



## Legislation Text

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**File #:** 20-409, **Version:** 1

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Resolution Authorizing the Woodmen Heights Metropolitan District No. 2 to Issue Debt in the form of a Series 2020A Refinancing Loan, a Series 2020B-1 Taxable Bond and a Series 2020B-2 Tax-Exempt Bond

**Presenter:**

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

**Summary:**

This is a request to approve issuance of formal debt for the purpose of refinancing existing debt that is an obligation of the Woodmen Heights Metropolitan District Nos. 1-3 ("Districts"). Two existing 2012 bonds and one existing 2015 bond are proposed to be refunded in their entirety, and would be replaced by a 2020A Loan and subordinate 2020 B-1 and B-2 Bonds. The existing debt is legally issued by Woodmen Heights Metropolitan District No. 1, whereas the new debt would be issued by District No. 2. However, revenue from both District No. 2 (the residential district) and District No. 3 (the commercial district) has been pledged to the existing debt, and would continue to be pledged to this new debt. These transactions would serve solely to refinance existing debt of the Districts, with no "new money" created. This series of refinanced issuances will result in the current developer held "C" bonds being converted to a marketed debt instrument.

The total par amount the three new issuances will equal about \$49,574,000.

The details of these issuances are somewhat complex, given that three existing debt issuances are being converted to three new issuances with varying tax exempt statuses. In addition to the background provided below, the Districts have provided an attached presentation that provides and explains some of this detail.

The senior loan and the subordinate bonds would all be set with maturity and discharge dates of 2045, which is consistent with the maximum 40-year debt mill levy imposition term required by the service plan. The attached financial model projects that this refinancing debt would be paid off by 2040 (allowing for some "cushion" in view of the discharge dates).

The loan and bonds are structured to allow the boards Districts to be able to lower the current mill levy of District No. 2 from 33.398 to 27.40, and District No. 3 from 30.00 mills down to 24.60 mills, although the higher mill levies would be pledged to this debt if needed.

This agenda item was introduced at a September 8, 2020 Council Work Session, at which time there were no specific questions or requests for additional information.

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.

### **Background:**

The Woodmen Heights Metropolitan Districts provide financing and a source of reimbursement for qualifying public improvements within the Districts' boundaries that include property in the Woodmen Road corridor in the general vicinity Woodmen and Black Forest Roads. The Districts also provide significant ongoing ownership and operational functions within this development including maintaining parks, entry features, and streetscape landscaping.

The Woodmen Heights Metropolitan District Nos. 1-3 were originally created in 2004, with a 2007 amended service plan that brought them into conformance with the City's 2006 model service plans. District No.1 is the operating district, with District No. 2 as the residential district and District No. 3 as the commercial district. These Districts originally issued debt in the 2005 timeframe, and this was refinanced in 2012 (including a delayed and related issuance in 2015). District No. 2 is significantly developed with residential uses, but continues to build out, with on the order of 1,000 new residential units yet to be constructed. District No. 3 (the commercial district) is considerably smaller, and has had more limited development absorption to date.

Existing debt of Districts consists of:

- 2012A bond with about \$6,075,000 in outstanding principal- 6.0% interest
- 2012B bond with about \$31,834,000 in outstanding principal and interest- 7.3% interest
- 2015C developer-held bond with \$5,616,216 in outstanding principal- 3.0% interest

The future debt would consist of:

- 2020A taxable loan\* in the principal amount of \$35,115,000 -3.48% interest
- 2020B-1 subordinate taxable bond\*\* in the principal amount of \$7,740,000- 9.5% interest
- 2020B-2 subordinate tax-exempt bond in the principal amount of \$6,719,000- 7.25% interest

\*converting to non-taxable and with a lower 2.75% interest rate in 2021

\*\* converting to non-taxable and with a lower 6.0% interest rate in 2021

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 for District No. 2 is 33.398 mills, and the mill levy for District No. 3 is 30.0 mills. As noted above

The Series 2020 loan will be structured to be "callable" in ten years (December 1, 2030) and the Series 2020 B-1 and B-2 bonds would have a 5-year call date of December 15, 2020. These would allow a future board to potentially refinance these obligations again, subject to financial conditions.

Financial projections are attached.

These metropolitan districts overlap with the Woodmen Road Metropolitan District (WRMD) which as existed since the 1990s for the limited purpose of providing financing for a share of regional improvements made along the Woodmen Road corridor during that period. It is anticipated WRMD could be dissolved as early as 2025, after its bonds are paid off. This will result in a further reduction

of property tax liability for Woodmen Heights Metropolitan Districts property owners.

The City Council Budget Committee discussed this request at their July 28, 2020 meeting and had a number of questions and requests, several of which pertained to the option of including some “new money” in this refinancing package which would have allowed reimbursement of some additional public improvements costs accrued within the past decade. The Budget Committee and applicants agreed there should be a follow-up presentation in the event this option was pursued. (Subsequent to this Budget Committee meeting, the District’s board determined to proceed without a new money option).

In response to questions raised by the Budget Committee, the applicants stated that improvements costs reimbursed from the original 2005 bond proceeds were “regional” in scale and nature, and that they would provide summary documentation of these costs. Summary information is now attached as part of the applicant’s presentation. It is noted that the difference between the original realized 2005 bond proceeds of about \$25.6 Million and the approximately \$49.5 Million total refinancing package is attributable to a variety of factors including original and 2012/2015 costs of issuance, originally capitalized and accrued interest, and the addition to the 2015 “C” bonds.

The Budget Committee also asked for further information on projected buildout within the Districts. This is attached as part of the applicant’s presentation.

Included as attachments are the following documents:

- Draft Council resolution
- Transmittal letter from District (to be provided for the regular Council meeting)
- Summary PowerPoint presentation from District
- Term sheets for the Series 2020 B-1 and B-2 bonds
- Form of the District loan resolution
- Forms of the District bond resolutions (to be provided for the regular Council meeting)
- Draft opinion from District bond counsel (to be provided for the regular Council meeting)

#### **Financial Implications:**

Pursuant to the District’s Service Plan, the City Special District Policy, and the loan and bond 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 loans bonds will be marketed to third party investors.

The loan and bond resolutions are 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:**

The Woodmen Heights Metropolitan Districts No. 1-3 (Districts) were established by election in November 2004, following approval by Council of a service plan on August 10, 2004 (Resolution No.178-04). On September 27, 2005, Council approved issuance of up to \$28,725,000 in bonds (Resolution 171-05). On October 25, 2005, City Council allowed for an increase in the par amount of the bonds up to no more than \$31,000,000 (Resolution 191-05). On August 14, 2007, City Council approved an amendment of the service plan (Resolution 144-07) to provide consistency with the City's 2006 Special District Policy and Model Service Plan. On February 28, 2012 Council approved the issuance of Series 2012 A, B and C bonds in the not-to-exceed amounts of \$6,700,000, \$24,011,548 and \$6,139,878 respectively (Resolution 38-12). As noted the Series A and B refinancing bonds have subsequently been issued, while the Series C bonds have not been issued. On March 13, 2012 Council approved an amendment of the Consolidated Service Plan for the Districts, which voluntarily reduced the maximum debt service mill levy for District 3 (the commercial district) from 50 to 30 mills, Gallagher-adjusted (Resolution 49-12). On August 14, 2014 Council approved an extension of time in which issue the "C" bonds as originally authorized in 2012 (Resolution 48-15).

**Alternatives:**

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

**Proposed Motion:**

Move adoption of the resolution approving Woodmen Heights Metropolitan District No. 2 to Issue Debt in the form of a Series 2020A Refinancing Loan, a Series 2020B-1 Taxable Bond and a Series 2020B-2 Tax-Exempt Bond.

N/A