



Legislation Details (With Text)

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Title:	Resolution authorizing issuance of debt by the Flying Horse Metropolitan District No. 2.				
	Presenter: Carl Schueler, Comprehensive Planning Manager, Planning & Community Development Department				
Sponsors:					
Indexes:	Issuance of Debt, Metropolitan District				
Code sections:					
Attachments:	1. Resolution- Flying Horse 5-18-20, 2. 2020FlyingHorseDebtPP, 3. Attachment 1 - Bond Submittal Issues Response, 4. Attachment 2- Cover Letter - Flying Horse MD No. 2 (1), 5. Attachment 3 - Term Sheet, 6. Attachment 4- Supplemental Term Sheet, 7. Attachment 5- Draft District Bond Resolution, 8. Attachment 6- Draft Senior Indenture, 9. Attachment 7- Draft Subordinate Indenture, 10. Attachment 8- Draft District Counsel Opinion, 11. Attachment 9- Draft Bond Counsel Opinion -Series A, 12. Attachment 10- Draft Bond Counsel Opinion- Series B, 13. Attachment 11- Financial Projections, 14. Attachment 12- Cost Summary, 15. Signed Resolution 35-20.pdf				

Date	Ver.	Action By	Action	Result
5/26/2020	1	City Council	adopted	Pass
5/11/2020	1	Council Work Session	referred	

Resolution authorizing issuance of debt by the Flying Horse Metropolitan District No. 2.

Presenter:

Carl Schueler, Comprehensive Planning Manager, Planning & Community Development Department

Summary:

This is a request to approve issuance of formal debt in an approximate aggregate amount not to exceed \$52,000,000 in the form of General Obligation Limited Tax Refunding Bonds, Series 2020A and Series 2020B 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 these issuances will be used to refund existing Series A and B bonds issued by District No. 2 in 2013, and to refund the remaining balance of the outstanding 2005 bonds issued by District No.1, currently held by this developer. The remaining available proceeds are proposed to be used to repay additional developer advances of funds to this district, along with additional project costs that are expected to be certified in the future.

Both the Series 2020A bonds and 2020B bonds are anticipated to be tax-exempt and externally marketed. The Series A bonds are anticipated to be rated and carry an average interest rate of

4.12%. The Series B bonds will be subordinate and unrated, and will operate as “cash flow bonds” with a significantly higher expected interest rate of 8.5%. Because this District operates under a pre-2006 service plan, its maximum debt service mill levy imposition term could extend beyond the 40-year limit now in place for most metropolitan districts with residential properties.

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 agenda item was introduced at a May 11, 2020 Council Work Session. In response to discussion/direction provided at that meeting, modifications have been made to the attached Council resolution to limit the discharge dates of these bonds and any future indebtedness, to no later than the Year 2059.

Background:

The Flying Horse Metropolitan Districts provide financing and a source of reimbursement for qualifying public improvements within the Flying Horse Ranch. District No. 1 is the small developer-controlled operating district. District No. 2 is a primarily residential district, but with some anticipated non-residential uses. The Districts provide significant ongoing ownership and operational functions within this development including maintaining parks, entry features, and streetscape landscaping. Future improvements are anticipated to add to these operations and maintenance requirements (e.g. additional parks, streetscapes).

The following is a summary of this overall transaction, as provided by the District:

Flying Horse MD 2			
Series 2020 Summary of Sources and Uses of Bond Proceeds			
Sources:			
	<u>Series 2020A</u>	<u>Series 2020B</u>	<u>Combined</u>
Bonds Proceeds	\$39,516,381	\$8,790,000	\$48,306,381
Funds on Hand	\$2,110,000		\$2,110,000
Total	\$41,626,381	\$8,790,000	\$50,416,381
Uses:			
Refinancing of Series 2013A		\$7,500,000	
Refinancing of Series 2013B		\$16,724,411	
FHMD 1 Series 2005 Payoff		\$18,106,270	
FHMD1 Developer Reimbursement		\$3,257,517	
Additional Costs to be Certified		\$4,828,183	
Total		\$50,416,381	

The Series 2020A bonds would be rated and marketed with an expected total interest rate of 4.12 percent calculated over the life of the bonds. The “par” amount of the “A” bonds is expected to be

approximately \$35,000,000, with the additional approximately \$4,000,000 in useable proceeds resulting from their being sold at a substantial premium.

The Series 2020B bonds would be unrated but also marketed, with an expected interest rate of 8.5% percent. The “B” bonds will operate as “cash flow bonds” with principal and interest expected to accrue in the early years.

These issuances both have terms of 30 years, with anticipated maturity dates of 2050. In response to comments from the Budget Committee, the Series A and B bonds are now structured to have discharge dates of December 2059, after which there would be no further obligation of taxpayers, regardless of whether any principal or interest was outstanding at that time.

Consistent with recent Council direction, the District has proposed an overall aggregate “not-to-exceed” cap of \$52,000,000 for the combined issuances. This limit is incorporated within the draft City Council resolution. Also incorporated in the Council resolution is a provision requiring approval of Council in the event the District were to determine the “B” bonds needed to be privately placed.

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 33.124 mills.

Unlike with service plans approved by City Council in 2006 and thereafter, this circa 2004 service plan does not establish a hard and fast Council-approved overall debt limit. The attached May 1, 2020 correspondence from the District addresses this topic from “new money” perspective. At the end of this transaction, total combined outstanding debt for all Flying Horse Metropolitan Districts will be below \$70 Million (whether calculated as “new money” or as the par or principal amount of all outstanding debt).

These Series 2020 bonds will be structured to be “callable”, such that a future potentially resident board might possibly be in a position to refinance these obligations subject to future financial conditions. The Series A bonds will be structured to have a call date in 10 years, and the B bonds would be subject to refunding in 5 years.

Financial projections are attached. The residential uses in District No. 2 are substantially built out. Both the remaining residential uses and the projected commercial. Summary information is also provided for the additional public improvements costs to be reimbursed from bond proceeds remaining after the 2005 and 2013 bonds are refunded.

The City Council Budget Committee discussed this request at their April 28, 2020 meeting and had a number of questions and requests. They specifically asked for information on whether there currently were homeowners on the current District board. Mr. Doug Stimple responded, that although an offer was made in conjunction with the 2017 operational mill levy process, there was no interest at that time. There are resident members of the HOA board. Committee members also asked for clarification regarding the authorized debt limit for this District. They asked questions concerning the maturity and discharge dates for the bond issues, in light of this being a pre-2006 metropolitan district service plan, and they requested verification of the first year a debt service mill levy was certified for this District. The applicants agreed to consider options for establishing or shortening bond discharge

dates, and to provide a response to Council. Their May 1, 2020 response is now attached, along with an updated term sheet. The District has verified 2006 as the first year a debt service mill levy was certified for this District, any they have now established a discharge date of 2059 for both the A and the B bonds.

In response to discussion and direction during the May 11, 2020 Work Session introducing this item, a revised Council resolution has been prepared. It would limit the discharge dates for this and any future indebtedness by this District, to no later than the Year 2059. Additionally, the District agrees, and the resolution stipulates that the District shall not certify a debt service mill levy for any purpose after 2059, without Council approval.

Included as attachments are the following documents:

- Draft Council resolution
- Transmittal letter from District
- May 1, 2020 follow-up response from District
- Term sheet
- District bond resolution
- Draft senior and subordinate bond indentures
- Financial projections
- Draft opinions from District bond counsel
- Draft opinion from District general counsel
- Summary of additional costs to be financed

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 Flying Horse Metropolitan Districts (Resolution 184-04). On April 28, 2005 City Council authorized issuance of a total of \$37.53 Million in debt in the form of a total of four issuances among the three districts (Resolutions No. 82, 83 and 84-05) On

September 9, 2008, Council authorized refunding and improvement bonds for District No. 2 in an amount not to exceed \$25,000,000. (Resolution No. 160-08). This 2008 issuance did not occur due to the economic downturn. In 2013 City Council authorized the issuance of up to \$23,085,000 in bonds by District No. 2 (Resolution No. 61-13). In December 12, 2017, by Resolution No. 163-17, Council approved a service plan amendment to allow an increase in the total Gallagher-adjusted mill levy from 35 to 40 mills, thereby allowing Districts Nos. 1-3 to increase their operations and maintenance mill levies from 5 to 10 mills. In 2019, Council authorized issuance of refunding bonds for Flying Horse Metropolitan District No. 3 which in part were used to refund a share of the 2005 District No. 1 bonds.

This agenda item was introduced at a May 11, 2020 Council Work Session, where discussion focused on the topic of debt service mill levy imposition periods, and a request to stipulate discharge dates of no later than 2059 for these bonds, any potential refunding of them, or any other future issuance of debt by this District. The applicant agreed to these stipulations.

Alternatives:

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

Proposed Motion:

Move adoption of the resolution approving the authorization for the Flying Horse Metropolitan District No. 2 to issue debt in the form of general obligation limited tax refunding bonds in a combined principal (par) amount not to exceed \$52,000,000.

N/A