



## Legislation Text

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Authorization for Allison Valley Metropolitan District No. 2 to Issue up to \$13,500,000 in Debt as a Limited Tax General Obligation Loans

(Legislative Matter)

**From:**

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**Summary:**

This is a request to approve issuance of formal debt in an aggregate amount of up to \$13,500,000 by the Allison Valley Metropolitan District No. 2 ("District") in the form of bank loans. 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 request was introduced at the July 27, 2015 Informal City Council meeting.

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:**

The District was established by election in November 2006, following approval by Council of a service plan earlier that year (Resolution No.129 -06). Council approved a land use Master Plan amendment for this area in 2014. Action to approve an amendment of the District's service plan is anticipated as part of the immediately prior agenda item.

**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 plans and the City's Special District Policy require City Council approval of all formal debt. The standard of review of the debt instruments is consistency with the service plan and all applicable laws.

The proposed debt instruments will be commercial loan agreements, used to reimburse the developer for advances already made to the District. These consist of a 2015A Limited Tax Obligation Note in an amount not to exceed \$10,000,000 along with a 2015B Limited Tax obligation Note also not to exceed \$10,000,000. Together, the total debt issuance would be limited to no more than \$13,500,000. Drafts of the loan agreements are attached along with a term sheet, draft custodial agreements, and draft opinions of bond counsel and an external financial advisor. Council's role is to approve the "form" of the debt subject to minor changes (e.g. final interest rates, and some final wording) that will occur prior to actual closing.

This debt will be in the form of tax-exempt bank-held loans that will have terms of approximately 30 years and will be structured in the form of two notes. These are “draw down” loans that are triggered upon completion of future “permit ready” lots to assure a determined amount of assessed valuation is in place to support the debt, as it is actually being issued.

The improvements to be financed generally consist of the streets, sidewalks, water, sewer, storm sewer and park/trail improvements all as listed in an attached summary.

The exact interest rate on the Note 2015A will be determined at or immediately prior to closing. This rate is expected to be about 4.5% assuming the loan qualifies as a Qualified Tax Exempt Obligations under section 265(b) of the Internal Revenue Code. The interest rate will be tied to the Federal Home Loan Bank of Des Moines which is an index similar to the Prime Rate. Certain events, such as failure to make timely payments or an adverse ruling on tax-exempt status will trigger increases on the rate; however, the rates are capped in accordance with the service plan. The only pledged revenues for this loan will be the maximum allowable debt service mill levy of 30.00 mills along with the associated specific ownership taxes, and possible system development fees.

The attached resolution has an added provision requiring the initial closing of these loans (but not the entire drawdown) to occur within one year of City Council approval.

The attachments are provided in the following order:

- Cover letter from District
- Term Sheet
- Draft Loan Agreements
- Draft Custodial Agreement
- Draft Compliance Letters from Bond Counsel
- Letter from External Financial Advisor
- Summary of Costs to be Reimbursed.

**Financial Implications:**

Pursuant to the 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 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”. The District has solicited offers from several lenders and this will not be a related party transaction.

With this issuance, the total combined debt of the District will remain well below the maximum of \$30,000,000 authorized by the service plan. The loan documents are structured so that any risk beyond the maximum capped mill levy, and the associated specific ownership tax will not accrue to the property owners. Although there is some potential for upward movement in the interest rate, there are maximum caps, and in any case the maximum exposure to resident property owners is limited to the debt service levy of 30.0 mills, Gallagher adjusted.

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 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, as well as representations from the District that the loan complies with the service plan and all applicable laws, provide a basis for Council's 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 Allison Valley Metropolitan District No. 2 of a Limited Tax General Obligation Loans, Series 2015A and Series 2015B in an overall principal amount not to exceed \$13,500,000. (for August 25, 2015)

Not applicable.