



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Shannon Buckley, Assistant City Manager

Date: May 10, 2022

Subject: Adoption of Resolution Authorizing the Issuance of Community Facilities District No. 2016-2 (Canyon Hills) Subordinate Special Tax Bonds, Series 2022

Recommendation

Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ACTING AS THE LEGISLATIVE BODY OF CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2016-2 (CANYON HILLS) AUTHORIZING THE ISSUANCE OF ITS SUBORDINATE SPECIAL TAX BONDS, SERIES 2022 IN A PRINCIPAL AMOUNT NOT TO EXCEED ONE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$1,500,000) AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

Background

The City of Lake Elsinore (the "City") formed the City of Lake Elsinore Community Facilities District No. 2016-2 of the City of Lake Elsinore (Canyon Hills) (the "District") in 2016 according to the Mello-Roos Community Facilities District Act of 1982, as amended.

The District contains approximately 166 gross acres and is located in the southeastern portion of the City, north of Railroad Canyon Road and to the west of Canyon Lake. The property within the District was initially planned for 456 residential units, a commercial site, community parks, and other open spaces. The site within the District that was originally planned for commercial development has been converted to residential development (Tract 38008) containing 60 residential units being marketed as "Ridgeline." Pardee Homes was the original developer in the District. Pardee Homes has merged with Tri Pointe Homes and Tri Pointe Homes is currently developing the Ridgeline project. With the additional 60 homes in the Ridgeline project, the total number of homes planned within the District is 516.

As of April 28, 2022, of the 516 homes, 456 homes have been developed and conveyed to individual homeowners. Of the remaining 60 planned units in Ridgeline, all building permits have been issued and 31 are currently in escrow.

In 2018, the District issued its Special Tax Bonds, Series 2018 (the “2018 Bonds”) in the principal amount of \$19,745,000 to finance certain public improvements in the District.

The proposed 2022 Subordinate Special Tax Bonds (the “2022 Bonds”) are being issued to finance the costs of additional public improvements in the District. Because the parity lien (ability to issue parity bonds) was closed at the time of issuing the 2018 Bonds, the 2022 Bonds will be payable from the special tax of the District on a subordinate basis to the 2018 Bonds.

The resolution before City Council authorizes the issuance of subordinate special tax bonds and bond documents further described in the following paragraphs.

Discussion

Interest rates have been volatile in recent months as a result of inflationary pressures resulting from the COVID-19 pandemic and as a result of international events, such as the war in Ukraine. Due to the interest rate volatility, recent increases in interest rates, and the principal amount of the 2022 Bonds, the financing team explored a private placement transaction with a single lender. Private placement has certain advantages over a public sale, including lower costs of issuance, the ability to lock interest rates, and reduced exposure to interest rate risk.

In April 2022, Stifel, as placement agent, solicited interest rates from various placement banks. After receiving a proposal for a private placement from Western Alliance Bank (the “Bank”), the financing team evaluated the bid against indicative public offering rates. Ultimately, the staff recommends moving forward with a private placement transaction with the Bank, which proposed the most advantageous terms, including the ability to lock the interest rate and reduce exposure to interest rates.

The Bank’s term sheet includes an interest rate of 4.89%, which is locked through May 31, 2022. The Bank is expected to obtain final credit approval in May 2022. The Bank and the financing team are ready to proceed to close the transaction with the City Council's adoption of the Resolution presented.

The proposed 2022 Bonds are estimated to be issued in the principal amount of approximately \$1.4 million with a final maturity of September 1, 2048. The table below highlights preliminary financing statistics of the 2022 Bonds based on the Bank’s term sheet.

Summary of Financing Statistics¹	
2022 Bonds	
Par Amount	\$1,411,480
True Interest Cost	4.89%
Estimated Cost to Home Owners	
Average Annual Assessment ²	\$2,273

¹Preliminary and subject to change.

²Annual Assigned Special Tax will increase by approximately 2% per year.

The Fiscal Year 2021-22 average estimated special tax levy on homes within the District is \$2,273 and is dependent upon the size of the homes. Such rates will increase by 2.0% per year.

CFD 2016-2 (Canyon Hills) Special Tax bonds

As required under Section 5852.1 of the California Government Code, the good faith estimates as provided by the Municipal Advisor and Stifel, as placement agent, are outlined in Attachment 1 to this staff report.

Approval of the Resolution approves the form of and/or authorizes the execution and delivery of the following documents:

- ✓ **Bond Indenture**: Entered into between the District and Wilmington Trust, National Association, as the appointed Trustee for the 2022 Bonds, this document contains terms of the 2022 Bonds including the payment and redemption provisions, pledge of revenues to pay the 2022 Bonds, rights and duties of the Trustee, remedies upon a default in the payment of the 2022 Bonds, and other related matters.
- ✓ **First Supplemental Indenture**: Entered into between the District and Wilmington Trust, National Association, this document supplements and amends the Bond Indenture for the 2018 Bonds to facilitate the issuance of the 2022 Bonds.
- ✓ **Placement Agent Agreement**: Agreement between the District and Stifel, serving as placement agent, containing the description of services to be provided by the placement agent, and certain conditions to closing.
- ✓ **Purchaser's Term Sheet**: A term sheet provided that summarizes the terms of which the Purchaser has agreed to purchase the 2022 Bonds through direct placement, including interest rates, repayment terms, prepayment options, rate lock, and covenants including annual reporting requirements.

Bond Counsel and the City Attorney have reviewed the attached financing documents on behalf of the City. If this resolution is approved, City staff will continue to work with the financing team to finalize all of the aforementioned documents.

Fiscal Impact

There is no cost to the City; however, the property owners are expected to pay between \$1,493 and \$3,050 in the Fiscal Year 2021-22, depending on the size of the home. Such rates will increase by 2% per year thereafter.

Exhibits

- A – Resolution Approving Bond Issuance
- B – Placement Agent Agreement
- C – Good Faith Estimates
- D – Bond Indenture
- E – First Supplemental Indenture
- F – Purchaser's Term Sheet