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VIA EMAIL: Schueler, Carl <Carl.Schueler@coloradosprings.gov>

Carl Schueler
Comprehensive Planning Manager
City Administration Building
30 S. Nevada Avenue, Suite 105
Colorado Springs, Colorado 80903

Re: Creekwalk Marketplace Business Improvement District – 2019 Bond Issuance Questions

Dear Mr. Schueler:

This correspondence is in response to questions raised by Councilman Knight and your office in regard to the 2020 Operating Plan and Budget for the Creekwalk Marketplace Business Improvement District (District) and the District's recent bond issuance. On behalf of the District and myself, I want to assure you that there was no deliberate effort to circumvent or disrespect City Council and apologize for an apparent misunderstanding regarding the intent of the resolution of approval.

We are providing the below information to further elaborate on the action and deliberation that took place in regard to the bonds. The City adopted its Special District Policy in 2006 (Policy), which provides additional City restrictions on special district bond issuances above and beyond those imposed by statute. In addition, the District's issuance of bonds is controlled by the terms of its 2019 Operating Plan.

The request for the bond issuance was submitted in March of 2019 and contained preliminary numbers and identified assumptions including discussion regarding the financing projections at budget committee. As you are aware the URA approval process was going on simultaneously and there were additional matters related to a contested exclusion that caused staff and Council to delay hearing the matter of the bond approval until March and which also impacted the bond projections and left uncertainty in regard to the timing and market conditions at the time of issuance. The District proceeded per the Policy and Operating Plan and Council approved the resolution.

The stated purpose of the Policy in regard to bonds is to ensure that the issuance complies with the District's Operating Plan and applicable laws. It does not state that City Council is to approve the exact amount of the issuance and the resolution of approval reflects that, clearly stating that the approval was "...of the issuance of indebtedness in a structure substantially similar to and consistent with the bond documents."

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As per usual practice in preparation for bond closing, an updated market study was prepared by King & Associates, an independent market analysis company specializing in the

field in which they projected additional revenue being available to repay the bonds as a result of higher assessed valuation. In March, the preliminary bond numbers used generic assessed value assumptions but by the end of May assumptions for the clarified mix of retail in Creekwalk Marketplace were significantly higher. The financial forecast prepared by Simmons & Wheeler, an independent accounting firm, relies upon the market study for the assumptions and inputs into the financial model which finally are used for bond underwriting.

The net result between preliminary numbers in March and the final numbers in July resulted in $2,000,000 in additional project proceeds. The majority of the increased bonding amount was used for larger reserves to increase the size of the capitalized interest fund and the debt service reserve fund to further reduce the risk of the bonds. These larger reserves were required by investors to sell the bonds.

As a net result, the District was able to sell the bonds in the same structure, interest rate, and PIF and TIF pledge terms as originally stated. The only difference is the increase in the amount of bond capacity due to the increase in the assessed valuation (and corresponding increase in property tax and TIF revenue) occasioned by the updated market study. The bonds were issued in full compliance with the restrictions of the District Operating Plan and applicable law as evidenced by opinions provided at closing by bond counsel and our office.

The selling of the bonds and final pricing were only available 2 days prior to closing amid on-going negotiations with bond buyers which requires flexibility and discretion by the District board to determine the best bond terms (unlike private placement bonds where the amount and interest rate are exact and known when submitted to Council). The underwriter, bond counsel, the District board and our firm, in reviewing the circumstances, structure and collective interpretation of the City's policy and approval resolution made a good-faith determination that the issuance was within the structure and conditions approved by Council.

Again, I apologize for any misunderstanding of the intent of the City in regard to the approval resolution and expectations related thereto. In light of this and the changes in Council and City staff implementation of the policy in recent years, I would request and very much appreciate the opportunity to meet with staff and Council to clarify expectations and requirements in light of the recent introduction of budget committee review and requirements for detailed and exact numbers, changes in resolution parameters and additional topics related to the issuance of bonds by districts.

Sincerely,

Russell W. Dykstra