City Hall
107 N. Nevada Avenue
Colorado Springs, CO 80903

Legislation Text

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Reconsideration of a resolution of the City Council of the City of Colorado Springs, Colorado approving the issuance of a Subordinate Taxable Limited Tax General Obligation and Public Improvement Fee Loan 2014A by the Copper Ridge Metropolitan District.

From:
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Summary:
A request to approve issuance of $3,000,000 in formal debt related to the Copper Ridge Metropolitan District ("District") in the form of a bank loan. This would be the second formal indebtedness issued by the District. The City's Special District Policy and the District's approved service plan require that City Council's approval be obtained prior to issuing any debt. This item was introduced to City Council on June 9, 2014.

Previous Council Action:
The District was established by election in May 2008, following approval by Council of a service plan in March of that year (Resolution No. 51-08). Council approved a variety of land use actions for this project area in 2009 including a master plan amendment, a zone change to Planned Unit Development (PUD), and a concept plan. Council also approved an urban renewal plan for this property in 2010. On November 26, 2013 City Council approved issuance of the first formal indebtedness of this District in the form of a Taxable Limited Tax General Obligation Loan in principal amount not to exceed $1,850,000 (Resolution 111-13).

Background:
Metropolitan districts are created under Colorado Statute and City Policy to finance and/or maintain certain public improvements in commercial and residential areas, primarily utilizing a property tax mill levy as the revenue source. These districts are a separate legal entity from the City, but their service plan and the Special District Policy require City Council approval of all formal debt. The standard of review of the bond/loan documents is consistency with the service plan.

This debt will be in the form of a bank-held taxable loan that will have a term of approximately ten and a half (10 1/2) years but will be subject to a prepayment option at any time. The loan is expected to bear an interest rate initially of 4.25%, subject to adjustment annually as provided in the Loan Agreement. The revenues to be pledged to this loan (after servicing of the senior debt) will be the District's debt service mill levy in combination with the revenues from the 1.0% public improvement fee (PIF) that is associated with this project. This PIF mimics a sales tax and is authorized via a covenant recorded against the properties with the District as beneficiary. The PIF will remain in place while there are eligible public improvements to either construct or finance, after which it will be extinguished.

The usable proceeds of this bond will be used in part to reimburse the developer for public improvements already installed for this project, with the balance being available for “draws” to reimburse the expenditures for additional public improvements to be installed in the near future. Although it is anticipated that the debt service mill levy will remain at 17.0, the District will be pledging the maximum allowed debt service levy of 50.0 mills if it were needed. The District’s revenue model (attached) demonstrates that the combination of existing and soon-to-be available assessed valuation (AV) and PIF revenues should be sufficient to service both this debt and the previously issued senior “Series 2013A” loan. At this time, the only pledged revenues for the 2013 loan are the property taxes and related revenues. In conjunction with this 2014 issuance, the District also intends to pledge its available PIF revenues to the 2013 loan on a parity with the 2014 loan for consistency reasons.

A metropolitan district debt issuance of this nature would customarily have been tax-exempt. However, this issuance will be taxable based on advice from District bond counsel pertaining to a Florida IRS ruling which is preventing their provision of a clean opinion for a tax-exempt issuance at this time. Prepayment provisions have been incorporated into this loan partly in anticipation of a future clarification that could allow this debt to be refinanced as a tax exempt instrument.

An opinion is provided from the District’s bond counsel that the proposed issuance will be consistent with the service plan and applicable Federal and State requirements.

The attached resolution has an added provision requiring the loan be issued within one year of City Council approval. Loan documents have been evaluated with the intent to mitigate any concerns with the potential for “end user” capital debt service fees, even though this issue is not explicitly addressed in the approved service plan.

Financial Implications:

Pursuant to the service plan, the City Special District Policy, and the loan documents themselves, the issuance of this debt does not constitute a financial obligation of the City. The documents will contain the limitations required by the City’s Special District Policy. Because the debt will be placed with a financial institution and is not technically marketed, a letter has been provided by an external advisor with an opinion regarding the “fairness and feasibility of the interest rate and the structure of the debt”.

This property is also part of an urban renewal area. There is an agreement with the Colorado Springs Urban Renewal Authority such that the tax increment (TIF) associated with this District’s debt service mill levy will be returned to the District. Other TIF proceeds, not related to this District are expected to be used to fund other costs associated with the project including improvements to Powers Boulevard.

With this issuance, the total combined debt of the District will remain well below the maximum of $85,000,000 authorized by the service plan. The loan documents are structured so that any risk beyond the maximum capped mill levy, the associated specific ownership tax, and the PIF revenues will not accrue to the property owners.

City Charter Article 7-100 requires that the total Debt of any proposed district shall not exceed 10 percent of the total assessed valuation of the taxable property in within the District unless approved by at least a two-thirds vote of the entire Council. The maximum capped mill levy and other provisions of the loan agreement provide a basis for this decision.

Board/Commission Recommendation:

The City's staff-level Special District Committee has been provided copies of these materials. All comments received have been in support and/or stated no concerns.

Stakeholder Process:

Not applicable.

Alternatives:

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

Proposed Motion:

Move approval of the resolution approving the issuance by the Copper Ridge Metropolitan District of a Taxable Limited Tax General Obligation and Public Improvement Fee Loan in principal amount not to exceed $3,000.000.

Not applicable.