City of Colorado Springs

City Hall
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Legislation Details (With Text)

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Title: Resolution authorizing issuance of debt by the Flying Horse Metropolitan District No. 3.

(Legislative)

Presenter:
Carl Schueler, Comprehensive Planning Manager, Planning & Community Development Department

Sponsors:

Indexes: Issuance of Debt, Metropolitan District

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Attachments: 1. Resolution_FlyingHorseNo.3_2019Debt, 2. Attachment 1_Transmittal_Letter, 3. Attachment 2_Bond_resolution_FHMD_No.3__2019Debt_Issuance, 4. Attachment 3_Indenture_FHMD_No.3_2019_Debt_Issuance, 5. Attachment 4_Financial Projections_FHMD, 6. Attachment 5_FHMD 1-3 Debt at 4.30.19, 7. Attachment 6_Flying Horse No. 3 Savings Analysis, 8. 2019FlyingHorseDebtPP, 9. Signed Resolution 54-19

Date	Ver.	Action By	Action	Result
6/11/2019	1	City Council	adopted	Pass
5/28/2019	1	Council Work Session	referred	

Resolution authorizing issuance of debt by the Flying Horse Metropolitan District No. 3.

(Legislative)

Presenter:
Carl Schueler, Comprehensive Planning Manager, Planning & Community Development Department

Summary:
This is a request to approve issuance of debt in an approximate aggregate amount not to exceed $20,000,000 in the form of General Obligation Limited Tax Refunding Bonds, Series 2019 to be repaid from a combination of property tax and associated revenues. The City's Special District Policy and the District's service plan require that City Council's approval be obtained prior to issuing any debt.

The net revenues from this issuance will be used solely to refund a portion of existing 2005 debt obligations, with the exact amount of this issuance to be determined at closing.

The City Council Budget Committee had requested an analysis of the full principal and interest cost of the existing debt, under its present terms and conditions, compared with this refunding alternative. They had also asked for the current accumulated balances of the existing 2005 bonds. Verbal responses were provided by the applicant's team at the May 28, 2019 Work Session introducing this

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item. District representatives also responded to questions related to the term of these bonds, the overall time period a debt service mill levy could be in effect for these Districts, and the impact of this refunding option to taxpayers over the life of the bonds, when compared with the option of not refunding the existing debt. District representatives stated that their “net present value” analysis shows a slightly higher cost over time, but the impact is essentially neutral. They further stated that the primary purpose of this refunding is to restructure a share of the current debt to new form with third-party investors

Approval of this debt issuance will require a 2/3rds majority of the entire City Council (at least six affirmative votes) pursuant to City Charter Article 7-100.

Previous Council Action:

City Council approved a consolidated service plan for the Flying Horse Metropolitan Districts (Resolution 184-04). On April 28, 2005 City Council authorized issuance of a total of $37.53 Million in debt in the form of a total of four issuances among the three districts (Resolutions No. 82, 83 and 84-05) On September 9, 2008, Council authorized refunding and improvement bonds for District No. 2 in an amount not to exceed $25,000,000. (Resolution No. 160-08). This 2008 issuance did not occur due to the economic downturn. In 2013 City Council authorized the issuance of up to $23,085,000 in bonds by District No. 2 (Resolution No. 61-13). In December 12, 2017, by Resolution No. 163-17, Council approved a service plan amendment to allow an increase in the total Gallagher-adjusted mill levy from 35 to 40 mills, thereby allowing Districts Nos. 1-3 to increase their operations and maintenance mill levies from 5 to 10 mills.

This item was introduced in a Work Session on May 28, 2019.

Background:

The Flying Horse Metropolitan Districts provide financing and a source of reimbursement for qualifying public improvements within the Flying Horse Ranch. District No. 1 is the small developer-controlled operating district. District No. 2 is the primarily residential district. The Districts also provide significant ongoing ownership and operational functions within this development including maintaining parks, entry features, and streetscape landscaping. Future improvements are anticipated to add to these operations and maintenance requirements (e.g. additional parks, streetscapes).

The District desires to use the usable proceeds of this issuance (expected to be approximately $14,000,000) to refund a part of their existing 2005 bond obligations. No additional debt is being incurred. The 2005 obligations consist of:

- General Obligation Limited Tax Convertible Capital Appreciation Bonds, Series 2005, originally issued in the principal amount of $5,895,000. The interest rate on these bonds is approximately 8%. Although these bonds have a maturity date of 2035, this is not structured as a “hard stop”, with payment of any then outstanding principal and/or interest continuing to be required from the available capped mill levy. These bonds were marketed and sold to third parties and will be redeemed entirely with the proceeds of this new issuance.

- Special Revenue Bonds, Series 2005 originally issued in the principal amount of $17,600,000. The current balance of these bonds is currently on the order of about $25,000,000 because only limited interest payments have been made since the time they were issued. The interest rate on these bonds is approximately 8%, and they have a similar 2035 maturity, but again with no “hard stop”. These bonds were not sold to third party investors and have been held by

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the developer of this project. They will be partially paid off with the remaining available proceeds of this new issuance.

These new refunding bonds will be marketed to third party investors, with an anticipated interest rate of 6.5% which will be set at closing. Each has a Gallagher-adjusted debt service mill levy of 33.166 mills in place. The date of maturity for these bonds is currently set for the year 2049. As with the prior bonds, in the event property tax and related revenues are insufficient to fully service these bonds during their expected term, payments would continue to be made after the maturity date. In the event revenues come in faster than projected, the effective term of the bonds will be reduced. Because they are subject to a primarily pre-2006 metropolitan district service plan, these districts are not bound by the 40-year maximum debt service mill levy imposition term, which is now standard for residential districts.
The Districts have been asked to prepare a general calculation of the projected savings to District taxpayers over the life of their obligations assuming this new issuance and the anticipated refunding occurred. This analysis will be provided at the hearing.

The new bonds will be structured to be “callable” in as few as five (5) years, such that a future potentially resident board might be in a position to refinance this obligation subject to future financial conditions.

The City Council Budget Committee discussed this request at their May 14, 2019 meeting and had a number of questions and requests. They specifically asked for information on the remaining balances on each of the 2005 bonds, and for a calculation of the ‘”savings” this refunding would represent when compared with keeping the current bonds in place. They also expressed an interest in keeping to a 40-year maximum debt service mill levy imposition term, although this provision is not included in this pre-2006 service plan.

Included as attachments are the following documents:

- Draft Council resolution
- Transmittal letter from District
- District bond resolution
- Draft bond indenture
- Financial projections

Financial Implications:

Pursuant to the District’s Service Plan, the City Special District Policy, and the loan documents, the issuance of this debt does not constitute a financial obligation of the City. The documents will contain the “limited default” provisions required by the City’s Special District Policy. These bonds will be marketed to third party investors.

The bond resolution is structured so that any risk beyond the maximum capped mill levy and the associated specific ownership tax will not accrue to the property owners.

City Charter Article 7-100 requires that the total debt of any proposed district shall not exceed ten percent (10%) of the total assessed valuation of the taxable property within the District unless approved by at least a two-thirds vote of the entire Council.

Board/Commission Recommendation:

N/A

Stakeholder Process:
The staff-level Special District Committee has been provided with the materials associated with this request. As of the date of this staff report, there have been no comments or questions from the Committee on this request.

Alternatives:
City Council could choose to approve, deny or modify the proposed resolution.

Proposed Motion:
Move adoption of the resolution approving the authorization for the Flying Horse Metropolitan District No. 3 to issue debt in the form of tax increment bonds in the principal amount of up to $20,000,000.

N/A