



Legislation Details (With Text)

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Title:	A resolution authorizing the Southwest Downtown Business Improvement District to issue debt in the form of Series 2020 Limited Tax Supported and Special Revenue Senior Bonds in a total principal amount not to exceed \$50,000,000. (Legislative Item) Presenters: Carl Schueler, Comprehensive Planning Manager, Planning & Community Development Peter Wysocki, Planning and Community Development Director Bob Cope, Economic Development Officer				
Sponsors:					
Indexes:	BID, Issuance of Debt				
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Attachments:	1. Resolution, 2. PowerPoint, 3. Attachment 1- Bond Resubmittal Cover Letter, 4. Attachment 2- Draft Bond Resolution, 5. Attachment 3- Draft Master Indenture, 6. Attachment 4- Draft Supplemental Indenture, 7. Attachment 5- Draft Capital Pledge Agreement, 8. Attachment 6- Redevelopment Financing Analysis, 9. Attachment 7- Infrastructure Cost Worksheets, 10. Attachment 8 - Draft General Counsel opinion, 11. Attachment 9 - Draft Bond Counsel Opinion, 12. Attachment 10 - External Financial Advisor Letter- RBC, 13. SWD Phase 1A PPP - 12272019 - 2, 14. Signed Resolution 10-20.pdf				

Date	Ver.	Action By	Action	Result
2/11/2020	1	City Council	adopted	Pass
2/10/2020	1	Council Work Session	referred	
1/27/2020	1	Council Work Session	referred	

A resolution authorizing the Southwest Downtown Business Improvement District to issue debt in the form of Series 2020 Limited Tax Supported and Special Revenue Senior Bonds in a total principal amount not to exceed \$50,000,000.

(Legislative Item)

Presenters:

Carl Schueler, Comprehensive Planning Manager, Planning & Community Development
Peter Wysocki, Planning and Community Development Director
Bob Cope, Economic Development Officer

Summary:

This is a request to approve issuance of debt by the Southwest Downtown Business Improvement District ("District") in the form of privately placed, tax-exempt Series 2020 Limited Tax Supported and

Special Revenue Senior Bonds in a total amount not to exceed \$50,000,000. The first Phase 1A bond issuance is proposed to be in the amount of \$28,275,000. At this time remainder of the authorized bonds are anticipated to be issued in approximately 2023.

The bonds will be repaid from a combination of limited BID property tax, specific ownership tax along with property and sales/use tax increment financing (TIF) revenues from the overlying urban renewal area. In addition, property taxes from the two related metropolitan districts in the area will be pledged as revenues. 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 January 28, 2020 City Council Budget Committee meeting for additional input and discussion, as further described below. The Budget Committee specifically recommended changes to the draft Council resolution in part to provide for a Council briefing prior to issuance of the remainder of the debt beyond Phase 1A, and to establish a maximum cap interest rate for the entire issuance.

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, generally contemplates this debt issuance

This BID is authorized to levy up to 50.0 mills for debt service, and 10.0 mills for operational purposes. This will be the first issuance of debt by this District; however, it has accumulated developer advances.

The draft form of the bond resolution and the indentures are attached. This debt is anticipated to be in the form of privately placed bonds to be acquired by this developer and a consortium of other investors. This requested issuance is being structured as a "master indenture" with an initial issuance of up to \$28.275,000 (Phase 1A) to be followed at a later time by one or more additional issuances up to the full authorized amount not to exceed \$50,000,000.

The requested tax exempt annual interest rate for these bonds would not exceed 8.00%. Because the bonds will be acquired by a consortium of in some cases related parties, an opinion from an external financial advisor is provided to address the competitiveness of the interest rate and other provisions of the issuance.

In addition to the pledged BID and metropolitan district debt service mill levies, the associated

specific ownership tax will also be pledged toward repayment of this debt along with the property tax TIF (tax increment financing) revenues and a sales tax TIF of 2.75% (1.75% from the City and 1.0% from the County), for the allowable periods. A proportion of use tax TIF will also be pledged.

An add-on retail and service public improvement fee (PIF) of 2.0% along with an expected lodging PIF of 4.0%. are also anticipated to imposed on properties associated with this project. However, these revenues will not be pledged toward repayment of these debt issuances. Likewise, the various other sources of overall public improvement funds included in the attached Financing Analysis, will also not be pledged toward repayment of these bonds.

The \$50,000,000 in maximum amount of debt authorized to be issued under this approval, falls within the overall \$105,000,000 in maximum debt authorized as established by the ordinance creating this District.

Ultimately, any of the residentially taxable properties will be included on one of the two metropolitan districts related to this overall project and not in this BID. However, property tax revenues from these other districts are intended to be pledged toward this debt.

At this point, the full requested \$50,000,000 in indebtedness is being structured in the form of a Master Trust Indenture with two tranches of bonds issued. The Series 2020 Phase 1A bonds would be issued more or less immediately in the amount of \$28,275,000. The Phase 1B bonds would comprise the remaining amount, and are anticipated to be issued in approximately 2023. Both the Phase 1A and 1B bonds are expected to be issued at parity. The metropolitan districts (Southwest Downtown Metropolitan District Nos. 1 and 2) will be pledging their maximum authorized debt service mill levy of 30 mills (Gallagher-adjusted) toward this debt with the BID certifying and expecting to contribute 20 mills of its maximum of 50 debt service mills. However, the BID will be pledging the full 50 mills which could be called upon at the discretion of the bondholders in the event the bonds were not being fully serviced.

The term of the bonds is anticipated to be 30 years, with a final maturity date of 2049 for the Series 1A bonds. 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. However, these bonds will have a maximum repayment period of no more than 40 years regardless of whether there are any financial obligations still outstanding. Conversely, the bonds will have redemption dates allowing them to potentially be refinanced at lower interest rate prior to maturity, if conditions we favorable. Representatives of the District have stated, in this case, that their expectation and preference would be to refund and refinance the initial Phase 1A debt after significant vertical development has taken place, thereby enhancing the potential to issue subsequent additional debt in support of the project.

The improvements to be financed are described in an attached document. Generally, the proceeds of these bonds will be used to pay for public infrastructure and related eligible costs to support the overall project. In this case, the BID is expected to be responsible for management and construction of most of these public improvements. The total of Phase 1A public improvements costs exceeds the amount of the anticipated first bond issuance, because other local government/ public funds will be contributed towards these costs. For example, the cost of the pedestrian bridge would be allocated between this BID bond issue and a Regional Tourism Act bond issue. These expected allocations are outlined in the attached financing analysis and cost summary.

Although the final land uses anticipated for this project have yet to be approved, they are generally consistent with both the adopted Experience Downtown Master Plan and the Form Based Code. Multiple aspects of the project and proposed improvements are extremely well aligned with several of the themes and big ideas in PlanCOS.

The attached City Council resolution authorizing this issuance of debt has been modified to allow up to four years to issue the full amount of the requested debt, rather than the customary allowance of one year to issue.

During the January 27, 2020 Work Session at which this item was introduced, Planning and Economic Development staff provided a combined PowerPoint presentation which is attached as part of the record for this debt issuance authorization and the associated cooperation agreement. At this Work Session Council members asked a variety of questions which were responded to and in some cases deferred in part to the following day's Budget Committee meeting. Topics included the following:

- Acknowledgment that the BID boundary map in the City agenda materials had not caught up with the most recent property inclusions
- Clarification that the 2.75% tax increment financing (TIF) pledge includes 1.75% from the City and 1.0% from the County
- Questions/concerns about the 4-year maximum time period in which to issue all the debt (also see Budget Committee discussion)
- Request for additional justification for 8.0% interest rate (also see Budget Committee discussion)
- Request for additional information on pedestrian bridge costs (also see Budget Committee discussion)
- Question concerning the \$3.5 Million in CSU contribution to the Phase 1 project (also see Budget Committee discussion)

At the January 28, 2020 Budget Committee meeting, the applicants responded to the above questions, with a focus on the interest rate, maximum time period for issuance, and unique need for a master indenture allowing for authorization of future debt in approximately 3 years. They noted that one significant expected use for the post-Phase 1A debt would be for structured parking. Anticipated development partners, including a major hotelier, are seeking assurance that these facilities will be funded when needed.

The applicants and their external financial advisor described the near-term interest rate risk associated with issuing this debt, prior to availability of most of the projected revenue stream. They provided reasons for this debt not being marketable at these rates to unrelated third party investors at this time. They confirmed their expectation of refunding the Phase 1A issuance after development is substantially underway, assuming a favorable interest rate and investment environment at the time.

The Budget Committee specifically recommended the following changes to the City resolution that would authorize this debt:

- Provide for an information-only briefing to City Council prior to issuance of the balance of this authorized debt
- Include "not to exceed \$50M" language in the operative part of the resolution
- Include an interest rate cap of no more 10% for the entire debt authorization

A revised resolution with this language is attached.

Regarding the approximately \$3.5 Million in previously expended Colorado Springs Utilities (CSU) contributions to Phase 1 of the project, CSU representatives provided background on the nature and extent of these system and capacity improvements to old infrastructure. The latest pedestrian bridge costs were described, including increases related to inclusion of the west landing component and the requirements of the railroad.

Previous Council Action:

The BID with its initial operating plan and budget were established by Ordinance 17-94 that was adopted by Council and made effective on October 10, 2017. On April 23, 2019 Council approved the inclusion of additional parcels within this BID by Ordinance 19-26. The most recent Operating Plan and Budget for this BID was approved by Council in October of 2019.

This item was introduced at a City Council Work Session on January 27, 2020 and discussed by the City Council Budget Committee on January 28, 2020.

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 TIF 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. All comments received have been in support and/or with no stated concerns.

Because there is an overlapping urban renewal area and a pledge of tax increment financing (TIF) revenues, the Urban Renewal Authority Board has been involved in this process.

Stakeholder Process:

The Colorado Springs Urban Renewal Authority, the Downtown Partnership and the City's Economic Development Office have been involved in aspects of this overall economic development effort.

Alternatives:

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

Proposed Motion: (for February 11, 2020)

Move adoption of the resolution authorizing the Southwest Downtown Business Improvement District to issue debt in the form of Series 2020 Limited Tax Supported and Special Revenue Senior Bonds. with an overall aggregate limit of \$50,000,000 for the combined issuances.