BACKGROUND

District Overview

Castle Pines Commercial Metropolitan District (CPCMD) 1 was created on March 25, 1987. CPCMD 1, 3 and 4 operate under an Amended and Restated Consolidated Service Plan for Castle Pines Commercial Metropolitan Districts 1-4 approved by Town Council on January 6, 2015. CPCMD 3 and 4 are Taxing Districts, and CPCMD 3 is considered the operating district. The District boundaries are shown in **Attachment B**.

Pursuant to the Capital Pledge Agreement dated January 1, 2015, CPCMD 3 and 4 (“Taxing Districts”) have limited tax general obligations to CPCMD 1. Property taxes to be generated from the Taxing Districts’ debt service mill levies, including specific ownership taxes to be received as a result of imposition of such mill levies, are expected to be transferred, net of fees, to CPCMD 1 to pay for debt service expenditures.

Effective November 7, 2018, CPCMD 3 ceased its role as the operating District and operates fully independent from Castle Pines Commercial Metropolitan Districts Nos. 1 & 4 (collectively, the “Districts”).

CPCMD 1 has entered into an intergovernmental agreement with Promenade at Castle Rock Metropolitan District No. 2 (PCRMD 2) for district construction administration whereby PCRMD 2 is to undertake construction of public improvements on behalf of CPCMD 1; CPCMD 1 will, in turn, requisition proceeds from its bond issue to transfer to PCRMD 2 for payment of capital costs related to the same. In the report year, PCRMD 2 undertook public infrastructure as required for residential and commercial development within and without CPCMD 1. Construction is ongoing, and requisitions are filed with the Town by PCRMD 2 detailing that requisition period’s construction and identifying construction of public improvements for review and authorization by the Town. Such public improvements include but are not limited to street, water and sanitary sewer infrastructure, overlot grading, retaining walls, and landscape improvements.

As the Districts state in the application for quinquennial review,

> *“Pursuant to the Consolidated Service Plan, because District No. 1 overlaps with Promenade Metropolitan District No. 1, District No. 1 is not empowered to impose a mill levy on the property within its boundaries. Accordingly, District Nos. 3 and 4, are required to impose a debt service mill levy for the payment of the 2015 Bonds pursuant to the requirements of the Capital Pledge Agreement.*
>
> *On March 20, 2020, the District filed a complaint in Douglas County District Court against Castle Pines Commercial Metropolitan District No. 3, arising from District No. 3’s failure to remit ad valorem tax revenue to the District as required by the Capital Pledge Agreement. …*
>
> *… District No. 3 has asserted counterclaims alleging the requirement of the Capital Pledge agreement are unconstitutional.*
>
> *As of June 22, 2020, the initial pleadings have been filed. Discovery has not yet commenced and a trial has not yet been set. If District No. 3 prevails in this case, the Capital Pledge Agreement will be null and void as to District No. 3, and District No. 1 will not be entitled to future tax revenue from District No. 3. If district No. 1 prevails, it will be entitled to the funds being held by District No. 3 and all future District No. 3 tax revenue as the same are ledged pursuant to the Capital pledge Agreement.”*

ANNUAL REPORT REVIEW

The annual reports of the Districts for the year ending December 31, 2018 provide a snapshot of their financial condition. District No. 1 received an unqualified, or clean, opinion on its audited financial statements, and District No. 4 filed an audit exemption form with the State. District No. 1 serves as the "Financing District," and District No. 4 serves as the "Taxing District."

The primary source of revenue is intergovernmental revenue received from District Nos. 3 and 4, as defined in the Capital Pledge Agreement and developer advances. District No. 1 has not certified an operation or debt mill for the year ended December 31, 2018. District No. 4 has certified a levy of 51.152 mills (10.000 mill for operations, 40.000 mills for debt repayment and 1.152 for Refunds and Abatements).

Historical valuation and mills are as follows:

Year of Assessment /Collected in Subsequent Year	CPCMD 1			CPCMD 4			CPCMD 3*		
	Valuation	Mill	Revenue	Valuation	Mill	Revenue	Valuation	Mill	Revenue
2014	$ 152,910	0.000	$ -	$4,588,600	50.000	$229,430	$6,638,040	50.000	$ 331,902
2015	335,130	0.000	-	6,543,660	50.000	327,183	5,827,560	50.000	291,378
2016	598,420	0.000	-	6,517,700	50.000	325,885	5,750,710	50.000	287,536
2017	1,090,790	0.000	-	7,598,470	51.152	388,677	6,308,340	51.773	326,602
2018	3,259,560	0.000	-	7,590,530	50.000	379,527	5,946,090	56.882	338,225

(*) District No. 3 is not included in the application for quinquennial review, however the property tax generated in District No. 3 is currently pledged to District No. 1 for debt service, as noted above.

Long Term Debt – District No. 1

Pursuant to the Amended and Restated Consolidated Service Plan dated January 6, 2015, the Districts can issue bond indebtedness of up to $12,000,000. The District has a maximum debt service mill levy of 50.000 mills and a maximum operation mill levy of 15.000 mills, as adjusted for changes in the ratio of actual to assessed value of property within the District.

On January 16, 2015, CPCMD 1 issued $5,875,000 of Limited Tax Supported Revenue Bonds, Series 2015, for the purpose of financing: 1) the reimbursement and payment of construction costs of public improvements benefitting the consolidated CPCMD, 2) reserve fund, and 3) the costs of issuing the bonds. The Bonds mature in 2039 and have an interest rate of 5 percent. The outstanding balance on the Series 2015 Bonds was $5,595,000 at December 31, 2018.

As of the date of this report, District No. 1 does not have any current or anticipated plans to issue additional debt.

SERVICE PLAN REVIEW AND ANALYSIS

Revenue Projections

Year of Assessment /Collected in Subsequent Year	CPCMD 3 & 4 Actual Valuation	CPCMD 3 & 4 Actual Debt Service Mill	CPCMD 3 & 4 Actual Revenue	CPCMD 3 & 4 Projected ** Valuation	CPCMD 3 & 4 Projected ** Debt Service Mill	CPCMD 3 & 4 Projected ** Revenue
2014	$ 11,226,640	40.000	$ 449,066	$ 9,001,110	40.000	$ 360,044
2015	12,371,220	40.000	494,849	9,181,132	40.000	367,245
2016	12,268,410	40.000	490,736	9,181,132	40.000	367,245
2017	13,906,810	40.000	556,272	9,364,755	40.000	374,590
2018	13,536,620	40.000	541,465	9,364,755	40.000	374,590

** Revenue projections shown in the Exhibit F of the Service Plan show combined revenues of Districts 3 and 4 dedicated for the debt service.

Assessed valuation - property tax

Staff compared the projected assessed valuation used in developing the approved service plan to the actual valuation as stated on the Douglas County Assessor site. As noted above, the assessed valuations of District Nos. 3 and 4 appear to exceed the initial projections.

Debt Service – Current status and predictions

Schedule of Debt Service Requirements to Maturity

Year ending December 31,	Principal	Interest	Total	District 4 Projected Debt Service Revenue (assuming a 3% inc per year)
2019	$ 110,000	$ 279,750	$ 389,750	$ 390,912
2020	120,000	274,250	394,250	402,640
2021	125,000	268,250	393,250	414,719
2022	140,000	262,000	402,000	427,160
2023	150,000	255,000	405,000	439,975
2024	165,000	247,500	412,500	453,174
2025	170,000	239,250	409,250	466,770
2026	190,000	230,750	420,750	480,773
2027	200,000	221,250	421,250	495,196
2028	215,000	211,250	426,250	510,052
2029	230,000	200,500	430,500	525,353
2030	245,000	189,000	434,000	541,114
2031	260,000	176,750	436,750	557,347
2032	280,000	163,750	443,750	574,068
2033	295,000	149,750	444,750	591,290
2034	320,000	135,000	455,000	609,029
2035	335,000	119,000	454,000	627,299
2036	360,000	102,250	462,250	646,118
2037	380,000	84,250	464,250	665,502
2038	405,000	65,250	470,250	685,467
2039	900,000	45,000	945,000	706,031
	$ 5,595,000	$ 3,919,750	9,514,750	$ 11,209,991

Based on the bond amortization schedule for the Series 2015 bonds, past performance, and conservative growth of 3.0 percent in the property tax revenue of District Nos. 3 and 4, they are on track to pay in accordance with their debt service requirements. However, without the property tax revenue from District No. 3, coverage of the debt service payment could become problematic given potential changes in the commercial properties' assessed valuation.

Conclusion

Based on the analysis performed on the financial records for the Castle Pines Commercial Metropolitan District Nos. 1 & 4 (collectively, the "Districts"), as submitted to the Town by the Districts, it appears that they are operating in accordance with the parameters as defined in the Service Plan. Additionally, revenues generated by the Districts appear to be consistent with their financial projects and reasonable to meet the debt service requirements for the outstanding debt. The pending litigation with District No. 3 and the impact it may have on the Capital Pledge Agreement could impact this conclusion. Staff will continue to review the financial health of all metro districts on an annual basis and will inform Council accordingly.

NOTE: The information presented in this report was generated from a review of the Districts' Quinquennial Reports; the Districts' 2018, 2017, 2016 and 2015 Consolidated Annual Reports, which include Audited Financial Statements and Compiled Budgets for the Districts; the Amended Public Finance Agreement; and the Districts' Service Plans. The Town's review is based on the information presented in these documents, statements submitted by management, and a conservative projection of future market and revenue trends. Staff has 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 Districts.

Attachments

Attachment A: Resolution
Attachment B: Boundary Map - Castle Pines Commercial Metropolitan District Nos. 1 & 4