Banning Lewis Ranch Metropolitan District No. 2

2016 Proposed Refunding – Frequently Asked Questions

Q: What is a Metropolitan District?
A: Metropolitan Districts are a form of local government in Colorado that have the authority to build several types of public infrastructure including (but not limited to) street improvements, water and wastewater infrastructure, park and recreation improvements. There are 1,508 in Colorado as this is a very common method for communities to finance their public improvements.

Q: How does the District generate revenue?
A: Banning Lewis Ranch No. 2 generates revenues for debt service primarily from imposing a property tax on the owners of real property. The current debt service levy is 30 mills. Banning Lewis Ranch No. 2 primarily generates funds for Operations (and Maintenance) from a mill levy of 20 mills.

Q: What is a mill?
A: A mill is 0.1% and is applied against the assessed value of a home.

Q: What is assessed value? How is it different from the market value of my home?
A: Assessed value is determined as 7.96% of the El Paso County's assessor's determination of market value for residential property. Therefore, Banning Lewis Ranch No. 2's 30 mills total equates to $1,393 ($350,000 x 7.96% x 50 mills) per year on a $350,000 home.

Q: How is Banning Lewis Ranch Metro District No. 2 impacted by the other Banning Lewis Ranch Metro Districts Nos. 1, 3-7?
A: Banning Lewis Ranch Metro District No. 2 is made up completely of residents and no one from the builder or the developer sits on the metro district board or participates in decision making.

Q: What is meant by the term "capped mill levy"
A: Many Districts have a maximum amount they are allowed to levy. In Banning Lewis Ranch's case it is capped at levying 30 mills for debt service now.

Q: What is the District's outstanding debt?
A: There is $8,250,000 in Series 2013 draw down loan principal with a 3.0% interest rate and balloon maturity on 12/1/18. At maturity, the par due would be $7,785,000. The rate converts to 10% after the maturity date. There is also $2,750,000 Series 2014 subordinate bond principal with a 6.5% rate and a 12/15/2046 discharge date.

Q: What would be the terms of the new proposed debt?
A: The new debt would have a 2046 maturity and an average coupon of approximately 3.3% (down from a 6.5% average coupon on the existing subordinate debt). The new debt is assumed to be rated approximately "BBB" by a major rating agency.

Q: What is the benefit of a refunding to a homeowner living within the boundaries of Banning Lewis Ranch No. 2?
A: By refunding the debt at an investment grade rate, the district's debt service mill levy may drop approximately 7 mills, resulting in approximately $200/home/year in savings for each homeowner.

Q: Why was the mill cap levy put on the bonds originally?
A: In order to protect early residents of the district from taking development risk before housing was finished. It was used as a safeguard, if there was a housing collapse and the developer couldn't complete the development and the minority of residents wouldn't have to take the whole burden of the debt, they would be capped. Now that the district is completely built out, this development risk is mitigated.

Q: Are there examples where the removal of the cap has resulted in an actual levy lower than the previous cap?
A:

	Anthem West Metro District	Wheatlands Metro District	Beacon Point Metro District
Original Mill Levy Cap	46 Mills	50 Mills	50 Mills
Mill Levy After Refinancing	~28 Mills	~37 Mills	~36 Mills

Q: Why does the District need to remove its 30 mill debt service cap for the proposed refunding?
A: In order to get the modeled credit rating of BBB and the lower interest rate resulting from having the rating, the rating agencies require that the District's credit be further enhanced by an unlimited pledge. This means that the District will promise to levy whatever is necessary to pay its debt (unlike now, where it only can levy up to 30 mills). But, because we can refund now to a lower rate, the District actually needs to generate less revenue to repay the new debt and the actual mill levy rate is projected to drop.

Q: What is the potential risk to a homeowner of this District of removing the mill levy cap?
A: If the District's Assessed Value drops by more than 24%, the debt levy may need to be higher than the current 30 mills to generate the same actual tax collections for debt service.

Q: Why did the District Board elect this refinancing option?
A: It addresses the senior balloon payment due on the loan in 2018 and significantly lowers the rate on the subordinate bonds from 6.5% to 3.3%. The "cap off" investment grade rate is 30% lower than the option to keep the "cap on" and refund the existing debt. In addition, the "cap off" option has $1.4M less total debt service than the "cap on" option. The "cap on" option does not produce a lower debt levy until 2032

Q: Why proceed with this transaction now?
A: With interest rates at or near historic lows, the District has the opportunity to take advantage of refinancing their debt at a rate close to 3%. Interest rates on investment grade credits similar to Banning Lewis Ranch have averaged the last 20 years.

Q: What legal process is required to proceed with this transaction?
A: District Counsel will work with the City of Colorado Springs to provide them with all necessary information/documents prior to a Service Plan Amendment Hearing at a city council meeting with the City of Colorado Springs at the end of October.

Q: What are the costs of refunding the district's outstanding debt?
A: Estimated at 3% of par including underwriter's discount, bond insurance, bond counsel, underwriter/disclosure counsel, rating agency fee, district counsel, district accountant/manager, trustee, and a contingency fund, all of which are funded in proceeds for the issuance.

Q: Where can I get more information about the refunding?
A: Please contact the District's counsel, Matt Dalton at mdalton@spencerfane.com