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FINANCE

D.A. DAVIDSON & CO.
SPECIAL DISTRICT GROUP

FROM BLUEPRINT TO BOTTOM LINE



D.A. Davidson & Co.
member SIPC
FIXED INCOME CAPITAL MARKETS



Agenda

1. What is a Metropolitan District?
2. What does the Vista Ridge Metropolitan District do?
3. Details of currently outstanding debt
4. Plan to lower homeowner taxes
5. Costs/Benefit analysis



Metropolitan Districts

- Metropolitan Districts are a form of local government in Colorado that has the authority to build several types of public infrastructure including (but not limited to):
 - Street improvements
 - Water and wastewater infrastructure
 - Park and recreation improvements
- Metropolitan Districts are created by the city in which they reside (Erie in this case)
 - They are created under a section of Title 32 of the Colorado Revised Statutes and governed by the Service Plan
 - In part, the Service Plan outlines the infrastructure and services that the district may provide
 - Vista Ridge's Service Plan contains limitations on the District's ability to impose taxes to repay debt, including a debt service mill levy cap of 42.827 mills
- Very common form of local government in Colorado
 - There are currently 1,479 Metropolitan Districts in the state
 - In place on essentially all new master planned subdivisions in the Denver Metro Area
 - Allow for new growth to pay its own way



Vista Ridge Metropolitan District

- Created in 2000 with the authorization of the town of Erie, Colorado
 - No full-time employees, managed by Special District Management Services
- Governed by a 5 member board elected by District residents (all property owners)
 - James Spehalski (President), Christopher Koch (Treasurer), Scott Wood (Assistant Secretary), Michael Lund (Assistant Secretary), Brian Laird (Assistant Secretary)
- The District built the following infrastructure for the community
 - Roadways – Roadways within and adjacent to the development
 - Sewer and Stormwater Facilities – Main, service to pump house, storm sewer system, pond system, potable and non-potable water system
 - Recreation Amenities – Landscaping wall, main entry feature, streetscapes, pedestrian trails, open space area
 - All major infrastructure improvements have been conveyed to the Town of Erie for perpetual ownership and maintenance
- The District maintains the following improvements for the community
 - Collector road landscaping, non-potable water system, pedestrian trails, certain fencing improvements



Vista Ridge Revenues

- District revenues for debt service are primarily derived from property taxes imposed on owners of real property within the boundaries of the District
- The property tax imposed by the District is calculated as a percentage of a home's market value times the mill levy imposed by the District as follows:
 - 57.827 mills currently levied by the District (42.827 mills for debt, 15 mills for operations)
 - 1 mill = 0.1% or 0.001 and is applied against the Assessed Value of a home
 - Assessed Value = 7.96% of the Weld County Assessor's determination of market value
 - \$500,000 home x 7.96% = \$39,800 Assessed Value
 - \$39,800 x 0.0578 = \$2,300 per year or \$192 per month
 - \$192 per month is the portion of this homeowner's property tax bill that is collected by the County on behalf of the Metropolitan District and escrowed for payment by the lender on the home
 - Property tax is deductible from income tax for tax payers itemizing their deductions



Current Debt Situation

- Vista Ridge MD pledges the 42.827 mills it collects for debt to bonds that were issued in 2006 to pay for a portion of the community's public improvements
- \$31,970,000 Series 2006A Bond principal remains outstanding
 - 4.125% - 5.125% interest rate on remaining debt
 - 12/1/2040 final maturity
- \$4,945,000 Series 2006B Bond principal remains outstanding
 - 0% interest rate currently via restructuring in 2012, which pushed out payments to accommodate slower growth than projections from the initial bond sale in 2006
 - 9.5% interest rate (starting 1/1/17)
 - 12/1/2040 final maturity
 - The bonds will be pre-payable without penalty on 12/1/2021
- Subordinate bonds require the District to levy 42.827 mills until they are repaid
- The debt service mill levy can only drop once there is enough revenue annually to pay the Series 2006A bonds and the Series 2006B bonds are paid off



Debt Refunding Options

- At the direction of the board, D.A. Davidson reviewed three options for refunding the existing debt
- The differences among the plans include
 - Refunding the A bonds only or both the A and B bonds
 - Keeping the current final maturity of 2040 or extending it to 2046
 - Removing the mill levy cap or leaving it in place
 - Bond credit ratings based on the mill levy status
 - Different interest rates based upon mill levy status
- The following slide summarizes the key features of each plan



Summary of Refunding Options

| | Bond Maturity | Debt Cap | Interest Rate | PV Savings \$* | PV Savings % | Annual Savings | 2018 Debt Levy |
|--|---------------|----------|---------------|----------------|--------------|----------------|----------------|
| Existing Debt | 2040 | 42.8 | 5.66% | N/A | N/A | N/A | 42.8 |
| Option 1 (Senior Only) | 2040 | 42.8 | 3.26% | \$5.3mm | 16.7% | \$334,000 | 42.8 |
| Option 2 (Senior Only + extension) | 2046 | 42.8 | 3.46% | \$4.5mm | 14.0% | \$530,000 | 42.8 |
| Option 3 (Senior + Sub) | 2040 | None | 3.15% | \$8.1mm | 21.9% | \$492,000 | 31.5 |

Option 3 eliminates the mill levy cap, but has the lowest interest rate, the highest savings, mill levy reduction in 2018, and avoids an extension of the debt

* PV stands for present value which is the sum of annual savings in 2016 dollars.



Benefits/Risks of Mill Levy Cap Removal

▪ Benefits

- 26% reduction in property taxes related to metro district debt service, which equates to \$450 per year on a \$500,000 home
- Almost \$3 million more present value savings available with the cap removed versus plans with the cap remaining in place
- Most interest rate reduction of any option considered
- Mill levy reduction in 2018 only possible with the cap removed
- Results in the highest credit rating possible for the district
- Improves the likelihood of receiving bond insurance, which will broaden market interest

▪ Key Risks

- If assessed values drop by more than 13% in Option 3 and never recover, the debt levy will go above the old cap
 - The average home price decline in Erie during the financial crisis was around 5% (see slide 13)
 - All commercial property within the district makes up about 8% of total assessed value, so even dramatic swings in commercial values would not on its own push the district back over the prior mill levy cap



Process and Next Steps

1. Community feedback collected for the next 10 days via the District Manager
 - Lisa Johnson, Special District Management Services Inc.
 - ljohnson@sdmsi.com
 - (303) 987-0835
2. Discuss financing proposal with the City Staff
3. Submit a request to City staff to remove the debt taxes cap
4. A Public Hearing of City Council on the request to remove the debt taxes cap
5. Issuance of a resolution approving the removal of the debt taxes cap by Erie Town Council at a Public Hearing
6. Create bond documentation
7. Sell bonds to fund the repayment of existing debt
8. Close the financing in September 2016
9. Lower property taxes for residents as early as 2017



Question and Answer Session

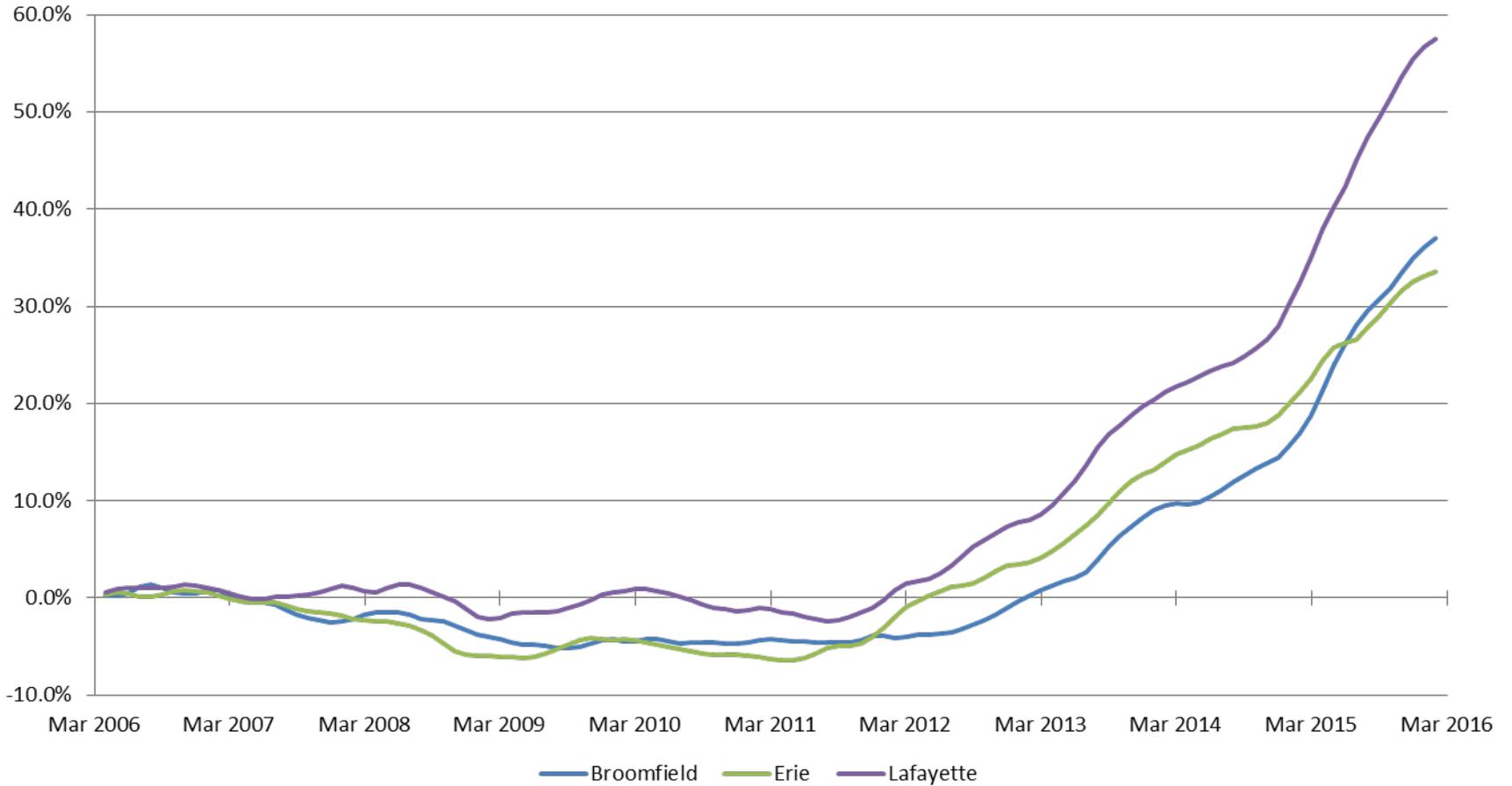


Additional Information

SUPPORTING INFORMATION



Historical Home Value Trend



Source: Zillow Home Price History