



CITY OF MENIFEE

SUBJECT: Community Facilities District 2020-1, McCall Mesa, Issuance of Special Tax Bonds

MEETING DATE: January 18, 2023

TO: Mayor and City Council

PREPARED BY: Margarita Cornejo, Deputy Finance Director

REVIEWED BY: Regina Funderburk, Chief Financial Officer

APPROVED BY: Armando G. Villa, City Manager

RECOMMENDED ACTION

1. Adopt a Resolution authorizing the issuance of special tax bonds and bond documents in connection with Community Facilities District (CFD) No. 2020-1 (McCall Mesa) located in the northeastern portion of the City, on the southwest corner of Menifee Road and Rouse Road; and
2. Authorize the City Manager to appropriate funds for debt service and related expenditures and revenues within the McCall Mesa custodial fund.

DISCUSSION

Background

The City Council has previously completed the necessary proceedings to establish Community Facilities District No. 2020-1 of the City of Menifee (McCall Mesa) ("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 (Act).

Pursuant to the Act, on May 20, 2020, the City Council adopted Resolution No. 20-891 ("Resolution of Intention"), stating its intention to form the District and to authorize the levy of a special tax ("Special Tax") on the taxable property within the District, and Resolution No. 20-892, stating its intention to incur bonded indebtedness in an aggregate principal amount not-to-exceed \$18,000,000 for the purpose of financing the purchase, construction, expansion and/or rehabilitation of certain public facilities to serve the area within the District.

On August 5, 2020, the City Council adopted Resolution Nos. 20-941 and 20-942 (collectively the

“Resolution of Formation”). The Resolution of Formation establishing the District, authorized the levy of Special Tax within District, determined the necessity to incur bonded indebtedness in an amount not-to-exceed \$18,000,000 within the District, and called an election within the District on the proposition of incurring bonded indebtedness, levying the Special Tax and setting an appropriations limit.

On August 5, 2020, an election was held within the District in which the property owners within approved the proposition authorizing the issuance of bonds in an amount not-to-exceed \$18,000,000. A Notice of Special Tax Lien for the District was recorded in the office of the County Recorder on August 31, 2020.

On August 19, 2020, the City Council adopted Ordinance No. 2020-311 which authorizes the levy of the Special Tax pursuant to the Rate and Method of Apportionment approved at the August 5, 2020, election.

In January 2022, the District issued its \$11,330,000 Special Tax Bonds, Series 2022A (“2022A Bonds”) to finance certain public facilities which the District was authorized to finance. The proposed Special Tax Bonds Series 2023A (“2023A Bonds”) will be issued on parity with the 2022A Bonds to finance the costs of additional public improvements in the District.

The District contains approximately 86-gross acres and approximately 59-net taxable acres and is located in the northeastern portion of the City, on the southwest corner of Menifee Road and Rouse Road. The developer of the property within the District is Lennar Homes of California, LLC, (“Lennar”). The Project within the District is being marketed by Lennar Homes as “Remington Place.”

The property within the District is planned for 258 residential units within two neighborhoods known as Trailhead and Westward. As of November 10, 2022, Lennar had completed and conveyed 236 homes to individual homeowners, and as of such date, Lennar owned five model homes and 17 homes in various stages of construction. All remaining homes owned by Lennar Homes were in escrow as of November 10, 2022. Between November 10, and December 13, 2022, an additional 17 homes were conveyed to individual homeowners, bringing the total of individually owned homes to 253. Lennar currently expects to complete and convey all homes planned within the District to individual homeowners by the end of February 2023.

Annual debt service on the proposed 2023A Bonds will be sized based on the expected Special Tax revenues to be received from 258 homes classified as Developed Property for Fiscal Year (FY) 2023/2024. The development and ownership status of the planned homes within the District as of November 10, 2022, is shown in the table below.

Ownership and Development Summary (November 10, 2022)*

	<u>Parcels</u>	<u>In Escrow</u>
Individually Owned		
Completed	236	--
Developer Owned		
Completed	--	--
Model	5	5
Under Construction	17	17
Developer-Owned Subtotal	<u>22</u>	<u>22</u>
TOTAL	258	22

**Between November 10 and December 13, 2022, an additional 17 homes closed to individual homeowners, bringing the total of individually owned homes to 253.*

The resolution before the City Council authorizes the issuance of the 2023A Bonds and the execution and delivery of certain documents in connection therewith as further described in the following paragraphs.

The proposed 2023A Bonds are estimated to have a par amount of approximately \$3.43 million with a final maturity of September 1, 2053 (30-year financing term). Proceeds from the 2023A Bonds will primarily finance public improvements benefitting the development within the District. The proposed 2023A Bonds will be issued on parity with the 2022A Bonds, which have a final maturity of September 1, 2051. As approved by the Finance Committee, the 2023A Bonds are being issued with a 30-year term in order to maximize bond proceeds for District improvements. Following the issuance of the 2023A Bonds, the District may only issue additional parity bonds for refinancing existing bonds. The final par amount and interest rate structure will be determined when the 2023A Bonds are priced and sold, which is expected to be in late January 2023. The bond closing is expected to occur approximately two weeks after the pricing of the 2023A Bonds.

The table below highlights financing statistics based on current market conditions.

Table 2

Summary of Financing Statistics*

2023A Bonds

Par Amount	\$3,430,000
True Interest Cost	5.38%

Estimated Cost to Homeowners

FY 2023-24 Assessment**	<u>\$2,552 to \$3,870</u>
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**Preliminary; Subject to Change; Based on Current Market Conditions*

***Annual Assigned Special Tax will increase at approximately 2% 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 provided as an attachment to this staff report and summarized as follows:

1. As illustrated above, the true interest cost of the 2023A Bonds is estimated at 5.38%, calculated as provided in Section 5852.1(a)(1)(A) of the Code.
2. The finance charge of the 2023A Bonds, including underwriter's discount and all other fees and charges paid to third parties, is estimated at \$258,600.
3. Proceeds of the 2023A Bonds received by the District for the sale of the 2023A Bonds, less the finance charges set forth in (2) above and the reserve fund funded with proceeds of the 2023A Bonds, is equal to \$ 2,892,200 which will be available to finance the project.
4. The total payment amount calculated as provided in Section 5852.1(a)(1)(D) of the Code is estimated at \$7,726,488.

Documents to be Approved

Approval of the Resolution, authorizing and directing execution of certain bond documents, authorizing and directing the sale of the proposed 2023A Bonds and authorizing and directing certain actions with respect thereto will authorize the execution of the following documents attached to this staff report:

- ✓ Preliminary Official Statement
- ✓ First Supplement to 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. As previously mentioned, the pricing date would be targeted for late January 2023, with bond closing anticipated in February 2023.

STRATEGIC PLAN OBJECTIVE

Responsive and Transparent Community Government

FISCAL IMPACT

The 2023A Bonds are paid from special taxes levied in the District. There is no fiscal impact to the City's general fund. The City will, however, be required to provide administration for the District, which will be funded as part of the annual special tax levy.

By action of this staff report the City Manager will be authorized to appropriate funds for debt service and related expenditures and revenues within the McCall Mesa custodial fund.

The property owners are expected to pay special taxes of approximately \$2,552 to \$3,870 per parcel in FY 2023/2024, depending on the size of the home. Such Special Taxes will increase at 2.0% per year.

ATTACHMENTS

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