What is a Metropolitan District?

In order to fund the infrastructure needed in a development, developers can form a metropolitan district (metro district) that has the authority to issue bonds. A metro district is a taxing entity, separate from the Town of Castle Rock, that exists primarily to finance public improvements that benefit property owners in the district. The proceeds from the bond issuance are then used to fund infrastructure construction. The metro district assesses a mill on properties within the district and uses property tax revenue generated from that mill to fund the debt service payments. Metro districts are also allowed to levy a general operating mill, as approved in their service plan, to cover administration and operation expenses.

What is the Town's responsibility?

The Town currently has 41 Metro Districts, of which five are currently inactive. The 36 active Metro Districts within the Town are:

Bella Mesa	Dawson Ridge 1, 2, 3, 4, 5
Castle Oaks	Hillside at Castle Rock
Castle Oaks 3	Lanterns 1, 2, 3
Castle Pines Commercial 1, 3, 4	Maher Ranch 4
Castleview	Meadows 1, 2, 3, 4, 5, 6, 7
Castlewood Ranch	Promenade at Castle Rock 1, 2, 3
Crystal Crossing	Villages at Castle Rock 1, 4, 6, 7, 9
Crystal Valley 1, 2	

In accordance with the Municipal Code Section 11.02.040, active Metropolitan Districts are required to file an annual report with the Town Clerk. Each active District is required to submit the following information to the Town within nine months of year end:

A. A narrative summary of the progress of the District in implementing its service plan for the report year;

B. Except when an exemption from audit has been granted for the report year under the Local Government Audit Law, the audited financial statement of the District for the report year, including a statement of financial condition as of December 31 of the report year and the statement of operations for the report year;

C. Unless disclosed within a separate schedule to the financial statement, a summary of the capital expenditures incurred by the District in development of public facilities in the report year, as well as any capital improvements or projects proposed to be undertaken in the five years following the report year;

D. Unless disclosed within a separate schedule to the financial statements, a summary of the financial obligations of the District at the end of the report year, including the amount of outstanding indebtedness; the amount and terms of any new District indebtedness or long-term obligations issued in the report year; the amount of payment or retirement of existing indebtedness or long-term obligations issued in the report year; the total assessed valuation of all taxable properties within the District as of January 1 of the report year; and the current mill levy of the District pledged to debt retirement in the report year;

E. The District's budget for the calendar year in which the annual report is submitted;

F. A summary of residential and commercial development that has occurred within the District for the report year;

G. A summary of all fees, charges and assessments imposed by the District as of January 1 of the report year;

H. Certification of the Board that no action, event, or condition of Section 11.02.060 (Material Modification of Service Plan) of the Municipal Code has occurred in the report year;

I. The names, business addresses and phone numbers of all members of the Board and its chief administrative officer and general counsel, together with the date, place and time of regular meetings of the Board.

Quinquennial Review

The Town of Castle Rock has begun to take a more active role in reviewing the Metropolitan Districts within its jurisdictional boundaries in accordance with the Municipal Code Section 11.02.210 (Quinquennial Review) and Colorado Revised Statutes, Title 32, Section 32-1-1101.5, Special District Debt – quinquennial findings of reasonable diligence.

In every fifth year after the calendar year in which a Special District's ballot issue to incur general obligation indebtedness was approved by its electors, the Town of Castle Rock may require the Board of such Special District to file an application for a quinquennial finding of reasonable diligence. Thereafter, subsequent applications shall be filed within 60 days after receipt of such notice but no more frequently than every five years until all of the general obligation debt that was authorized by the election has been issued or abandoned.

When we have received the above information from all the districts, the Town of Castle Rock will establish a rotating schedule for conducting quinquennial reviews and will notify each respective district in which year their application will be required for a quinquennial finding of reasonable diligence.

It shall be our intention to consider whether the approved service plan and financial plan of the district are adequate to meet the debt financing requirements of the authorized and unissued general obligation debt based upon present conditions within the district. We will be examining the adherence to the service plan and financial plan, reporting any variances and material modifications that have occurred since the Town Council approved the plans.

On July 1, 2019, Promenade Metro District Nos 1, 2 and 3 submitted their application and report for a quinquennial review. Staff has reviewed their submission and will report to Council under separate cover.

Summary of the 2017 Review

The Town has received the required information from each of the 36 active Districts, as required by the Town code.

Our purpose in reviewing the Annual Metro District submission is to 1) identify Metro District compliance with the filing requirement (completeness and timeliness); 2) note any unusual items or items of note in the District submission including the Audited Financial Statements and Budget document; and 3) identify any significant circumstances that could potentially impact future repayment of long-term debt.

Town staff has reviewed each of the submissions for the year ended December 31, 2017, and is highlighting certain considerations for four of the Metro District areas (Castle Oaks, Crystal Valley, Founders and Meadows) in this report. These considerations include the size of the outstanding debt, ability to timely service debt and other considerations. We will continue to monitor the considerations as noted and will also expand our reporting to comment on all Districts in subsequent years. Staff plans to present the 2018 Metro District Summary to Town Council in December.

NOTE: The information presented in this report was generated from a review of the Metro District Annual Reports. Our review is based on the information presented in these documents, statements submitted by management, and a conservative projection of future market and revenue trends. We have not performed a full audit of the information. Accordingly, the statements and conclusions in this report represent the Town's analysis of the information provided and do not predict future performance of the Metro Districts.

Upon review of the submissions, the Town noted the following items of interest:

Castle Oaks Metropolitan Districts (Terrain)

The Castle Oaks area has three Metropolitan Districts within the development. Castle Oak Metropolitan District 1 (COMD 1) was created in 2001 and operates as a taxing and debt District.

Castle Oaks Metropolitan District 2 (COMD 2) has been inactive since 2015.

Castle Oaks Metropolitan District 3 (COMD 3) was established on June 27, 2006, under the provisions of the Colorado Special District Act, and serves as a taxing and debt District.

COMD 1 and COMD 3 were established to provide financing for the District's operations and maintenance, as well as for the design, acquisition, installation, construction, and completion of public improvements and services, including water, sanitation/storm sewer, streets, park and recreation, transportation, mosquito control, safety protection, television relay and translation, and security.

On November 7, 2000, COMD 1 voters authorized COMD 1 to issue $250,750,000 of general obligation bonds or other financial obligations for infrastructure development, parks and recreation, performance of intergovernmental agreements, formation of a regional water authority, refinancing of district debt, and other uses. However, COMD 1's Service Plan limits its general obligation debt to $25,000,000.

On November 3, 2015, District voters authorized COMD 3 to issue $504,000,000 of general obligation bonds or other financial obligations for the infrastructure development of the services noted in the preceding paragraphs; however, the District's amended Service Plan limits it general obligation debt to $36,000,000.

COMD 1 had $18,210,000 in outstanding debt obligations at December 31, 2017. This debt is comprised of a refunding loan agreement with Compass Mortgage Corporation, Series 2015A and 2015B.

During 2017, COMD 3 issued $34,105,000 in General Obligation Bonds to refund the Series 2015 and 2016 GO Bonds. In addition, COMD 3 paid down the Developer advance in the amount of $5,800,377 with the 2017 issuance. The Developer forgave $5,876,106 in outstanding obligations, resulting in only accrued interest on Developer advances in the amount of $4,620, outstanding at December 31, 2017.

Review Findings:

COMD 3 has received an unqualified audit opinion, with an explanatory item of note. As disclosed in Note 11 to the audited financial statements, the District has not yet established a revenue base sufficient to pay the District's operational expenditures. Until an independent revenue base is established, the District may be dependent upon the Developer of the District's service area for funding of continued operations. Accordingly, the auditor has noted an economic dependency on the Developer. Staff will continue to monitor progress within the District.

See **Attachment A** for additional information on COMD.

COMD CONSOLIDATED INFORMATION AS OF DECEMBER 31, 2017:		**RATIO ANALYSIS:**	
Assessed valuation	$26,027,380	Debt per Assessed Valuation	2.02
Operating Mill	4.000		
Debt Service Mill	46.000		
Estimated Annual Property Tax Revenue	$1,301,369		
Total Debt Outstanding	$52,678,544		
Zoned Units	2,767	Debt per Zoned Unit	$19,038
Platted Units	1,696	Debt per Platted Unit	31,060
Units Built	1,117	Debt per Unit Built	47,161
% Buildout	65.9%		

Crystal Valley Metropolitan District 2 (CVMD 2)

Crystal Valley Metro District 1 is intended to serve as the "Operating District," while Crystal Valley Metro District 2 is intended to serve as the "Taxing District." CVMD 1 is responsible for providing the day-to-day operations and administrative management for both Districts.

CVMD 1

As of December 31, 2017, the District had remaining voted debt authorization of approximately $93,543,989. Per the District's Service Plan, CVMD 1 debt is limited to $45,000,000 of which $1,043,989 is remaining. However, as part of the Quinquennial findings issued by the Town on May 6, 2008, the District is precluded from issuing any general obligation debt, specifically excepting "the refunding of any outstanding bond, note or other debt or financial obligation of the Districts."

On February 24, 2012, CVMD 1 remarketed the Series 2004 Bonds. $10,499,000 of the remarketed bonds, Series 2004A, will mature on December 1, 2018. $9,681,000 of the Series 2004 Bonds were remarketed as subordinate Series 2004B Developer Bonds maturing on December 1, 2041. These bonds were subsequently refinanced in 2015 and 2017, respectively, by CVMD 2.

CVMD 2

CVMD 2 has a voter-authorized debt limit of $137,500,000. As of the December 31, 2017, the amount of the debt authorized but not issued was $99,130,000. Per the CVMD Service Plan, CVMD 2 debt is limited to $45,000,000 of which $6,630,000 is remaining.

On August 1, 2014, CVMD 2 issued $28,370,000 of General Obligation Refunding Subordinate Bonds, Series 2014A, at an interest rate of 5.5 percent, and $10,000,000 of General Obligation Refunding Bonds, Series 2014B, at an interest rate of 0 percent. The 2014A and 2014B Bonds mature on December 15, 2049. Both sets of bonds were issued for the purpose of refunding developer notes, including any accrued interest, held by CVMD 1.

The amounts of all other subordinate debt of CVMD 1 that are not otherwise restructured into Series 2014A and Series 2014B Bonds have been discharged in their entirety. Per a Limited Mutual Release between the District and the Subordinate Bondholders, dated July 2, 2014, both the Series 2014A and 2014B Bonds are subject to discharge in their entirety thirty-five years after issuance, unless litigation is filed against the developer entity, Bondholders or current or past Board members by or through the Districts challenging the enforceability or terms of the Bonds, or relating in any way to the operations of the District. The Subordinate Bondholders also agree to release the Districts, the successors, administrators, principals, Board members, officers and assigns and any construction management fees of any possible challenges on the past, present or future operations of the Districts. If such litigations are filed by either party, the principal and interest due on the Series 2014A and 2014B Bonds will not be discharged at year thirty-five, but rather will be due and payable until paid in full.

On December 23, 2015, CVMD 2 issued Limited Tax General Obligation Refunding Loan Series 2015 for the refunding of the outstanding Series 2004A and a portion of the 2004B bonds held by CVMD 1.

On November 1, 2017, CVMD 2 issued Limited Tax General Obligations Refunding Loan, Series 2017 for the refunding of the remaining portion of the Series 2004B bonds.

Review Findings:

CVMD 2 has received an unqualified opinion from its independent auditors on the District's December 31, 2017 Financial Statements. Upon staff review of the financial statements, it appears that CVMD 2 has a significant amount of debt outstanding, approximately $61 million, without any pay down of the principal in current year and unpaid accrued annual interest. CVMD 2 is approximately 62 percent built out. As the district continues to grow, the revenue base will increase and thus allow CVMD 2 to generate additional revenue to meet its debt service. Staff will continue to monitor progress within the district.

See **Attachment B** for additional information on CVMD.

CVMD CONSOLIDATED INFORMATION AS OF DECEMBER 31, 2017:		**RATIO ANALYSIS:**	
Assessed valuation	$24,539,250	Debt per Assessed Valuation	2.49
Operating Mill	10.000		
Debt Service Mill	45.940		
Estimated Annual Property Tax Revenue	$1,372,726		
Total Debt Outstanding	$61,040,000		
Zoned Units	3,475	Debt per Zoned Unit	$17,565
Platted Units	1,440	Debt per Platted Unit	42,389
Units Built	893	Debt per Unit Built	68,354
% Buildout	62.0%		

Founders Village Metropolitan District (FVMD) includes ***Villages at Castle Rock Metropolitan District No. 4*** (component unit)

FVMD 1

FVMD 1 generally encompasses the northwesterly 734.14 acres of the Founders Village Planned United Development.

FVMD 1 collects and transfers all property tax revenues and system development fees to FVMD 4. FVMD 4 constructs major public infrastructure and maintains certain landscaping and fencing facilities for the benefit of FVMD 1.

FVMD 4

FVMD 4 encompasses 17.04 acres and functions as the "lead" or "master" district. FVMD 4 also services the major bond debt on behalf of FVMD 1 and FVMD 9.

FVMD 4 entered into a Chapter 9 Bankruptcy in 1989 and negotiated a new Bond Resolution in 1991. FVMD 1 and FVMD 9 are required to contribute ad valorem Property Taxes and System Development Fees to FVMD 4 under separate Intergovernmental Financing Agreements.

FVMD 9 has no revenue to date. On two separate occasions, FVMD 4's Board of Directors has actively solicited bondholders to restructure the current bond debt, which efforts have proven unsuccessful.

FVMD 4 constructs all capital improvements benefiting and serving FVMD 1.

FVMD 6

FVMD 6 encompasses the Cobblestone Ranch area.

On May 4, 2004, electors of FVMD 6 authorized the issuance of indebtedness in an amount not to exceed $60,000,000 for general obligation bonds at an interest rate not to exceed 18 percent per annum. In addition, the electors authorized the refunding of up to $60,000,000 in general obligation bonds at a higher interest rate. As of December 31, 2017, FVMD 6 has $95,760,118 of remaining debt authorization.

Pursuant to the Service plan, any additional debt issued by FVMD 6 will require prior approval by the Town. The maximum debt service mill levy per the service plan is 50.000 mills, subject to adjustment due to Gallagher. As of December 31, 2017, the maximum debt service mill levy per the service plan, as adjusted, is 55.277 mills.

On December 21, 2007, the District issued $22,647,882 in Limited Tax General Obligation Capital Appreciation Bonds (CABs). The CABs were converted to current interest bonds on December 1, 2010. The proceeds were used to pay for bond issuance costs and to reimburse the Developer for advances made on behalf of FVMD 6 for capital infrastructure costs.

The annual debt service requirements on the CABs are not presented as the current revenue stream is not sufficient to pay the debt, according to the debt service schedule presented at the time of bond issuance. Payment is subject to monies being available pursuant to provisions of the Indenture of Trust. FVMD 6 was unable to make full principal and interest payments on the CABs in 2017. The inability to pay principal and interest on the 2007 CABs when due does not constitute an event of default, so long as FVMD 6 imposes the required mill levy.

On December 21, 2007, FVMD 6 authorized the issuance of Subordinate Bonds in the aggregate principal amount not to exceed $37,352,118. FVMD 6 issued $1,592,000 in Subordinate Bonds on December 21, 2007. Any additional debt against the aggregate principal amount will require prior approval from the Town.

Fire Protection and Emergency Response Intergovernmental Agreement

FVMD 6 entered into a Fire Protection and Emergency Response IGA with the Town in 2007. Under the agreement, the Town is obligated to provide fire protection and emergency response services to property within FVMD 6, and FVMD 6 shall impose a mill levy of 10 mills dedicated and pledged to the Town for the purpose. In 2017, the amount collected under this agreement totaled $193,661 and was remitted on December 20, 2017.

FVMD 7

FVMD 7 encompasses the Woodlands and Scott II PUD. On November 2, 1992, FVMD 7's plan for adjustment of debts was approved by the United States Bankruptcy Court, and accordingly, the Town and FVMD 7 negotiated a new Master Intergovernmental Agreement (MIGA) and amended the Service Plan. The amendment to the MIGA clarified and amended Development Fee collections, credits, utility capacities, services and the capital improvement obligations of FVMD 7, FVMD 4 and the Town. Although the majority of the infrastructure has been dedicated to the Town, the District maintains certain landscaping improvements located within the District.

On September 29, 2005, FVMD 7 issued $3,495,000 of General Obligation Refunding Bonds, with an interest rate of 3.0 percent to 4.0 percent, maturing in 2025. These bonds were issued to advance refund the GO Variable Rate Bonds, Series 2000.

During 2017, FVMD 7 elected to optionally redeem $100,000 of the Series 2005 Bonds, prior to the scheduled maturity date. The District is anticipating full payoff of the debt on or before their original maturity schedule.

As of December 31, 2017, the District had no remaining voted debt authorization. All previously unissued authorized debt expired in December 2005.

FVMD 9

FVMD 9 encompasses 206.4 acres, which is currently zoned as undeveloped. The underlying property is owned by the Memmen Family Trust and the William Memmen Living Trust. FVMD 9 is not an active District as of December 31, 2017.

Review Findings:

In 1986, FVMD 4 issued Revenue Bonds valued at $32,000,000. As part of a Chapter 9 bankruptcy plan, the District subsequently restructured these Bonds through a Dutch auction* bond sale, resulting in new Exchange Bonds face-valued at $25,911,000. These bonds have an interest rate of 8.5 percent per annum. Payments are made to current interest first, then to unpaid interest, then to principal. The bonds mature on June 1, 2031, and will be deemed to be discharged, satisfied and no longer due and payable.

Interest on the bonds accrues and is determinable in each year, but a failure to pay accrued interest because of lack of revenue does not constitute a default. The actual amount of payment to be made in future years will depend on future revenue and cannot be predicted with certainty.

Through December 31, 2017, FVMD 4 outstanding bond principal is $25,911,000. The accrued unpaid Bond interest is $94,296,029. In 2017, FVMD paid debt service of $2,500,000 to the Bond Trustee, for distribution to FVMD 4 bondholders.

Total outstanding debt for FVMD 4 as of December 31, 2017, including accrued interest, is $120,207,029**. Outstanding debt for the consolidated FVMD is $178,106,541 as of December 31, 2017.

See **Attachment C** for additional information on FVMD.

FVMD CONSOLIDATED INFORMATION AS OF DECEMBER 31, 2017:		RATIO ANALYSIS:	
Assessed valuation	$89,072,030	Debt per Assessed Valuation	2.0
Operating Mill	0.000 to 21.055		
Debt Service Mill	0.000 to 87.314		
Estimated Annual Property Tax Revenue	$5,253,349		
Total Debt Outstanding	$178,106,541		
Zoned Units	5,421	Debt per Zoned Unit	$32,855
Platted Units	2,634	Debt per Platted Unit	67,618
Units Built	2,278	Debt per Unit Built	78,185
% Buildout	86.5%		

* A “Dutch auction” is a method for pricing shares whereby the price of the shares offered is lowered until there are enough bids to sell all of the shares. All the shares are then sold at that price.

** $120,207,029 represents the debt outstanding for FVMD 4 only.

Meadows Metropolitan Districts 1-7 (MMD 1-7)

Meadows Metropolitan Districts 1-7 were organized on July 11, 1985. The Consolidated Service Plan for Meadows Metropolitan District 1-7 was amended and restated on October 1, 1993.

Under agreements between the seven Meadows Metro Districts, it is established that the Meadows Metropolitan District 4 (MMD 4) will be the Master District for all of the Districts. The Master District is otherwise responsible for completion of all capital improvements within the Districts. However, the Districts are jointly responsible for financing.

MMD’s General Obligation Bonds, Series 1989A, 1989B and 1989C, are characterized as general obligation bonds with a “capped mill levy.” Effective June 1, 2002, MMDs 1-7 entered into the First Amendment to the Amended and Restated Indenture of Trust, which states that the remaining payment to the bond holders on the Series 1989 GO Bonds will be made on a quarterly basis, instead of semi-annually. Any interest that is due and not paid at the end of each quarter is charged interest at a rate of 7.999 percent per annum. The District required payment on the bonds is limited to the proceeds generated from the limited mill levy of 35 mills and certain other revenues, less priority expenses.

Meadows Metropolitan District 1, 2, and 7 have outstanding debts that are paid through a Regional Facilities Cost Sharing Agreement between MMD 1-7. The General Obligation Bonds held by MMDs 1-7 have a capped mill levy of 35 mills and an interest rate of 7.999 percent. Any interest that is due and not paid at the end of each quarter is charged interest at 7.999 percent per annum.

The bonds mature as of June 1, 2029, and interest will not continue to accrue after that date. However, MMDs 1-7 will continue to set the limited mill levy until the bonds and the accrued interest are paid in full. MMDs 1-7 are not entitled to any sort of prepayment on the bonds.

Interest on the bonds accrues and is determinable in each year, but a failure to pay accrued interest because of lack of revenue does not constitute a default. The actual amounts of payment to be made in future years will depend on future revenues and cannot be predicted with certainty.

The total outstanding debt for MMDs 1-7 as of December 31, 2017, including accrued interest, is $323,308,824.

Town staff has prepared a forecast of revenue and debt requirements for MMDs 1-7, and estimates the debt for the Districts will be paid off in the 2056 – 2062 timeframe. Fluctuations in the assessed valuation for property within the District will impact the rate at which the revenue is generated for the full repayment of the debt. In addition, MMD has a longer estimate of the payoff timeframe and, based on their last calculation (performed 5-6 years ago), estimate a payoff timeframe of 96 years.

See **Attachment D** for additional information on MMD 1-7.

MMD CONSOLIDATED INFORMATION AS OF DECEMBER 31, 2017:		**RATIO ANALYSIS:**	
Assessed valuation	$180,720,660	Debt per Assessed Valuation	1.79
Operating Mill	0.000 to 6.596		
Debt Service Mill	28.404 to 35.000		
Estimated Annual Property Tax Revenue	$6,325,223		
Total Debt Outstanding	$323,308,824		
Zoned Units	10,644	Debt per Zoned Unit	$30,375
Platted Units	7,480	Debt per Platted Unit	43,223
Units Built	6,084	Debt per Unit Built	53,141
% Buildout	81.3%		

Conclusions

Do all residential or commercial areas in Castle Rock have Metro District debt?

Many households in Castle Rock have Metro District debt. However, there are certain residential areas that were either developed without the use of a metro district (such as Metzler, Craig & Gould, Red Hawk, Timber Canyon and Diamond Ridge, for example) or the Developer used the Metro District to issue debt and has successfully paid it off. This was the case for the Plum Creek Metropolitan District, which paid its District debt in full in 2015 and no longer assesses a metro district mill levy on its residents.

Analysis of the Metro Districts

In total, the Metro Districts within the Town's limits have approximately $733M in debt outstanding. See **Attachment E** for an analysis of Metro District Debt Maturity Dates. This information is taken from the amortization schedules for each external issuance; developer advances are not given a term certain, as they are subordinate to the external debt and are payable from available revenues after meeting current obligations. No amortization schedule or maturity date exist for the developer advances.

Based on the procedures performed on the annual reports submitted by each Metro District for the year ended December 31, 2017, it is evident that each Metro District has its own story. Districts have varying levels of debt and maturity dates, various stages of development, and revenue sources limited to their mill levy as stated in the service agreement. Although the intent of a metro district is to issue debt to fund the infrastructure and start-up costs of a development, the success of a given metro district is contingent upon the debt amount and terms, the stage of development, and current and future market conditions.

Although metro district debt may be an important tool for the development community, it can become burdensome on current and future residents and businesses. The amount of debt issued and the term of the repayment should not out-last the life of the asset it funded. In certain cases, metro district debt exists long after the life of the asset; infrastructure may be replaced one to two times before the debt is retired. Metro districts tax future residents and businesses rather than rolling the infrastructure costs into the up-front price of the home.

Staff will continue to monitor Metro District submissions and plan to inform Council of any potential concerning situations.

NOTE: The information presented in this report was generated from a review of the Metro District Annual Reports. Our review is based on the information presented in these documents, statements submitted by management, and a conservative projection of future market and revenue trends. We have not performed a full audit of the information. Accordingly, the statements and conclusions in this report represent the Town's analysis of the information provided and do not predict future performance of the Metro Districts.

Staff Report Attachments

Attachment A: Castle Oaks Metro District Summary
Attachment B: Crystal Valley Metro District Summary
Attachment C: Villages at Castle Rock (Founders) Metro District Summary
Attachment D: Meadows Metro District Summary
Attachment E: Summary of Metro District Debt
Attachment F: Town-wide Metro District Summary
Attachment G: Metro District Map
Attachment H: Property Taxes by Metro District