

DATE ISSUED: March 19, 2003
ATTENTION: Honorable Mayor and City Council
Agenda of March 24, 2003

REPORT NO. 03-044

SUBJECT: Proposed Formation of Assessment District No. 4096 (Piper Ranch)

REFERENCE: None

SUMMARY

Issues - Should the City Council:

- 1) Adopt a resolution (a) accepting a petition from Piper Ranch, LLC, to initiate special assessment proceedings for the purpose of establishing an assessment district and financing the acquisition of public improvements required in connection with development; (b) approving the boundary map for the proposed assessment district, Assessment District No. 4096 (Piper Ranch) (the "Assessment District"); (c) declaring its intention to order the acquisition of the public improvements in the proposed Assessment District; (d) formally designating NBS Government Finance Group as the Engineer of Work; and (e) approving the Purchase and Finance Agreement between the City and Piper Ranch LLC?

- 2) Adopt a resolution (a) preliminarily approving the Preliminary Assessment Engineer's Report; (b) setting the time and place for a public hearing of protests to the proposed levy of assessments and related matters set forth in the Preliminary Assessment Engineer's Report; and (c) providing for the mailing of a Notice of Assessment and an Assessment Ballot to affected property owners?

Deputy City Manager=s Recommendation - Adopt the resolutions.

Other Recommendations - None.

Fiscal Impact - None to the City. In accordance with Council Policy 800-03, all costs related to determining financial feasibility of the proposed Assessment District, including financial advisory services, legal counsel, assessment engineering, appraisal services, and City staff, have been funded by Piper Ranch, LLC.

If the Assessment District is formed and bonds are subsequently issued, all costs related to financing the public facilities and improvements as described in this report and all incidental expenses related to forming and administering the Assessment District will be borne by property owners within the Assessment District.

BACKGROUND

The City has received an application and petition from Piper Ranch, LLC (property owner) to initiate special assessment proceedings for the purposes of establishing an assessment district on land owned in Otay Mesa, approximately one-half mile east of the Brown Field Airport. Piper Ranch, LLC is a wholly owned subsidiary of Otay Investors LLC, which is a joint venture between BCL Otay Investment LLC and Property Asset Management Inc., the latter of which is wholly owned by Lehman Brothers. The property is approximately 70 acres and is comprised of 24 parcels, which are fully entitled, and are planned to be developed as a light industrial office park. Site preparation and construction of infrastructure are underway.

The California Street and Highways Code, (Athe Code@) provides that public facilities that will be owned by the City may be financed through the establishment of an assessment district, and through collection of assessments from property owners within an assessment district. The Code further provides that the assessments may be pledged to support debt service on bonds issued to finance the public facilities. Council Policy 800-03 (Athe Policy@) allows for the use of assessment districts to finance public improvements required in connection with development and specifically contemplates utilization of assessment district financing in developing areas such as Otay Mesa.

Adoption of the above referenced resolutions will begin the formal legislative proceedings required to establish the proposed Assessment District.

DISCUSSION

In accordance with the Code and the Policy, the proposed Assessment District contemplates financing the acquisition of road (Piper Ranch Road, Air Wing Road, Aviator Road, Approach Road, and Dead Stick Road), sewer, and storm drain improvements, all of which will be owned by the City, and which will benefit property within the proposed district. Standard terms of acquisition by the City are included in the proposed Purchase and Finance Agreement between the City and the property owner.

The property owner has requested that the City issue special assessment district bonds in an amount necessary to yield approximately \$4.5 million in net proceeds to fund the public infrastructure described above. Based on current market conditions, it is estimated that a bond issuance size of approximately \$6 million would be required. In addition to the estimated cost of infrastructure, the bond issuance would need to provide for a required debt service reserve fund, interest payments due on the bonds from the date of bond issuance until the first collection of special assessments, and the costs to issue the bonds. The final bond amount will be largely dependent upon market conditions and an appraisal of the property within the proposed Assessment District prepared just prior to the bond issuance. The bonds would be repaid with special assessments levied upon property within the Assessed District.

The City hired NBS Government Finance Group (the "Assessment Engineer") to prepare the Preliminary Engineer's Report, as required by the Code and Article XIID of the California Constitution (A Proposition 218"). The Preliminary Engineer's Report summarizes the cost estimates for the improvements and the proposed bond financing. The report also contains the proposed boundary map for the Assessment District and sets forth the assessment roll showing the proposed assessments. The proposed assessments are spread by the Assessment Engineer according to the special benefit each parcel would receive from the improvements. The proposed boundaries of the Assessment District are reflected in Attachment 1.

In addition, the Policy provides that City Council consideration of a request for assessment district financing will only be made following completion of an overall feasibility analysis. As part of the feasibility analysis, and in accordance with the Policy, the City commissioned a Financing Feasibility Study, prepared by the independent financial advisory firm of Fieldman, Rolapp & Associates. The Financing Feasibility Study discusses various aspects of the proposed Assessment District and financing mechanism, and sets forth certain conclusions and recommendations related to the City's consideration of establishment of the proposed Assessment District. Chief among these conclusions and recommendations are:

- \$ The proposed Assessment District formation conforms to the City's policies with respect to the use of land-secured financing.
- \$ The City has a reasonable basis to proceed with the formation of the proposed Assessment District at this time.
- \$ Utilization of special assessment bonds to finance the acquisition of the specified infrastructure is appropriate.

§ Due to the specialized nature of the development, the limited number of lots supporting the development, and the present status of the land as undeveloped lots, the City should require a value-to-lien ratio of 3.5 to 1; the Council Policy requires a minimum value-to-lien ratio of 3 to 1. At the present time, a bond issue up to \$6 million appears to be supported by preliminary appraisal data. Determination of the precise amount of bonds to be issued should only be made after receipt of a complete narrative appraisal prepared just prior to the issuance of bonds.

After review and analysis of the Financing Feasibility Study, City staff and the financial advisor are recommending that the City proceed with the formation of the proposed Assessment District, provided that the Financing Feasibility Study recommendations summarized above, as well as recommendations described in the Study, are implemented.

SCHEDULE

Adoption of the proposed resolutions would begin the formal legislative proceedings for formation of the proposed Assessment District and provide for a public hearing on May 13, 2003, regarding the proposed levy of assessments and related matters contained in the Preliminary Engineer=s Report. Also, upon adoption of the proposed resolutions, ballots related to the proposed levy of assessments would be mailed to the property owner. At the public hearing, the City Council would receive public testimony and the City Clerk would count the returned ballots. If a majority of the returned ballots are cast in favor of the proposed levy of assessments, the City Council may adopt a resolution confirming the proposed assessments.

At a later date, additional documents would be brought forward for the City Council=s consideration, including, but not limited to, a bond indenture, bond purchase agreement, the preliminary official statement, and related documents.

ALTERNATIVE

Do not approve the aforementioned resolutions to begin the formal legislative proceedings to establish the proposed Assessment District.

Respectfully submitted,

MARY E. VATTIMO Approved: PATRICIA T. FRAZIER
City Treasurer Deputy City Manager

VATTIMO/MLG/RLD

Note: The attachment is not available in electronic format. A copy of the attachment is available for review in the Office of the City Clerk.

Attachment: 1. Proposed Boundaries of Assessment District No. 4096 (Piper Ranch)