Capital Markets

RBC

MEMORANDUM

Date: June 1, 2020

To: Interquest Town Center Business Improvement District
Russ Dykstra, Bond Counsel

From: Jon Moellenberg, Tom Wendelin

Re: Update on Interquest Town Center BID Bonds

To follow up on last week's discussion regarding the BID, this memo is offered as market background for the upcoming bond issue.

Globally, coronavirus fears initially caused all risk asset classes to sell off since the number of cases outside of China surged on February 23rd. Since then, global markets experienced selling pressure as investors raise cash from any available source — the flight-to-quality turned into a liquidity event, as funding markets experience significant stress and the bid for risk assets disappeared. Liquidity in the corporate debt market disappeared for many weeks, and the IG (investment grade) index gapped out to the widest level seen since August 2009. Many of those markets, including US equity and bond markets have recovered significantly compared to recent market lows.

Access the Public (Tax-Exempt) Market Upon Stabilization. Since the outbreak of COVID-19 in the United States, financial markets have been highly volatile. All asset classes (equities, gold, oil and U.S. Treasuries) experienced sell-offs as investors increasingly looked for opportunities to liquidate. This "liquidity crisis" even impacted the tax-exempt municipal bond market as evidenced by recent record muni fund outflows. Following approximately 60 weeks of consecutive inflows, muni bond funds reached peak outflows of $13.68 billion in the last week of March.

Over the past few weeks, interest rates and credit spreads for investment grade municipal credits have also returned to more normal levels. States, counties, cities, public utilities and hospitals, school districts and higher ed institutions have successfully sold bonds to raise money for projects and working capital. During the same time period, however, investors have generally avoided the purchase of high yield or non-investment grade bonds. With lower demand comes higher credit spreads, and as a result, credit spreads in the non-investment grade market remain very wide. In fact, because questions remain about the ability of the economy to absorb new construction, particularly new or anticipated construction for retail outlets and office buildings, volume in new issuance of high yield bonds is still down over 90%.

Unlike past years, over the past few months very few Colorado districts have successfully sold bonds for early stage development. During the spring in a normal year, in advance of the heaviest part of construction season investors would see dozens of new special district issues each month. As you can see from the attached table of comparable transactions, new issuance this year is a trickle compared to that more normal flow. For those projects moving forward, the vast majority of commercial developers are proceeding with their own capital, waiting to issue district bonds until the return of demand from institutional investors. For a commercial project in the phase of construction we see at Interquest Town Center BID, the only comparable transaction we have seen recently is the City Center West Commercial Metropolitan District bonds. The rate on those bonds was 7%. Unfortunately there are really not really a lot of comps for Interquest Town Center BID at the present time.

Please contact Tom (303) 595-1211 or Jon at (303) 595-1210 with any additional questions.

Disclaimer and Disclosure of Role

RBC Capital Markets, LLC (“RBCCM”) is providing the information contained in this document for discussion purposes only in anticipation of serving as underwriter to the Recipient of this presentation (the “Recipient”). The primary role of RBCCM, as an underwriter, is to purchase securities, for resale to investors, in an arm’s-length commercial transaction between the Recipient and RBCCM and that RBCCM has financial and other interests that differ from those of the Recipient. RBCCM is not acting as a municipal advisor, financial advisor or fiduciary to the Recipient or any other person or entity. The information provided is not intended to be and should not be construed as “advice” within the meaning of Section 15B of the Securities Exchange Act of 1934. The Recipient should consult with its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it deems appropriate. If the Recipient would like a municipal advisor in this transaction that has legal fiduciary duties to the Recipient, then the Recipient is free to engage a municipal advisor to serve in that capacity.

This memo was prepared exclusively for the benefit of and internal use by the Recipient for the purpose of considering the transaction or transactions contemplated herein. This presentation is confidential and proprietary to RBC Capital Markets, LLC (“RBCCM”) and may not be disclosed, reproduced, distributed or used for any other purpose by the Recipient without RBCCM’s express written consent.

By acceptance of these materials, and notwithstanding any other express or implied agreement, arrangement, or understanding to the contrary, RBCCM, its affiliates and the Recipient agree that the Recipient (and its employees, representatives, and other agents) may disclose to any and all persons, without limitation of any kind from the commencement of discussions, the tax treatment, structure or strategy of the transaction and any fact that may be relevant to understanding such treatment, structure or strategy, and all materials of any kind (including opinions or other tax analyses) that are provided to the Recipient relating to such tax treatment, structure, or strategy.

The information and any analyses contained in this presentation are taken from, or based upon, information obtained from the Recipient or from publicly available sources, the completeness and accuracy of which has not been independently verified, and cannot be assured by RBCCM. The information and any analyses in these materials reflect prevailing conditions and RBCCM’s views as of this date, all of which are subject to change.

To the extent projections and financial analyses are set forth herein, they may be based on estimated financial performance prepared by or in consultation with the Recipient and are intended only to suggest reasonable ranges of results. The printed presentation is incomplete without reference to the oral presentation or other written materials that supplement it.

IRS Circular 230 Disclosure: RBCCM and its affiliates do not provide tax advice and nothing contained herein should be construed as tax advice. Any discussion of U.S. tax matters contained herein (including any attachments) (i) was not intended or written to be used, and cannot be used, by you for the purpose of avoiding tax penalties; and (ii) was written in connection with the promotion or marketing of the matters addressed herein. Accordingly, you should seek advice based upon your particular circumstances from an independent tax advisor.