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March 26, 2021

VIA EMAIL

City of Commerce City
Roger Tinklenberg, Interim City Manager
rtinklenberg@c3gov.com

City of Commerce City
Robert Sheesley, City Attorney
rsheesley@c3gov.com

City of Commerce City
John Bourjaily, Management Analyst
jbourjaily@c3gov.com

Re: Legato Metropolitan District Nos. 1-7
Request for Wavier of Service Plan Requirement

Dear Messrs. Tinklenberg, Sheesley, and Bourjaily:

White Bear Ankele Tanaka & Waldron serves as general counsel to Legato Metropolitan District Nos. 1-7 (collectively, the "**Districts**"). The Districts operate pursuant to the Consolidated Service Plan for Legato Metropolitan District Nos. 1-7 approved by the City Council for the City of Commerce City on August 17, 2020 (the "**Service Plan**").

Section VI.A.2 of the Service Plan states:

> "A District shall not issue indebtedness or refinance any outstanding indebtedness without first submitting the proposed financing documents to the City. The City may, in its sole discretion, comment on such proposed issuance or refinancing but its comment shall not be relied on by the District or any third party. Neither this provision nor City's comment, or failure to do so, shall be construed as approval or consent to such issuance or refinancing. The City agrees to provide comments, if any, within 60 days of receipt of the proposed financing documents. The submission shall include (1) the dollar amount of the issue, (2) the interest rate and other financing costs, (3) the type of revenues pledged to repayment, (4) including the amount of the mill levy pledged, (5) and a description of the credit enhancements, together with (6) any preliminary official statement or other prospectus for the debt issue. The submission shall be accompanied by (7) an opinion of the District's bond counsel that the proposed issuance or refinancing of indebtedness is authorized by and in compliance with the Service Plan." *(numbering added for reference)*

I am writing today to request the City considering ***waiving the requirements*** of Section VI.A.2 of the Service Plan as it relates to an upcoming debt issuance by the Legato Community Authority.

General Background of Authorities

In response to public and local input, many larger projects with metropolitan districts are creating authorities to take advantage of economies of scale while at the same time providing representation to the member metropolitan districts that created the authority. The authority structure allows multiple metropolitan districts to agree to work together to issue debt to fund public improvements benefiting all the districts and/or provide operations and maintenance services to a master planned community. The powers of an authority cannot expand beyond the powers of the member metropolitan districts, including those set forth in their service plan and Colorado law.

Authorities are becoming an industry standard for larger projects that include metropolitan districts. Examples of existing authorities that include metropolitan districts as members include but are not limited to the following: (1) Aerotropolis Regional Transportation Authority, (2) Aurora Regional Transportation Authority, (3) Beebe Draw Farms Authority, (4) Painted Prairie Public Improvement Authority, (5) Parkdale Community Authority, (6) Saddle Rock South Authority, (7) Sky Ranch Community Authority Board, (8) South Aurora Regional Improvement Authority, (9) Sterling Ranch Community Authority Board, and (10) Tallyn's Reach Authority.

The Legato Community Authority (the "**Authority**") is a separate legal entity, political subdivision and public corporation of the State of Colorado and was established by the Districts pursuant to Colorado law. The primary purpose of the Authority is to provide efficient and consistent public improvements and services to the entire Legato community through cooperation among the Districts. Each District will have one representative serving on the Authority (as described below), who will jointly determine the level of services to the community. This avoids inconsistent services between neighbors located in different Districts and one District determining how improvements will be maintained.

Section V.A.19 of the Service Plan requires the consent of the City to Council to consolidate with another Title 32 district or form a subdistrict but does not prohibit the Districts from entering into intergovernmental agreements with one another or from creating an authority. Section V.C. of the Service Plan states, "It is anticipated that the Districts, collectively, will undertake the financing and construction of the Public Improvements." The Authority is the entity that will facilitate the collective undertaking of these and other obligations of the Districts found in the Service Plan.

Constitutional and Statutory Authorization for the Authority

The Authority is authorized by both the Constitution of the State of Colorado (the "**State Constitution**") and Colorado Revised Statutes ("**C.R.S.**").

Article XIV, Section 18(2)(a), of the State Constitution provides that the State Constitution shall not be construed to prohibit the State or any of its political subdivisions in cooperating and contracting with one another. Article XIV, Section 18(2)(b), of the State Constitution provides that the State Constitution shall not be construed to prohibit the enactment of a statute authorizing political subdivisions to establish a separate entity to provide any function, service, or facility lawfully authorized to each of the contracting political subdivisions.

Section 29-1-201, C.R.S., permits and encourages governments, including metropolitan districts, to make the most efficient and effective use of their powers and responsibilities by cooperating and contracting with other governments and provides that such statute shall be liberally construed.

Section 29-1-203, C.R.S., further authorizes governments, including metropolitan districts, to contract with one another to provide any function, service or facility lawfully authorized to each of the contracting units, including the incurring of debt, through the establishment of a separate entity.

Governing Document of the Authority

The metropolitan districts who are members of an authority can decided exactly what services the authority will provide and delegate the power to provide those services from the member metropolitan districts to the authority in a governing document which is often called an establishment agreement. An authority can take on as much or as little as the members decide so long as the establishment agreement does not expand beyond the powers of the member metropolitan districts.

The Authority is governed by the Agreement Establishing the Legato Community Authority among the Districts dated February 24, 2021 (the "**Establishment Agreement**"). The Authority has the powers and obligations as set forth in the Establishment Agreement. The Authority does not have the power to impose property taxes and does not have any more power than the Districts have. For example, the Authority cannot take action that would violate the Service Plan.

Membership and Governance of the Authority

One advantage of an authority is the ability for each member metropolitan district to appoint one or more directors to the board of directors for the authority. Using this structure each member metropolitan district can have equal representation on the authority board of directors. Residents are eligible to be on the board of directors for their individual metropolitan districts which encompass a smaller area of the project as well as the authority board of directors which encompasses the entire project.

The members of the Authority are the Districts. Similar to the Districts, the Authority is governed by a Board of Directors.

Pursuant to the Establishment Agreement, the Board of Directors of the Authority has seven (7) members. Each member District has the ability to appoint one (1) director to the Board of Directors of the Authority (each an "**Authority Director**"). Each Authority Director shall be an elected or appointed director of a District.

Residents from each District will be eligible to serve on the Board of the Authority and have a voice in how the improvements and services benefiting the entire project are provided. For example, rather than one District determining how parks are maintained or how the entry monumentation is maintained simply because the improvement is located within that District, the Authority (and therefore each District) will jointly determine such matters.

Issuance of Debt by the Authority

Sections 29-1-203 and 29-1-203.5, C.R.S. expressly authorize authorities to incur debt. The Authority intends on issuing bonds in 2021 pursuant to the Establishment Agreement. In connection with the issuance of such bonds by the Authority in 2021, Legato Metropolitan District No. 1 ("**District No. 1**"), Legato Metropolitan District No. 2 ("**District No. 2**"), and Legato Metropolitan District No. 3 ("**District No. 3**"), and Legato Metropolitan District No. 7 ("**District No. 7**" and together with District No. 1, District No. 2, and District No. 7 collectively, the "**Pledge Districts**") will enter into capital pledge agreements with the Authority. Pursuant to the capital pledge agreements, the Pledge Districts will pledge their debt service mill levy to the Authority for repayment of the bonds. In the future as development progresses, the Districts anticipate that the Authority will issue additional debt pursuant to the Establishment Agreement and separate capital pledge agreements with Legato Metropolitan District Nos. 4-6 using similar capital pledge agreements.

Using the Authority instead of the Districts to issue debt has advantages for residents and taxpayers in the Districts. In the future, the Authority will have the option of refinancing the outstanding debt of all the Districts into one larger debt issuance. By having the Authority as the issuer of debt consolidating the revenues of multiple Districts (as opposed to separate issuance by each District), the costs of issuing the debt, including the paying of consultant fees, bond counsel, disclosure counsel, etc. is reduced.

Another advantage of the Authority issuing debt is all residents and taxpayers in residential districts are anticipated to pay the same debt service mill levy over the same term. This avoids the confusion and frustration experienced by residents when one metropolitan district issues debt early in the project and another metropolitan district issues debt later in the project which can result in different debt mill levies for different terms between neighbors.

Operations and Maintenance by the Authority

The Authority is also responsible for the operations and maintenance of the Legato community pursuant to the Establishment Agreement and an operating pledge agreement between the Authority and the Districts. The Authority will provide operations and maintenance services to the entire Legato community with funding through property taxes (imposed by the Districts and remitted to the Authority) and an operations fee that complies with the Service Plan. This ensures that all residents within the community are paying the same operations and maintenance mill levy. In addition, it eliminates the frustration where one group of residents are paying for an improvement benefiting all simply because the improvement is located within that District's boundaries. For example, the large neighborhood park happens to be located within Legato Metropolitan District No. 4 ("**District No. 4**") but all residents will use the park. Funding the operations and maintenance of the large neighborhood park through the Authority means all residents, not just District No. 4 residents, are contributing toward the maintenance of the large neighborhood park. Finally, having the Authority provide the operations and maintenance for the entire project results in economies of scale and continuity of services as the Authority can engage one contractor for the entire project rather than each District engaging separate, and potentially different, contractors. For example, having seven separate landscape contractors could result in vastly different services being provided in the same project.

Conclusion

The Districts have created the Authority so that the costs of providing facilities and services to the entire project will be shared equitably by all users of the facilities and services. Each District will have representatives on the Authority board, promoting cooperation and joint decision making among the Districts. The design, construction, scheduling, and total costs of the improvements and services could be substantially different if they are constructed without considering the overall needs and coordinated construction of the entire project.

The Districts are requesting the City waive the requirements of Section VI.A.2 of the Service Plan as it relates to an upcoming debt issuance by the Authority so the Authority may issue debt sooner to fund construction of Public Improvements. The Authority intends to issue Limited Tax Supported Revenue (District Nos. 1, 2, 3 and 7) Bonds, Series 2021A-1 in the estimated par amount of $22,555,000; Limited Tax Supported Convertible Capital Appreciation Revenue (District Nos. 1, 2, 3, and 7) Bonds, Series 2021A-2 in the estimated par amount of $4,898,190.60; and Subordinate Limited Tax Supported Revenue (District Nos. 1, 2, 3, and 7) Bonds, Series 2021B(3) in the estimated par amount of $4,527,000 (collectively, the "**Bonds**"), provided that such par amounts are subject to change.

After issuance of the Bonds, the Authority will engage a project manager to build Public Improvements such as streets, water improvements, storm sewer improvements, and park and recreation improvements in Phase 1 of the Legato community. The sooner the Authority can issue the Bonds the sooner construction activities can begin.

Enclosed with this letter is the proposed term sheet for the Bonds. The enclosed term sheet provides: (1) the dollar amount of the issue, (2) the interest rate and other financing costs, (3) the types of revenues pledged to repayment, (4) including the amount of the mill levy pledged, and (5) a description of the credit enhancements. This is five of the seven items required by Section VI.A.2 of the Service Plan.

If the City agrees to waive the requirements of Section VI.A.2 of the Service Plan, the Authority can issue the Bonds on approximately June 2, 2021. Without this waiver, the Authority will not be able to issue the Bonds until approximately July 21, 2021.

If the City is unable to waive the requirements of Section VI.A.2 of the Service Plan, the Districts' request the City consider modifying the requirements to: (1) reduce the review time from sixty (60) days to thirty (30) days; and (2) consider waiving the requirement to provide a preliminary official statement or other prospectus for the debt issuance.

Please contact me if you have any questions or need more information.

Sincerely,

WHITE BEAR ANKELE TANAKA & WALDRON

Megan J. Murphy

Megan J. Murphy
Associate

Enclosure

CITY OF COMMERCE CITY
WAIVER OF SERVICE PLAN REQUIREMENT

I ________________________, as _________________, acting on behalf of the City Council of the City of Commerce City, hereby waive the requirements listed in Section VI.A.2 of the Consolidated Service Plan for Legato Metropolitan District Nos. 1-7 approved by the City Council for the City of Commerce City on August 17, 2020 as it relates to the issuance of its Limited Tax Supported Revenue (District Nos. 1, 2, 3 and 7) Bonds, Series 2021A-1 in the estimated par amount of $22,555,000; Limited Tax Supported Convertible Capital Appreciation Revenue (District Nos. 1, 2, 3, and 7) Bonds, Series 2021A-2 in the estimated par amount of $4,898,190.60; and Subordinate Limited Tax Supported Revenue (District Nos. 1, 2, 3, and 7) Bonds, Series 2021B(3) in the estimated par amount of $4,527,000, provided that such par amounts are subject to change.

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LEGATO COMMUNITY AUTHORITY (ISSUANCE FOR DISTRICT NOS. 1-3 AND 7)
LIMITED TAX GENERAL OBLIGATION BONDS, SERIES 2021A-1

Draft Term Sheet

(as of March 26, 2021)

FOR DISTRICT USE ONLY
PROSPECTIVE INVESTORS SHOULD REVIEW THE BOND DOCUMENTS

Delivery Date:	June 2, 2021
Sources:	
Par Amount:	$22,555,000 (estimated)
Uses:	
Project Fund:	$15,965,771 (estimated)
Capitalized Interest:	$ 3,718,129 (estimated)
Surplus Fund:	$ 2,120,000 (estimated)
Costs of Issuance:	$ 751,100 (estimated)
Structure:	
Final Maturity:	December 1, 2051 (estimated)
Call date:	6/1/2026
Interest Rate:	5.50% (estimated as of the current market)
Payment Dates:	Semi-annual interest payments on June 1 and December 1, with principal payments annually on December 1.
Tax Status:	Tax-exempt, Non-AMT
Optional Redemption:	Estimated 6/1/2026 at $103 premium declining (actual redemption provisions determined at pricing)
Credit Rating:	Non-Rated
Senior Pledged Revenue:	Pledged Revenue consists of (i) revenues produced from the required residential debt service mill levy of 55.277 mills, subject to future adjustments (the “Required Residential Mill Levy”), (ii) specific ownership taxes generated from the Required Residential Mill Levy, (iii) revenues produced from required commercial debt service mill levy of 25 mills, subject to future adjustments (the “Required Commercial Mill Levy”), and (iv) specific ownership taxes

generated from the Required Commercial Mill Levy. The bonds will discharge on December 1, 2061.

Surplus Fund:	The District shall be required to levy the required levy (subject to future adjustments) until the Surplus Fund is full. To the extent pledged revenue is not needed for current year debt service, it will be deposited to the Surplus Fund. The Surplus Fund will have a maximum size of 20% of par and shall be drawn in the event that current revenue at 55.277 mills and 25 mills, subject to future adjustments, is insufficient to cover current debt service.
Subordinate Debt:	Subordinate bonds may be issued provided that they pay debt service annually only after all payment on senior bonds.
Events of Default:	It is not an event of default if the District fails to pay interest and principal, but has imposed and remitted the Required Mill Levy. Failure to impose and/or remit the Required Mill Levy is an event of default.
Trustee:	UMB Bank, n.a.
Title 32 qual.:	Issued to financial institutions or institutional investors
Title 11 exemption:	$500,000 denominations

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LEGATO COMMUNITY AUTHORITY (ISSUANCE FOR DISTRICT NOS. 1-3 AND 7)
LIMITED TAX GENERAL OBLIGATION CONVERTIBLE CAPITAL APPRECIATION BONDS, SERIES 2021A-2

Draft Term Sheet

(as of March 26, 2021)

FOR DISTRICT USE ONLY
PROSPECTIVE INVESTORS SHOULD REVIEW THE BOND DOCUMENTS

Delivery Date:	June 2, 2021
<u>Sources:</u>	
Par Amount:	$4,898,191 at issuance (estimated) $6,390,000 at conversion (estimated)
<u>Uses:</u>	
Project Fund:	$4,311,227 (estimated)
Surplus Fund:	$ 489,000 (estimated)
Costs of Issuance:	$ 97,964 (estimated)
<u>Structure:</u>	
Final Maturity:	December 1, 2051 (estimated)
Call date:	6/1/2026
Interest Rate:	6.00% (estimated as of the current market)
Payment Dates:	Semi-annual interest payments on June 1 and December 1, with principal payments annually on December 1.
Tax Status:	Tax-exempt, Non-AMT
Optional Redemption:	Estimated 6/1/2026 at $103 premium declining (actual redemption provisions determined at pricing)
Structure	The bonds are structured as Convertible Capital Appreciation Bonds and do not pay interest prior to the Conversion Date (December 1, 2025) where the bonds will cease to be Capital Appreciation Bonds and will convert to Current Interest Bonds.
Credit Rating:	Non-Rated
Senior Pledged Revenue:	Pledged Revenue consists of (i) revenues produced from the required residential debt service mill levy of 55.277 mills, subject to

	future adjustments (the "Required Residential Mill Levy"), (ii) specific ownership taxes generated from the Required Residential Mill Levy, (iii) revenues produced from required commercial debt service mill levy of 25 mills, subject to future adjustments (the "Required Commercial Mill Levy"), and (iv) specific ownership taxes generated from the Required Commercial Mill Levy. The bonds will discharge on December 1, 2061.
Surplus Fund:	The District shall be required to levy the required levy (subject to future adjustments) until the Surplus Fund is full. To the extent pledged revenue is not needed for current year debt service, it will be deposited to the Surplus Fund. The Surplus Fund will have a maximum size of 20% of par and shall be drawn in the event that current revenue at 55.277 mills and 25 mills, subject to future adjustments, is insufficient to cover current debt service.
Subordinate Debt:	Subordinate bonds may be issued provided that they pay debt service annually only after all payment on senior bonds.
Events of Default:	It is not an event of default if the District fails to pay interest and principal, but has imposed and remitted the Required Mill Levy. Failure to impose and/or remit the Required Mill Levy is an event of default.
Trustee:	UMB Bank, n.a.
Title 32 qual.:	Issued to financial institutions or institutional investors
Title 11 exemption:	$500,000 denominations

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LEGATO COMMUNITY AUTHORITY (ISSUANCE FOR DISTRICT NOS. 1-3 AND 7)
SUBORDINATE LIMITED TAX GENERAL OBLIGATION BONDS, SERIES 2021B(3)

Draft Term Sheet

(as of March 26, 2021)

FOR DISTRICT USE ONLY
PROSPECTIVE INVESTORS SHOULD REVIEW THE BOND DOCUMENTS

Delivery Date:	June 2, 2021
<u>Sources:</u>	
Par Amount:	$4,527,000 (estimated)
<u>Uses:</u>	
Project Fund:	$4,391,190 (estimated)
Costs of Issuance:	$ 135,810 (estimated)
<u>Structure:</u>	
Final Maturity:	December 15, 2051 (estimated)
Interest Rate:	8.50% (estimated as of the current market)
Payment Dates:	Principal and interest payments annually on December 15
Tax Status:	Tax-exempt, Non-AMT
Optional Redemption:	Estimated 6/1/2026 at $103 premium declining (actual redemption provisions determined at pricing)
Credit Rating:	Non-Rated
Subordinate Pledged Revenue:	The bonds are structured as cash flow bonds that pay each year on December 15th. Any Senior Pledged Revenue available to the subordinate bonds will be used to pay current interest, accrued interest, and then principal. Interest not paid when due will accrue and compound annually at the rate on the bonds. Any amount unpaid at the maturity date will remain outstanding and continue to accrue and compound. The bonds will discharge on December 15, 2061.
Additional Debt:	Senior debt allowed without subordinate bondholder consent only for refunding the senior debt and subject to the condition that the refunding bond debt service is lower in every year than the refunded

	bond debt service and that the reserve and surplus fund for such refunding bonds be limited to 10% of par. Additional subordinate debt allowed with 100% subordinate bondholder consent.
Junior Subordinate Debt:	Junior subordinate bonds may be issued provided that they pay debt service annually only after all payment on senior bonds and subordinate bonds.
Events of Default:	It is not an event of default if the District fails to pay interest and principal, but has imposed and remitted the Required Mill Levy. Failure to impose and/or remit the Required Mill Levy is an event of default.
Trustee:	UMB Bank, n.a.
Title 32 qual.:	Issued to financial institutions or institutional investors
Title 11 exemption:	$500,000 denominations