

LEADERS IN
INFRASTRUCTURE
FINANCE

D.A. DAVIDSON & CO.
SPECIAL DISTRICT GROUP

FROM BLUEPRINT TO BOTTOM LINE



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



District Revenues

- Currently, District revenues 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:
 - 50 mills currently levied by the District (30 for debt + 20 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 El Paso County Assessor's determination of market value
 - \$350,000 home x 7.96% = \$27,860 Assessed Value
 - \$27,860 x 0.050 = \$1,393 per year or \$116 per month
 - \$116 per month is the portion of this homeowner's property tax bill that is collected by the County on behalf of the Metropolitan District



Banning Lewis Metropolitan District No.2

Current debt situation:

- \$8,250,000 Senior General Obligation Limited Tax Series 2013 Loan
 - 3.0% interest rate on loan through balloon maturity of December 1, 2018.
 - At maturity, the par due would be \$7,535,000. The rate converts to 10% after the maturity date.
 - Prepay without penalty on or after December 1, 2017; Prepay with 2% of par penalty before then
- \$2,750,000 Subordinate General Obligation Limited Tax Series 2014 Cash Flow Bonds
 - Unpaid interest compounds
 - 6.5% interest rate
 - Prepay without penalty anytime
 - Bonds discharge after December 15, 2046



Banning Lewis Metropolitan District No.2

- Key credit features
 - Limited GO pledge (30 mills debt service cap), prior to removing mill levy cap
 - Subordinate bonds likely require 30 mill pledge through 2046 if not refunded
 - Moderate debt to assessed rate (42%) assuming May 2016 Prelim AV of \$20.2M (~4 lots remain to be developed)
 - District needs to refund the senior loan prior to the balloon payment date to avoid the 10% rate
 - Possibility to remove the mill levy cap which would make refunding bonds eligible for a BBB/BBB- rating and a lower interest rate
 - Current Service Plan provides for a process to remove the mill levy cap at 3% debt/market value which would require roughly \$360M in market value compared to \$260M currently.



Series 2016 Refinancing – Without Cap

The District has decided to refinance their existing debt by removing the mill levy cap:

- Issue rated bonds with the mill levy cap removed, refund all the senior and subordinate debt in 2016
 - Par of ~\$10.9M, assumed BBB rating with bond insurance
 - 30 year bonds (2046 final maturity)
 - 3.3% rate assumed
 - Mill levy could be reduced to ~23 mills for debt service going forward, ~\$200/home/year
 - If home prices fall by more than 24%, the debt service mill levy would potentially increase above 30 mills
 - Address the balloon maturity by using a fixed rate BBB rated refunding bond extended for 30 years



Series 2016 Refinancing – With Cap

If the District proceeds without removing the mill levy cap:

- Issue non-rated bonds with the mill levy cap in place, refund all the senior and some of the subordinate debt in 2016
 - Par of ~\$9.9M, assumed non-rated bond
 - Refund \$1.8M of the subordinate bonds
 - 30 year bonds (2046 final maturity)
 - Refunding at 4.75% rate assumed (based on current market rates for limited tax). Resulting blended rate with remaining subs at 4.97%
 - Mill levy stays at 30 mills through 2032 when subordinate bonds are repaid, then can drop to around 25 mills

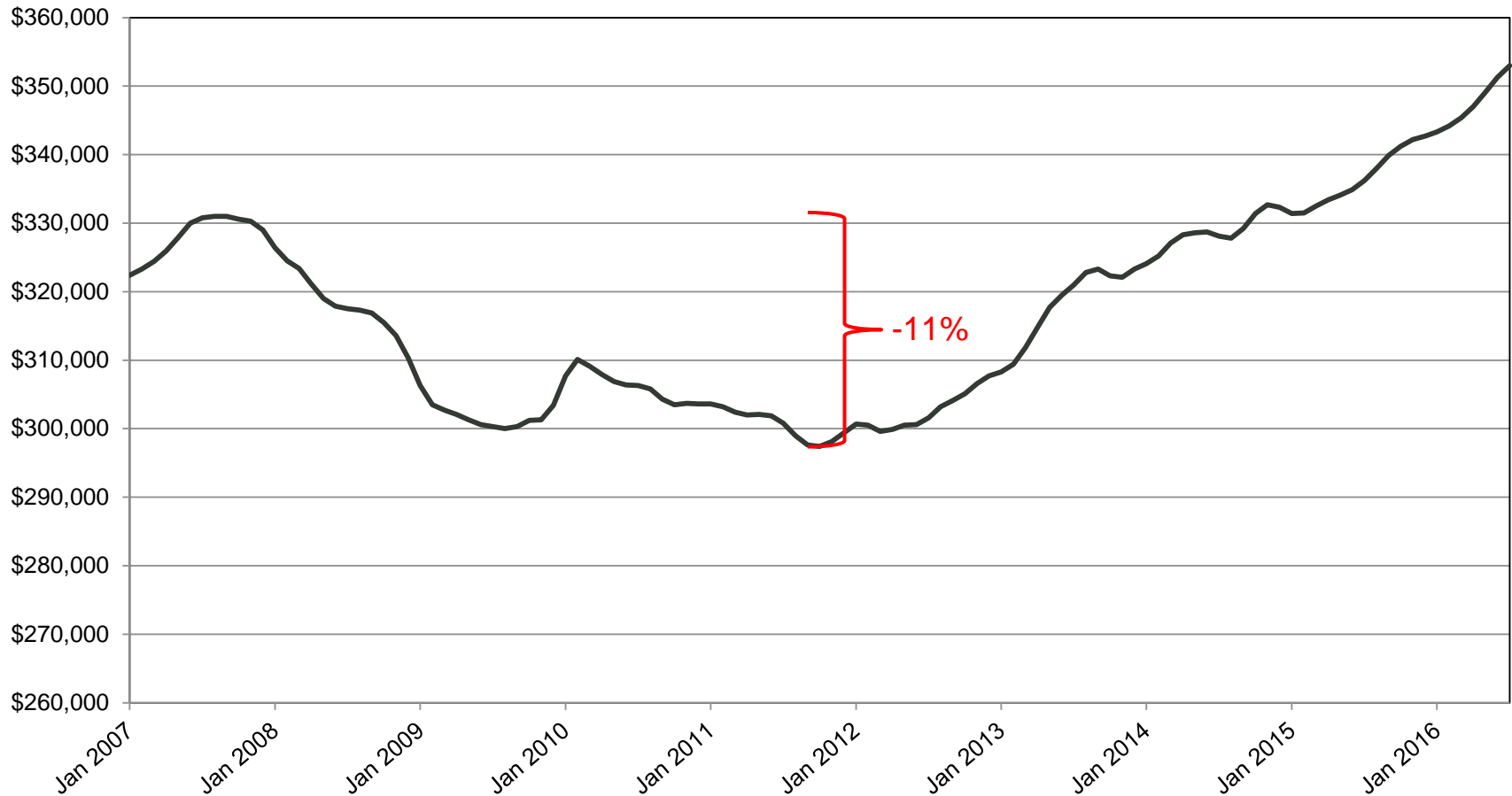


Refinancing Considerations

	Refinance Debt <u>With</u> Mill Levy Cap	Refinance Debt <u>Without</u> Mill Levy Cap
Home Values Rise 24% (\$434k home)	\$1,040/year/home	\$640/year/home
No Change in Home Values (\$350k home)	\$840/year/home	\$640/year/home
Home Values Drop 24% (\$266k home)	\$640/year/home	\$640/year/home



Colorado Springs – Residential Home Values



Source: Zillow Home Value Index



Historical Interest Rates – BBB Rated Bonds



Source: Thomson MMD – BBB Rated GO, 20 year average life



Process and Next Steps

1. Community feedback collected for the next 15 days via the District's Attorney
 - Matt Dalton, Spencer Fane LLP
 - mdalton@spencerfane.com
 - (303) 839-3706
2. Discuss financing proposal with the City Staff
3. Community Information Session with Banning Lewis Ranch No. 2 Residents – Sept. 12th
4. District Board Meeting – Sept. 29th
5. Submit a Service Plan Amendment to City staff to remove the cap
6. Publication of Notice regarding Public Hearing of City Council on Service Plan Amendment
7. Create bond documentation
8. Issuance of a resolution approving the Service Plan Amendment by Colorado Springs City Council at the Public Hearing
9. Sell bonds to fund the repayment of existing debt
10. Close the financing in 2016
11. Lower property taxes for residents in 2017