



# STAFF REPORT

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April 10, 2024  
File Number 0685-10

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## SUBJECT

### **ISSUANCE OF THE COMMUNITY FACILITIES DISTRICT NO. 2022-1 (ECLIPSE/MOUNTAIN HOUSE) SPECIAL TAX BONDS**

## DEPARTMENT

Finance

## RECOMMENDATION

Request the City Council, acting as the legislative body of Community Facilities District No. 2022-1 of the City of Escondido (“City”) Eclipse/Mountain House (“District”), adopt Resolution No. 2024-34 (“Resolution”) to authorize the issuance and sale of Special Tax Bonds, Series 2024 (“Bonds”) and approve certain documents and the taking of certain other actions in connection therewith.

Staff Recommendation: Approval (Finance: Christina Holmes, Director of Finance)

Presenter: Christina Holmes, Director of Finance

**ESSENTIAL SERVICE** – Land Use/Development

**COUNCIL PRIORITY** – Yes, Encourage Housing Development

## FISCAL ANALYSIS

The sale of the Bonds has no fiscal impact to the City. The Bonds to be issued by the City, for and on behalf of the District will be the sole responsibility of the property owners through a levy of special taxes on property within the District. Cost of issuance will be paid from the bond proceeds as well. The administration cost to the City for the Bonds will be built into the annual levy process and reimbursed by the special taxes collected.

## PREVIOUS ACTION

On March 20, 2020, the City Council adopted Resolution No. 2020-20, approving Amended and Restated City of Escondido Statement of Goals and Policies Regarding the Establishment of Community Facilities Districts (“Goals and Policies”). Section 53312.7(a) of the Mello-Roos Act requires the City to consider and adopt local goals and policies concerning the use of the Mello-Roos Act prior to the initiation of proceedings on or after January 1, 1994, to establish a new community facilities district. The Goals and Policies provide guidance and conditions for the conduct by the City of proceedings for, and the issuance



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of bonds secured by special taxes levied in, a community facilities district established under the Mello-Roos Act.

On May 13, 2021, the City Council authorized a Deposit Account and Reimbursement Agreement between the City of Escondido and CWC Escondido 113, LLC which established the Eclipse (formerly known as Del Prado) zone of the project.

On August 31, 2021, the City Council authorized the First Amendment to Deposit Account and Reimbursement Agreement between the City of Escondido and CWC Escondido 113, LLC to include the additional project Mountain House in the CFD No 2022-1.

The City Council approved the establishment of Community Facilities District No. 2022-01 (the Eclipse/Mountain House project) on March 2, 2022, and has annually thereafter adopted a resolution setting the annual Special Tax Levy. Resolution No. 2022-106 was adopted on July 20, 2022, for FY2022/23 and Resolution No. 2023-84 was adopted on July 19, 2023, for Fiscal Year 2023/24.

### **BACKGROUND**

A Community Facilities District (CFD) is a special taxing district that is formed at the request of a project proponent with the approval of the local jurisdiction. CFD's were established in State Government Code in 1982 (also referred to as the Mello-Roos Act) to provide an alternate method for private property owners to finance the acquisition, construction and maintenance of certain public capital facilities, and/or to cover the related cost of ongoing services. Under the Mello-Roos Act, the initial steps in the formation of a community services district to finance public improvements are adopting a resolution declaring the City's intention to establish a community facilities district and levy special taxes, and a resolution to issue bonds.

At the request of CWC Escondido 113, LLC, the City Council approved the formation of CFD No. 2022-2 on March 2, 2022, to fund the public facilities fees associated with the Eclipse/Mountain House Project. The CFD was formed with two distinct zones. Zone A originally contained 81 of the total 113 townhomes in the Eclipse project. The remaining 32 townhomes were annexed into Zone A of this CFD in December of 2022. Out of the total 113 proposed homes, 97 have closed to individuals with the final 16 houses all in escrow and due to close within the next month. The physical status of the lands is all 113 houses over 95 percent complete.

The proposed Resolution No. 2024-34 authorizes the issuance and sale of the special tax bonds and approves several bond documents. Pursuant to the Resolution, the true interest cost of the Bonds cannot exceed 7 percent and the principal amount of the Bonds cannot exceed \$6,000,000. Stifel, Nicolaus & Company, Incorporated, has been engaged by the City as the Underwriter ("Underwriter") of the Bonds, and the Underwriter's Discount paid pursuant to the Bond Purchase Agreement cannot exceed 2 percent of the principal amount of the Bonds. Pursuant to Section 5852.1 of the California Government Code, the



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City's Municipal Advisor, CSG Advisors Incorporated, has provided good faith estimates of the costs related to the Bonds, which are attached as Exhibit "A" to the Resolution.

The City's Goals and Policies adopted by Resolution No. 2020-20 require a minimum value-to-debt ratio for special tax financings of 4.00:1 (the value-to-lien calculation compares the value of the property to the proposed principal amount of the Bonds and bonds issued by overlapping community facilities districts and assessment districts). The value of the property is determined by an independent appraiser engaged by the City. Kitty Siino & Associates, Inc. ("Appraiser") prepared the appraisal dated March 11, 2024 ("Appraisal Report") of certain land and existing improvements within the District to provide an estimate of the market value of the fee simple interest of such land and improvements. Subject to the assumptions and limiting conditions of the Appraisal, the minimum market value of the taxable property in the District is estimated at \$70,508,092, resulting in an estimated value to lien ratio of approximately 20.98:1 based on a preliminary estimate of the par amount of the Bonds of \$3,360,000 (preliminary).

The following documents, as referred to within the Resolution No. 2024-34 are to be approved:

Preliminary Official Statement. The Official Statement is the primary disclosure document for investors in the Bonds. A Preliminary Official Statement (Attachment "1") will be circulated to potential investors prior to the pricing of the Bonds. After the Bonds have been priced, a Final Official Statement will be circulated to investors; the Final Official Statement should be identical to the Preliminary Official Statement except for the addition of pricing information (principal amount, interest rates, redemption terms). The distribution of the Preliminary Official Statement by the City is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require the Preliminary Official Statement to include all facts that would be material to an investor in the Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the bonds. If the City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the Bonds, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been "deemed final."

Continuing Disclosure Certificate. Under SEC Rule 15c2-12, the underwriter of the Bonds may only purchase the Bonds if it has determined that the City is obligated to provide continuing disclosure, including annual updates of the financial and operating data included in the Official Statement and notices of certain specified events. The form of the Continuing Disclosure Certificate (Attachment "2") is included as an Appendix F of the Preliminary Official Statement.

Bond Indenture. This document governs the Bonds and the use of special taxes from the District to pay debt service on the Bonds. The special taxes will be levied on the regular County of San Diego tax roll and collected by the County from each taxable parcel in the District. The County will remit these special taxes to the City. The City will remit them to the Trustee specified therein as BNY Mellon Trust Company, N.A. ("Trustee"). The Trustee will use the revenues to (1) pay administrative costs of the District, and (2) pay



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principal of and interest on the Bonds to the bond owners. The Trustee will also hold the net proceeds of the Bonds until authorized by the District to release such proceeds for reimbursement to the Developer or use by the City to construct public facilities as previously authorized by the District and consistent with provisions of the Bond Indenture (Attachment “3”).

Bond Purchase Agreement. At the time the Bonds are sold, the City will enter into a Bond Purchase Agreement with the Underwriter, who will agree to underwrite the Bonds subject to satisfaction of the conditions described in the Bond Purchase Agreement (Attachment “4”).

### RESOLUTIONS

- a. Resolution No. 2024-34 to authorize the issuance and sale of Special Tax Bonds, Series 2024

### ATTACHMENTS

- a. Exhibit “A” – Good Faith Estimates
- b. Attachment “1” – Preliminary Official Statement
- c. Attachment “2” – Continuing Disclosure Certificate
- d. Attachment “3” – Bond Indenture
- e. Attachment “4” – Bond Purchase Agreement