



STAFF REPORT

June 15, 2022
File Number 0685-10

SUBJECT

ISSUANCE OF THE COMMUNITY FACILITIES DISTRICT NO. 2020-2 (THE VILLAGES) SPECIAL TAX BONDS

DEPARTMENT

Finance

RECOMMENDATION

Request the City Council, acting as the legislative body of Community Facilities District No. 2020-02 of the City of Escondido (The Villages) (the “District”), adopt Resolution No. 2022-59 (the “Resolution”) to authorize the issuance and sale of Special Tax Bonds, Series 2022 (the “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

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

The Villages Project was approved by the City Council on November 15, 2017.

On June 12, 2019, the City Council adopted Resolution No. 2019-83, authorizing a Reimbursement Agreement to evaluate a request from Lennar Homes of California (“Lennar”) to form a Community Facilities District (“CFD”) for The Villages Project to fund public facilities.

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. 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



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conditions for the conduct by the City of proceedings for, and the issuance of bonds secured by special taxes levied in, a community facilities district established under the Mello-Roos Act.

On April 8, 2020, the City Council adopted Resolution No. 2020-25 declaring its intent to establish CFD No. 2020-2, The Villages Project CFD to fund public facilities.

On May 13, 2020, the City Council adopted Resolution No. 2020-45 approving the establishment of Community Facilities District No. 2020-2 (The Villages) and Resolution No. 2020-46 declaring the necessity to issue and sell bonds and incur other debt to finance the authorized public facilities, including an amount not to exceed \$16,000,000.

On July 21, 2021, the City Council adopted Resolution No. 2021-78, setting the Special Tax Levy for Community Facilities District No. 2020-2 (The Villages) for Fiscal Year 2021/22. The Special Tax Levy was assessed on 216 developed lots in the Project that had building permits issued before March 1, 2021 in accordance with the Acquisition and Funding Agreement with Lennar Homes and the Rate and Method of Apportionment of Special Tax ("RMA") established at the time CFD No. 2020-2 was formed. The Special Taxes received by the City are deposited to a separate fund of the City to be used for annual administrative expenses and fund the future bond debt service payments.

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 Lennar, the City Council approved the formation of CFD No. 2020-2 on May 13, 2020, to fund the public facilities fees associated with the Villages Project ("Project"), a development that includes 380 residential homes; recreational, social, and community amenities in a Village Center; and approximately 48.9 acres of permanent open space with active greenbelts and 3.5 acres of parks. Under the Acquisition and Funding Agreement with Lennar and Resolution No. 2020-46 declaring the necessity to issue and sell bonds and incur other debt to finance the authorized public facilities, bonds would be issued when the majority of the units are either under construction or completed. As of March 1, 2022, 372 building permits for the 380 planned dwelling units have been obtained and will be classified as Developed Property for the Fiscal Year 2022/23 Special Tax levy. As of April 3, 2022, the remaining 8 building permits had been obtained and all 380 parcels will be classified as Developed Property for the Fiscal Year 2023/24 Special Tax levy and for each fiscal year thereafter.



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The proposed Resolution No. 2022-59 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 6.00% and the principal amount of the Bonds cannot exceed \$13,000,000. Stifel, Nicolaus & Company, Incorporated has been engaged by the City as the Underwriter (the “Underwriter”) of the Bonds, and the Underwriter’s Discount paid pursuant to the Bond Purchase Agreement cannot exceed 1.50% of the principal amount of the Bonds. Pursuant to Section 5852.1 of the California Government Code, the 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. (the “Appraiser”) prepared the appraisal dated May 9, 2022 (the “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 \$240,613,298, resulting in an estimated value to lien ratio of approximately 19.33:1 based on a preliminary estimate of the par amount of the Bonds of \$12,445,000 (preliminary).

The following documents, as referred to within the Resolution No. 2022-59 are to be approved:

Preliminary Official Statement. The Official Statement is the primary disclosure document for investors in the Bonds. A Preliminary Official Statement 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 is included as an Appendix F of the Preliminary Official Statement.



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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. (the "Trustee"). The Trustee will use the revenues to (1) pay administrative costs of the District, and (2) pay 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.

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.

RESOLUTIONS

- A. Resolution No. 2022-59 to authorize the issuance and sale of Special Tax Bonds, Series 2022

ATTACHMENTS

- a. Attachment 1 – Preliminary Official Statement
- b. Attachment 2 – Continuing Disclosure Certificate
- c. Attachment 3 – Bond Indenture
- d. Attachment 4 – Bond Purchase Agreement