



## **CITY OF MENIFEE**

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SUBJECT: Issuance of Special Tax Bonds for Community Facilities District 2023-1, Rockport Ranch

MEETING DATE: November 6, 2024

TO: Mayor and City Council

PREPARED BY: Lauri Lockwood, Financial Analyst

REVIEWED BY: Travis Hickey, Chief Financial Officer

APPROVED BY: Armando G. Villa, City Manager

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### **RECOMMENDED ACTION**

1. Adopt a resolution authorizing the issuance of special tax bonds and the execution and delivery of bond documents in connection with Community Facilities District 2023-1, Rockport Ranch, at the southwest corner of Old Newport Road and Briggs Road; and
2. Authorize the Finance Department to establish the necessary revenue and expenditure budgets and corresponding appropriations for the bond issuance.

### **DISCUSSION**

#### **Background**

The City Council previously completed the necessary proceedings to establish Community Facilities District No. 2023-1, Rockport Ranch, of the City of Menifee (the "District"). As part of those proceedings, the City Council declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California (the "Act").

On June 7, 2023, the City Council adopted the Resolution of Formation, which established the District, authorized the levy of a special tax (the "Special Tax") within the District, determined the necessity to incur bonded indebtedness in an amount not to exceed \$23 million, and called an election on the proposition of incurring bonded indebtedness, levying the Special Tax and setting an appropriations limit. On the same date, an election was held within the District in which the property owner within the District approved the proposition authorizing the issuance of bonds.

The District contains approximately 39.6 taxable acres and is located at the southwest corner of Old Newport Road and Briggs Road within the City. The developer of the property within the

District is Lennar Homes of California, LLC, a California limited liability company (“Lennar”). The project within the District is planned for 305 single-family detached homes and is being marketed by Lennar as “Rockport Ranch.”

As of August 30, 2024, the date of value of the Appraisal, Lennar had completed and conveyed 160 homes within the District to individual homeowners, and as of such date, Lennar owned nine model homes, 81 homes in various stages of construction, and 32 near-finished lots. In addition, as of such date, a land banking entity for Lennar Homes owned 23 lots which were under contract to be acquired by Lennar Homes. Development has progressed since August 30. As of October 1, 2024, Lennar Homes acquired 1 additional lot from the land bank and closed an additional 9 homes to homeowners in the District (for a total of 169 closings to homeowners). Lennar currently expects to complete and convey all homes planned within the District to individual homeowners by September 2025.

Annual debt service on the proposed Special Tax Bonds, Series 2024A (the “2024A Bonds”) will be sized based on the expected Special Tax revenues to be received from all 305 parcels to be developed in the District.

The resolution before the City Council authorizes the issuance of the 2024A Bonds and the execution and delivery of certain documents in connection therewith as further described in the following paragraphs.

Based on current market conditions, the 2024A Bonds are estimated to have a par amount of approximately \$17.275 million with a final maturity of September 1, 2055. Proceeds from the 2024A Bonds will primarily finance public improvements benefitting the development within the District. The final par amount and interest rate structure will be determined when the 2024A Bonds are priced and sold, which is expected to occur in November 2024. Following the issuance of the 2024A Bonds, no additional parity bonds will be permitted except for refunding bonds.

As required under Section 5852.1 of the California Government Code (the “Code”), good faith estimates as provided by the Municipal Advisor and Underwriter are provided as an attachment to this staff report.

The property owners are expected to pay Special Taxes of approximately \$2,700 to \$4,960 per parcel in Fiscal Year 2025/2026, depending on the size of the home. Such Special Taxes will increase 2.0% annually.

Given the level of development noted above and pursuant to the City policy, Lennar Homes will provide a Letter of Credit that may be drawn upon by the District to cover payment of special taxes levied on property owned by Lennar Homes and the land bank. The initial term of the Letter of Credit is one year and will be renewed each year until certain development and conveyance thresholds are met.

As part of the eligible facilities and expenses to be reimbursed with CFD proceeds is a one-time \$3.9 million mitigation fee paid by the developer because of project density changes from the original project plans. Since it is included within the CFD eligible reimbursable expenses, the mitigation fee proceeds must be used towards the construction, purchase, modification, expansion

or rehabilitation of public facilities. The mitigation fee is separate from the CFD bond premium.

### **Documents to be Approved**

Approval of the attached Resolution authorizes the sale of the proposed 2024A Bonds and the execution of the following documents attached to this staff report:

- ✓ Preliminary Official Statement
- ✓ Bond Indenture
- ✓ Continuing Disclosure Certificate
- ✓ Bond Purchase Agreement

Bond Counsel and the City Attorney have reviewed the attached legal and financing documents on behalf of the City and the District. If this resolution is approved, City staff will continue to work with the financing team to finalize all the aforementioned documents. The pricing date is targeted for November 2024, with bond closing anticipated in December 2024.

### **STRATEGIC PLAN OBJECTIVE**

Responsive and Transparent Community Government

### **FISCAL IMPACT**

The 2024A bonds are paid from Special Taxes levied in the District. The property owners are expected to pay Special Taxes of approximately \$2,700 to \$4,960 per parcel in Fiscal Year 2025/2026, depending on the size of the home. Such Special Taxes will increase at 2.0% per year. There is no fiscal impact to the City's General Fund.

### **ATTACHMENTS**

1. Project Map
2. Good Faith Estimates
3. Resolution of Issuance
4. Preliminary Official Statement
5. Bond Indenture
6. Continuing Disclosure Certificate
7. Bond Purchase Agreement
8. Appraisal Report