City Hall
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Legislation Text

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A resolution of the City Council of the City of Colorado Springs, Colorado approving the issuance of Series 2014B limited tax general obligation bonds by the Banning Lewis Ranch Metropolitan District No. 2. (Planning & Development - Carl Schueler)

Summary: The attached resolution will approve issuance of up to $3,000,000 in bonds related to the Banning Lewis Ranch Metropolitan District No. 2 (“District”) in the form of a private placement with an entity controlled by the developer (Oakwood Homes). This would be the second formal indebtedness issued by any of the seven inter-related Banning Lewis Ranch Metropolitan Districts (“Districts”), and the last debt to be issued by District No. 2. This debt would convert a portion of the Districts’ approximately $70 Million in annual appropriation advances (i.e. developer advances) into these bonds, and also extinguish any remaining obligation of District No. 2 under that agreement.

The City’s Special District Policy requires that City Council’s approval be obtained prior to issuing any bonds for metropolitan districts. Additional documentation, including the District’s bond resolution, is attached.

Previous Council Action: The Banning Lewis Ranch Metropolitan Districts No. 1-7 (“Districts”) were established by election in November 2005, following approval by Council of an initial service plan in that year (Resolution No. 162-05). On March 11, 2008, Council approved an amended and consolidated plan for District Nos. 1-5 and 7 (Resolution No. 52-08). On May 26, 2009, Council approved a minor amendment to this service plan to clarify overall debt authorizations. On April 9, 2013, Council approved issuance of the first debt for this District in the form of an $8,250,000 bank loan (Resolution No. 33-13).

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 bond issues. The standard of review of the bond documents is consistency with the service plan.

In the majority portion of Banning Lewis Ranch related to these metropolitan districts (“BLR”), the seven inter-related metropolitan districts include District No. 1 which is the control or master district, District Nos. 2-5 which are intended to be the residential districts, District No. 7 which is intended to be the commercial district, and the Banning Lewis Ranch Regional Metropolitan District (formerly District No. 6) which essentially overlays all of BLR and is narrowly being used for the purpose of financing project-wide wastewater improvements.

District No. 2 includes essentially all of the current and near term planned residential development in BLR. It originally had an anticipated build-out of several thousand dwelling units, of which approximately 500 are currently built or under construction. However, all but the Village One portion of the project has now been excluded from the boundaries District No. 2 such that its ultimate buildout will be limited to about 892 dwelling units.

Because this is a residential metropolitan district ,the City Council-approved consolidated service plan limits the District's debt service mill levy to no more than 30 mills (Gallagher adjusted), and imposes a 40-Year Maximum Debt Service Mill Levy Imposition Term. This limit will remain in place until and unless a majority of the voting property owners within this District might choose to extend it.

These bonds will have an approximately 33-year maximum term which corresponds with the remaining period during which a debt service mill levy can be in place. The bonds will bear an interest rate of 6.5%. Because this issue will be subordinate to the existing Series A bonds, for the first few years, no payments are expected to be made and interest is anticipated to accrue. Assuming the next 483 or so housing units are constructed and on the tax rolls within the next few years, revenues would then be available to pay down first interest and then principal beginning in approximately 2016. The Series A obligation now has a remaining principal balance of about $7,600,000 (refer to attached Review and Analysis of Development Assumptions, Term Sheet and Existing Debt Financing Plan).

The usable proceeds of this instrument will be used to pay back or otherwise reduce a portion of the larger current total developer advance (annual appropriation obligation) of about $70 Million which associated with the overall Banning Lewis Ranch project. This amount obligation has increased over time because it carries an annual interest rate of 7.0%. Because of the limited boundaries of District No. 2, this will be the last debt issuance and obligation of this District related to these developer advances, and any other obligations pertaining to it and District No. 2 will be extinguished. Both the bond documents and the draft City Council resolution affirm this understanding.

There is also Council-imposed service plan limit of $84,500,000 on the aggregate total principal debt amount for this District. This will not be exceeded.

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

Financial Implications: Pursuant to the service plan, the City Special District Policy and the bond 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 this debt will be privately placed with an entity controlled by the developer, and is not marketed, a letter has been provided by an external advisor with an opinion that the contemplated tax-exempt interest rates are reasonable.

Much of the residential buildout and assessed valuation (AV) is in place to support repayment of the Series A bonds. This Series B issuance is being narrowly structured to minimize longer term development market risk. Much of the assessed valuation necessary to support the Series A debt is already in place, and relatively limited future absorption of already platted lots will be required to support this proposed bond issue.

The bond/loan documents will be structured so that any risk beyond the capped mill levy (and associated specific ownership tax) will not accrue to the residential homeowners.

Board/Commission Recommendation: The City’s staff-level Special District Committee has been provided copies of these materials and has no additional comments or concerns.

Stakeholder process: Not applicable. However, it should be noted that the Board of Directors of the District does have a member who is a resident of this development, and that board has been apprised of these financing and related plans.

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

Recommendation:

Approval of the attached resolution.

Proposed Motion: Move approval of the resolution approving the issuance by the Banning Lewis Ranch Metropolitan District No. 2 of Series 2014B Subordinate Limited Tax General Obligation Bonds not to exceed $3,000,000.