



# Town of Castle Rock

## Agenda Memorandum

**Agenda Date:** 12/3/2019

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**Item #:** 19. **File #:** TMP 2019-727

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**To:** Honorable Mayor and Members of Town Council

**From:** Mark Marlowe, P.E., Director of Castle Rock Water

**Ordinance Authorizing, Approving and Directing the Execution and Delivery of a Loan Agreement Payable from Net Revenue to be Derived from the Operation of the Town of Castle Rock Stormwater enterprise, and Certain Other Documents in Connection Therewith, For the Purpose of Financing Various Capital Improvements to the Stormwater System, and Providing for Its Emergency Adoption on Second and Final Reading (First Reading)**

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### Executive Summary

This memo has been prepared to request Council approval of an ordinance on first reading (see **Attachment A**) approving a \$9.5 million dollar (M) bank loan for the Stormwater Enterprise. The loan proceeds will be used to build legacy Stormwater infrastructure projects across Town. As part of the approved 2020 rates and fees study, the Stormwater Enterprise incorporated a \$10M debt financing to provide near term cash flow funding for completion of key legacy Stormwater projects in the capital implementation plan (CIP). A request for proposal (RFP) was issued to banks for a \$9.5M 2019 bank loan financing. The Town received seven proposals with interest rates ranging from 1.79% to 2.39%. Based on an evaluation of the proposals, staff is recommending a Loan Agreement Ordinance with JP Morgan Chase Bank. Key aspects of the Ordinance include:

1. The loan shall mature not later than December 31, 2030
2. Maximum principal amount will be \$9.5M
3. The loan interest rate shall not exceed 2.25%
4. The loan and associated bond are special limited obligations of the Town payable solely from Stormwater Enterprise net revenues
5. The loan is an irrevocable lien but not an exclusive lien (we can issue future debt as appropriate)
6. After entering into the Loan Agreement this ordinance is irrevocable

Key terms of the proposed Loan Agreement (see **Attachment B**) include:

1. Loan Amount: \$9.5M
2. Maturity Date: December 31, 2030
3. Drawdown Bond meaning interest accrues only on drawn funds
4. The Draw schedule will be fixed including \$4.5M at closing, \$4.5M on September 30, 2020, and \$0.5M on September 30, 2021

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5. Principal payments begin December 1, 2022
6. The bond is non-callable for the 10-year term
7. This is a bank qualified loan
8. Loan and bond are payable only out of Stormwater Enterprise net revenues
9. The Bond is a tax exempt bond

Town will set rates and fees to ensure net revenues are equal to at least 125% of the amount necessary to pay when due the principal and interest each year and pay any other amounts required under the Loan Agreement

### **History of Past Town Council, Boards & Commissions, or Other Discussions**

On August 28, 2019, the Annual Rates and Fees Study was presented to the Water Commission. It included a discussion of the Stormwater loan and reimbursement resolution. Commission recommended Council approval.

On September 3, 2019 the draft Budget and Rates and Fees Study were presented to Council. Both of these included discussion of the proposed loan and reimbursement resolution. Both the draft Budget and Rates and Fees Study were approved on the first reading.

On September 17, 2019 the draft Budget and Rates and Fees Study were presented to Council. Both of these included discussion of the proposed loan and reimbursement resolution. Both the draft Budget and Rates and Fees Study were approved on the second reading.

Castle Rock Water Staff presented a resolution expressing the intent of the Town to be reimbursed for certain capital expenditures relating to Stormwater improvements of the Town to the Castle Rock Water Commission (CRWC) on October 23, 2019. Commission voted unanimously to recommend Council approval of the resolution.

This project was presented at the November 5, 2019 Council meeting under Resolution 2019-119 as part of a broad effort and plan to address legacy Stormwater project needs. Resolution 2019-119 was unanimously approved by Council to allow reimbursement of expenses for this project between November 5, 2019 and the closing on the Stormwater debt late in December 2019

### **Discussion**

The purpose of the bank loan is to construct the Project which is comprised of legacy stormwater capital projects needed to correct longstanding system deficiencies. The ultimate source of funds for these projects is a combination of existing rate payers and future development fees. Each projects composition of funding source varies. In order to move these projects forward in timely manner without raising rates, debt financing was explored during the budgeting and rates and fees study processes. The results of those processes indicated debt financing was the best option for the Town to move these projects forward at the best overall value to the rate payers. Market conditions are also currently ideal for a debt financing of this type.

Our Financial Advisor, Hilltop Securities, Inc. (Hilltop) indicated that a Bank Loan would be the most

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efficient and cost effective debt financing vehicle for the size of the debt issuance and the timing of the repayments estimated during the budget and rates and fees processes. Hilltop prepared a request for proposals and sent that out in October to banks. Seven proposals were received. **Attachment C** provides a summary of the proposals received for the Bank Loan.

As noted in the Executive Summary, JP Morgan Chase Bank is being recommended. In addition to the competitive interest rate, their upfront legal fees are \$10,000, very reasonable. They utilize Kutak Rock of Denver as their legal counsel, and this firm has experience working with Castle Rock.

The debt financing will be used to build improvements identified as part of the Project. A memo summarizing the legacy Stormwater projects making up the Project is included in **Attachment D**. The overall schedule for the Loan Agreement Ordinance is:

December 3, 2019 - 1<sup>st</sup> Reading  
December 17, 2019 - 2<sup>nd</sup> Reading (Emergency Adoption)  
December 19, 2019 - Bank Loan Closing

Emergency Adoption of the ordinance will allow the bank loan to close before the end of the year which will ensure bank qualified status.

### **Budget Impact**

The bank loan ordinance and agreement are both consistent with the approved Rates and Fees Study for 2020. The bank loan ordinance and agreement will be incorporated into the 1<sup>st</sup> Budget Amendment in 2020. There are no impacts to the 2019 budget.

### **Staff Recommendation**

Staff recommend approval of the ordinance and agreement on first reading. The item will be presented to Castle Rock Water Commission on December 11, 2019, for a recommendation ahead of Council's planned second reading.

### **Proposed Motion**

*"I move to approve the ordinance as introduced by title, on first reading."*

### **Attachments**

Attachment A: Bank Loan Ordinance  
Attachment B: Bank Loan Agreement  
Attachment C: Summary of Bank Loan Proposals  
Attachment D: Critical Stormwater Projects Memo