



Legislation Text

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A Resolution Authorizing the Issuance of Debt by Canyon Creek Metropolitan District Nos. 2 and 3 in the Form of Capital Pledge Agreement

Presenter:

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Summary:

The Colorado Springs Urban Renewal Authority is in the process of issuing debt to reimburse eligible costs and expenses within the South Nevada Urban Renewal Area, specific to the Canyon Creek portion of this development. In association with this issuance, the Canyon Creek Metropolitan Districts No. 2 and 3 ("Pledge Districts") will be executing an agreement pledging their property tax revenues toward these bonds. Because this capital pledge agreement represents a multiple fiscal year obligation, it falls under the definition of formal debt under State statute. Issuance of debt by metropolitan districts requires prior authorization of debt issuance by City Council.

Previous Council Action:

City Council approved a consolidated service plan for the Canyon Creek Metropolitan Districts ("Districts") on October 14, 2008 (Resolution 177-08). On December 12, 2017, City Council approved a resolution temporarily appointing directors to District No. 2 (Resolution 154-17)

In November 2015 Council approved an urban renewal plan for a larger area encompassing this District.

This item was introduced to Council at a February 26, 2018, and scheduled for February 27, 2018 Council action. On February 27th, City Council postponed action on this item to today's date.

Background:

Canyon Creek Metropolitan District Nos. 1-3 Districts were created in 2008 under a consolidated service plan. District No. 1 is the operating district, District No. 2 is the residential district and District No 3 is the commercial district. District Nos. 2 and 3 have a total levy of 40.0 mills in place and have not previously issued any formal debt. Each of these districts has a debt service mill levy of 30.0. Together, the Districts provide financing and a source of reimbursement for qualifying public improvements for a portion of the South Nevada/South Tejon redevelopment areas.

The Colorado Springs Urban Renewal Authority is in the process of issuing debt for the South Nevada Urban Renewal Area in the form of a Series 2018A Bonds in an amount of approximately \$ 11,735,000 and subordinate Series 2018B Bonds in the amount of approximately \$ 2,078,000. Revenues pledged to this debt will include the tax increment financing (TIF) from the urban renewal area along with revenues from a 2% PIF on commercial property located only within Canyon Creek Metropolitan District No. 3, as well as the debt service mill levy along with the associated specific

ownership tax from the Districts Nos. 2 and 3 (the “Pledge Districts”). No sales tax TIF will be pledged to these bonds.

The Series A bonds will be senior to the Series B bonds and are structured to have an anticipated revenue “coverage ratio” equal to 1.3 times the anticipated debt service costs. The Series B bonds will be subordinate to the senior bonds and function as higher risk “cash flow bonds”, with payments made only as revenues allow. Because these bonds will be marketed, the exact interest rates will be determined at closing. At this time the, anticipated interest rates for the Series 2018A bonds will be 5.5%, and for the 2018B bonds, the rate is projected at 8.0%. As the first debt issued by the Canyon Creek Metropolitan Districts, this falls within the maximum authorized debt of \$75,000,000 as stipulated in the approved service plan.

Under Colorado Statute, this capital pledge by the Districts equates to a formal issuance of debt, even though the bonds are to be issued by the Colorado Springs Urban Renewal Authority.

Council should be aware that the certified debt service mill levy for District No. 2 (the residential district) will likely be increased above 30.0 mills due to a “Gallagher Adjustment” associated with the recent decrease in the assessment rate for residential properties.

A copy of the draft capital pledge agreement is attached. It contains the requisite “limited default” language to the effect that the responsibility of the Pledge Districts is limited to the capped mill debt service mill levy and associated specific ownership taxes.

Included as an attachment is a list of potential eligible expenses for reimbursement from either the District property tax or the Urban Renewal TIF. Eligible expenses vary by revenue source. For example, metropolitan districts cannot reimburse excess land costs or the costs of dry utilities. As costs are reimbursed from the proceeds of these bond issues, it will be up to the bond issuer and the Districts to assure eligibility compliance.

Also included as background information for City Council, is additional CSURA transaction summary information including financial projections associated with the proposed Urban Renewal Authority bond issuance.

With respect to the overall financing plan for urban renewal area, the approach has been to establish a “redevelopment agreement” that essentially creates “silos” for each of the primary developers within the larger South Nevada Urban Renewal Area. This particular debt, the revenues allocated to pay it, and the use of the eligible bond proceeds, are all focused on the Canyon Creek/ Ivywild portion of this area.

The attached term sheet, it can be noted that there are building permit-related “triggers” that tie the availability of some of the proceeds to these bond issues to the rate of physical development.

At the February 26, 2018 City Council members asked a variety of questions and requested documentation concerning the recent and projected interest rate trends. A graphic depicting recent trends is attached.

Financial Implications:

Related to this capital pledge agreement, there are no direct implications to general City taxpayers

and ratepayers outside of the boundaries of these applicable metropolitan districts. .

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.

The City Council Budget Committee briefly discussed this item at a March 1, 2018 meeting and had limited clarifying questions.

Alternatives:

City Council has the options of approving or denying this request

Proposed Motion:

Move to adopt a resolution authorizing issuance of debt by the Canyon Creek Metropolitan District Nos 2 and 3 in the form of a capital pledge agreement.

N/A