



Legislation Text

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A Resolution of the City Council of the City of Colorado Springs Approving Issuance of Limited Tax General Obligation Bonds Series 2020 by the Interquest North Business Improvement District in an Amount Not to Exceed \$13,735,000

(Legislative Item)

Presenters:

Carl Schueler, Comprehensive Planning Manager, Planning & Community Development
Peter Wysocki, Planning and Community Development Director

Summary:

This is a request to approve issuance of debt by the Interquest North Business Improvement District ("District") in the form of privately placed, tax-exempt Limited Tax General Obligation Bonds Series 2020 in an amount not to exceed \$13,735,000.

The bonds will be repaid from a combination of limited BID property tax and specific ownership tax along with a public improvement fee (PIF) of 1.25%. The bond proceeds would be used to reimburse previously expended public improvements costs and also as a source of funds to support ongoing and future qualifying improvements within and in the vicinity of the District.

The City's Special District Policy and the District's approved Operating Plan and Budget require that City Council's approval be obtained prior to issuing any debt. 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 Section 7-100.

This item was presented to the June 23, 2020 City Council Budget Committee meeting. The Budget Committee specifically discussed the proposed interest rate of 7.0%. This item was introduced at a July 27, 2020 Council Work Session, during which a change in the optional call (refunding) date for these bonds from 2029 to 2027 was discussed and agreed to by the applicant.

Background:

BIDs are created under Colorado Statute and City Policy to finance and/or maintain certain public improvements in non-residential areas, typically utilizing a property tax mill levy as one revenue source. BIDs are separate legal entities from the City, but their Operating Plans and the Special District Policy require City Council approval of all formal BID debt. The standard of review of the debt instruments is consistency with the Operating Plan and other applicable laws.

The 2020 Operating Plan and Budget for this BID, as approved by Council on October 22, 2019, contemplated a debt issuance of this nature and magnitude.

This BID is authorized to levy up to 50.0 mills for debt service, and 1.0 mills for operational purposes.

This would be the third issuance of debt by this District. This BID currently levies 50.0 mills for debt services, and this maximum cap of 50.0 mills will be pledged toward this debt. However, the bond documents and the attached financial projections anticipate then contemplate the need for only 17.00 mills to service this debt. District representatives have indicated the mill levy will be decreased to this lower rate beginning in 2023.

The draft form of the bond resolution is attached. This debt is anticipated to be in the form of privately placed bonds to be held by this developer.

The requested tax exempt annual interest rate for these bonds would not exceed 7.00%. Because the bonds will not be marketed, an opinion from an external financial advisor is provided to address the competitiveness of the interest rate and other provisions of the issuance. For these particular bonds, the projections indicate that capitalized interest will occur for the first few years. The bonds were originally structured to have a 2029 call date, meaning they could be refinanced on or after that year, at the discretion of the BID board in place at that time. Based on subsequent discussion and direction this date has been changed to 2027 in the bond documents.

In addition to the pledged debt service mill levy, the associated specific ownership tax will also be pledged toward repayment of this debt along with a public improvement fee (PIF) of 1.25%.

This BID has two prior debt issuances, a 2010 issuance in the amount of \$\$6,500,000 with an interest rate of 8.5% and a 2016 issuance in the amount of \$4,765,000 with an interest rate of 6.0%.

Combined with prior outstanding debt, the \$13,735,000 in additional debt authorized to be issued under this approval, falls within the overall \$25,000,000 in maximum debt as established by the most recent Operating Plan and Budget for this District. This BID's original 2004 maximum debt authorization was \$9,900,000. Its authorized debt was expressly increased to \$25,000.000 by a 2018 Council action approving the Operating Plan and Budget for that year.

The term of these bonds is anticipated to be 30 years, with a final maturity date of 2049. However, the bonds will be structured such that term could be extended in the event revenues were insufficient to meet required principal and interest payment over the expected term. Conversely, the bonds could be redeemed earlier, after the call date, if revenues were sufficient, although this would be a choice of the District board, eligible electors, and bondholders at the time.

The improvements costs to be financed are generally summarized in an attached document. They consist primarily of parking, access ways, lighting, signage, monumentation, landscaping, and street improvements along with associated engineering costs. A proportion of these improvements have been installed, with the remaining cost expected to be incurred in the near future. The BID expects to utilize the bond proceeds through a series of tranches between 2021 and 2023. Altogether, the combined costs of installed and pending improvements, slightly exceed the net proceeds that will be available from this bond. This BID would own and maintain the Scheels parking lot along with the funded signage and monumentation.

Zoning and related development approvals are in place for this property. Currently, this commercial project is substantially built out or actively under construction, with complete absorption currently projected by approximately 2023. An approximately 220,000 square foot Scheels department store is currently under construction within this BID. This store is currently anticipated to open in early 2021.

This item was presented to the City Council Budget Committee on June 23, 2020. They asked clarifying questions and specifically had questions concerning the anticipated interest rate of 7.0%, and why the existing 2010 8.5% bonds were not being refinanced in conjunction with this new issuance. It was reported that the 10-year call date for those bonds is set for later in 2020, such that they are currently not eligible for refinancing.

City Council and City staff are in receipt of a letter of objection to this request from a Mr. Tim Leonard dated June 18, 2020 and included as an attachment. Mr. Leonard represents a property located in the southeast part of this BID, and which is developed with a Burger King restaurant. This letter was also noted and discussed at the June 23, 2020 Budget Committee. On July 24, 2020, Mr. Tim Seibert, president of this BID provided a response to Mr. Leonard's letter directly to City Council. This letter is now attached as Attachment #11.

Previous Council Action:

The BID, with its initial operating plan and budget was established by Ordinance 04-237 adopted by Council October, 2004. Council adopted an ordinance in 2007 to include certain property into this BID. In 2016 (by Ordinance 16-2) and again in 2017 (by Ordinance 17-27) City Council excluded certain properties from this BID because they were being rezoned for residential purposes. In 2019, the District petitioned for exclusion of the Scheels site from this BID. However, that petition was ultimately withdrawn. Council also approved resolutions in 2010 and 2016, authorizing those respective debt issuances. The most recent annual 2020 Operating Plan and Budget for this BID was approved by City Council in October of 2019. Council has also approved certain revenue sharing agreements associated with the Scheels store.

Financial Implications:

Pursuant to the District's operating plan, the City Special District Policy, and the bond 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. City Charter Section 7-100 provides that the total debt of any special district may not exceed ten percent (10%) of the total assessed valuation of the taxable property within the district unless such debt is approved by at least a two-thirds vote of the entire Council.

The bond documents are structured so that any risk beyond the maximum capped mill levy, the associated specific ownership tax and the pledged PIF revenues, will not accrue to the property owners.

Board/Commission Recommendation:

The City's staff-level Special District Committee has been provided copies of these materials. No comments or concerns have been received from this Committee.

Stakeholder Process:

N/A

Alternatives:

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

Proposed Motion:

Move adoption of a resolution of the City Council of the City of Colorado Springs approving issuance of Limited Tax General Obligation Bonds Series 2020 by the Interquest North Business Improvement District in an amount not to exceed \$13,735,000

N/A