



Legislation Text

File #: 20-410, **Version:** 1

Resolution authorizing the Allison Valley Metropolitan District No. 2 to issue debt in the form of general obligation limited tax refunding bonds in principal (par) amount not to exceed \$13,500,000.

Presenter:

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

Summary:

This is a request by Allison Valley Metropolitan District No. 2 ("District") to approve issuance of formal debt in an approximate aggregate amount not to exceed \$13,500,000 in the form of General Obligation Limited Tax Refunding Bonds, Series 2020 to be repaid from a combination of property tax and associated revenues. The City's Special District Policy and the District's service plan require that City Council's approval be obtained prior to issuing any debt.

The net revenues from this issuance will be used to refund a previously existing Series 2015A and 2015B commercial bank loans issued by this District for this same maximum amount.

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.

This item was introduced at an August 10, 2020 City Council Work Session, at which time there was discussion of the difference between loans and bonds, but no requests for changes or for additional information.

Note: A single combined PowerPoint presentation that summarizes both this debt issuance and a similar issuance for Allison Valley District No. 1, is included the agenda item immediately preceding this one

Background:

The Allison Valley Metropolitan District Nos. 1 and 2 were originally organized in 2006 to provide financing and a source of reimbursement for qualifying public improvements within what is now known "The Farm" development located in northern Colorado Springs. These Districts were largely inactive for a period following the 2008-2009 economic downturn. In 2015 District No. 2 entered into commercial bank loans for up to \$13,500,000 ("2015 A and B Loans"). These loans were structured to allow draws to be made for qualifying public improvements at such time these were needed. To date, about \$6,053,696 has been drawn under these loans, with about \$7,446,304 remaining. With accumulated interest, the formally outstanding debt associated with this 2015 A & B Loans is approximately \$6,053,695.97.

The District now desires to convert this entire 2015 A and B Loans to a Series 2020 bond, in order to take advantage of current low interest rates as well as the increased assessed valuation that has occurred within this District in past three years. The 2015 Loan is also structured to allow interest rates to increase over their life. Therefore, the conversion to bonds would serve to reduce future interest rate uncertainty.

The Series 2020 bonds would be rated and marketed with an expected total interest rate of 5.00 percent, with the bonds which are expected to mature in 2047. The exact interest rate would be set immediately prior to closing. The bond documents include a maximum cap of 6.5%.

The debt service mill levy available to service these bonds is limited to a “Gallagher adjusted” 30 mills (along with associated specific ownership tax). The current debt service mill levy is 32.452 mills. In the case of District No. 2, a debt service mill levy has been in place since 2008 (certified in 2007). Because the service plan for this District limits imposition of a debt service mill levy to a maximum of forty (40) years for a district with residential uses, specific 2048 discharge date language is included in this resolution.

These Series 2020 bonds will be structured to be “callable” in 2030, such that a future potentially resident board might possibly be in a position to refinance these obligations subject to future financial conditions.

This refunding will not result in an increase in authorized outstanding debt, which will remain under the \$30,000,000 maximum combined limit allowed for in the most recently approved service plan for District Nos. 1 and 2.

Financial projections are attached. This project is partially built out.

The City Council Budget Committee discussed this request at their July 28, 2020 meeting and had a limited number of questions and requests. One Budget Committee member asked for an explanation of the difference between a commercial bank loan and a bond. City staff defers the District’s experts for a more formal answer, but generally notes that while there are a host of technical distinctions between these two different types of debt instruments, in this context they both constitute formal debt because they are multi-year financial obligations under TABOR. Colorado Springs policies, requirements and procedures related to authorization of special district debt, are substantially the same for both types of instruments. Marketed bonds are typically more tradeable than loans, and it is more common for loans to have variable interest rates that may be tied to broadly established indexes.

Included as attachments are the following documents:

- Draft Council resolution
- Transmittal letter from District
- District bond resolution
- Draft bond indenture
- Financial projections
- Draft opinion from District general counsel

Financial Implications:

Pursuant to the District's 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 "limited default" provisions required by the City's Special District Policy. These bonds will be marketed to third party investors.

The bond resolution is structured so that any risk beyond the maximum capped mill levy and the associated specific ownership tax will not accrue to the property owners.

City Charter Article 7-100 requires that the total debt of any proposed district shall not exceed ten percent (10%) 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.

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.

Previous Council Action:

City Council approved a consolidated service plan for the Allison Valley Metropolitan Districts (Resolution 129-06). On September 8, 2015 Council approved an Amended and Restated Service Plan for District Nos. 1 and 2 (Resolution 87-15). This is now the operative service plan for this District. On February 14, 2015 Council approved issuance up to \$13,500,000 debt by this District in the form of Series 2015A and B commercial bank loans (Resolution 17-15).

Alternatives:

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

Proposed Motion:

Move adoption of a resolution authorizing the Allison Valley Metropolitan District No. 2 to issue debt in the form of general obligation limited tax refunding bonds in principal (par) amount not to exceed \$13,500,000.

N/A