

ORDINANCE CONCERNING THE FINANCING OF THE CONSTRUCTION OF A RECREATION CENTER WITH ASSOCIATED AMENITIES AND SUPPORTING PUBLIC IMPROVEMENTS

JUNE 3, 2025



BACKGROUND

- The Town has been in negotiations with the Developer, CD-Acme, LLC, regarding redevelopment of the former Acme Brick Company site.
- One of the key features of the redevelopment is the construction of a sports development center to be owned and operated by the Town.
- The Center will consist of an approximately 145,177-square foot recreation facility with associated on-site utilities, infrastructure, landscaping, and parking.

PROJECT FINANCING

- The Developer is responsible for the construction of the Center in accordance with plans prepared by the Town's architect on approximately 10 acres property to be dedicated by the Developer to the Town.
- The Town is responsible for financing the costs of constructing of the Center, which it intends to accomplish through the issuance of approximately \$75,500,000 in tax-exempt certificates of participation (COP's).
- The ordinance that Town Council is being asked to consider at tonight's meeting sets forth the parameters of that financing.

LEASE-BACKED FINANCING – WHO'S INVOLVED

- The Town of Castle Rock
- CD-Acme, LLC – Developer of the Brickyard
- UMB Bank – the Trustee
- Hilltop Securities – the Town's financial advisor
- Butler Snow – the Town's bond counsel
- Stifel Nicolaus – the Underwriter
- Stradling Law – the Underwriter's counsel

LEASE-BACKED FINANCING – HOW IT WORKS

- Developer will convey ownership of a 10.36-acre parcel of land within the Brickyard development to the Town for the Sports Development Center (the “SDC Parcel”).
- The Town, as lessor, will enter into a Site Lease Agreement with the Trustee, as lessee, for the Leased Property (i.e., the SDC Parcel and the buildings and improvements located thereon).
- The Trustee, as lessor, will enter into a Lease Purchase Agreement with the Town, as lessee, for the Leased Property (commonly referred to as a “leaseback”).

LEASE-BACKED FINANCING – HOW IT WORKS

- Per the terms of the Lease Purchase Agreement, the Town will make rental payments to the Trustee.
- The Town will make these rental payments twice annually over a 30-year period (i.e., the lease term”).
- For federal and state income tax purposes, the rental payments will include both a principal and interest component.
- At the end of the lease term, the Town may pay the then applicable purchase option price and acquire full title to the Leased Property (Please note: the Lease Purchase Agreement will provide a prepayment option for the Town).

LEASE-BACKED FINANCING – HOW IT WORKS

- The Trustee will execute and deliver an Indenture of Trust, pursuant to which the Trustee will issue Certificates of Participation (COP's).
- A COP is a financing instrument that allows an investor to purchase a share of rental payments from a Town lease (as opposed to purchase a bond that is secured by Town revenues).
- The Trustee will then enter into a Certificate Purchase Agreement with the Underwriter, who will offer the COP's for sale to investors.
- The net proceeds from the sale of the COPs will be used by the Town to finance the Sports Development Center.

LEASE-BACKED FINANCING – ADVANTAGES

- The use of lease-backed financing in Colorado was first approved in the case of *Gude v. City of Lakewood*, 636 P.2d 691 (1981), as an exception to the election requirements concerning general obligation debt in the Colorado Constitution.
- Lease-backed financings are also exempt from the election requirements in the TABOR Amendment – *County of Boulder v. Dougherty, Dawkins, Strand & Bigelow, Inc.*, 890 P.2d 199 (Colo. App. 1994).
- The reason for these decisions is that the Town's obligation to make rental payments is subject to the annual appropriation of funds by the Town Council.
- The COP's are secured by the Trustee's leasehold interest – in other words, if the Town “walks away” from the lease, the Trustee is free to find another operator.

LEASE-BACKED FINANCING – PARAMETERS

- Town Council is delegating to the Town Manager and the Finance Director authority to approve the final financing terms, subject to the following parameters:
 - The Site Lease termination date shall be no later than December 31, 2064;
 - The Lease term shall not extend beyond December 31, 2054;
 - The aggregate principal amount of the Base Rentals payable by the Town pursuant to the Lease shall not exceed \$75,500,000;
 - The maximum annual repayment amount of Base Rentals payable by the Town pursuant to the Lease shall not exceed \$7,400,000;
 - The maximum total repayment amount of Base Rentals payable by the Town pursuant to the Lease shall not exceed \$155,000,000;
 - The Lease shall be subject to prepayment at the option of the Town, without penalty, no later than December 1, 2036; and
 - The maximum net effective interest rate on the interest component of the Base Rentals relating to the 2025 Certificates shall not exceed 5.25%.

BUDGETARY IMPACTS TO THE TOWN

- The Town will be financing a maximum of \$75,500,000 in costs for the construction of the sports development center and associated public infrastructure.
- The maximum total repayment amount will not exceed \$155,000,000.
- The maximum annual repayment amount will not exceed \$7,400,000.



“I MOVE TO APPROVE ORDINANCE NO. 2025-021 AS INTRODUCED BY TITLE.”

“I MOVE TO APPROVE ORDINANCE NO. 2025-021 AS INTRODUCED BY TITLE, WITH THE FOLLOWING CONDITIONS: _____.”

“I MOVE TO CONTINUE ORDINANCE NO. 2025-021 TO THE TOWN COUNCIL MEETING ON _____.”