Metropolitan Districts 301

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General Information

- This presentation builds on topics covered in the Metropolitan District 101 Presentation held on June 11, 2020 at 6 p.m. and the Metropolitan District 201 Presentation held on July 23, 2020 at 6 p.m.
- Here is a link for to view the previous presentations: https://timnath.org/metro-districts-101/
- This presentation will focus on the issuance of debt by Metro Districts.

Overview of Presentation

- Introduction
- Legal Authority for Debt
- Prior to Issuing Debt
- Parties to a Debt Transaction
- Types of Debt
- Limitations on Debt
- Hypothetical Metro District

Introduction

- Metro Districts are authorized by statute to borrow money and incur debt for the **purpose of funding public improvements**. Public improvements includes, but is not limited to, street, water, sanitation, park and recreation, and traffic-related safety improvements.
- The maximum amount of debt a metro district <u>has the authority issue</u> is governed by the maximum debt limit in their service plan and their electoral authorization (lower of the two).
  - The service plan debt limit is approved by the Town Council when they approve the metro district service.
- How much debt the metro district <u>can actually issue</u> is governed by the municipal bond market, and is usually lower than the amount the metro district is authorized to issue.

Legal Authority for Debt

- The Metro District Service Plan will almost always include a maximum mill levy and a maximum debt limit that the Metro District can issue.
- State of Colorado Constitution Article XI, Section 6 requires that general obligation debt be voted.
- State of Colorado Constitution Article X, Section 20 ("TABOR") requires voter approval for "creation of any multiple-fiscal year direct or indirect district debt or other financial obligation whatsoever."
- Title 32, Article 1, Colorado Revised Statutes (the "Special District Act") provides the total amount of general obligation debt of a special district may not exceed (a) $2 million or (b) 50% of the Metro District's assessed valuation with exceptions. (See Section 32-1-1101(6), C.R.S.)

Prior to issuing Debt…

- The Metro District must have debt authorization in their Service Plan.
- The Metro District must have electoral authorization.
- The Metro District must engage a team of specialists to structure the transaction.
- The Metro District must be credit worthy enough to convince the bond market to purchase the bonds (e.g., must either have homes built or lots platted and a contract in place with a national or locally prominent builder)

Parties to a Debt Transaction

- Issuer = the Metro District who is borrowing and committing to repay in accordance with the bond or loan documents.
- Pledging District = In multiple district structure, the pledging district(s) will enter into an agreement to impose a mill levy and pledge the associated revenue toward the issuer's debt service obligations under the bond or loan documents.
- Provider of Funds =
  - Underwriters (investment bankers) who purchase bonds from an Issuer with the intent to resell to ultimate investors. Underwriters often structure the transaction to ensure investors will buy the bonds.

    OR

  - Lender who loans funds directly to the Issuer. Example: Compass Bank or Chase Bank.
- Financial Advisor/Municipal Advisor = entity **engaged by the Issuer** to advise about the financial aspects of transaction.
- Trustee/Custodian =
  - In the case of Bonds, a Trustee will hold and apply funds as directed by the documents on behalf of and for the benefit of the owners of the Bonds.
  - In the case of a Loan, a Custodian will hold funds as directed by the loan documents to secure obligations to a Lender.

Parties to a Debt Transaction (cont.)

- Bond Counsel = **engaged by the Issuer** to opine as to the validity and enforceability of the debt obligation.
- Disclosure Counsel = **engaged by the Issuer** to prepare the disclosure document to be used by the Underwriter to offer bonds to investors.
- Underwriter's Counsel = **engaged by the Underwriter** to ensure the documents implement the Underwriter's structure.
- General Counsel of the Issuer = reviews documents for compliance with applicable organizational documents.
- Accountants/Auditors of the Issuer = prepare financial information for the disclosure document.

Types of Debt

- Bonds
  - Debt security issued by the Metro District to finance public improvements.
  - General Obligation (G.O.) Bond is usually backed by dedicated property taxes.
  - Revenue Bond is usually backed by revenue from a specific project or source, such as a water or sewer fee.
- Loan Agreements and Notes
  - Same purpose as bonds of funding public improvements, just a different instrument.

Types of Debt

- Reimbursement Agreements
  - Again, same purpose as bonds and loans, just a different instrument. Often subject to annual appropriation.
- Promissory Notes

Limitations on Debt

- The Metro District pledges revenues to repay the debt issued by the Metro District. The revenue is most often in the form of property taxes but can include fees.
- Remember, the Metro District can only issue debt to fund public improvements and only within parameters of its Service Plan and electoral authorization.
- The Town of Timnath Model Service Plan includes the following limitations:
  - Total Debt Limitation (See Section VII.A.)
  - Maximum Debt Mill Levy (See Section VII.C.)
  - Maximum Aggregate Mill Levy (See Section VII.C.)
  - Maximum Debt Mill Levy Imposition Term (See Section VII.D.)

Hypothetical Metro District

- This is a hypothetical example to show how service plan debt limit, electoral authorization, and the cost of public improvements come together when debt is issued.

Hypothetical Metro District

Service Plan – Maximum Debt Limit	$10,000,000
Electoral Authorization per category of public improvement <u>prior to debt issuance</u>	$10,000,000 for street improvements $10,000,000 for water improvements
Cost of public improvements per category	$8,000,000 for street improvements $2,000,000 for water improvements
Bonds Issued to pay cost of public improvements	$10,000,000
Electoral Authorization per category of public improvement <u>after debt issuance</u>	$2,000,000 for street improvements $8,000,000 for water improvements

Hypothetical Metro District (cont.)

- In this example bonds have been sold by the Underwriter to investors and are backed by the Metro District's pledge to impose 40 mills for debt repayment for a term of 40 years.
- The Metro District has both the Service Plan and electoral authority to issue these bonds.
- How will this issuance affect the property owners within the Metro District?

Hypothetical Metro District (cont.)

- The property owners within the Metro District have benefited from $10,000,000 in public improvements.
- The property owners have protection in the Service Plan because the amount of debt, the maximum mill levy, and the term of the debt service mill levy are limited.
  - If the market value of the homes or property within the Metro District declines, there is a risk that the bond holders will not be fully repaid. **<u>This risk remains with the bond holders</u>**, the Metro District cannot increase its debt service mill levy beyond the 40 mills (limited exception for Gallagher-required adjustments), nor can it increase the repayment period beyond 40 years, so homeowners are not bearing the risk that there will not be sufficient revenue to repay the bonds.
- The Metro District cannot issue more debt than is allowed in the Service Plan; nor can it impose a mill levy that is higher than allowed in the Service Plan.

Hypothetical Metro District (cont.)

- This is an the example of property taxes in year 1 that debt is issued by the hypothetical metropolitan district. This example assumes a market value of a residential home of $500,000.
- If the market value of the home **increases** the assessed value will also increase and very likely the amount of property taxes paid to all taxing entities, including the metro district, will increase. In this scenario, the bonds may be repaid sooner or refinanced to a lower mill levy depending on the market conditions and decision of the Board of Directors.
- If the market value of the home **decreases** the assessed value and property taxes paid will very likely decrease. If this happens the metro district cannot increase debt service mill levy beyond the 40 mills (limited exception for Gallagher-required adjustments), nor can it increase the repayment period beyond 40 years, so homeowners are not bearing the risk that there will not be sufficient revenue to repay the bonds.

Hypothetical Metro District (cont.)

Market Value of Home	$500,000	
Assessed Value of Home	$37,750	Market Value X 7.15%
Metro District Debt Mill Levy	40 mills	(not all Metro Districts will be pledging or imposing 40 mills)
Property Taxes to Pay Metro District Debt In Year 1	$1,430	Assessed Value X 40 mills

Conclusion

- This presentation has provided basic information about the types of debt that Metro Districts can issue.