The Special District Group

JULY 2023

AC-REP DEVELOPMENT COUNCIL

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Special District Group

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The Special District Group

We work with the development community and local governments in **rapidly growing regions** to **structure and sell debt** for **public infrastructure** that creates more **attainable housing** and **economic opportunity**.

More Than Thirty Years of Special District Expertise

We wrote the book on special districts

1980

From our team's first metro district financing in 1980, the special district market expanded along with the housing market in Colorado and grew from a niche industry into the mainstream as the decade progressed.

1990s

In the early 1990s, our team worked with our partners in the industry to reform statutes and local policies to provide—protections for homeowners within metro districts and ensure that only sophisticated investors were buying early stage debt. The Special District Group transitioned platforms during this time and found a new home for several years.

2000s

The industry expanded dramatically in the 2000s as the housing market continued to expand in Colorado and metro districts became a ubiquitous tool to meet regional infrastructure demands. Our team underwrote more debt than all others combined through this period and beyond.

2020

The Special District Group transitioned platforms to Piper Sandler in 2020, allowing for broader distribution of the billions of dollars of debt that is underwritten each year by the group and facilitating national expansion. At Piper Sandler, the team has grown to more than 30 individuals dedicated to tax increment and special district finance nationwide, with offices in Denver, CO and Salt Lake City, UT.

A Proven Team on a Powerful Platform

27 special district professionals, No. 1 in special district finance in the nation*

BANKING TEAM

QUANTITATIVE TEAM

OPERATIONS TEAM

*Refinitiv: Principle amount and number of non-rated transactions, sole managed, 2 years or longer in maturity

Colorado Special District Banking Team

Ranked No. 1 in Colorado by principal amount and number of special district bonds issued

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Refinitiv: Negotiated sales of Metro Districts, GIDs, SIDs, and CABs. January 1, 2021 – December 31, 2022.

By the Numbers

Industry-leading expertise on a proven platform

No. 1

in the nation for special district bonds issued.[1]

No. 1

in Utah for special district bonds issued. [2]

No. 1

in Colorado for special district bonds issued.[3]

$4.1B

in special district debt underwritten nationally. [1]

209

special district transactions nationally.

27

dedicated special district professionals.

[1]Refinitiv: Principal amount non-rated transactions, sole managed, 2 years or longer in maturity. January 1, 2021 – December 31, 2022.
[2]Refinitiv: Principal amount of negotiated sales of PIDs and Development Authorities. January 1, 2021 – December 31, 2022.
[3]Refinitiv: Principal amount and number of negotiated sales of Metro Districts, GIDs, SIDs, and CABs. January 1, 2021 – December 31, 2022.

Metropolitan Districts 101

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Metropolitan District Overview

- Metropolitan Districts (“Metro Districts”) are authorized by Colorado Revised Statutes
  - **Fund public improvements for a particular neighborhood or community**
  - **Metro Districts localize the cost of public improvements to fund new development rather than spreading those costs throughout the entire governing jurisdiction (i.e., City, Town, County)**
- 1000’s of Metro Districts throughout Colorado
  - **Metro Districts have become one of the primary financing tools for the construction of public improvements in the state.**
- Metro Districts have the ability to fund public improvements in a cost-effective way through tax-exempt financing
  - **Results in lower interest rates and is often much cheaper than privately financing public improvements.**
  - **Financing public improvements spreads the initial cost over decades and along with the tax-exempt nature of the bonds, results in more purchasing power for homeowners**

Purpose of a Metro District

- Cost effective financing of pubic improvements
- Construction of public improvements
- Provide on-going operations and maintenance for public areas, clubhouses, pools, parks, open space areas, trails
- Covenant enforcement

Powers of Metropolitan Districts

- Metro Districts can provide any two or more of the following services to a community and bond proceeds can be used to fund related infrastructure:
  - Street improvements
  - Water facilities, services and water rights acquisition
  - Sanitation facilities and services
  - Park and recreation facilities
  - Traffic-related safety protection improvements
  - Transportation facilities and services
  - Television relay and transmission facilities and services
  - Mosquito control facilities and services
  - Security services
  - Covenant enforcement services
- Power to levy taxes and assess fees, rates, tolls, charges and penalties
- Power to issue bonds and other forms of financial obligations
- May provide for the ongoing operation and maintenance of public improvements within the community
- Power of eminent domain (condemnation)

Advantages of Metro Districts

- Publicly accountable (public meetings, open records, elected Board)
- Ability to impose ad valorem property taxes to pay for public improvements
- Ability to finance public improvements over long period of time which presents a savings to residents who can pay for public improvements over time instead of upfront in the purchase price of their home
- Ability to issue tax-exempt bonds with a lower interest rate than private funding or taxable bonds
- Sophisticated insurance pool resulting in lower insurance costs, along with Governmental immunity
- As a local government, the Metro District is exempt from State sales and use tax when purchasing supplies and equipment resulting in lower construction costs
- Provision of public improvements and services to new and existing developments that the Town or the County may be unable or unwilling to provide
- Covenant enforcement services to preserve property values and ensure uniform aesthetics throughout the community
- As the cost of development in Colorado has increased Metro Districts have become a popular and statutorily authorized way to fund the necessary public improvements in a cost-effective way that results in savings for residents

Bond Financing

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Bond Issuance Process

- Once the District's Service Pan has been approved, they may issue and incur debt.
- The Service Plan dictates the maximum amount of debt that may be issued by a District, the maximum repayment term and the maximum mill levies available to repay the debt.
- The maximum debt limitation in the Service Plan will typically greater than the initial cost estimates for the infrastructure to accommodate (1) escalating cost of the improvements over time, (2) increases in market interest rates and (3) reserves required for bond issuances.
- The amount of debt to be issued by a District will be constrained by (1) the actual amount of "eligible and qualified" improvements to be funded and (2) the amount of debt that can be repaid based on build out AV (illustrated on next slides).
- The cost of qualified improvements typically exceed the amount of District debt that can be raised in the debt market. The difference is funded by the Developer.

Bond Sizing / General

- **Metro District bonds are sized based on the following:**
  - Anticipated development absorption with the boundaries of the District (residential or commercial)
  - Anticipated average home price or price / SF
  - The maximum mill levy available to pay the debt (per to the Service Plan)
  - Prevailing interest rates at time of issuance
  - Term of the bonds (typically 30 years)
  - Debt service overage requirements (if any)
  - Bond sizing can never exceed the District's debt limit (per the Service Plan)
- **Development absorptions are verified by an independent 3rd party market study provider**
  - Market study will determine whether annual absorption assumptions and values are justified based on market comps from other developments of similar size and scope
- **Qualified public infrastructure costs must be certified by an independent 3rd party engineer**
  - Bond proceeds are held by the bond trustee and only released upon certification from the engineer, ensuring that the improvements are completed
- **Metro District bonds are sold to institutional investors who must meet qualification and eligibility requirements**

Credit Considerations

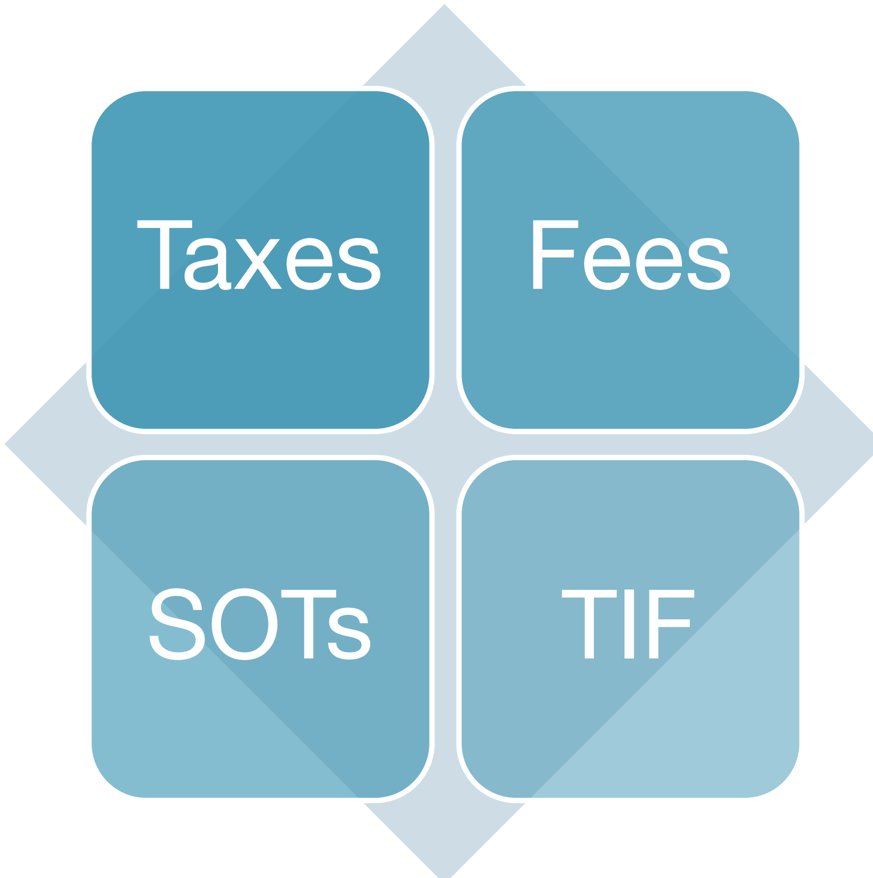
- **Land Status**
  - Who owns the land?
  - What LOIs or Contracts are held by the horizontal owner?
  - Who is the intended builder?
  - Is it zoned/entitled for intended use?
  - Has it been platted?

- **Length of Development**
  - Longer timeline = lower proceeds up front

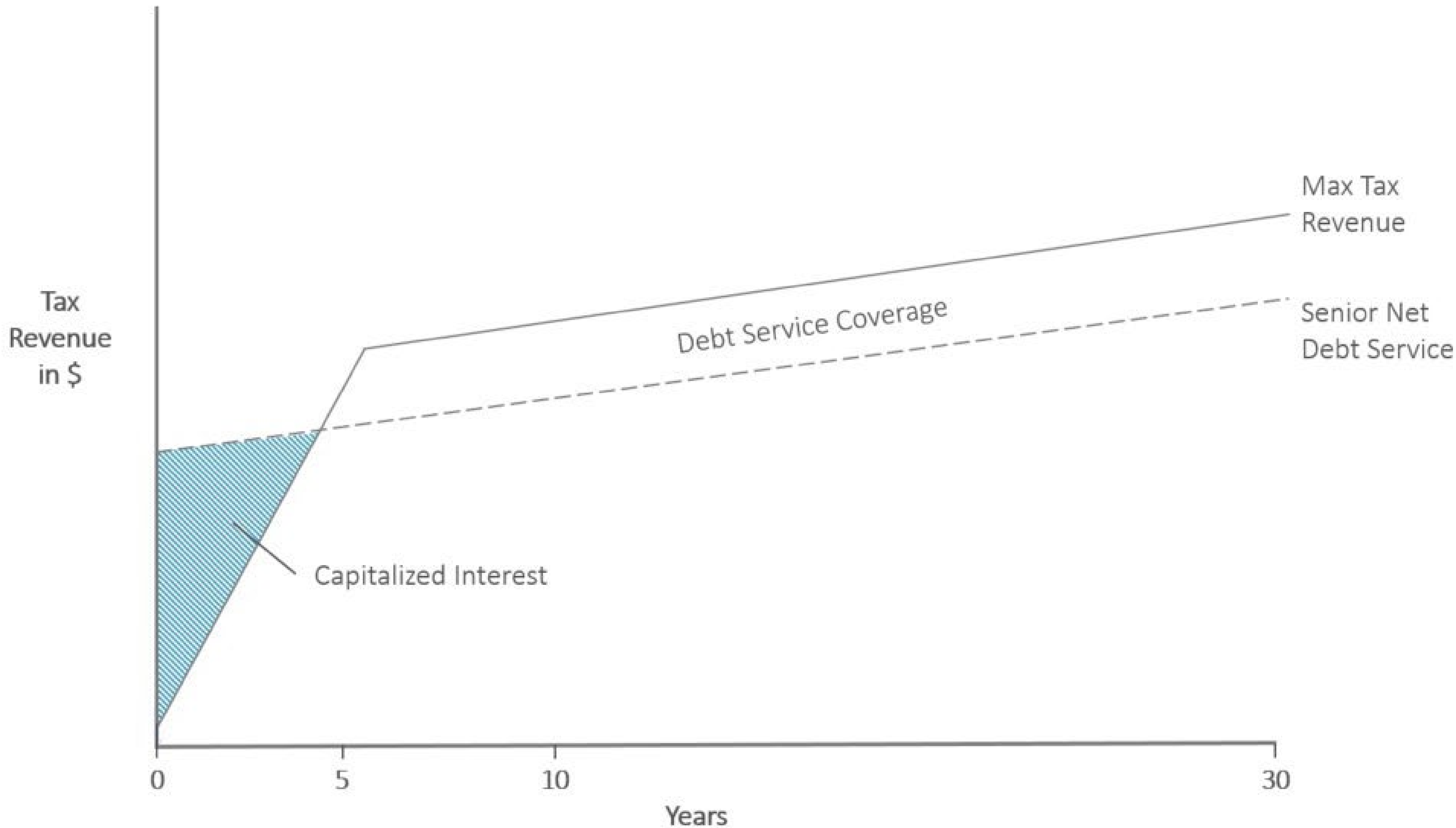
- **Type of Development**
  - Residential generally more favorable, however recent events (mortgage rates, builder status) have led to greater scrutiny
  - Commercial status depends on type
  - Office is generally less desirable, but it depends…
  - Lease status
  - Build to Suit or Spec?
  - Merchant builder or long term holder

Sources of Revenue

- *Ad valorem* (property) taxes
- Public Improvement Fees ("PIF")
  - Assessed against taxable sales
- Fees, Rates, Tolls, Penalties, and Charges
- Specific Ownership Taxes ("SOTs")
- Special Assessments (through SID)
- Tax Increment Revenue ("TIF")
  - Sales Tax revenues
  - Property Tax revenues



Limited Tax Bonds - Structure



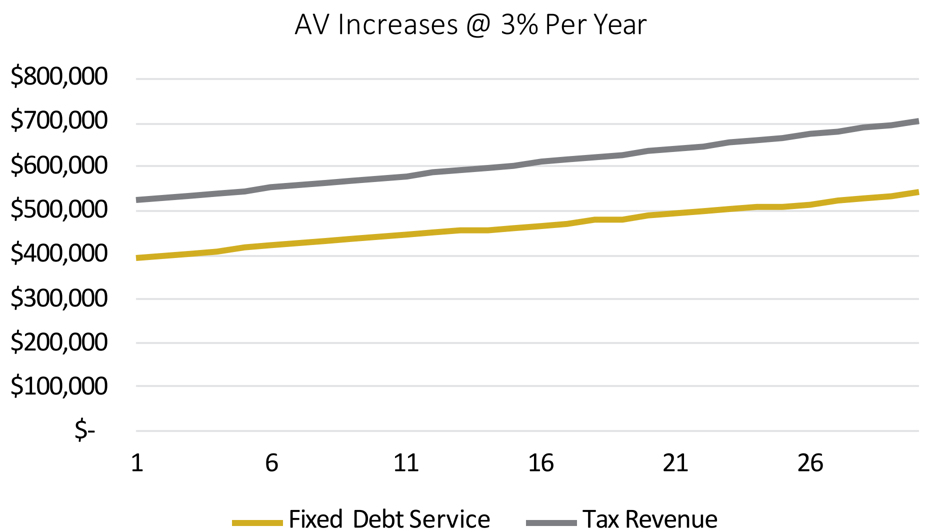
Bond Sizing / Underwriting Example

Bond Maturity = 30 years
Interest Rate = 7.00%
Coverage = 1.00%

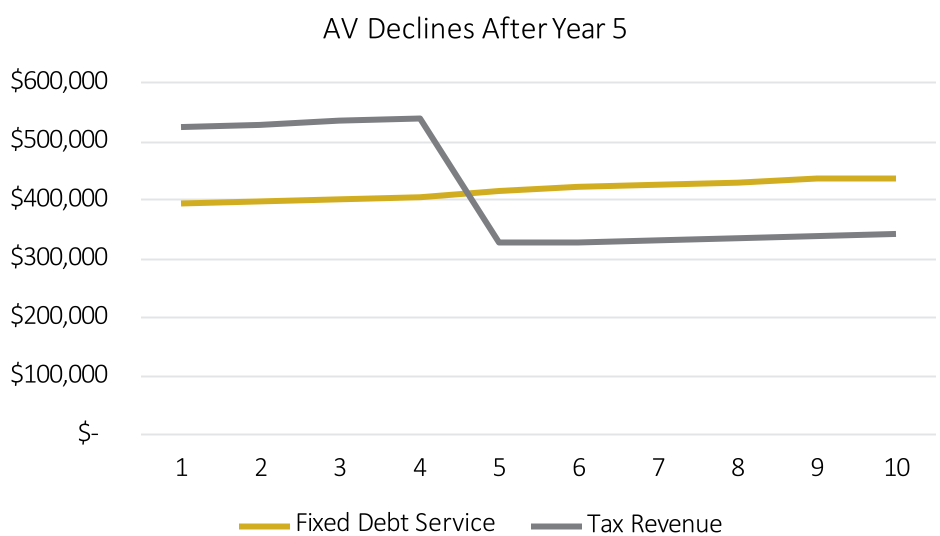
No. of Units	Avg Home Price	Market Value @ Buildout	AV @ Buildout (MV x 6.95%)	Max Debt Mill Levy	Property Tax Revenue
500	$550,000	$275MM	$19.1MM	40 Mills	$765K

- **Property Tax Revenue** = AV ($19.1 million) x 40 mills (.040) = $764,500
- **Total Debt Capacity** = present value of the Property Tax Revenue discounted at the interest rate (7.00%) for 30 years (Bond Maturity)
  - **Present Value:**
    Rate = 7.00%
    Number (n) = 30
    Payment = $764,500
    PV (Bond Par) = $12.5 million
- **Net proceeds available for project cost = Par – Reserves – Costs of issuance (~3% Par)**

Limited Tax Bonds - Structure



- Assessed value increases at 3% per year
- Assumes coverage at cap mill levy
- Actual mill levy would be set at 1:1 debt service, if no subordinate bond issued



- Assessed value declines after year 5
- Property tax at max mill levy < scheduled debt service
- Property owners' tax liability is capped at the max tax rate
- Bondholders assume AV risk and insufficient tax revenue at the cap

Bond Structures

- **Bonds structures can take on several different forms**
  - Senior / Subordinate / Junior Subordinate (or all three stacked)
  - Current Interest Bonds / Capital Appreciation Bonds / Cash Flow Bonds
  - Rated vs Non-Rated Bonds
  - Inflation Assumption: 6% vs. 2% biennial reassessment
  - Cushion to discharge date of District's mill levy

- **Non-rated debt carries a higher interest rate than rated debt**
  - Not-Rated Senior Debt: Currently 6.50% - 7.50% (depending on structure)
  - Non-Rated Subordinate Debt: Currently 8.50% - 9.75%
  - Rated Debt: Currently 4.00% – 5.00% (depending on structure)

Case Studies

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Longs Peak Metropolitan District

CASE STUDY

PROJECT DESCRIPTION

- Located in Wheat Ridge, Jefferson County, Colorado
- Planned to be a mixed-use development consisting of approximately 109 acres, marketed as Clear Creek Crossing.
- Anticipated to contain: 2 multifamily residential apartment complexes, 200 bed hospital, 130,000 SF medical office building, a 125 room Hampton Inn, 103,270 SF of additional retail and restaurant, 110,000 SF LifeTime Fitness Center, a three store office building containing a Foothills Credit Union, Dutch Bros. coffee shop and a Kum & Go convenience store and gas station (fully operational)
- At the time of issuance in November 2021, approximately 80% of the land is owned by 3rd parties, under contract for sale or subject to an LOI

TRANSACTION DETAILS

CLEAR CREEK CROSSING

Par: $54,660,000
Yield: 5.25%
Debt Structure:
Senior Cash Flow Bonds
Pledged Revenue:
Debt Service Mill Levy of 35 mills; Sales Tax Revenue including a 1.50% Credit PIF (not subject to Lifetime Property); 0.50% Add-on PIF (not subject to the Lifetime Property; 3.00% Service PIF and
Lodging Tax Revenue including a 5.00% Credit PIF and 0.50% Add-On PIF
Use of Proceeds:
Finance Public Infrastructure improvements within the District

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Fitzsimons Village Metropolitan District No. 3

CASE STUDY

PROJECT DESCRIPTION

- Part of the larger 31-acre Fitzsimons Village, located at Colfax Avenue and I-225, being developed by Corporex
- Anticipated to contain 680 dwelling units, 741,000 square feet of office and retail space, and 223 hotel rooms
- At the time of issuance, all future development not being completed by Corporex was sold to vertical builders
- 70% of the hotel development and 23% of the commercial space is complete, 54% of the residential is under construction
- Financing will be used to refund outstanding bonds and to build new infrastructure including a new parking garage and the Promenade Park, which will connect the entire development

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TRANSACTION DETAILS

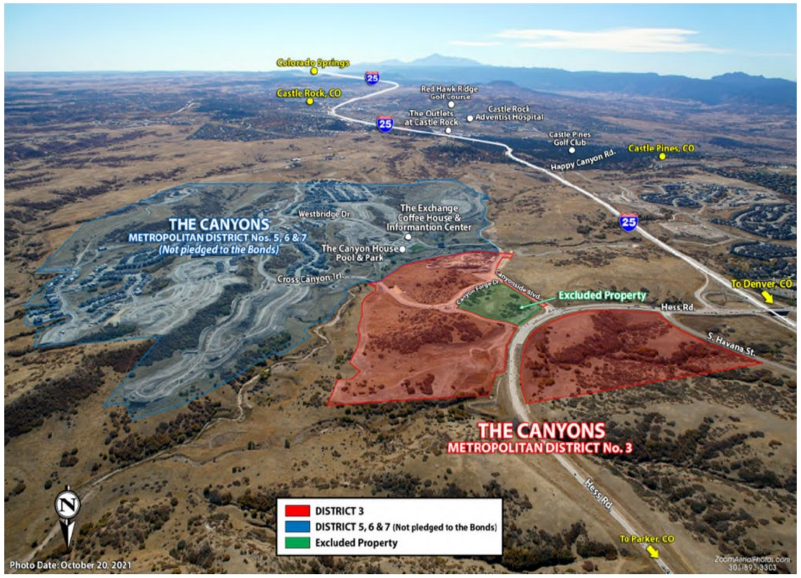
Series 2021 A-1
Par: $40,040,000
Yield: 4.25% (2055 Term)
Debt Structure: Current Interest Refunding & Improvement Bonds
A-1 Pledged Revenue: District No. 3 PIF Revenues; and District Nos. 2 & 3 Capital Fees

Series 2021 A-2
Par: $7,875,000
Yield: 7.19% (2041 Term)
Debt Structure: Taxable Current Interest Bonds
A-2 Pledged Revenue: District No. 2 PIF Revenues District No. 1 Parking Fees

Shared Pledged Revenue: 2008 PFRA Revenues (Incremental Property Taxes, Sales Tax, Lodging Tax and Use Tax from District No. 2; TCHA Payments (PILOT for Children's Hospital); District Nos. 2 & 3 Property Taxes; and District Nos. 2 & 3 Specific Ownership Taxes

Canyons Metropolitan District No. 3

CASE STUDY



PROJECT DESCRIPTION

- Located in Castle Pines, Douglas County, Colorado
- Planned to be a mixed-use development consisting of approximately 157 acres, marketed as part of the Canyons Master Planned Community
- Anticipated to contain: 325 apartment homes, 170 townhomes, 80 duplexes, as well of 310,000 SQF of commercial development including a medical office and a fitness facility
- At the time of issuance in November 2021, the multifamily was under construction, the 250 townhomes and duplex units were under a PSA, a PSA existed with LifeTime Fitness, and 40,000 SQF of the commercial was under a PSA.

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TRANSACTION DETAILS

The Canyons™
CASTLE PINES

Par: $31,270,000
Yield: 5.50%
Debt Structure:
Senior Cash Flow Bonds
Pledged Revenue:
Debt Service Mill Levy of 45 mills, SO Taxes, Facility Fees of $2,000 per multi-family unit, Facility Fees of $4,000 per townhome unit, Facility Fees of $4,000 per duplex unit, 1.375% Credit PIF, 3.00% Add-On PIF for sales and fitness dues and PILOT Revenues of $100,000 per year (inflating 1% annually) on the LifeTime Parcel
Use of Proceeds:
Refunding the 2021 Note and financing Public Infrastructure improvements within the District

Thank you

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