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Memorandum

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Date: October 1, 2024

To: Kat Hammer, Senior Planner
Arapahoe County Public Works, Colorado

Subject: Eastgate Metropolitan District Nos. 1-6 Service Plan Review

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Hilltop Securities Inc. ("Hilltop") has been engaged by Arapahoe County, Colorado (the "County") to review the proposed consolidated Service Plan for the Eastgate Metropolitan District Nos. 1-6 (the "District" or "Districts") to evaluate whether the Service Plan and the included Financial Plan are reasonably sound.

Hilltop's review is based on the assumptions provided by the Proponent and Piper Sandler. Our report should not be viewed as an independent economic forecast or as a confirmation of the Proponent's assumptions for the real estate market, residential and commercial development cycles, current or projected property values, or the construction and absorption of homes within the development.

Overview of the Service Plan and the District

A consolidated Service Plan has been submitted on behalf of the Districts and it is expected that there will be various agreements executed between the Districts to coordinate the provisions of services, execution of the Financing Plan, implementation of mill levies, and other necessary functions.

The combined Service Area of the Districts is approximately 144 acres however the initial boundary of each District is expected to be 0.5 acres. The Service Plan indicates that District Nos. 1 and 2 will contain single family residential, District 3 will contain multifamily residential, and District Nos. 4 – 6 will contain non-residential/commercial development. The Financial Plan projects that full build out will occur in 2033. Projected assessed value at full build out as reflected in the Financial Plan is approximately $63.0 million which will be the initial tax base for property tax collections in 2035.

The Service Plan states that it is expected that a total levy of 75 mills, inclusive of the debt, O&M, and Regional Mill levy will generate sufficient revenue to pay debt service and O&M expenses however the only mill levy cap is 50 mills for debt service for debt that is greater than 50% of the assessed value. The 50 mill cap is subject to adjustment for changes in the method of calculating assessed valuation after January 1, 2024. The Financial Plan assumes a levy of 50 mills for debt service, 10 mills for O&M and 15 mills for debt service on Regional Improvements. The Regional Mill levy will be considered part of the O&M mill levy but can be used to pay debt service on debt issued for Regional Improvements. Additionally, the Districts may pledge some of or all of the Regional Improvements Mill Levy to the costs of District Improvements that are not Regional Improvements..

The Service Plan limits the total amount of debt that can be issued by the Districts to $70.0 million. This debt limit is inclusive of all new money proceeds including funds allocated for both District and Regional Improvements, costs of issuance, and other credit enhancements such as capitalized interest and a surplus fund. The Service Plan requires that any debt issued by the District must not have a maturity longer than 40 years from the date of issuance however there is no limit on how long the debt service mill levy may be imposed.

Financial Plan

Operation and Maintenance

The Districts estimated organizational costs are $200,000 and the first year's operating budget is estimated to be approximately $100,000; however, the District will not generate sufficient revenues from the operating mill levy and specific ownership taxes to fully fund the estimated operating costs until 2029, assuming there is no change from this initial estimate. The Developer will need to fund the up-front costs and the initial years of operation and maintenance until the District is able to generate sufficient revenue to cover costs from the designated mill levy which will result in obligations of the District to repay the Developer from other legally available revenues. Any advances by the Developer for these expenses will accrue interest.

Debt

The District currently estimates total cost of the District Improvements are approximately $38.7 million and the cost of the Regional Improvements are approximately $15.6 million, totaling approximately $54 million as detailed in Exhibit E of the Service Plan, which includes a 15% contingency for each project element.

The Financial Plan for District Improvements includes a bond issuance in 2026 in the approximate par amount of $26.4 million (the "Series 2026 Bonds") and a subsequent bond issuance in 2036 in the approximate aggregate par amount of $40.4 million (the "Series 2036 Bonds") to be repaid from pledged revenues from a debt service levy of 50 mills, specific ownership taxes, and an impact fee of $4,000 per residential unit and $1 per unit of commercial. The table below summarizes the key results of the projected Financial Plan for District Improvements for Regional Improvements.

Projected Financing Results – District Improvements			
	Series 2026 Bonds	Series 2036 Bonds	Total
Purpose	New Money Issuance	New Money & Refunding of 2026 Bonds	
Par Issued			
Senior	$26,365,000	$40,445,000	$66,810,000
Par Allocation			
New Money	$26,365,000	$19,752,225	46,117,225
Refunding		$20,692,775	20,692,775
Project Fund Deposit	$19,350,000	$19,350,000	38,700,000
Other Use of Proceeds	Capitalized Interest (3 yrs) Surplus Fund Cost of Issuance	Reserve Fund Cost of Issuance	

The Financial Plan for Regional Improvements includes a bond issuance in 2026 in the approximate par amount of $10.8 million (the "Series 2026 Bonds") and a subsequent bond issuance in 2036 in the approximate aggregate par amount of $17.0 million (the "Series 2036 Bonds") to be repaid from pledged revenues from a Regional Mill levy of approximately 15 mills, specific ownership taxes, and a Interchange Fee of $1,000 per townhome and $2,000 per duplex. The table below summarizes the key results of the projected Financial Plan.

Projected Financing Results – Regional Improvements			
	Series 2026 Bonds	Series 2036 Bonds	Total
Purpose	New Money Issuance	New Money & Refunding of 2026 Bonds	
Par Issued			
Senior	$10,830,000	$17,030,000	$27,860,000
Par Allocation			
New Money	$10,830,000	$8,085,150	$18,915,150
Refunding		$8,944,850	$8,944,850
Project Fund Deposit	$7,800,000	$7,800,000	$15,600,000
Other Use of Proceeds	Capitalized Interest (3 yrs) Surplus Fund Cost of Issuance	Cost of Issuance	

The combined projected par amount allocated to new money of approximately $65.0 million is within the debt limit in the Service Plan of $70.0 million. The projected project fund deposit generated by all bonds issued in both the 2025 and 2035 of approximately $54.3 million is approximately equal to the estimated project costs as detailed in the Service Plan for both District and Regional Improvements. With the projected development expected to be completed by the time of issuance of the Series 2036 Bonds, it is assumed any new money project funds from that issuance would be used to directly reimburse the Developer for previous expenditures. Bond Counsel will require the District to demonstrate that any new money proceeds will be spent on allowable public improvements for the issuance to be tax-exempt and general counsel will be required to provide an opinion that the issuance is in compliance with the Service Plan.

It is projected that revenues are sufficient to cover debt service beginning in 2030 after three years of capitalized interest. The Financial Plan assumes the District will levy 50 mills for debt service on the District Improvements and 15 mills on debt service for Regional Improvements through 2066 which generates significant debt service coverage of which may allow for a lower mill levy in the future if the Districts actual results are similar to that assumed in the Financial Plan in addition to providing flexibility for future changes in assessments rates.

The Financial Plan makes certain assumptions regarding the structure and interest rates of each of the proposed issuances and the actual results will be different from the submitted Financial Plan based on what the market conditions are at each time of issuance. The table below summarizes the key assumptions of the Financial Plan.

Financing Assumptions – District and Regional Improvements		
	Series 2026 Bonds	Series 2036 Bonds
Lien Structure	Senior	Senior
Net Interest Rate	5.00%	3.00%
Debt Service Coverage	2.05x Dist/4.17x Reg	2.29x Dist/1.60x Reg
Final Maturity / Term	2056 (30 Years)	2066 (30 Years)
Structure	Current Interest	Current Interest
Rating / Credit	Non-Rated	Rated & Insured
Biennial AV Growth		
Residential	6.00%	6.00%
Commercial	2.00%	2.00%

The assumptions detailed above for interest rates on all bonds reflect more favorable market conditions than what is currently achievable in the municipal bond market at the time of submittal. However, the Financial Plan is modeled at with substantial debt service coverage so there is room to accommodate higher interest rates and still generate the estimated project funding levels.

Conclusion

As is true with sample financial projections included in any Service Plan for new metropolitan districts, these financial projections do not constitute a commitment to construct any specific housing units or commercial development, nor do they obligate the Developer to begin new construction on any specific timetable. The actual implementation of the debt program may vary significantly from the projections in the Financial Plan. The timing, amounts, and interest rates of the planned debt issuances will be subject to market conditions and to the credit analysis performed at the time of issuance by third-party investors. The ability to issue debt in the future will also depend on the level of development achieved within the District, and on the rate of taxes imposed by the District in relationship to the limits created by the Service Plan.

Given the assumptions detailed in the Financial Plan, it is reasonable that the District will be capable of extinguishing all bonds within the parameters established within the body of the Service Plan. The actual amount the District will be able to borrow for the initial costs of the public improvements or to reimburse to the Developer will be impacted by changes in these assumptions, market conditions, and investor demand between now and the time of issuance.