George K. Baum & Company
INVESTMENT BANKERS SINCE 1928

To: Jim Rees, Colorado Springs Urban Renewal Authority

From: Robyn Moore and Lee White, George K. Baum & Company

Date: April 26, 2016

Subject: United States Olympic Museum Project – Fees/Methods of Sale

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The following provides an explanation of the fee structure included in our bond underwriting proposal.

We separated the fees into the following categories –

- Underwriting fee, which assumed an investment grade rating (Question 8 from the underwriting proposal.
- Placement agent fee, which presumes a below investment grade or non-rated private placement of the bonds.

GKB's underwriting fee (also called an underwriters discount) for the public offering was proposed at an amount $1.50 per $1,000 of bonds lower than the placement agent fee.

In many bond issues the underwriting fee is higher than the placement agent fee. In almost all of these cases the bond is eligible for an investment grade rating. The underwriting fee is higher since the investment banker must pay its bond sales team a sales commission (called a takedown) while with a placement the firm's sales team is not involved.

The question as to why George K. Baum proposed the opposite for the CSURA/USOM. The key difference is that our proposal for underwriting assumed that the bonds might have received an investment grade rating versus the private placement that would be non-rated and non-investment grade. A non-rated/non-investment grade placement requires a vastly more sustained marketing process that involves significantly more time and negotiation with potential institutional investors.

The following points address several of the key distinctions in services that GKB would serve as underwriter of an investment grade public bond offering versus placement agent of a non-investment grade bond.

- The public offering fee assumed the bonds received an investment grade rating. With an investment grade rating, these bonds would see significantly more purchaser demand from a much deeper pool of institutional and retail investors.
    - With significantly more investors to attract for an investment grade public offering, the underwriting effort touches on more investors at a higher level, as the investors will likely have less credit related hurdles to overcome before submitting an order for bonds.

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- Each investor may ask questions to understand the bond issue and the credit but we would not engage in substantial negotiations or credit discussions with each investor as we would with a direct placement.

- With an investment grade rating, investors would likely have less (if any) concern with various structuring elements and risks of the bonds.

- Alternatively, a direct placement of a non-rated or below investment grade bond issue has a much smaller universe of potential investors. Also we would be dealing only with sophisticated institutional investors.

  - The credit factors that would likely keep the bonds below an investment grade rating present the bond issue as more of a "story" to the investor/investors that will purchase the bonds. Remember, these are the first such tax increment bonds ever issued pursuant to this RTA statute.

  - As placement agent we will spend considerable time with each bank/investor telling the CSURA/USOM's "story" and getting them comfortable with the unique elements of the bond issue so they submit a proposal to purchase the bonds.

  - For this bond issue, these critical bond credit issues include (among others) construction risk particularly as it relates to the Regional Tourism Act legislation, the fundraising necessary to complete the project, application of excess RTA generated tax increment, and the legal security for the bond investors. Again, no case law exists regarding the RTA law to date.

- As underwriter for an investment grade public offering, we would work with the CSURA/USOM to develop key financing terms (i.e. bond size, debt service reserve fund, other covenants) that each investor by default agrees to by way of submitting an order for the bonds.

  - There is little if any negotiation with investors as to these terms.

  - The rating of the bonds provides itself much of what an investor wants to know regarding the risk of bond ownership.

  - In short it is an easier and faster bond sale process.