



Legislation Text

File #: 22-076, **Version:** 1

A resolution of the City Council of the City of Colorado Springs, Colorado approving the issuance of the Old Ranch Metropolitan District Limited Tax Special Obligation Refunding Bonds, Series 2022 in the amount not to exceed \$7,680,000 and related bond documents for districts located in the Wolf Ranch development in northern Colorado Springs.

Presenter

Carl Schueler, Comprehensive Planning Manager, Planning and Community Development
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Summary:

The attached resolution will approve the issuance by the Old Ranch Metropolitan District ("the District") of Limited Tax Special Obligation Refunding Bonds, Series 2022 in an amount not to exceed \$7,680,000 and the related bond documents. The Old Ranch Metropolitan District is the small operating district as a part of a consolidated service plan with the Upper Cottonwood Creek Metropolitan District which will have its debt service mill levy pledged toward repayment of this debt.

These tax-exempt bonds will be privately placed with the developer with an interest rate of 6.0%. The proceeds will be used to entirely refinance 2007A Senior Bonds previously issued by this District, along with part of the outstanding principal and interest associated with 2007 subordinate Bonds also issued by this District. The expectation is that remaining revenues from the existing mill levy of the Upper Cottonwood Creek Metropolitan District will be sufficient to also pay off the remaining balance of the 2007 subordinate bonds, that is not immediately being reimbursed.

The City's Special District Policy requires that City Council approval be obtained prior to issuing of any formal debt for metropolitan districts. This bond issue is contemplated by the District's Council-approved service plan. Copies of the bond documents and associated supporting materials are attached.

This agenda item was originally discussed by the City Council Budget Committee on January 25, 2022, with follow-up discussion on March 22, 2022. (Refer to summary later in this cover memo). This item was then introduced at Council Work Session on April 11, 2022, during which there were follow-up questions on topics including the interest rate, accrual of debt balances since 2007 and on the status of the district boards (see additional discussion below).

This property is located in City Council District No. 2, and these districts serve the Nor'wood Wolf Ranch development.

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, with

independently elected boards.

The existing 2007A Senior bonds are privately placed, are tax exempt, and have an interest rate of 6.5%. The 2007B Subordinate bonds have an interest rate of 8.0% and have accumulated significant interest liabilities over the past 14 years.

These 2022 Bonds will be repaid by a mill levy that will not exceed 21.118 mills per year, subject to additional Gallagher adjustments as described in the draft Bond Resolution. The 2022 Bonds will bear interest at 6.0% and are expected to finally mature on December 1, 2046.

This particular metropolitan district was first established in 2002 with a joint service plan for this District and a small operating district known as the Old Ranch Metropolitan District. In 2006 an amended and restated service plan for these two districts was approved by Council, allowing for the other Wolf Ranch metropolitan districts (Upper Cottonwood Creek District Nos. 2-5 to be carved out from the original larger Upper Cottonwood Creek Metropolitan District and operated under a different consolidated service plan for those four districts. All six districts remain interrelated via one or more intergovernmental agreements (IGAs), and with the Old Ranch District responsible for a number of administrative and ownership functions.

Property in this particular District is essentially all built out with residential uses and has been for some time. As of this date, there are no resident property owners on its board.

Present and future property owners within the District will not be burdened with debt service mill levies of the District higher than the limited debt service mill levy set forth in the Service Plan. The Service Plan for the original Upper Cottonwood Creek District contains a "Gallagher adjusted" maximum debt service mill levy of 16.5 mills, which since 2003 has been adjusted up to the current 21.118 mills due to a change in the rate of assessment for residential property as allowed for in the Service Plan. Similarly, the operational mill levy for this particular metropolitan district was limited to no more than 3.5 mills and has subsequently been Gallagher adjusted up to 4.475 mills.

Based on representations provided by District, the \$7,000,000 limit on the aggregate total principal debt amount in the service plan will not technically be exceeded by this District. This is because the limit pertains to the original principal amount of the debt and can be exceeded with a refinancing, as long as the refinancing does not add "new money" to the original debt.

This item was discussed by the City Council Budget Committee first on January 25, 2022, and then again on March 22, 2022. Between the two meetings, the request was clarified as to the issuer being the Old Ranch and not the Upper Cottonwood Creek Metropolitan District. There was a question concerning why the entire outstanding balance of the 2007 B bonds could not be included with the proceeds of refinancing, with the response being related to maintaining the bond coverage ratios, based on a cap of 21.118 mills. The interest rate was also discussed.

In response to a question, the district representatives stated that although none of the Upper Cottonwood Creek districts currently have any resident board members, they expected to have at least one resident member on some of these boards by May of this year. At the April 11, 2022 Council Work Session, counsel for the Districts stated that a resident member would be added was expected to be added to Upper Cottonwood Creek Metropolitan District Nos. 1, 2 and 3 this May. Council also

asked why the balance owed on the debt had increased since 2007, with the response being that this was mostly due to the subordinates bonds having accrued compounded interest since they were originally issued. Although Councilman Murray expressed reservations about this debt issuance, all Council members concurred with placing the item on consent for the April 26, 2022 hearing,

Financial Implications:

Pursuant to the District service plan, the City Special District Policy, and the bond documents themselves, the issuance of these bonds does not constitute a financial obligation of the City. The bond documents contain the limitations required by the City's Special District Policy. A draft opinion has been provided by the bond counsel for this metropolitan district that the bond documents are consistent with the approved service plan and with the City Special District Policy. Because these bonds will be privately placed, and therefore not subject to competitive marketing, a letter has also been provided by an external advisor with an opinion that the tax-exempt interest rate of 6% is reasonable.

These bonds are structured to have an optional call date of December 1, 2028, after which date the District board of directors would have the option of refinancing these bonds, if conditions were favorable. However, as the issuer, the Old Ranch Metropolitan District would need to agree to any refinancing. As staff understands it, the residents of the district financing this debt (Upper Cottonwood Creek Metropolitan District) would need the other board to agree to a subsequent refinancing.

Because residential metropolitan districts also have an associated Maximum Debt Service Mill Levy Imposition Term of no longer than forty (40) years, the draft Council resolution also includes a final discharge date of no later than 2046.

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.

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 no comments have been received.

Previous Council Action:

The Wolf Ranch Master Plan was approved in 2001. In 2002, City Council first approved a joint service plan for the Upper Cottonwood Creek and Old Ranch Metropolitan Districts (Resolution 144-02). On March 28, 2006, Council approved an amended and restated service plan for the Old Ranch and Upper Cottonwood Creek Metropolitan Districts (Resolution 38-06).

Alternatives:

City Council could choose to approve, not approve or modify the proposed resolution.

Proposed Motion:

Adopt a resolution approving the issuance of the Old Ranch Metropolitan District Limited Tax Special Obligation Refunding Bonds, Series 2022 in an amount not to exceed \$7,680,000 for districts located

in the Wolf Ranch development in northern Colorado Springs.

Summary of Ordinance Language

N/A