STIFEL | Public Finance

To: Crowfoot Valley Ranch Metropolitan District Nos. 1 and 2
From: Stifel
Date: August 30, 2024
Subject: Potential Bond Refinancing Summary

MEMO

Crowfoot Valley Ranch Metropolitan District No. 2 (the "District" or "Crowfoot Valley Ranch") is currently evaluating refunding options for the District's outstanding debt. Included herein are a summary of the existing debt and an overview of the current refinancing proposal with considerations.

OUTSTANDING DEBT OBLIGATIONS

To pay for the public improvements in the District, Crowfoot Valley Ranch issued three series of bonds noted in the table below. This was and remains a conventional structure. As development progresses, the projections for the District evidence that the growth in assessed value will allow for the repayment of each series. At present, there is only revenue available to pay interest on the Series 2018A Senior Bonds. The Series 2018B Bonds and Series 2022C(3) Bonds have an accrual feature where unpaid interest compounds until the development continues to build out.

EXISTING DEBT OBLIGATIONS

SERIES	PAR AMOUNT	ACCRUED INTEREST*	TOTAL OBLIGATION	MATURITY DATE	INTEREST RATE
Series 2018A	$31,945,000	$446,067	$32,391,067	12/01/2048	5.75%
Series 2018B	3,260,000	1,998,296	5,258,296	12/15/2048	8.00%
Series 2022C(3)	28,563,000	1,682,878	30,245,878	12/15/2052	6.72%**
TOTAL	**$63,768,000**	**$4,127,241**	**$67,895,241**		**6.33%*** **

**As of August 30, 2024*
***Rate is variable, and resets quarterly based on the 30-year AAA MMD + 300 basis points. As of June 30, 2024, the 30-year MMD was at 3.72%.*
****Constitutes the weighted average interest rate.*

REFINANCING SUMMARY AND CONSIDERATIONS

Outstanding debt of all governmental entities, including metropolitan districts, is regularly evaluated for refinancing opportunities. Refinancing evaluations typically begin 18 months prior to the initial call date of outstanding bonds. Given the initial call date has passed on the outstanding debt and the construction progress made to date, the District has an opportunity to refinance its outstanding bonds to achieve savings. By electing to refinance in 2024, the District is able to achieve the following:

- Reduce the maximum debt service mill levy by 2 mills, equal to a 4% reduction in property taxes for each homeowner
- Gross debt service savings of ~$37.6 million
- Net present value debt service savings of ~$4.6 million, equal to ~8.6% of the refunded par amount
- Lower the blended interest rate by 0.60% to 5.70%
- Repay all accrued interest on outstanding debt

Generally speaking, the District commits to levy the maximum debt service mill levy while any subordinate and junior bonds are outstanding. At present, the Developer is the sole owner of the Series 2022C(3) Bonds. For the 2024 refunding plan of finance, the Developer has agreed to lower the debt service mill levy cap on the remaining outstanding Series 2022C(3) Bonds by 2 mills to 48.00 mills (adjusted). Without a refinancing, the mill levy rate cannot be adjusted lower. **This current opportunity to lower the maximum mill levy may not exist in the future.** Lowering the mill levy reduces property taxes for current home and land owners, but also reduces the revenue available to repay debt service.

With the Series 2024A and 2024B Bond issuances highlighted below, the District would be able to fully refinance the 2018A and 2018B Bonds and partially refinance the Series 2022C(3) Bonds. The optimal refinancing plan currently presented, extends the term on the Series 2024A and 2024B Bonds to 2054 to refund the maximum par amount feasible at this time. Furthermore, the structure provides flexibility for the District to refinance its debt again in the future that could potentially lower the debt service mill levy, subject to future market conditions.

PROPOSED REFINANCING

SERIES	PAR AMOUNT	MATURITY DATE	INTEREST RATE
Series 2024A	$42,510,000	12/01/2054	4.55%
Series 2024B	18,550,000	12/15/2054	7.75%
Series 2022C(3)*	10,888,000	12/15/2052	6.72%*
TOTAL	**$71,948,000**		**5.70%***

Note: all figures reflect estimates are subject to change.
**Rate is variable and resets quarterly based on the 30 year MMD + 300 basis points. As of June 30, 2024, the 30-year MMD was at 3.72%.*
***Constitutes the weighted average interest rate.*

MARKET CONDITIONS AND SENSITIVITY ANALYSIS

While no firm is in a position to predict the future of interest rates, we believe the 2024 proposal is achievable in today's market and should be strongly considered by the District given the anticipated savings. Of note, the 30-year tax-exempt municipal bond market is based on the AAA-MMD index and is not directly linked to the 10-year US Treasury market. The bond market is currently pricing in four Federal Funds Rate cuts before year end. While a 0.25% cut in the Federal Funds Rate may have an immediate impact on a home mortgage rate, the impact to the 30-year tax-exempt municipal bond market may not be as impactful, **as these cuts are already assumed**. The refunding proposal for 2024 is based on current market conditions and current development progress. Future (potential) improvements in interest rates could be based on overall market conditions, but are also a function of additional development within the District.

Residents requested a comparison of waiting to refinance the debt until development was further along. A comparison of a 2024 refinancing to a 2025 refinancing is shown below:

Anticipated Date of Refinancing	SEPTEMBER 2024	SEPTEMBER 2025
% of Development Completed	50%	69%
Estimated Senior Bond Par Amount	$42.5 million	$49.4 million
Estimated Subordinate Bond Par Amount	$18.5 million	$18.6 million
Remaining Amount of C Bond	$10.9 million	$7.6 million
Estimated Senior Rate	4.55%	4.55%
Estimated Subordinate Rate	7.75%	7.50%
Weighted Average Interest Rate	5.70%	5.50%
Present Value Savings	$5.0 million	$8.4 million
Mill Levy Cap, Unadjusted	48 mills	50 mills
Estimated Annual Taxes*	$3,820	$3,980
Estimated Annual Tax Savings*	**$160**	**$0**
Estimated Cost of Insurance	$996,000 (1.25% of senior lien principal and interest)	$1,152,000 (1.25% of senior lien principal and interest)
C Bond Payoff Date**	2053	2049

Note: all figures reflect estimates are subject to change.
**Estimated are based on full build-out of the development and do not account for partial adjustments of vacant land. Assumes home value of $1,000,000 and no increase in home values.*
***Estimated date for when debt service mill levy can be reduced.*

CONCLUSION

The District's Board of Directors are authorized to determine the timing of any refinancing, subject to evaluating current market conditions and the likelihood of improvement or deterioration of bond market conditions. If the District elects to move forward with a refinancing now, **the main benefit would be the ability to immediately lower the maximum debt mill levy by 2 mills, allowing all residents and taxpayers a 4% reduction of property taxes**. The District would also achieve a lower blended interest rate of the outstanding debt obligations providing net present value savings, while keeping the option to move forward with an additional refinancings in the future.

Conversely, the District could elect to wait to move forward with a refinancing until the development is further completed. This could have the benefit of a larger senior bond, an improved rate of subordinate bond and/or a lower cost of insurance allowing the potential for greater net present value of savings. However, future market conditions are unknown, and interest rates may be higher in the future regardless of the development progress. Additionally, in a future refinancing scenario, it is uncertain if the District would be able to lower the maximum debt service mill levy as this is conditional upon the holder of the 2022C(3) Bond being willing to make this change at the time. **If there is no reduction in the mill levy cap, there is no immediate tax savings benefit for the residents in the community and may not be for the foreseeable future.**

Recommendation: Based upon Stifel's understanding the District's goals to lower the debt service mill levy, achieve net present value savings, and provide flexibility for future refunding opportunities, Stifel recommends the District proceed with the proposed refunding plan as presented by Piper Sandler.

APPENDIX: SENSITIVITY OF FUTURE REFINANCING DATES

YEAR OF REFINANCING	2024	2025	2026	2027	2028
% of Development Completed	50%	69%	85%	95%	98%
Average Senior Rate	4.55%	4.55%	4.55%	4.55%	4.55%
Subordinate Rate	7.75%	7.50%	7.25%	7.00%	7.00%
Weighted Average Interest Rate	5.70%	5.50%	5.23%	5.11%	5.07%
Present Value Savings	$5.0 million	$8.4 million	$10.3 million	$11.7 million	$11.1 million
Remaining Amount of C Bond	$10.9 million	$7.6 million	$5.4 million	$3.3 million	$2.5 million
C Bond Payoff Date**	2053	2049	2046	2043	2042
Mill Levy Cap, Unadjusted	48 mills	50 mills	50 mills	50 mills	50 mills
Estimated Annual Taxes for Debt Service*	$3,680	$3,810	$3,810	$3,810	$3,810
Estimated Annual Tax Savings*	$160	$0	$0	$0	$0

Note: all figures reflect estimates are subject to change based on current market interest rates.
**Estimated are based on full build-out of the development and do not account for partial adjustments of vacant land. Assumes home value of $1,000,000 and no increase in home values.*
***Estimated date for when debt service mill levy can be further reduced.*