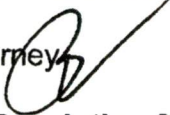


Item # 13Meeting Date: May 6, 2008**AGENDA MEMORANDUM**

To: Honorable Mayor and Members of Town Council

From: Robert J. Slentz, Town Attorney 

Title: **Resolution No. 2008- A Resolution Making Findings on the Application of Crystal Valley Ranch Metropolitan District Nos. 1 & 2 for Quinquennial Findings of Reasonable Diligence**

Executive Summary

Colorado law and the Crystal Valley Ranch Metropolitan Districts 2001 service plan approved by the Town Council provide for a periodic review (generally every 5-years) of the financial status of the Districts to determine whether it is financially prudent for the Districts to issue additional voter-authorized debt backed by a property tax pledge. Homebuilding within the Crystal Valley Ranch PD has not proceeded at the rate projected in the Districts' service plan, with corresponding financial consequences to the Districts. The Districts advise that they currently do not intend to issue additional general obligation (GO) debt and it is our recommendation that the Council formally preclude the Districts from issuing additional GO debt without future Town Council consent.

Discussion

The Districts' submittals for this review and a financial summary prepared by our financial analyst are attached.

The Districts' combined service area encompasses the Crystal Valley Ranch PD, which at buildout will have approximately 3500 residential units and 41 acres of commercial development. The Districts have completed the majority of the backbone water, wastewater and transportation infrastructure to serve the PD, including the recently completed grade separated bridge over the UPRR and Plum Creek at a cost of nearly \$10 million. Remaining major capital projects consist of the pedestrian bridge over Crystal Valley Parkway, improvements for the private recreation center, the additional two lanes of Crystal Valley Parkway and funding of the allocated share of the proposed new Interchange and associated frontage road improvements when absorption reaches approximately 1600 units.

The Districts have approximately \$42.5 million in principal and \$6.7 million in accrued interest on all obligations as of December 31, 2006 (the most recent statements supplied to us). The \$20.7 million Series 2004 Bonds are backed by the Districts' pledge to impose a debt service mill levy within the cap prescribed in the service plan (currently

at approximately 47 mills). The remaining obligations are payable from available revenues after the 2004 Bonds are serviced. Property owners within the Districts are taxed only up to the mill levy cap imposed through the service plan, irrespective of whether the Districts generate sufficient revenues to pay principal and interest on the 2004 Bonds. This is the salient feature of the service plan control imposed by the Town as a condition of service plan approval.

The Districts' financial challenges stem primarily from the reduced absorption of new homes into the PD, and secondarily higher than anticipated costs of developing infrastructure. With fewer units, the Districts realize proportionality reduced property tax revenues to pay the 2004 Bonds and other obligations. The financial plan approved in 2001 projected 1175 residential units by year-end 2007; in fact only 435 units were constructed. This trend will almost certainly continue in 2008 (310 projected) and 2009 (290 projected), compounding the financial effects to the Districts and their ability to service/retire debt and other financial obligations in the near-term. As a result, the Districts' financial obligations are in excess of \$100,000 per residence.

Although Crystal Valley Ranch homeowners and other property owners are not directly at financial risk (i.e. obligated to pay increased taxes in any given year) if the Districts do not generate sufficient revenues to service debt per projections, there is still a significant financial consequence – the extension of the Districts' property tax well beyond the initial projected debt retirement. The Meadows Districts represent the most dramatic example of this phenomenon, where the Meadows' property tax will continue for decades after the infrastructure financed with the debt is no longer serviceable.

Financial Impact

No direct financial impacts to the Town at large, as the Town has no direct or contingent responsibility for the obligations of the Districts.

Staff Recommendation

It is clearly in the interest of the Town and the Crystal Valley community that the Districts remain viable and able to complete the infrastructure and related improvements necessary to complete the development. However, for the reasons outlined above, the Town Council should exercise appropriate oversight of any future proposals of the Districts to issue new debt backed by a property tax pledge.

Proposed Motion

Move to approve Resolution No. 2008- : A Resolution Making Findings on the Application of Crystal Valley Ranch Metropolitan District Nos. 1 and 2 for Quinquennial Findings of Reasonable Diligence

Attachments

Attachment 1 - Resolution

Attachment 2 – Districts' December 19, 2007 application for Quinquennial Review.

Attachment 3 – Districts' February 22, 2008 supplemental/clarification submittal.

Attachment 4 - Mr. Richards summary of key financial points.

GARY R. WHITE
KRISTEN D. BEAR
WILLIAM P. ANKELE, JR.
SEAN ALLEN
GEORGE M. ROWLEY*
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LISA B. SANTOS
NEIL RUTLEDGE
MARCUS R. SORENSEN
CYRIL R. VIDERGAR

December 19, 2007

VIA U.S. Mail

Mr. Mark Stevens
Town of Castle Rock
Town Manager's Office
100 N. Wilcox Street
Castle Rock, CO 80104

**Re: Crystal Valley Metropolitan District Nos. 1 and 2
Consolidated Quinquennial Report**

Dear Mr. Stevens:

Pursuant to the Consolidated Service Plan for Crystal Valley Metropolitan District Nos. 1 and 2, including the First Amendment thereto, and §32-1-1101.5, C.R.S., and Castle Rock Municipal Code Section 11.02.210, the Districts are required to submit applications for quinquennial findings of reasonable diligence to the Town of Castle Rock in every fifth calendar year after the calendar year in which the Districts' ballot issue to incur general obligation indebtedness was approved by its electors. In conducting due diligence in hopes for the issuance of refunding bonds in early 2008, we discovered that the Districts have not filed such applications in the past, and, therefore, the Districts are now filing a consolidated application to cure the oversight and to ensure compliance with their Service Plan requirements. Please note that the Amended Service Plan that was approved in 2001 states that the time period for the quinquennial review should start in 2001. As such, the Districts have prior debt authorization prior to 2001. In accordance with such requirements, below please find the required information:

Amount of Authorized and Unissued General Obligation Debt

District No. 1:

- In 2001, District No. 1 authorized \$20,000,000 in general obligation debt.
 - Water: \$18,000,000
 - Fire: \$2,000,000
- District No. 1 issued Variable Rate Demand Revenue Bonds, Series 2002 in the initial aggregate principal amount of \$7,405,000 in May 2002.
- District No. 1 reissued the Series 2002 Bonds as Revenue Subordinate Bonds, Series 2004.
- District No. 1 issued Variance Rate Demand Revenue Bonds, Series 2004, in the initial aggregate principal amount of \$20,740,000 in October 2004.
- District No. 1 has \$0.00 remaining of unissued debt.

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Mr. Mark Stevens
Re: Crystal Valley Nos. 1 & 2 – Consolidated Quinquennial Report
December 19, 2007
Page 2 of 2

District No. 2:

- In 2001, District No. 2 authorized \$20,000,000 in general obligation debt.
 - Water: \$18,000,000
 - Fire: \$2,000,000
- District No. 2 has \$20,000,000 remaining of unissued debt

Any Current or Anticipated Plan to Issue Such Debt

- District No. 1 is planning to issue General Obligation Refunding Bonds, Series 2008 in the amount of \$20,740,000 in February 2008.
- District No. 2 does not have any current or anticipated plans to issue such debt.


Copy of Last Audit or Application for Exemption

A copy of the 2006 audit for District No. 1 is enclosed.

Pursuant to the Town of Castle Rock Municipal Code Section 11.02.210, I am enclosing fifteen (15) copies and a check for \$250.00. As I understand the procedures, you now have thirty (30) days from receipt of this application to submit a report to the Town Council including a recommendation as to the statutory findings. The Town Council will review and consider the application at a regular meeting within thirty (30) days of the filing of your report. The Town Council will then issue a written decision on the application within twenty (20) days of the Please feel free to call me if you have any questions. Thank you.

Very truly yours,

WHITE, BEAR & ANKELE
Professional Corporation


Joseph J. Lico

Enclosures

Attachment 3



GARY R. WHITE
KRISTEN D. BEAR
WILLIAM P. ANKELE, JR.
K. SEAN ALLEN
GEORGE M. ROWLEY*
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MARCUS R. SORENSEN
CYRIL R. VIDERGAR

February 22, 2008

VIA U.S. Mail

Mr. Bob Slentz
Mr. Jay Richards
Town of Castle Rock
100 N. Wilcox Street
Castle Rock, CO 80104

**Re: Crystal Valley Metropolitan District Nos. 1 and 2
Consolidated Quinquennial Report**

Dear Mr. Slentz and Mr. Richards:

This letter is being sent as a follow up from our January 28, 2008, meeting regarding the consolidated quinquennial report filed by Crystal Valley Metropolitan District Nos. 1 and 2. At the meeting, Mr. Richards provided a list of eleven (11) questions that he wanted to address. A copy of the questions is included for your reference. Most of the questions were addressed at the meeting but there were some outstanding issues that required follow up and additional information.

First, there was discussion about the current status of the Capital Plan and the status of development. As discussed at the meeting, the District has completed approximately eighty percent (80%) of the improvements and infrastructure. The District has four primary projects remaining: pedestrian bridge, I-25 interchange, north two lanes and infrastructure surrounding the recreation center. The pedestrian bridge and recreation center hope to break ground and begin construction during 2008 and be completed by 2009. The I-25 interchange and north two lanes hopefully will begin construction sometime in 2009 or early 2010.

Next, Mr. Richards asked about the Letter of Credit fees. Mr. Richards questioned the amount of the fees and the reason for such a high percentage. A copy of the Certificate of the Letter of Credit Bank is included with this letter for your reference. Be assured the Districts continue to explore alternative finance options and should the option present itself to better the current situation, the District will act.

Another area of discussion revolved around the Track Bridge Project and the current financial scenario and outstanding balances owed by Crystal Crossing Metropolitan District ("Crystal Crossing"). As stated in the meeting, the financials that were reviewed were from 2006 and rather outdated. Enclosed is a copy of the most recent spreadsheet through 2007 that

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Mr. Bob Slentz
Mr. Jay Richards
Re: Crystal Valley Nos. 1 & 2 – Consolidated Quinquennial Report
February 22, 2008
Page 2 of 2

shows Crystal Crossing with an outstanding balance of \$115,553.70. In 2008, Crystal Crossing has paid an additional \$31,556 leaving them with an outstanding balance of \$83,997.70. It was also acknowledged that Crystal Crossing had repaid most of the costs outstanding but there was a disagreement between the Districts as to who was responsible for what portion of the Schedule C costs. The Districts are discussing the issue as to these costs and hope to have a resolution in the next few months.

The next issue requiring additional follow up was the condemnation status. As pointed out during our conversation, the District is currently involved in a condemnation suit over the Andrews' property. Currently, the District is seeking to obtain access to the entire property and waiting on an appraisal from Mr. Andrews. Once the appraisal is complete the District will begin negotiations for the condemnation of the Andrews' property. Trial is currently set for July 9, 2008.

The final question that required additional follow up centered on the continued certification of the mill levy for District No. 2 at 46.94 while the assessed valuation of the land continued to increase. The District has outstanding debt that requires it to continue to levy the mills at the current rate. Conditions exist within the bond documents that require the debt service mill levy to remain at the current rate until the bonds are paid in full. The District believes that with the continued sale of new homes and increasing assessed valuation of the property it will be able to reduce the mill levy in the near future with the help of refinancing the current bonds.

I believe all of the remaining questions Mr. Richards provided were addressed in the meeting. If this is incorrect or you have additional comments or questions please let me know. We are set for review by the Town Council on March 4, 2008. We would like to make sure this date is kept and this matter continues to move forward. Thank you for your time and consideration on this matter.

Very truly yours,

WHITE, BEAR & ANKELE
Professional Corporation



Joseph J. Lico

Enclosures

Cc: Gregg Brown (w/o attachments)
Matt Gordon (w/o attachments)

\$20,740,000
CRYSTAL VALLEY METROPOLITAN DISTRICT NO. 1
DOUGLAS COUNTY, COLORADO
VARIABLE RATE DEMAND REVENUE BONDS
SERIES 2004

CERTIFICATE OF THE LETTER OF CREDIT BANK

The undersigned, a duly authorized officer of Wells Fargo Bank, National Association, a national banking association (the "Bank"), in connection with the issuance by the Crystal Valley Metropolitan District No. 1 (the "District") of \$20,740,000 aggregate principal amount Variable Rate Demand Revenue Bonds, Series 2004 (the "Bonds") hereby certifies on behalf of the Bank that:

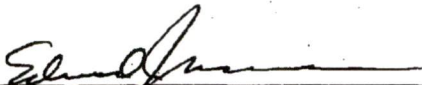
1. The Bank will issue its letter of credit in the maximum amount of \$20,995,698.63 to provide for the payment of the principal of, purchase price and interest on the Bonds (the "Letter of Credit") pursuant to the Reimbursement Agreement dated as of October 1, 2004 (the "Reimbursement Agreement") by and between the District and the Bank.
2. Pursuant to Section 4.2 of the Reimbursement Agreement, so long as the Letter of Credit is outstanding, the Borrower agrees to pay the Lender a Credit Facility Fee with respect to the Letter of Credit (the "Credit Enhancement Fee") for each calendar quarter that the Letter of Credit is outstanding in an amount equal to the sum of (i) one and 75/100ths percent (1.75%) per annum of the difference between the maximum amount which may be drawn under the Letter of Credit and the amount held in the Cash Collateral Accounts established pursuant to the Reimbursement Agreement and the documents related thereto as of the first (1st) day of such calendar quarter, and (ii) one percent (1.00%) per annum of the amount held in such Cash Collateral Accounts (up to the maximum amount which may then be drawn under the Letter of Credit) as of the first (1st) day of such calendar quarter. Notwithstanding the foregoing, if and for so long as an Event of Default under the Reimbursement Agreement has occurred and continues or exists, then, at the Lender's option, the Credit Enhancement Fee shall thereafter be increased by an additional two percent (2%) per annum. The Credit Enhancement Fee shall be due and payable in advance in quarterly installments on or before January 1, April 1, July 1 and October 1 of each year during the term hereof.
3. No portion of the Credit Enhancement Fee represents a cost, risk or other element that is not customarily borne by credit facility providers of tax-exempt bonds. In addition, no portion of the Credit Enhancement Fee received by the Bank will be paid by the Bank to a third party in connection with the issuance of the Bonds.
4. The Credit Enhancement Fee represents and constitutes a charge for a transfer of credit risk, and is reasonable and was determined in arm's length negotiations and is required to be paid in consideration of the implementation of the Letter of Credit.
5. The Bank does not reasonably expect that it will be called upon to make any

payment under the Letter of Credit for which it will not be reimbursed immediately and the Bank is entitled to be fully reimbursed immediately or upon commercially reasonable repayment terms for any payments it makes pursuant to the Letter of Credit.

6. The certifications contained herein may be relied upon for purposes of determining the yield on the Bonds for purposes of §148 of the Internal Revenue Code of 1986, as amended.

7. All capitalized terms used but not otherwise defined herein shall have the respective meanings assigned in the Reimbursement Agreement.

WELLS FARGO BANK,
NATIONAL ASSOCIATION

By: 
Name: Edward J. Schoemaker
Title: Vice President

Attachment 4





MEMORANDUM

TO: Bob Slentz, Town Attorney

FROM: Jay F. Richards, Development Services Financial Analyst

SUBJECT: Crystal Valley Metropolitan District #1 & 2 Review

DATE: April 2, 2008

In accordance with our discussion the other day I have highlighted several issues (outstanding debt and absorption level activity) that are of concern relative to the Crystal Valley Metropolitan Districts #1 & 2 Quinquennial Review, which should be of assistance in preparing a final staff report directed to Council for the April 24 public hearing.

Outstanding debt as reflected in the most recent annual report filed by the Metropolitan Districts for the fiscal year ending December 31, 2006 indicates a total debt of \$49,217,933 consisting of outstanding principal (P) of \$42,519,252 and accrued/unpaid interest (I) of \$6,698,681 comprised of the following:

Variable Rate Demand Revenue Bonds - Series 2004	\$20,740,000 (P)	\$ 63,839 (I)
Revenue Subordinate Bonds – Series 2002	\$ 7,405,000 (P)	\$1,434,348 (I)
Revenue and Limited Tax Obligation Series A Promissory Notes to “Owners”	\$ 3,940,437 (P)	\$2,200,822 (I)
Revenue and Limited Tax Obligation Water Promissory Notes to “Owners”	\$ 5,036,157 (P)	\$2,812,888 (I)
Revenue and Limited Tax Obligation Funding And Reimbursement Agreement to “Owners”	\$ 42,728 (P)	
Revenue and Limited Tax Obligation Loan Agreement C – Series 2005 A, B, C & D to “Owners”	\$ 5,354,930 (P)	\$ 186,784 (I)

The approved Amended and Consolidated Service Plan of December 2001 set maximum General Obligation Bonded indebtedness for the Districts not to exceed \$45,000,000 and limited the maximum permissible mill levy which the District may covenant to impose for the payment of

all such General Obligation Bonds would be limited to 40 mills. The current mill levy imposed by District #2 is 46.94 (Gallagherized).

Absorption level activity for the districts has been substantially less than projected in the service plan, which anticipated that 867 unites would have been built by year-end 2006 when in fact only 362 units were CO ed for the same time frame or 42% of projections. (Note: this activity level is approximately 37% of projections as of year-end 2007) Calculating the debt load per residential unit built for this time frame would indicate each unit would have a debt load of approximately \$135,961.14.

Crystal Valley Absorption

Development Year	Service Plan 2001 ***	Actual Residential ****	Actual CO-ed
2002	0	0	0
2003	161	31	14
2004	231	73	52
2005	264	198	140
2006	211	108	156
2007	308	47	73
2008	310		
2009	290		
2010	279		
2011	251		
2012	267		
2013	361		
2014	185		
2015	240		
2016	117		
2017			
2018			

Totals: 3475 457 435

*** Per the plan these were to have been built units not just permitted.

**** These are permitted units