

# Summary Notes- Draft

## Special District Working Group March 18, 2021, 1:30 p.m.

**Location:** City Administration Building, Room 102, 30 South Nevada Ave., Colorado Springs, Colorado

Meeting started formally at about 1:35 p.m.

Attendees (In person or on Teams): All Working Group members except for Mr. Dykstra and Ms. Vaas, with Clarissa Thomas joining late.

Also: Peter Wysocki (who left early), Mike Tassi, Carl Schueler, Marla Novak (HBA), Page Saulsbury, Elena Lobato, Sally Barber (City Auditor's Office), Lisa Bigelow and Angela Gilpin (Maverick Observer), Greenberg from the City Attorney's Office, Roger Lemon, Dave Talbot and Lauren Gallup from Tuscan Village Metropolitan District, George Smith and Lou Dams- BLR 5 Metropolitan District

Ms. McDaniel (CFO) was not able to attend.

*Note: Organization of these summary notes may not always follow the exacted chronological progression of the meeting*

### **1) Summary Notes from February 18, 2022 Meeting- Carl Schueler**

Members and guests introduced themselves, in person or on-line.

Mr. Hoiles provided separate follow-up comments on these draft minutes. No other major comments, although there was discussion of the recent activity related to potential added metropolitan district resident board members.

There were no other comments.

### **2) Status Summary of Working Group Topics**

An annotated version of the topics list was provided, noting that the status update was color-coded

### **3) Comparisons between City and County Standards and Services Related to Districts**

(Also see brief staff memo sent out with meeting agenda and highlighted with this item)

Carl went through his memo and PowerPoint on this topic.

He noted that while some County metropolitan districts provide more extensive services (e.g. water and sewer systems and facilities, the general take-away is that the standards for the streets, curb and gutter, sidewalks, stormwater facilities, wastewater lines, water lines, etc. that developers need to build to support otherwise comparable densities of development, tend to be similar. Carl also noted that the differences in services provided by, or infrastructure funded by different districts, can be quite variable within the same jurisdiction. Developer and district representatives confirmed this, and noted that differences in standards (and condition) for infrastructure serving similar development have more to do with the periods it was installed than with the jurisdiction approving it. There were differences noted with lower neighborhood parks requirements in the County, and the greater likelihood that the County would require districts to maintain stormwater ponds.

#### **4) Debt Structures, Subordinate Bonds, Interest Rates, Private Placements**

(Also see brief staff memo and PowerPoint sent out with meeting agenda and presented with this item)

Staff briefly presented background on this item, noting that, with the exception of limited language on maximum interest and discount rates in the model service plans, and with some language in the Policy and model plans on private placement, these topics are not addressed in City Policy or the metropolitan district model plans. The generalized types and uses of subordination of debt were described, along with a comparison of traditional and cash flow structures. Questions and discussion following, including examples being provided by Working Group members. Staff's recommendation is that detailed policies related to bond structures including use of subordinate bonds would be problematic and unnecessary given the variety of financing structure that occur and evolve over time. Likewise, staff suggested that permanent fixed interest rate limits could also be challenging because the market will change over time. Instead, he suggested incorporating interest rate limits tied to a percentage rate above an index rate (e.g. LOBOR) and applied at the time of issuance, and to a blended rate in the event of multiple concurrent debt issuances. There was initial support for this concept with the suggestion that representatives from D.A. Davidson and Piper-Sandler be queried about the index and potential limits. It was also noted that the LIBOR (London Interbank Offering Rate) may be being phased out.

There were also questions about whether Council had previously approved debt issuances with variable interest rates, with staff answering in the affirmative. There was discussion of how qualification for tax-exempt status was determined and the relative rarity of formally issued taxable debt. Interest on developer advances is taxable, to the extent the gains are realized. Then Working Group also discussed approaches on interest rate maximums including the Colorado statutory usury cap of 45%.

On the topic of privately placed debt, Carl noted that there were two broad types of private placement, with one being a non-marketed but arms-length transaction and the other being debt held by a related party. He suggested that without as direct a role of the market, there may be less incentive to establish the lowest reasonable interest rate, and less incentive to refinance in some cases. Ms. Bartow suggested, that the market plays a major role in establishing interest rates, even with private placement. Carl noted an external advisor opinion is required for this structure of debt, but no other documentation or analysis.

Carl noted staff expect to recommend call date policy provisions, particularly for privately placed debt.

Mr. Hoiles referred to his written comments and concerns. He would like an opinion from a non-district attorney. He noted that the County does not allow for compound interest. (It was then clarified that this County limit is specific to developer advances, and that other formally issued debt structures sometimes compound interest, and that this can be integral to how financial institutions approach debt. Mr. Stimple suggested the no-compounding approach to developer advances would be acceptable.

Ms. Bigelow noted that a reason for limits is to protect the interests of the taxpayers who will be responsible for the debt.

Staff noted that applicability of any changes related to these topics would be similar to others in that metropolitan districts operating under existing service plans would not be impacted. He also noted that debt proposals that fall outside of the Policy parameters, can always come back to Council with a request for approval based on circumstances

#### **5) Next Meeting and Future Agenda Topics**

Carl noted the remaining major topics include district structures, governance and communication, transparency and reporting. The next meeting is set for April 1, 2022.

The meeting concluded a little after 3:00 p.m.