Hilltop Securities
Investment Banking Solutions

CERTIFICATES OF PARTICIPATION FOR PUBLIC WORKS FACILITY

TOWN OF FRASER, COLORADO

JANUARY 7, 2025

INTRODUCTION AND AGENDA

Agenda Topics

- Review of Certificates of Participation
  - Legal Structure
  - Leased Property Considerations
- Financing for the Public Works Facility
  - Issuance Timing
  - Issuance Process
  - Updated Financial Estimates

Finance Team

Town of Fraser Finance Team
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WHAT IS A COP?

LEGAL STRUCTURE

- Certificates of Participation (COPs) are a form of lease-purchase financing and are one of the most common financing methods used by Colorado local governments to construct capital improvements.
- In a COP transaction, the issuer leases the identified property to a trustee pursuant to a site lease and then leases the property back from the trustee pursuant to a lease purchase agreement (lease). Lease payments are subject to annual appropriation by the governing board of the issuer from any legally available funds and such payments are used to pay debt service on the COPs.
- The issuer renews the lease annually by appropriating sufficient funds to make the next year's lease payments as part of its annual budget process. If payment is not appropriated for the coming year, the issuer loses its right to occupy and utilize the leased facility until the end of the site lease; however, the issuer would continue to own the leased property.
- When the lease is paid off, the issuer has purchased the trustee's leasehold interest in the leased property, which is no longer encumbered by the lease or the site lease.
- COPs and other annually-appropriated lease financings are not considered to be multi-year financial obligations under Colorado law.

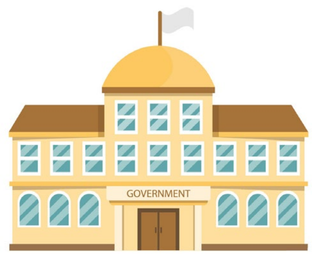
LEGAL STRUCTURE DIAGRAM

Lease Purchase Agreement between Town & Trustee

Trustee (Lessor) leases building to the Town (Lessee)

Town makes base rental payments to the Trustee, subject to annual appropriation

Trustee



Town Facility

FRASER

Site Lease between Town & Trustee

Town (Lessor) leases building that they own to the Trustee (Lessee)

Trustee prepays rent to the Town in a lump sum amount (project fund used to construct the building)

CREDIT DETAIL

Leased Property

- The leased property can be the project being financed or it can be a property already owned by the issuer but not related to the project.
  - If it is not the project being constructed, we typically try to identify an asset that has an insured replacement value approximately equal to the amount being financed.
  - This used to be common for new construction as investors used to be more concerned with construction risk. This has become less of an issue over the last several years.

- We typically try to have the valuation of the leased property be at least 90% of the amount being borrowed.
  - For a to-be-constructed facility as the leased property, the valuation is equal to the cost to construct the facility. For an existing facility, the valuation is based on the insured replacement value.

Credit Rating

- COPs typically have a rating one or two notches below the assumed general obligation bond rating or issuer credit rating.
  - This notching is a result of the annual appropriation nature of the credit.
  - A two-notch difference is due to an asset that is deemed less essential by the rating agency (Moody's only).

FINANCING FOR THE PUBLIC WORKS FACILITY

DON'T ISSUE UNTIL YOU'RE READY

- We typically do not recommend issuing the COPs until all project costs are known and you are comfortable with the anticipated project fund.
  - The actual issuance process can start before costs are finalized.
  - This exact timing is issuer-dependent but is usually when a GMP is finalized or construction contracts are executed that can create a near-final estimate of construction costs and contingency.

- Proceeds can be used to reimburse for costs related to the project that were previously spent.
  - Soft costs – design, architecture, etc. – can be reimbursed for an 'unlimited' period of time.
  - Hard costs have a more limited lookback period of 60 days before a reimbursement resolution is passed. A reimbursement resolution can be passed by the Board prior to spending any money to start the time period for which hard costs can be reimbursed.

- The Town would like to start construction on some of the road improvements in April, but a GMP is not expected until early to mid-June.
  - In this instance, given the size of the Public Works Facility, it is in the Town's best interest to be able to market the COPs to investors to wait until the GMP is available to sell the COPs.
  - The Town can utilize cash to start on the project in April and be reimbursed with proceeds from the COPs as soon as they close.

PRELIMINARY TIMETABLE

Date	Event
Week of March 23	Kick-Off Call with Working Group
April 1	First Drafts of Authorizing Ordinance and Lease Documents Distributed to Working Group
April 8	Draft Preliminary Official Statement (POS) Distributed to Working Group
Week of April 13	Document Review Call
April 24	Revised Ordinance, Lease Documents and POS Distributed to Working Group
April 28	Final Comments on Ordinance due to Butler Snow for Filing
April 29	Documents filed for May 6th Meeting
May 6	**Town Board Meeting to Approve Authorizing Ordinance**
Week of May 11	Call with Rating Agency
May 27	Rating Received
June 8	Due Diligence Call
June 10	Sign off on POS (other than including final GMP)
June 12	Guaranteed Maximum Price (GMP) Contract Finalized
June 15	Post POS & Begin Marketing
June 24	COP Pricing
July 8	COP Closing

INTEREST RATES AS OF DECEMBER 2025

- In the current market environment, we would estimate a borrowing rate between 5.00% and 5.25% for a Town financing depending on the credit.
  - This assumes a 30-year term and is subject to change based on market conditions at the time of financing.

- Borrowing for a $32 million project fund at these rates results in an annual payment between $2.1 million and $2.2 million.
  - This assumes equal annual payments over 30 years. If preferred, the financing could be structured with a period of interest only or slightly increasing annual payments.

- The Town has other capital needs that it could decide to fund in conjunction with the issuance of COPs for the Public Works Facility.
  - For every $5 million increase in the project fund, the Town's annual payment increases by approximately $400,000.
  - If other projects are included, additional leased property will need to be added to the financing to maintain the targeted valuation.

SUPPORTING DETAILS

Legal Documents

- There are several legal documents that will be drafted for the transaction. This will include an authorizing ordinance, indenture, lease purchase agreement and site lease agreement.
- There will also be a Preliminary Official Statement which is the primary document used to market the transaction to investors.
  - This document contains information about the legal structure, financial information of the Town, leased property, and potential risks to investors.
- The authorizing ordinance would be considered by the Trustees to authorize the financing and to set the maximum pricing parameters for the COPs. The authorizing ordinance approves the forms of the site lease agreement, the lease purchase agreement, the Preliminary Official Statement and the other closing documents.

Credit Rating

- The three primary rating agencies are Moody's, S&P and Fitch. We would anticipate utilizing Moody's or S&P for the Town's anticipated COPs.
  - Each agency has their own rating methodology for each type of credit (general obligation bond, sales tax, etc.). This methodology establishes the parameters within which transactions are rated.

QUESTIONS?

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