HilltopSecurities
Investment Banking Solutions

OVERVIEW OF FINANCING OPTIONS

TOWN OF ERIE

JULY 15, 2025

INTRODUCTION AND AGENDA

Agenda Topics

- Funding Options for Capital Projects
- What is a COP?
  - Legal Structure
  - Other Considerations
- Election Considerations
  - Timeline
  - Ballot Structure

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FUNDING OPTIONS FOR CAPITAL PROJECTS

HOW DO YOU PAY FOR CAPITAL PROJECTS?

Capital Project Needs

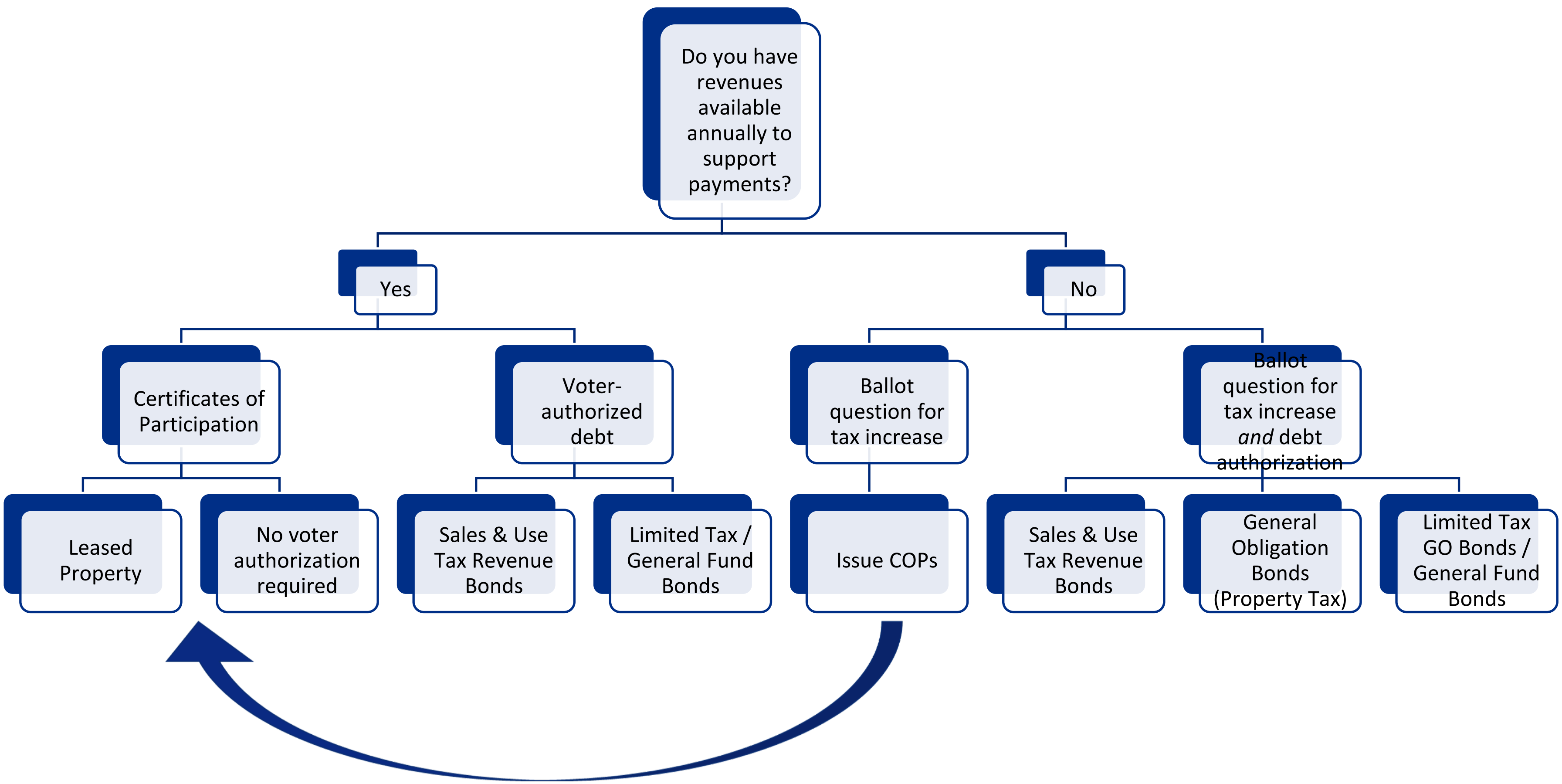
Pay-As-You-Go
- Annual Cash Flow Revenues
- Available Fund Balance

Multi-Year Financing Tools
- General Obligation Bonds
- Sales Tax Revenue Bonds
- Utility Revenue Bonds
- Certificates of Participation / Leases

Funding Concepts for Long-Term Obligations**:**

1. **Equity**: Those that benefit from the financed item should pay for it.
2. **Effectiveness**: Completed project accomplishes it's intended goal and identified revenue source for repayment is adequate to cover debt service.
3. **Efficiency**: The relative cost of financing is better than competing alternatives.

FOR COLORADO LOCAL GOVERNMENTS – GENERAL GOVERNMENT PURPOSES



TYPES OF OBLIGATIONS AVAILABLE TO COLORADO LOCAL GOVERNMENTS

Financing Mechanism	Description	Revenue Repayment Source	Voter Approval
General Obligation (GO) Bonds	Secured by the full faith and credit of the issuer Issued for general governmental projects	Typically repaid from property tax revenues from a dedicated mill levy	Requires voter approval for debt and tax increase (one question)
Revenue Bonds – General Government • **Sales Tax Revenue Bonds** • **General Fund / Limited Tax Bonds** • **Excise Tax Revenue Bonds**	Issued for general governmental projects	New or renewed special taxes or fees (could be broad (i.e., general sales tax) or specific (i.e., lodger's tax))	Requires voter approval for debt authorization Could have voter approval to implement new tax, extend existing tax, or increase existing tax rate
Revenue Bonds – Enterprise/Utility • **Water / Wastewater / Stormwater Revenue Bonds** • **Electric / Power Revenue Bonds**	Issued for projects supported by the revenue stream for repayment	Fees and charges of the Enterprise system	Does not require voter approval so long as it meets TABOR requirements and is not required in Charter
Certificates of Participation (COPs) & Leases	Lease purchase agreement with issuer-owned asset used as collateral; subject to annual appropriation	Generally available revenues of the issuer There is no direct revenue pledge but may internally allocate specific funds	Does not require voter approval as it is not considered a multi-year fiscal obligation

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TYPICAL FUNDING OPTIONS FOR GENERAL CITY PROJECTS (NON-ENTERPRISE)

Credit	Option 1 Certificates of Participation	Option 2 General Fund Revenue Bond	Option 3 Sales and Use Tax Bond (Broad Pledge)	Option 4 Sales and Use Tax Bond (Narrow Pledge)	Option 5 Unlimited Tax General Obligation Bond
Pledged Revenues	No directly pledged revenues; payments are subject to annual appropriation from generally available revenues	All generally available revenues that do not have a restricted use	All sales and use tax revenues including revenues from an increase to current sales and use tax rate (if asked)	Revenues from a newly approved sales and use tax (could be restricted in use/purpose)	Property tax revenues from a new, dedicated mill levy
New Revenue Source?	No	Not Required Could seek voter approval for revenue increase	Not Required Could seek voter approval for sales tax increase	Yes	Yes
Pros	- No tax increase - Not considered a multi-fiscal year obligation under TABOR so does not require a vote	- Broader revenue pledge - Specific source(s) for repayment may be identified - If accompanied by tax increase, could minimize impact on budget	- Relatively broad revenue pledge - If accompanied by tax increase, could provide budget flexibility	- New tax provides dedicated source of revenues for repayment of bonds - Does not impact use of existing revenues	- Creates a dedicated revenue stream for repayment from property tax revenues - Does not impact use of existing revenues
Cons	- Constrains current revenues for repayment - Limits ability to utilize COPs for other projects	- If no corresponding tax increase, revenues to be used for debt service are currently used for operations	- If no corresponding tax increase, revenues to be used for debt service are currently used for operations	- Limited revenue stream / more narrow pledge	- Property tax increase; legally required to levy mill to pay debt service
Rating Notes	Ratings for COPs are one 'notch' below general obligation bond rating	Likely to be one notch below general obligation bond rating; could be instances where it is rated the same as a GO Bond	Rating is based on revenues and anticipated debt service coverage; higher rating than narrow pledge bonds	Anticipated rating outcome would depend on anticipated coverage from the new tax pledged for repayment	General obligation bonds have the highest credit rating

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.

- COPs and other annually-appropriated lease financings are not considered to be multi-year financial obligations under Colorado law.

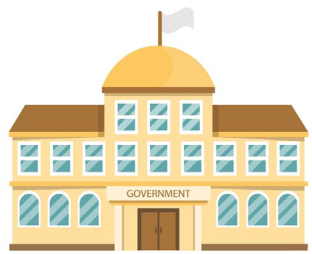
LEGAL STRUCTURE DIAGRAM

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

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 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.

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).

WHAT IS THE SOURCE OF REPAYMENT?

- There are no pledged revenues in a COP issuance.
  - The issuer may utilize any generally available revenues for repayment, subject to annual appropriation.

- Most Colorado issuers utilize General Fund or Capital Fund revenues for repayment of their COPs, however there are a couple of notable exceptions.
  - If a COP is being issued to build a facility that will be utilized by multiple departments, then the issuer may ‘charge’ a portion of the annual payment to those funds. This is most commonly seen in public works facilities that are also being used by utility personnel.
  - Some issuers may utilize COPs for economic development projects within their urban renewal or downtown development authority areas. The issuer sells COPs for the project and then utilizes the tax increment revenue from these areas for repayment via an Intergovernmental Agreement.

- Regardless of the internal funds identified by an issuer for repayment, the COPs are marketed to investors as payable from generally available revenues of the issuer.

ELECTION CONSIDERATIONS

ELECTION QUESTION CONSIDERATIONS

When developing a potential ballot question, there are a number of factors that issuers should consider or explore in their diligence process including the following.

1. Type of Tax: Is there a preference for property tax or sales tax
2. Existing Taxes: Is this a new tax or an extension or repurposing of an existing tax that is expiring or currently being allocated for another purpose
   - Note: Mill levy (property tax) revenues from prior unlimited tax general obligation bond issuances cannot be extended
3. Use of Tax Revenues: Is there a desire for revenue to pay debt service only or is there also a need for other uses of the tax revenue such as operations and maintenance
4. Debt Authorization: Will there be a debt question in addition to a new tax or renewal of a tax
   - Note: In some instances for sales tax questions, the debt question and tax increase or extension can be combined into one question
5. Term: Will there be a sunset on the tax or will it be levied in perpetuity

ELECTION TIMELINE

- Prior to voters considering a ballot question in November, there are several important steps that need to take place.

- Required steps include:
  - July – Intergovernmental Agreement with County
  - August – Authorizing Ordinance or Resolution approving ballot question passed by elected officials
  - September – TABOR Notice finalized for publication
  - October – Financial information posted on website
  - November – Election Day

- Entities considering an election often start engaging with the community and conducting formal polling months before the 'official' election calendar begins.
  - This due diligence process could take months to years depending on the options being considered and baseline understanding of community support for projects.

GENERAL OVERVIEW OF BALLOT QUESTION OPTIONS

Sales Tax

- The use of revenues from the sales tax increase can be broad (i.e. Town capital projects) or specific to a project or purpose (i.e. Town open space projects).
- Revenues from the tax increase can be used to support operations and/or debt.
  - The request for tax increase and debt authorization can typically be asked in one question.
- If requesting debt authorization and a tax increase that will sunset, the debt will need to be repaid within the authorized period for collections.

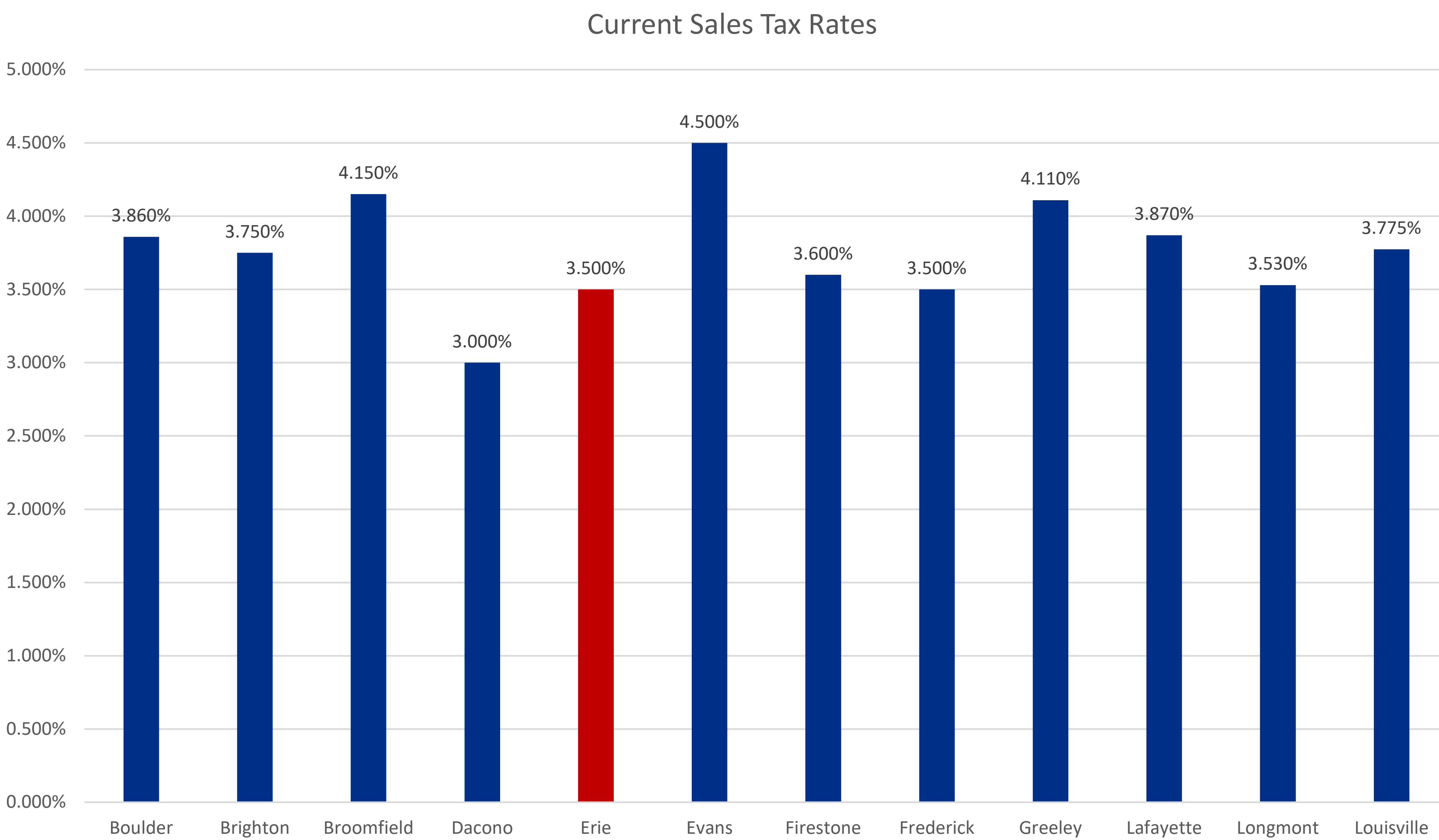
Property Tax

- The Town could request an increase in its current mill levy to generate additional property tax revenues.
- These revenues could be used to support operations of the Town or support COP payments for a project.
- If the Town wanted to ask for debt authorization supported by property tax revenues, this would need to be a ballot question for general obligation debt.
  - This format of question cannot include a mill increase for operations or be combined with any other tax increase.

Ballot Language Overview

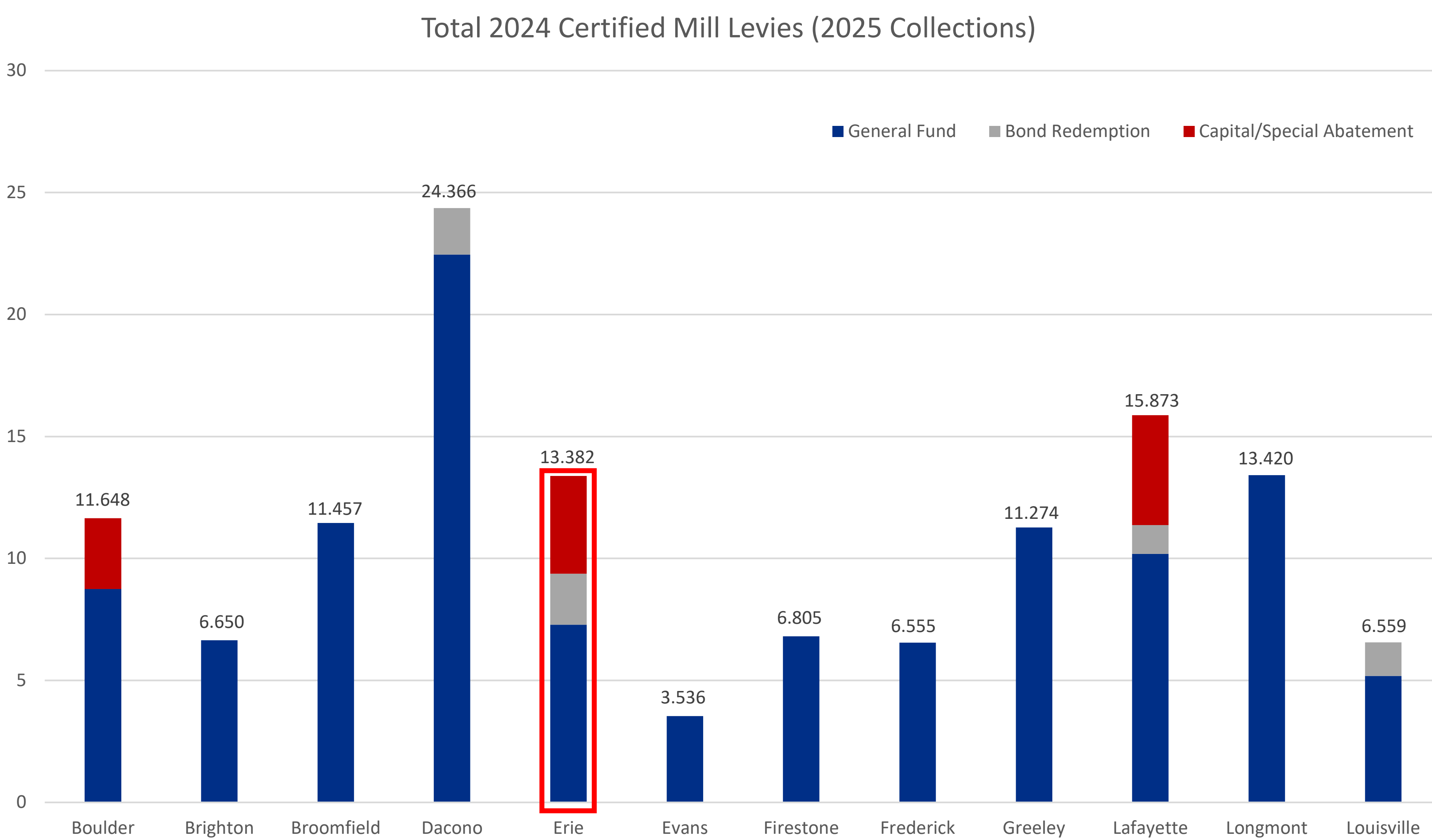
- The form of ballot question and requirements for what needs to be included is dependent on what the question is asking for.
  - In general, ballot question language and format is relatively prescribed based on requirements from TABOR.
- If requesting a tax increase, the ballot question will need to state if the tax increase will be in place in perpetuity or if it will sunset/expire.
  - If the tax will expire, the question will need to state how long the tax will be in place for.
- Different tax increases may be able to be combined into one question depending on the type of tax and purpose, subject to bond counsel review.
  - Bond counsel will also need to weigh in on what uses of those funds could be combined into one question versus needing to consider multiple questions.

COMPARABLE SALES TAX RATES



Source: [Colorado Sales Tax Lookup]

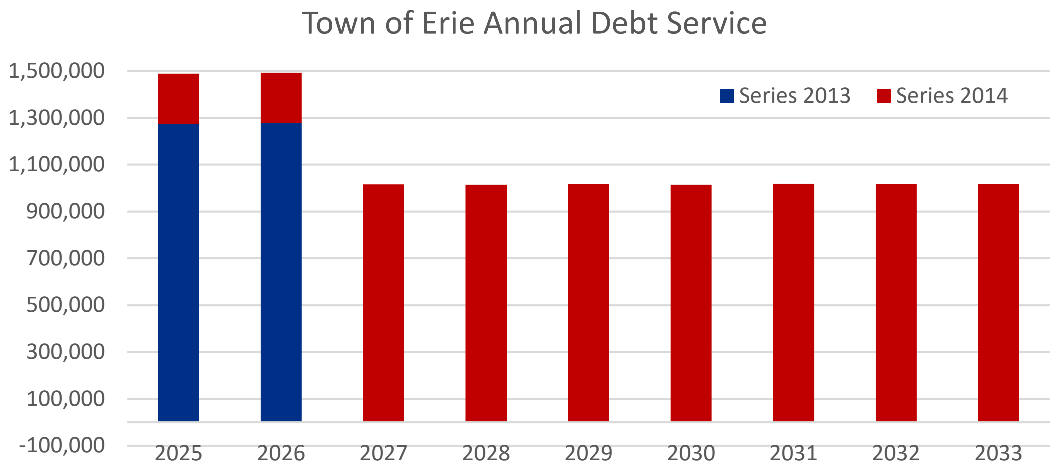
COMPARABLE PROPERTY TAX RATES



Source: 2024 Fifty-Fourth Annual Report to the Governor and the General Assembly

TOWN OF ERIE OUTSTANDING OBLIGATIONS

- The Town has two series of general obligation bonds currently outstanding – the Series 2013 and 2014 Bonds.
  - The Series 2013 Bonds mature in 2026 and the Series 2014 Bonds mature in 2033.



- There is a slight step down in debt service after the Series 2013 Bonds mature. The City could 'fill in' this step down with a no tax increase if it pursued a ballot question in November 2026.
  - This would result in approximately $9.5 million of borrowing capacity.

QUESTIONS?

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