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CITY OF GRAND JUNCTION DOS RIOS GENERAL IMPROVEMENT DISTRICT WORKSHOP
MONDAY, MAY 18, 2020
250 NORTH 5TH STREET – CITY HALL AUDITORIUM
FOLLOWING THE 5:30 P.M. CITY COUNCIL WORKSHOP

1. **Discussion Topics**

    a. Dos Rios General Improvement District Debt Issuance

2. **Next Workshop Topics**

3. **Other Business**

Grand Junction City Council

Workshop Session

Item #1.a.

Meeting Date: May 18, 2020

Presented By: Greg Caton, City Manager

Department: City Manager's Office

Submitted By: Jay Valentine, General Services Director

Information

SUBJECT:

Dos Rios General Improvement District Debt Issuance

EXECUTIVE SUMMARY:

The General Improvement District (GID) was authorized by the November 4, 2019 election to issue debt to fund infrastructure improvements such as curb, gutter, sidewalk, utilities, site work and landscaping in the Dos Rios development project. The 2020 Approved GID budget includes a $10.9 million to construct the improvements however the actual amount of the bond issuance will be dependent upon the results of the construction bid.

The GID Board will adopt an ordinance authorizing the issuance of the bonds. The ordinance will approve a Trust Indenture, a Limited Offering Memorandum, a Bond Purchase Agreement, a Continuing Disclosure Agreement and a Public Finance Agreement with the City.

The City Council will need to approve an ordinance approving a Public Finance Agreement with the GID regarding the pledge of the tax increment revenues and the appropriation of revenues described above. That ordinance will also approve amendments to the loan agreements with American National Bank and confirm by amending Ordinance 4881 that nothing in the 2019 DDA development plan amends, modifies or impairs the tax increment financing provisions of the original plan.

The DDA will need to approve a resolution approving the use of tax increment revenue from property in the GID.

BACKGROUND OR DETAILED INFORMATION:

The GID will issue its Limited Tax General Obligation Bonds, Series 2020. The bonds will be repaid from the following revenues:

1. GID mill levy of up to 50 mills (financial projections prepared by D.A. Davidson reflect that the actual mill levy will be 7 mills if
development occurs as projected).

2. Specific ownership tax revenues received by the GID.

3. Incremental property tax revenues and incremental sales tax revenues from the property included in the GID.

4. City use tax collections from activities within the GID. The obligation to pay these revenues will be subject to annual appropriation by City Council.

5. After the tax increment provision of the DDA plan of development expires, revenues received by the City from the levy of its property tax on property in the GID and from the imposition of its sales tax (at the rate of 2.75%) on transactions in the GID. The obligation to pay these revenues will be subject to annual appropriation by City Council.

6. Revenues derived from any payment in lieu of taxes pursuant to a covenant recorded against the land in the GID.

The Downtown Development Authority (DDA) Board has approved pledging the sales tax and property tax increment funds (TIF) generated in the GID to the debt service. This pledge expires in 2032 when the DDA TIF expires. The financing model, however, assumes that the City will continue to pledge property and sales tax TIF towards the payment of the debt beyond 2032 (subject to annual appropriation). As a refresher, tax increment financing means any revenues (sales or property tax) generated above an established base can be used for the repayment of debt. Because the GID area is undeveloped and largely owned by the City, a tax-exempt entity, the base is very low for property tax and zero for sales. This means once development begins almost 100% of the tax generated will be incremental revenue.

FISCAL IMPACT:

The current financial model for the GID assumes $42.2 million in residential development and $32.75 million in commercial development with 60,000 square feet of retail space. Based on these assumptions, a build out of three years, and $11.5 million in annual taxable sales, the required levy is estimated to be 7 mills.

The proposed debt issuance is for $14.6 million in principal to provide $10.9 million in project funds, establish the debt service reserve, pay bond issuance costs, and make the first two year's interest payments. The term is estimated at 30 years at 6.125% interest rate for an average debt service cost of $1.11 million per year. It is expected that the GID mill levy will cover 8% of the debt service cost with the remaining 92% covered by pledged TIF, sales, and property tax revenues.

This debt is the sole responsibility of the GID, and even though the City of Grand Junction City Council has authorized the establishment of the GID, the City does not have any liability for the debt.

SUGGESTED ACTION:

This is for informational purposes only. No action required.

Attachments

1. City Council/GID Board-Dos Rios Debt Issuance

CITY OF Grand Junction COLORADO

CITY MANAGER'S OFFICE

Memorandum

TO: Mayor and Members of Council

FROM: Greg Caton, City Manager
John Shaver, City Attorney
Jodi Romero, Finance Director
Jay Valentine, General Services Director

DATE: May 6, 2020

SUBJECT: Dos Rios General Improvement District

The May 18th City Council workshop agenda includes discussion of the upcoming Council actions for the Dos Rios General Improvement District (GID) debt issuance. The GID was authorized by the November 4, 2019 election to issue debt to fund infrastructure improvements such as curb, gutter, sidewalk, utilities, site work and landscaping in the Dos Rios development project. The 2020 Approved GID budget includes a $10.9 million to construct the improvements.

The purpose of this memorandum is to summarize the proposed debt issuance, the primary financing documents, and actions that need to be taken by the GID, the City, and the DDA.

Summary of Revenue Pledges – The GID will issue its Limited Tax General Obligation Bonds, Series 2020. The bonds will be repaid from the following revenues:

1. GID mill levy of up to 50 mills as adjusted for declines in the residential assessment ratio pursuant to the Gallagher amendment to the Colorado Constitution. The financial projections prepared by D.A. Davidson reflect that the actual mill levy will be 7 mills if development occurs as projected.

2. Specific ownership tax revenues received by the GID.

3. Incremental property tax revenues and incremental sales tax revenues from the property included in the GID pursuant to the DDA plan of development. This will require amendments to the existing loan agreements between the City and American National Bank.

4. City use tax collections from activities within the GID. The obligation to pay these revenues will be subject to annual appropriation by City Council.

5. After the tax increment provision of the DDA plan of development expires, revenues received by the City from the levy of its property tax on property in the GID and from the imposition of its sales tax (at the rate of 2.75%) on transactions in the GID. The obligation to pay these revenues will be subject to annual appropriation by City Council.

6. Revenues derived from any payment in lieu of taxes pursuant to a covenant recorded against the land in the GID. This is a security mechanism that is becoming common in these types of transactions in case any of the property in the GID is ever transferred to an entity which is exempt from property taxes.

As summarized above, in order to fund the project, debt will be issued that will be paid back by the property tax mill levy on property owners within the GID as well as the sales and use tax generated in the GID. The maximum authorized mill levy is 50 mills, however, the required mill levy rate will vary based on the development of the area and if a mill levy is assessed for GID operational costs.

The Downtown Development Authority (DDA) Board has approved pledging the sales tax and property tax increment funds (TIF) generated in the GID to the debt service. This pledge expires in 2032 when the DDA TIF expires. The financing model, however, assumes that the City will continue to pledge property and sales tax TIF towards the payment of the debt beyond 2032 (subject to annual appropriation). As a refresher, tax increment financing means any revenues (sales or property tax) generated above an established base can be used for the repayment of debt. Because the GID area is undeveloped and largely owned by the City, a tax-exempt entity, the base is very low for property tax and zero for sales. This means once development begins almost 100% of the tax generated will be incremental revenue. A diagram of the proposed financing structure is included on the last page of this memorandum.

The current financial model for the GID assumes $42.2 million in residential development and $32.75 million in commercial development with 60,000 square feet of retail space. Based on these assumptions, a build out of three years, and $11.5 million in annual taxable sales, the required levy is estimated to be 7 mills. The annual impact of a levy of 7 mills is shown below.

Commercial Property (Per $100,000 in Actual Valuation)	
Assessed Value	$29,000.00
Property Tax for 1 mill	$ 29.00
Property Tax for 7 mills (GID Target)	$ 203.00

Residential Property (Per $100,000 in Actual Valuation)	
Assessed Value	$ 7,150.00
Property Tax for 1 mill	$ 7.15
Property Tax for 7 mills (GID Target)	$ 50.05

The proposed debt issuance is for $14.6 million in principal to provide $10.9 million in project funds, establish the debt service reserve, pay bond issuance costs, and make the first two year's interest payments. The term is estimated at 30 years at 6.125% interest rate for an average debt service cost of $1.11 million per year. It is expected that the GID mill levy will cover 8% of the debt service cost with the remaining 92% covered by pledged TIF, sales, and property tax revenues.

This debt is the sole responsibility of the GID, and even though the City of Grand Junction City Council has authorized the establishment of the GID, the City does not have any liability for the debt.

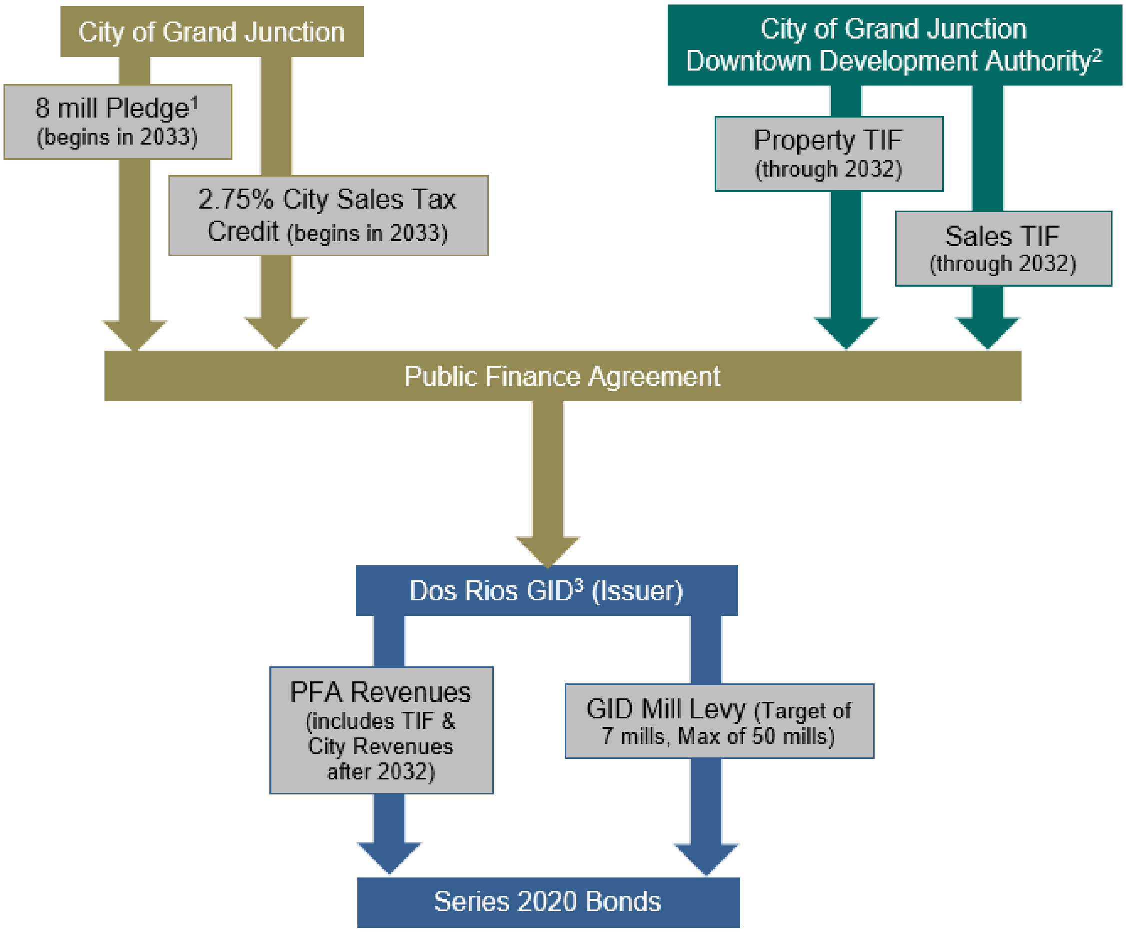
Unlike standard municipal bonds, this type of debt issuance is considered speculative and as such demands a higher rate of return (interest cost to the entity). The GID is pledging specified revenues to the repayment of the bonds which includes up to a 50 mill GID levy, property tax TIF and sales tax TIF generated through the DDA until 2032, and beginning in 2033, the City's property tax and sales tax generated in the GID. The investor accepts a higher risk on the investment because of the higher rate of return. If the development does not occur as projected, it is not uncommon for the debt to be restructured.

As one way to weigh the risk of the project, a market study will be provided to all potential investors. This market study will provide the GID with an assessment of the competitive position of the Riverfront at Dos Rios Community within the context of the local attached housing market, local for-rent housing market, a build-out model forecast of home absorption over time, and revenue forecasts for a future planned hotel, industrial and retail spaces. The study will also include a forecast of the broader Grand Junction economy and market (pre-COVID), the anticipated shape and quality of the economic and housing markets moving forward, and an analysis of the strength of the Dos Rios GID plan and position. This study should be completed by the end of next week.

Actions to Be Taken – The GID will adopt an ordinance authorizing the issuance of the bonds. The ordinance will approve a Trust Indenture, a Limited Offering Memorandum, a Bond Purchase Agreement, a Continuing Disclosure Agreement and a Public Finance Agreement with the City.

The City Council will need to approve an ordinance approving a Public Finance Agreement with the GID regarding the pledge of the tax increment revenues and the appropriation of revenues described above. That ordinance will also approve amendments to the loan agreements with American National Bank.

The DDA will need to approve a resolution approving the use of tax increment revenue from property in the GID.



[1] Subject to Annual Appropriation
[2] Requires Lien Release from ANB Bank (DDA Loan Holder)
[3] City Council Board