



## **REPORT TO CITY COUNCIL**

**To: Honorable Mayor and Members of the City Council**

**From: Grant Yates, City Manager**

**Prepared by: Jason Simpson, Assistant City Manager**

**Date: November 12, 2019**

**Subject: Adopt Resolution Authorizing the Issuance of CFD 2006-1 IA HH Special Tax Bonds and Bond Documents in Connection Therewith**

### **Recommendations**

adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ACTING AS THE LEGISLATIVE BODY OF THE CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2006-1 (SUMMERLY) AUTHORIZING THE ISSUANCE OF ITS SPECIAL TAX BONDS, SERIES 2019 (IMPROVEMENT AREA HH) IN A PRINCIPAL AMOUNT NOT TO EXCEED SEVEN MILLION DOLLARS (\$7,000,000) AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH

### **Background**

The City of Lake Elsinore (the "City") formed City of Lake Elsinore Community Facilities District No. 2006-1 (Summerly) (the "District") in 2006 pursuant to the Mello-Roos Community Facilities District Act of 1982, as amended. The District comprises a portion of Summerly, a planned residential community located in the southeast portion of the City. McMillin Summerly, LLC, acquired the partially developed Summerly project in 2010 and now serves as the master developer. At build-out, the Summerly project is expected to include approximately 1,677 single-family detached homes, commercial development, and recreational and open space. McMillin Summerly, LLC reports that of the 1,677 homes planned within Summerly, 1,172 have been completed and conveyed to homeowners.

Improvement Area HH of the District is a portion of Summerly and consists of approximately 34 acres planned for a total of 180 single family detached homes. Out of the total 180 proposed homes, 45 have closed to individuals.

The 180 lots are being developed into three neighborhoods by three builders: Sendero by Richmond American Homes ("Richmond American"), The Glen by Beazer Homes ("Beazer") and Laurel Pointe by D.R. Horton. McMillin Summerly, LLC no longer owns any property within Improvement Area HH. The lots range in condition from completed, individually owned homes to homes under construction and physically finished lots under builder ownership.

The following chart illustrates the ownership and development status of the property within Improvement Area HH as of October 1, 2019.

<b>Ownership and Development Summary (October 1, 2019 – Appraisal Date)</b>				
	<b><u>Sendero</u></b> (Richmond American)	<b><u>The Glen</u></b> (Beazer Homes)	<b><u>Linden Pointe</u></b> (DR Horton)	<b>Total</b>
Closed to Individuals	23	5	17	45
Model Homes	2	2	2	6
Over 95% Complete	1	2	9	12
Under Construction	16	14	9	39
Finished Lots	<u>23</u>	<u>34</u>	<u>21</u>	<u>78</u>
	<b>65</b>	<b>57</b>	<b>58</b>	<b>180</b>

The builders within Improvement Area HH currently expect to complete construction and sell all remaining homes by mid-2020.

Based on current development and ownership status, the homes and lots owned by Beazer Homes, DR Horton and Richmond American are estimated to be responsible for approximately 32%, 21% and 22% of the maximum Fiscal Year 2020-21 Special Tax levy, respectively. Based on such estimated shares of the Fiscal Year 2020-21 maximum Special Tax levy, each of such merchant builders will be required to provide letters of credit or cash deposits securing the payment of their respective share of the estimated Special Tax levy for two fiscal years. Each of such irrevocable letters of credit or cash deposits would be released once the applicable builder is responsible for 20% or less of the Maximum Special Tax levy.

The Resolution before the City Council authorizes the issuance of special tax bonds (the “2019 Special Tax Bonds”) to finance impact fees related to City and Elsinore Valley Municipal Water District capital improvements in connection with the development of the District. The Resolution also authorizes the approval and execution of certain documents further described on the following pages.

## **Discussion**

The proposed 2019 Special Tax Bonds are estimated to be issued in the principal amount of approximately \$5.23 million with a final maturity of September 1, 2050 (30-year financing term). As previously mentioned, proceeds from the 2019 Special Tax Bonds will be used to finance impact fees related to City and Elsinore Valley Municipal Water District capital improvements in connection with the development of the District. The final structure and payment schedule will be determined when the 2019 Special Tax Bonds are priced and sold, which is expected to be in early December. The bond closing is expected to occur approximately two weeks after the pricing of the 2019 Special Tax Bonds. The table below highlights financing statistics of the 2019 Special Tax Bonds based on current market conditions.

<b>Summary of Financing Statistics<sup>1</sup></b>	
<b>2019 Special Tax Bonds</b>	
Par Amount	\$5.23 million
Average Bond Yield	3.90%

***Estimated Cost to Home Owners***

Average Annual Assessment<sup>2/3</sup>

\$1,774.82

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<sup>1</sup>*Preliminary and subject to change.*

<sup>2</sup>*First full year of the assessment; based on 180 individual homeowners.*

<sup>3</sup>*Annual assigned special tax increases at approximately 2% per year.*

The Fiscal Year 2020-21 estimated Special Tax levy on homes within Improvement Area HH range between \$1,189 to \$2,712, depending on the size of the home. Such rates increase at 2.0% per year.

As required under Section 5852.1 of the California Government Code, the good faith estimates as provided by the Municipal Advisor and Underwriter are set forth in Exhibit A to this staff report.

**Documents to be Approved**

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

- ✓ **Preliminary Official Statement:** The Preliminary Official Statement (the “POS”) is the “offering document” for the 2019 Special Tax Bonds. It provides a description of the District, Improvement Area HH, the 2019 Special Tax Bonds, the proposed development within Improvement Area HH, and any other information that would be material to a prospective investor’s decision on whether to purchase the 2019 Special Tax Bonds. While the City’s counsel, consultants, and the underwriter have participated in preparing the POS, City Council and staff are ultimately responsible for ensuring that the POS is accurate, contains no misleading information and does not omit any information necessary to make the POS not misleading to investors.
- ✓ **Bond Indenture:** The Bond Indenture is a contract entered into between the District and Wilmington Trust, National Association, as the appointed Trustee for the 2019 Special Tax Bonds. This document contains terms of the 2019 Special Tax Bonds including, but not limited to, the payment and redemption provisions, the pledge of revenues to pay the 2019 Special Tax Bonds, rights and duties of the Trustee, remedies upon a default in the payment of the 2019 Special Tax Bonds, and other related matters.
- ✓ **Continuing Disclosure Certificate:** Executed for the benefit of bondholders, the Continuing Disclosure Certificate obligates the District to file an annual report each Fiscal Year which includes, among other things, the most recent audited financial statements of the City and financial data relating to Improvement Area HH. The District is also required to report certain events which are significant to bondholders if and when they occur.
- ✓ **Bond Purchase Agreement:** Pursuant to the Bond Purchase Agreement, the District agrees to sell the 2019 Special Tax Bonds to the underwriter and the underwriter agrees to purchase the 2019 Special Tax Bonds, subject to typical closing conditions. City staff, the City’s municipal advisor, and bond counsel will sign off on the final pricing of the 2019 Special Tax Bonds prior to the execution of the Bond Purchase Agreement.

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. As previously mentioned, the pricing date would be targeted for some time in early December.

### **Fiscal Impact**

There is no cost to the City; however, the property owners are expected to pay between \$1,189 to \$2,712, depending on the size of the home, increasing at 2% per year through 2050.

### **Recommendation**

Adopt a Resolution of the City Council approving the issuance of the 2019 Special Tax Bonds in the principal amount not-to-exceed \$7 million and the execution and delivery of bond financing documents.

### **Exhibits**

- A - Good Faith Estimate
- B – Resolution
- C – Bond Indenture
- D – Continuing Disclosure Certificate
- E – Preliminary Official Statement
- F - Bond Purchase Agreement
- G - Appraisal Report