Colorado Springs Urban Renewal Authority to remain in default, continue debt service reserve draws to make bond payments – New Coverage
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The **Colorado Springs Urban Renewal Authority** (URA) will remain in default on its Series 2008B subordinate tax increment revenue bonds backed by the **University Village Colorado Project** when the 15 December payment is due, said URA staff member Jim Rees.

“There was a timeline for build-out and due to the economic downturn the developers were not able to meet the timeline,” said Mary K. Burnett of the Colorado Springs Urban Renewal Authority. “It’s not generating the [expected] property tax and the sales tax. Therefore, there wasn’t enough money to make the bond payments.”

In December 2011, debt service payments for the Series 2008A senior tax increment revenue bonds required a USD 913,000 draw on the bond’s debt service reserve fund (DSRF) to make the USD 2.5m debt service payment, according to disclosure from trustee UMB Bank. There were not sufficient funds in the subordinate DSRF to pay the USD 688,000 required for the Series 2008B bonds. To make a USD 1.6m payment due 1 June for the Series 2008A bonds, the trustee had to withdraw an additional USD 153,000 from the senior DSRF, according to a second disclosure.

The bonds are backed by property tax collection on the development, Rees said. They are also backed by the city’s 2% sales tax collection. The city’s fiscal year ends 31 December.

The most recent Series 2008A bond payment, 1 December, was made through a mix of DSRF draws and available tax increment revenue, Rees said. He was unsure of the payment mix.

The Series 2008A DSRF had USD 1.17m remaining before the bond payments, according to a 3Q12 disclosure, the most recent data available. The fund’s minimum balance is USD 4.7m, according to the bond’s official statement.

The Series 2008B bonds will remain in default for the foreseeable future, Rees said. There was USD 33 in the Series 2008B DSRF at the end of 3Q12, according to the financial statements. The fund’s minimum balance is USD 750,000, according to the bond’s official statement.

“The way the bonds are structured, before we can make any kinds of payments at all on the Series B we have to replenish the reserve funds in A,” Rees said, which would require an improvement in the sales and property tax collection which funds the bonds. “Then we will begin to fill those reserve funds out to where they need to be.”

New schedule for completion, new agreement for bondholders

The project had originally called for four years to build the development, Rees said. Now the developer, Kratt Commercial Properties, is planning to be done in three years, nearly doubling the build-out time, Rees said. Kratt did not respond to requests for comment. Once the project is complete, the URA would like to restructure the bonds with bondholders so that the bond payments match the sales and property tax collected in the development, Rees said.

The retail center is attracting its target demographic, said Mike Anderson, a senior partner at Colorado Springs-based economic research firm Summit Economics. Anderson, who shops at the center, said he has noticed “well-heeled” customers from local historic districts and college students.

“I didn’t note so many students (at the beginning), but now it’s becoming very obvious that the center is a shopping and leisure hub for students,” Anderson said. “Most of the retail centers going in adjacent to universities have been very successful.”

Sales tax collections increased 66% to USD 288,000 in July 2012 from USD 191,000 a year earlier, according to the 3Q12 disclosure, the most recent data available.

The developers' expectation to build out in three years was in line with Anderson, who believed the project could be completed in a few years, since there had been a large acceleration in retailer interest in the past six to nine months.

The development has been helped by increased roads which could bring traffic to the area, said Tom Binnings, a senior partner at Summit Economics.

"It certainly fills a market void and provides much better access to probably 30,000 households that are west of the interstate," Binnings said. "I think that that's actually probably the most vibrant and actively growing retail development in the metro area right now."

A USD 47.1m tranche of Series 2008A bonds which mature in 2029 last traded in round lot trades 13 January between 81.7 and 82 yielding 9%, according to information on Electronic Municipal Market Access. The 2008B bonds have not traded since issuance. Bondholders could not be immediately identified. The bonds are not rated. The URA has USD 55.6m outstanding, USD 54.6m of which is backed by the North Nevada Project Area, according to the FY09 financials, the most recent data available.

by Maryellen Tighe