

# TheRealTelluride

Telluride Realty's Monthly e-Newsletter – August 2010

**On Tap: August**

## August Calendar of Events

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**6 - 8 Telluride Jazz Celebration**

*The Telluride Jazz weekend is in fact, a "celebration" of the art, soul, history and future of an all-American art form.*

**26 - 29 Telluride Mushroom Festival**

*Fungophiles from around the world gather to participate in forays, lectures, dining identification and the mushroom parade in Telluride's mushroom-rich surroundings.*

[Click here for a full list of current Festivals & Events](#)

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## Telluride Council Approves Valley Floor Refinance Package

*Article compliments of The Watch Newspaper.*

With the letter of credit that secures the 2007 Valley Floor bonds set to expire in mid-September, the clock has been ticking on how to refinance the town's \$20 million, variable rate debt package that enabled its purchase of the 570-acre parcel.

But uncertainty about the new financing arrangement ushered in by fluctuating interest rates and declining municipal revenues began to wind down on Wednesday when the Telluride Town Council unanimously authorized two emergency ordinances to refinance the remaining \$19.2 million balance at a fixed interest rate for the next 26 years.

The ordinances were slated as "emergency ordinances" because of the timing of the expiring letter of credit and the opportunity to lock into favorable interest rates.

"Emergency ordinances are justified when they effectuate the saving of public funds and that is indeed the case here," said Town Manager Greg Clifton.

The actions allow the debt to be repaid through two separate financing arrangements. The first authorizes the issuance of \$10 million in excise tax revenue bonds secured by the town's Open Space Fund. By ordinance 20 percent of all the town's unencumbered revenues go directly into that fund.

The second allows an agreement in which the town will lease Rebekah Hall, Town Hall, its Public Works maintenance shop, and three vacant parcels it owns near the Telluride Middle/High School to a trustee – in this case Wells Fargo Bank – in return for rental payments worth \$9.2 million.

The town will then lease the properties back from the trustee, making rental payments while retaining the use of its assets, in a financing strategy known as a Certificate of Participation.

A Certificate of Participation is a method of financing in which an investor buys a share of lease revenues rather than a bond that is secured by those revenues. The town entered into such an arrangement once before when it purchased the old library building.

"The Certificate of Participation is completely separate, it's not a debt, it's not a general obligation of the town," said Steve Jeffers, a managing director at Stifel Nicolaus, the town's underwriter. "It's separate and apart from the bond question."



"In essence you're essentially cutting your bond indebtedness in half," he said.

Because that lease arrangement is appropriated in the town's annual budget it is not considered a multi-year obligation and does not require voter authorization.

"It is important to note that the voters already authorized the Valley Floor debt in 2007, and this is simply a refinancing of that debt," said Clifton. "As fiduciaries of the public funds, it is incumbent upon us to restructure these obligations when more favorable terms become available."

Given the recession-induced, unfavorable lending market that reigns the day, up until about six weeks ago the town believed it was looking at another short-term, variable-rate refinancing package that would have left it open to the same interest rate fluctuations to which it is now subject.

By making the decision to split up the original \$20 million in the two smaller arrangements it was able to negotiate a fixed-rate scenario.

While not yet locked in, as of Wednesday the average annual interest rate on the two financing methods was anticipated to come in at just under 4.8 percent.

For the town, the bottom line is annual debt service payments of about \$1.3 million – an amount it believes it can fund without hardship to the Open Space Fund – bringing the total cost of the Valley Floor debt financing (including the \$3 million in principal and interest it has already paid) to about \$37 million at the end of 26 years.

That amount is considerably less than the \$55 million maximum established by the voters in the original 2007 bond ordinance, noted Mayor Stu Fraser.

If it is paid off in advance of its 26-year maturity or refinanced again at a lower interest rate, the final number could be even less, Jeffers noted.

Although the Certificate of Participation does not have a pledged revenue stream like the bonds, it is the town's intention to make the rental payments from its Open Space Fund. That said, it could use other revenue streams such as its General or Capital Funds if necessary.

"We fully believe that the Open Space Fund will be available," Town Attorney Kevin Geiger told council. "You could go to other legally available funds, but we don't believe that will be necessary."

"Under normal circumstance I think the town is well protected," said Jeffers. "The debt service is well within what Open Space Fund is capable of producing, even in ugliest year."

"The terms for extending the letter of credit or getting another letter of credit were just not as attractive to the town," Clifton explained.

"This is a good time to be structuring a financial package like this," he continued.

"The interest rates are good."

Not to mention that no one was particularly excited about having to go through the staff intensive and costly refinancing process again in just a few years as was being proposed until just a few weeks ago.

While much of the meeting's discussion focused on what could happen to the collateralized properties were the town to default on the lease arrangement, for Clifton the idea was almost unthinkable because they are vital to the town's operations.

"There's a high level of assurance that there won't be a default," he said.

But if there were, "We could lose a property for the duration of the lease term," he said. "We would not lose the property forever; there's no risk of that happening to the town."

The site lease for the trustee, should there be a default of the payments, is 40 years. However, the entire lease arrangement is concluded after 26 years of successful payments, similar to the excise tax revenue bond.

Local financial advisor Dylan Brooks applauded the town for the new financing arrangement.

With a variable interest rate and a short term the previous plan came with, "A very significant risk that the town would be facing a high interest rate environment in three years and would be forced to refinance into something they couldn't afford," he said. But with the fixed rate, "It gives them certainty, and with current revenue levels is something the town can afford," he said.

## Featured Property: See Forever Village, Unit 131 Mountain Village

This three bedroom, four bathrooms Penthouse offers expansive views of the mountains, fine custom finishes, representing the height of five star Colorado lodging and luxurious alpine living.





**You can watch your sunsets over the  
Wilson's in Hi Def from your living  
room couch ...by the fireplace.**

**This superb penthouse just  
got even more attractive**

**NOW offered at \$3,100,000  
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[Click here for a virtual tour](#)

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