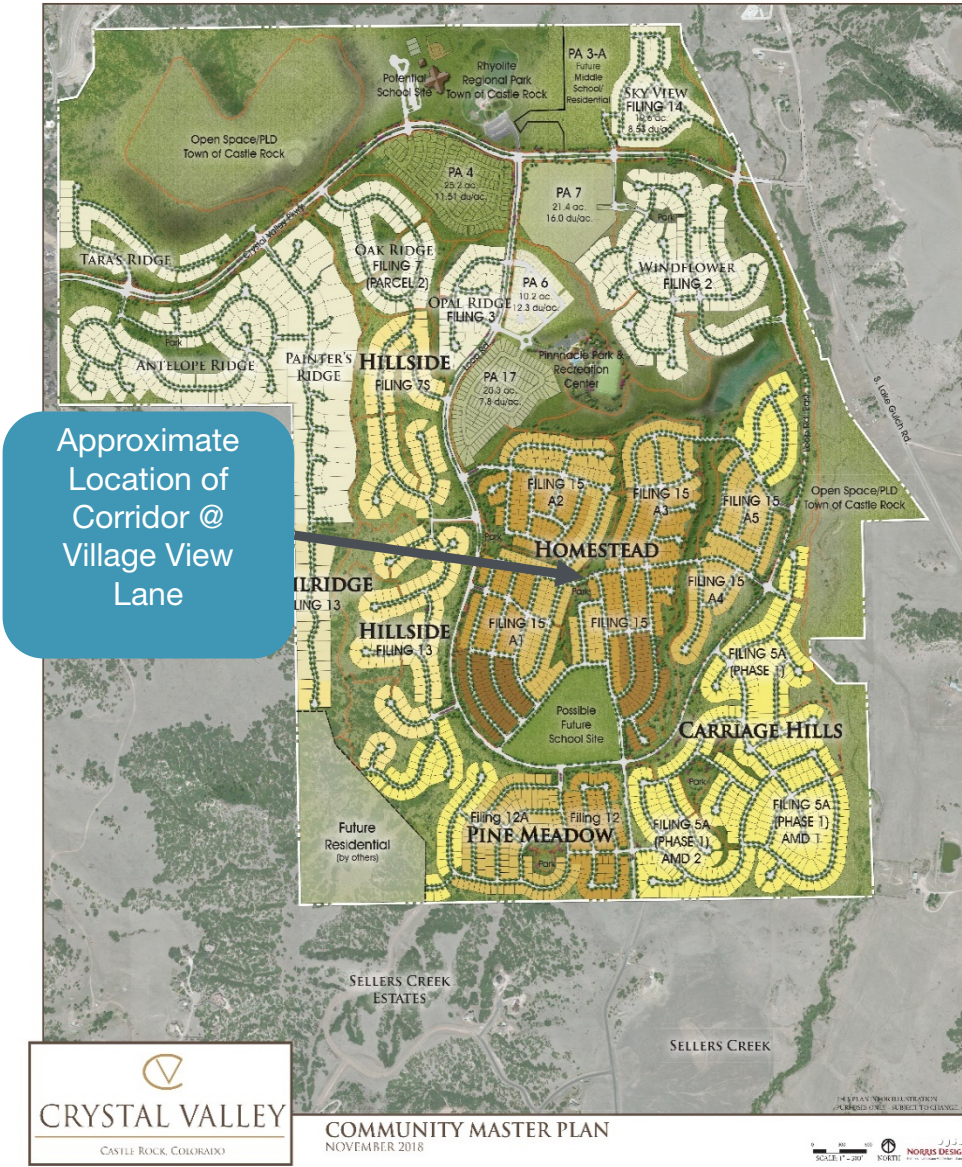
Relative Economic Benefit at Bond Closing – Taxpayer vs. Developer

Transaction Component	Taxpayer Benefit \$000s	Developer Benefit \$000s
Reduction in subordinate 2014B Bonds	\$6,000	\$0
Recreation Center (Estimated original construction value)	\$3,400	\$0
HOA Funding	\$300	\$0
Public improvement reimbursements (net of HOA funding payment)	\$0	\$3,751
Total Economic Benefit	\$9,700	\$3,751
Difference	+\$5,949	

Sub-District Boundaries and Planned Water Tank Location



Central Corridor Landscaping project



CRYSTAL VALLEY
CASTLE ROCK, COLORADO

HOMESTEAD CENTRAL CORRIDOR LANDSCAPE PROJECT
June 2020

NOBIS DESIGN



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 2nd Service Plan Amendment to the Town of Castle Rock on 6/10/2020
 - ✓ Presentation to District No. 2 homeowners in public meeting – 6/24/2020
 - ✓ District presentation to homeowners and service plan amendment posted to District website

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

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 \$3.4mm (original 2009 cost) recreation center to the HOA
- ✓ \$300k payment made by Developer to HOA at closing
- ✓ Facilitates construction of Central Corridor landscaping project by the Developer
- ✓ ***This process is being driven by the homeowner controlled board that has hired a fiduciary municipal advisor***

Financing Timeline

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
7/21/2020	Town of Castle Rock service plan amendment hearing
8/20/2020	Price bonds
8/28/2020	Bond closing