

No bailout for metro district investors

Under no circumstances should the City of Denver bailout the bad investments made into risky bonds at the old Gates Rubber Co. redevelopment site.

The land at South Broadway and Interstate 25 could soon become a soccer stadium for Denver's new women's team, but those plans could leave investors who banked on getting repaid by property tax revenue high and dry because the city will buy the land from the former developer, rendering property taxes on a big chunk of the land zero.

Joe Landen, the managing director of a Denver-based investment firm, said in an interview with BusinessDen reporter Justin Wingerter, that it will "be remembered" if the city allows the bond investments to fail at the old Gates site, which is formally known as the Broadway Station Metropolitan District. We can only hope so.

Landen tried to equate the investment his firm made into the project to investments in municipal bonds. The difference between the two is laughable. The municipal bonds Denver will sell if voters approve a billion-dollar bond issue in Tuesday's election are backed by the city, a major metropolitan city already fully developed and rated AAA quality by all three major bond rating agencies.

The bonds Landen's firm invested in were issued by a developer who was given taxing authority through a metropolitan district and the promise of lucrative tax breaks through the city's redevelopment authority.

The bet investors made was not on whether Denver would succeed, but on whether the developer controlling the quasi-governmental authority, the bond money and the tax rates was trustworthy. In the case of the Gates Factory, the plans for redevelopment failed spectacularly, but not before the developer spent millions of dollars from investors on infrastructure and remediation.

Our response to Landen's plea now for a bailout from the City of Denver is simple — absolutely not.

Metropolitan district bonds are extremely risky, and the investors in the Broadway Station metropolitan district should be used to set an example for the entire state. These bonds are nowhere close to the secure investment of city bonds, and investors should be very wary of entering into these deals with developers.

So yes, Landen, we hope you and other investors have a very long memory and that you tell all your friends in the bond market industry the risks of investing in metro districts. Perhaps the drying up of the bond market will be enough to save future taxpayers from the rampant abuse at the hands of many developers.

We can think of several housing projects going on right now in the metro area that could teeter and fail with an economic downturn and a housing crisis — including Sterling Ranch and Aurora Highlands.

The bondholders whom developers convinced to invest in their property taxation scheme will be the ones left on the hook, instead of the developer, who can walk away from the project with very little personal investment in the infrastructure.

We've wondered for years how long it would take for investors to realize that these bonds are not safe-secure municipal bonds guaranteed by city officials. Mayor Mike Johnston has an opportunity here to let the harsh reality of developer-granted taxing authority hit investors hard in the face, and he shouldn't hesitate to take it.

Colorado's local elected officials have, for decades, ignored warnings that giving developers unlimited taxation authority and allowing them to market their bonds as tax-assured investments similar to a municipal bond is a looming financial disaster on par with the Big Short of 2008.

Instead, elected officials have handed taxing authority to every developer who asks, with few restrictions or protections for investors or future taxpayers. Denver is preparing to do it again with the Denver Broncos stadium redevelopment plan for Burnham Yard.

Now, it appears the only solution to the problem is for investors to stop putting their money in these schemes because they fear a default on the bonds.

We applaud Mayor Mike Johnston for refusing to bail out the developer of the old Gates Rubber Factory ~~and the investors who~~ treated a risky project led by a developer like a safe municipal bond.

We tried but couldn't muster much sympathy for Landen and the others who knowingly gambled on the Gates Rubber Factory redevelopment, putting their faith in metropolitan districts.