Wheatlands Proposed Refunding Q&A

Q: **What is a Metropolitan District?**
A: Metropolitan Districts are a form of local government in Colorado that have the authority to build several types of public infrastructure including (but not limited to) street improvements, water and wastewater infrastructure, park and recreation improvements. There are approximately 1, 394 metro districts in Colorado as this is a very common method for communities to finance their public improvements.

Q: **What is the history of the Wheatland Metropolitan District?**
A: It was created in 2001 by the original master developer with Aurora's authorization. The master developer built infrastructure for the community. The master developer financed the public improvements with tax-exempt debt issued in 2005 and 2008 (more details to follow).

Q: **How does the District generate revenue?**
A: Wheatlands generates revenues for debt service primarily from imposing a property tax on the owners of real property. The current debt service levy is 50 mills. Wheatlands generates funds for Operations (and Maintenance) from a mill levy of 25 mills and its operations fees. There is an additional 1 mill that funds regional Aurora infrastructure.

Q: **What is a mill?**
A: A mill is 0.1% and is applied against the assessed value of a home.

Q: **What is assessed value? How is it different from the market value of my home?**
A: Assessed value is determined as 7.96% of the Arapahoe County's assessor's determination of market value for residential property. Therefore, Wheatland's 76 mills total equates to $2,420 ($400,000 x 7.96% x 76 mills) per year on a $400,000 home.

Q: **What is meant by the term "capped mill levy"**
A: Many Districts have a maximum amount they are allowed to levy. In Wheatland's case it is capped at levying 50 mills for debt service now (and has no cap for levying for Operations purposes).

Q: **What is the District's outstanding debt?**
A: There is $11,818,000 in Series 2005 bond principal with a 6.1% interest rate and 12/1/2035 maturity date. There is also $12,245,000 Series 2008 bond principal with an 8.25% rate and a 12/1/2035 maturity. However, because revenue is not projected to be sufficient to pay the 2008 bonds per their scheduled amortization schedule, it is unlikely the debt will actually be paid off until 2045. Finally, the master developer provided a Guarantor Repayment Obligation to back shortfalls in payments on the Series 2008 bonds. There is now $2,755,000 principal balance owed on draws and it also carries a rate of 8.25%. The District also owes the Developer approximately $35,000,000 in Reimbursement Obligations that are subject to annual appropriations. Finally, the District has a $1,150,000 loan for the recreation center parcel.

Q: **Which debt is the District considering refunding?**
A: The District would refund the 2005, 2008 and Guarantor Repayment Obligations. The Developer Reimbursement Obligations will, pending finalization of negotiations, be forgiven and removed from the District's balance sheet if the previously mentioned bonds are refunded.

Q: **What would be the terms of the new proposed debt?**
A: The new debt would have a 2045 maturity and an average coupon of approximately 5% (down from a 7.3% average coupon on the existing debt). The new debt is assumed to be rated approximately "BBB" by a major rating agency.

Q: **What is the benefit of refunding the debt?**
A: The lower interest rate would generate just under $5,000,000 in savings for the District in today's dollars net of all costs to issue the bonds. This equates to about 20% savings of the refunded bonds. The annual debt service payments would drop by around $450,000 per year which would allow for the debt service mill levy to be reduced from 50 mills to about 41.5 mills. On a $400,000 house this would be a reduction in taxes of about $271 per year. The reduction to 41.5 mills only assumes that the homes Richmond and Elacora are currently building are finished in 2017 (205 homes total) and that the 93 attached single family homes are constructed by 2018 (construction to commence soon). Finally, the master developer has agreed to forgive their reimbursement obligations as part of this refunding.

Q: **What happens if these new homes mentioned above are not built? Will the District still save anything?**
A: Yes, assuming all construction stops now, the debt service mill levy could be reduced to about 46.5 mills. This would be a reduction in taxes of about $111 per year on the same $400,000 house.

Q: **Why does the District need to remove its 50 mill debt service cap for the proposed refunding?**
A: In order to get the modeled credit rating of BBB, and the lower interest rate resulting from rated bonds, the rating agencies require that the District's credit be further enhanced by an unlimited pledge. This means that the District will promise to levy whatever is necessary to pay its debt (unlike now, where it only can levy up to 50 mills). But because we can refund now to a lower rate, the District actually needs to generate less revenue to repay the new debt and the actual mill levy rate is projected to drop.

Q: **Who owns the bonds that are being refunded? I have heard this potential refunding is for the benefit of the master developer?**
A: The 2005 and 2008 bonds are held by large institutional investors that purchase municipal debt. When we refund those bonds, the bond holders are repaid approximately $25.5M. The Guarantor Obligation is a repayment of approximately $2.8M to the master developer.

Q: **Who will own the new bonds?**
A: It is likely a different set of institutional investors will also own the new bonds.

Q: **What is the risk to the District in refunding its debt?**
A: There is risk that if assessed values drop in the future, and there is no more construction beyond what is in the ground now, the debt service mill levy would increase above 50 mills. However, although the mill levy would rise, payments on debt service (and therefore annual nominal property taxes paid by homeowners) would decline by about $450,000 per year.

Q: **What happens if we do nothing at all?**
A: The District is obligated to levy 50 mills for debt service to make payments on the 2005 and 2008 bonds. It is likely that the District will have to levy all 50 mills through 2045 to service the existing debt. This puts Wheatlands at a higher relative total mill levy than most of the surrounding neighborhoods. For example Blackstone is at 71 mills, Rockinghorse is at 61 mills, Tallyn's Reach is at 49 mills. In addition, while much of the work is only paid contingent on closing, some of the fees (such as the rating agency fee) is not contingent on closing. If closing does not occur, the District will incur some costs (approximately $50k) in getting to this point.

Q: **Have any of the communities around us refunded by asking Aurora to remove their cap?**
A: Yes, just last month Beacon Point refunded their debt in a very similar manner. They were able to reduce their mill levy substantially and realize about $5,000,000 in savings in today's dollars as well.

Q: **Where can I get more information about the refunding?**
A: Please contact the District's counsel, Clint Waldron at cwaldron@wbapc.com