DOUGLAS COUNTY
COLORADO

Memorandum

DATE: NOVEMBER 14, 2024

TO: DOUGLAS COUNTY PLANNING COMMISSION

FROM: DJ BECKWITH, PRINCIPAL PLANNER
LAUREN PULVER, PLANNING SUPERVISOR
KATI CARTER, AICP, ASSISTANT DIRECTOR OF PLANNING RESOURCES KAV

SUBJECT: **TALLMAN GULCH METROPOLITAN DISTRICT SECOND AMENDMENT – SERVICE PLAN AMENDMENT**

PROJECT FILE: SV2024-003

APPLICANT:
TALLMAN GULCH METROPOLITAN DISTRICT
1288 S CLAYTON ST
DENVER, CO 80210

REPRESENTATIVE:
DIANNE D. MILLER
MILLER LAW PLLC
1555 CALIFORNIA STREET, NO 505
DENVER, CO 80202

PLANNING COMMISSION MEETING:	**NOVEMBER 18, 2024 @ 6:00 PM**
BOARD OF COUNTY COMMISSIONERS HEARING:	**DECEMBER 17, 2024 @ 2:30 PM**

Attached is a revised memorandum from the County's financial consultant, Hilltop Securities (Hilltop), received on November 11, 2024, after the staff report dated November 7, 2024, was completed.

Hilltop provided the revised memorandum in response to the resubmitted Second Amended and Restated Service Plan for Tallman Gulch Metropolitan District (District). Based on Hilltop's review, the significant issues identified in the staff report are still outstanding. The resubmitted Financial Plan included several corrections, however, in general the Financial Plan was not revised to provide Hilltop with the necessary information to confirm the District's ability to reasonably address all debt within the parameters of the service plan.

This revised memorandum has been provided to the applicant.

ATTACHMENTS **PAGE**

Memorandum

8055 E. Tufts Avenue, Suite 350
Denver, CO 80237
(303) 248-2518 Direct

Mattie Prodanovic
Senior Vice President
Mattie.Prodanovic@hilltopsecurities.com

Date: November 11, 2024

To: Douglas County, Colorado

Subject: Tallman Gulch Metropolitan District Service Plan Review

Hilltop Securities Inc. ("Hilltop") has been engaged by Douglas County, Colorado (the "County") to review the proposed Second Amended and Restated Service Plan for the Tallman Gulch Metropolitan District (the "District").

Hilltop's review is based on the assumptions provided by the Organizer and Strong Capital Markets as Financial Advisor. Our report should not be viewed as an independent economic forecast or as a confirmation of the assumptions for the cost of public infrastructure, real estate market, residential or 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

The original Service Plan for the District was approved by the County on April 3, 2006, and later amended with County approval on November 15, 2016. The District is now submitting a Second Amended and Restated Service Plan as required to request an increase in the District's debt limit and change the maximum mill levies.

The total Service Area of the District (original and proposed inclusion area) is approximately 454.12 acres, all of which is zoned for residential development. The current assessed value for the District is approximately $10.5 million based on current information provided by the Douglas County Assessor's website. The anticipated assessed value at full build out in 2025 is reflected in a projected assessed value of approximately $18 million in 2027. The Service Plan notes that at full build out, the District will include 121 residential units and the Financial Plan notes an assumed average value of approximately $1.8 million each

The Service Plan establishes a mill levy cap for total combined mill levies for debt service and operations and maintenance of 60 mills, which is an increase of 5 mills from the original Service Plan. The maximum mill levy for debt service is 54 mills, which is an increase from 50 mills in the original Service Plan, and the maximum mill levy for operations and maintenance is 6 mills, which is a reduction from 10 mills in the original Service Plan. Both mill levies are subject to adjustment to changes in the calculation of assessed value so that revenues are neither diminished nor enhanced from changes in the method of calculation.

The Service Plan limits the total amount of debt that can be issued by the District to $21,000,000, which is an increase from $13 million. This debt limit is inclusive of all new money proceeds including funds allocated for project costs and costs of issuance as well as Developer Advances that are subject to annual appropriation and legally subordinate to general obligation bonds issued by the District. It is assumed that it is also inclusive of credit enhancements such as debt service reserve funds and capitalized interest funds, although it is not expressly stated in the Service Plan. The Service Plan requires that any individual series of bonds issued by the District have a maximum term of 30 years from the date of issuance including any refunding or refinancing. It does not include any final terms for extinguishment of debt or a restriction for how long new money debt may be issued after organization of the District. The Service Plan references a term within which the debt service mill levy may be imposed but that is not defined nor listed anywhere within the document, so the reference in Section XI to developer advances being discharged at the end of that term is not applicable.

The Service Plan limits the maximum voted interest rate on any debt to a maximum of 12.00% and interest rate on developer advances or reimbursements is limited to the current Bond Buyer 20-Bond GO Index plus 4%. The Service Plan does not specify that interest on any debt or developer advances should be simple, meaning interest on obligations of the District is allowed to compound. The Service Plan limits the maximum underwriting discount to 5.00%.

Financial Plan

In August 2024, the District issued $13 million of Limited Tax General Obligation and Special Revenue Refunding and Improvement Bonds, Series 2024 (the "2024 Refunding Bonds"), which were issued to refund the District's previously issued 2018 Bonds, pay a portion of the Developer Reimbursement, fund reserves and pay for costs of issuance. Certain information obtained from reviewing the Limited Offering Memorandum ("LOM") raises questions surrounding compliance with the First Amended and Restated Service Plan, as briefly described below.

Additionally, the LOM includes descriptions of two different Developer Agreements. The first is an Infrastructure Acquisition Agreement and was outstanding in the amount of $6,857,211, inclusive of outstanding principal and accrued interest, as of August 15th; approximately $951,377 of this outstanding amount was to be repaid with proceeds from the 2024 Refunding Bonds. The balance and potential prepayment of a portion of this Agreement is only from information contained in the LOM and is not referenced anywhere within the Service Plan. The second is an Advance and Reimbursement Agreement for Operation and Maintenance Costs which was estimated to be outstanding in the amount of approximately $347,763 and is further described below. The Service Plan and accompanying Financial Plan does not provide sufficient information regarding these outstanding Agreements, the reasoning for why the Infrastructure Acquisition Agreement is not counted towards the District's debt limit, and the expectation for repayment of these Agreements with proceeds from a new money issuance if the requested Second Amended and Restated Service Plan is approved.

Operation and Maintenance

The District's 2024 operating budget is $51,559; the Financial Plan does not show projected revenues from the Operations and Maintenance Mill Levy but Hilltop estimates the District is projected to collect sufficient revenues for these revenues based on the assessed value included in the Financial Plan and the anticipated 5.528 mill levied for operations as detailed in the Service Plan. As noted in the District's recent LOM, the District has historically utilized Developer Advances to pay for operating costs; if revenues from the operations and maintenance mill levy are insufficient to cover operation costs in the future, it is expected that any shortfall in revenues needed for operations and maintenance would be paid for in the same manner. The Service Plan notes that the District currently owes the Developer approximately $347,763 in Advances with accrued interest of $190,260. which, as noted in the Service Plan and the LOM, count as debt of the District. This is further discussed below.

Debt

Costs of public infrastructure for the District are final and are estimated to be $7,052,399 as noted in the Service Plan. In addition to this amount, the District indicates that $4,792,488 for prior improvement costs have been paid for from the issuance of bonds in 2018. The First Amended and Restated Service Plan for the District specified that any costs of public infrastructure above and beyond the existing debt limit of $13 million would be funded by the Developer. It is our understanding this was a condition of approval by the County for the amendment. Based on language in the Service Plan, it is also our understanding that the costs noted above of approximately $7 million have already been funded by the Developer in accordance with this original agreement with the County. The Engineer's report included as Exhibit D of the Service Plan clearly indicates that these are costs that were paid for previously by the Developer but are determined to be reimbursable because they are eligible public improvements; however, the ability for the District to do so is still subject to approval by the County based on the prior agreement.

The Financial Plan, included as Exhibit F, includes a new money bond issuance in 2024 in the aggregate par amount of $6,785,953 (the "2025 New Money Bonds"), which assumes an issuance date that has already passed in October 2024 but are titled as a 2025 issuance. The table below summarizes the key results of the projected Financial Plan.

Projected Financing Results	
	2025 New Money Bonds
Purpose	New Money Issuance
Par Issued	$6,785,953
Construction Fund Deposit	$6,400,000
Other Use of Proceeds	Cost of Issuance

As noted above, the District has approximately $347,763 in Developer Advances outstanding related to operations and maintenance which is also described in the LOM. It is noted both in the Service Plan and the LOM that this Developer Advance is counted towards the District's debt limit and the LOM specifically states that 2024 Refunding Bond proceeds will not be used towards repaying this Advance. If counted as debt, the $13 million par amount related to the 2024 Refunding Bonds along with the $347,763 in Developer Advances and $6,785,953 of par related to the 2025 New Money Bonds would result in a total debt outstanding of $20,133,716 which is within the debt limit of $21 million as noted in the Service Plan. However, the combined outstanding amount of $347,763 of Developer Advances and the $13 million of par outstanding related to the 2024 Refunding Bonds that were executed in August 2024 would exceed the current debt limit of $13 million. Further legal clarification is needed to confirm if the District's outstanding obligations are within the current debt limit.

It should be noted that the Financial Plan assumes proceeds from the 2025 New Money Bonds are deposited in the "Construction Fund." However, this does not align with the Engineer's report as noted above which notes that all payments have already been made by the Developer. The Service Plan does not include any information related to new project costs; as a result, the Financial Plan should actually reflect these funds are likely being used to reimburse the Developer rather than construction.

The memorandum provided by the District's Counsel dated November 5, 2024, references that the 2025 New Money Bonds are structured as subordinate cash flow bonds, whereby there is not any scheduled principal amortization until final maturity and interest and principal are only repaid if there are sufficient revenues to do so. If interest is not paid, it accrues and compounds until revenues are sufficient to repay the balance. However, the repayment schedule presented for the 2025 New Money Bonds indicates the bonds are structured as capital appreciation bonds (CABs) and does not reflect the standard presentation of cash flow bonds. As an example, in 2026 it is noted that revenues are used to pay principal when there is not sufficient revenues to even pay interest on the bonds, which would not occur for a cash flow bond. Additionally, the cash flows show that the 2025 New Money Bonds are modeled at a debt service coverage ratio of 1.50x when cash flow bonds are typically modeled to maximize the amount that can be borrowed form the projected revenues (i.e. 1.0x coverage).

The Financial Plan includes a projected aggregate debt service schedule, but it references three series of bonds related to the 2024 Refunding Bonds when there was only one series, and the aggregate payments of those three series does not total the amount noted in the LOM for the 2024 Refunding Bonds. This schedule also includes the projected repayment of a Developer Reimbursement but does not provide any additional detail or information regarding that obligation. The Financial Plan also does not include a single schedule that shows these projected payments in conjunction with revenues available for debt service. However, from comparing the various reports included in the Financial Plan it seems there are sufficient revenues to cover payments in some years but not in all. As an example, in 2026 it notes an aggregate payment of $1.5 million when projected revenues for debt service are $974,802.

Notwithstanding the other issues identified above, the primary issue related to the 2025 New Money Bonds is that the Financial Plan assumes a final maturity in 2064, which is a term of 40 years and exceeds the Service Plan requirement for bonds to have a final maturity 30 years after the original date of issuance. Hilltop cannot speak to the sufficiency of revenues for repayment of the 2025 New Money Bonds given the repayment schedule provided does not include sufficient detail and the Financial Plan assumes repayment over a 40-year term.

The Financial Plan makes certain assumptions regarding the structure and interest rates of the proposed financing 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.

Financial Plan Assumptions	
	2025 New Money Bonds
Interest Rate	4.430%
Debt Service Coverage	n/a
Final Maturity / Term	2064 (40 Years)
Structure	Subordinate Cash Flow
Rating / Credit	Non-Rated
Biennial Reassessment	
Residential	5.00%

As noted above, the assumed term of repayment exceeds the allowable term in the Service Plan. The assumed interest rate is considerably lower than historical averages for bonds sold with similar structures (subordinate cash flow bonds). If, at the time of issuance, the interest rate or credit structure of the District's bonds are different than what is currently assumed in the Financial Plan, then the District may generate more or less project funds than the amount currently shown.

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 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.

As discussed throughout our memorandum, there are several challenges that we note with the Financial Plan. The primary issues relate to the assumed term of the bonds and lack of sufficient detail in projected debt service schedules to confirm the ability to meet debt service requirements with projected revenues. The Developer has also not responded to prior requests regarding the District's outstanding Developer Advances, their applicability towards the debt limit of the District, and confirmation that the District is currently within their debt limit. As a result, we are not able to include a statement attesting to the reasonableness of the District to be able to extinguish all bonds within the parameters established within the body of the Service Plan.