



## **CITY OF MENIFEE**

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SUBJECT: Community Facilities District 2021-2, Sumac Ridge, Issuance of Special Tax Bonds

MEETING DATE: August 16, 2023

TO: Mayor and City Council

PREPARED BY: Lauri Lockwood, Financial Analyst

REVIEWED BY: Margarita Cornejo, Acting Chief Financial Officer

APPROVED BY: Armando G. Villa, City Manager

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### **RECOMMENDED ACTION**

1. Adopt a resolution authorizing the issuance of Community Facilities District 2021-2, Sumac Ridge, special tax bonds and the execution and delivery of documents in connection with Community Facilities District 2021-2, Sumac Ridge, located north of Scott Road at Lindemberger Road.

### **DISCUSSION**

The City Council has previously completed the necessary proceedings to establish Community Facilities District (CFD) No. 2021-2 (Sumac Ridge) 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 November 3, 2021, the City Council adopted Resolution Nos. 21-1095 and 21-1096 (collectively the "Resolution of Formation"). The Resolution of Formation 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 \$15,000,000 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 November 3, 2021, an election was held within the District in which the property owner within the District approved the proposition authorizing the issuance of bonds in an amount not-to-exceed \$15,000,000.

The District contains approximately 59 taxable acres and is located on the north side of Scott Road at Lindemberger Road. The project is planned for 175 single-family homes being marketed

as “Sumac Ridge.” Meritage Homes of California, Inc., a California corporation (“Meritage”) is the developer of the project in the District.

As of June 19, 2023, Meritage had completed and conveyed 78 homes within the District to individual homeowners, and as of such date, Meritage owned four model homes (none of which were in escrow), 25 homes in various stages of construction (13 of which were in escrow) and 68 finished lots (none of which were in escrow). Meritage currently expects to complete and convey all homes planned within the District to individual homeowners by the end of 2025.

Annual debt service on the proposed Special Tax Bonds, Series 2023A (the “2023A Bonds”) will be sized based on the expected Special Tax revenues to be received from all 175 planned homes classified as Developed Property. The development and ownership status of the planned homes within the District as of June 19, 2023, is shown in the table below.

**Table 1 – Ownership and Development Summary (June 19, 2023)**

	PARCELS	IN ESCROW
<b>Individually Owned</b>		
Completed	78	--
<b>Developer Owned</b>		
Model Homes	4	--
Under Construction	25	13
Finished Lots	68	--
<b>TOTAL</b>	<b>175</b>	<b>13</b>

The resolution before the City Council authorizes the issuance of the 2023A Bonds and the execution and delivery of certain documents in connection therewith in the forms presented at this meeting.

Based on current market conditions, the proposed 2023A Bonds are estimated to have a par amount of approximately \$9.825 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 final par amount and interest rate structure will be determined when the 2023A Bonds are priced and sold.

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

**Table 2 – Summary of Financial Statistics\***

<b>2023A Bonds</b>	
Par Amount	\$9,825,000
True Interest Cost	5.24%
<b>Estimated Cost to Homeowners</b>	
FY 2023/24 Assessment**	\$3,101 to \$3,885

\*Preliminary; Subject to Change; Based on Market Conditions

\*\*Annual Assigned Special Tax will increase at approximately 2% per year.

As required under Section 5852.1 of the California Government Code (Code), below are the good faith estimates as provided by the Municipal Advisor and Underwriter (which are also provided in Attachment 2 to this Staff Report):

1. As illustrated above, the true interest cost of the 2023A Bonds is estimated at 5.24%, 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 \$327,725.
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 \$8,587,107 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 \$21,049,227.

### **Documents to be Approved**

Approval of the attached Resolution, authorizes the sale of the proposed 2023A 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 the aforementioned documents. The pricing date is targeted for late August 2023, with bond closing anticipated for approximately two weeks after the pricing date.

### **STRATEGIC PLAN OBJECTIVE**

Regular City Business

### **FISCAL IMPACT**

Debt service on the 2023A Bonds as well as administrative costs of the District will be paid from Special Taxes levied within the District. These tax proceeds are held within a special custodial fund used specifically for the District's debt service, separate from all other government funds. There is no fiscal impact to the City's General Fund.

### **ATTACHMENTS**

1. Project Map
2. Good Faith Estimates
3. Resolution
4. Preliminary Official Statement
5. Bond Indenture
6. Continuing Disclosure Certificate

7. Bond Purchase Agreement
8. Appraisal Report