THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: January 15, 2015 REPORT NO: 16-001

ATTENTION: Council President and City Council

SUBJECT: Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds, Series 2016

REFERENCE:

REQUESTED ACTION(S):

Forward the combined refunding of the Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds Series 2008 and new money issuance to finance the remaining authorized public improvements of the district to City Council for consideration and approval, in accordance with the timeline established for the bond transaction.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

I. Background

The Mello-Roos Community Facilities Act of 1982 (the "Mello-Roos Act") was enacted by the State to help growing areas finance essential public infrastructure that typically accompanies major development projects. The Mello-Roos Act provides for the establishment of a Community Facilities District ("CFD") for the purpose of financing certain public improvements and/or services. The City's Council Policy800-03, which was in effect at the time Community Facilities District No. 4 (Black Mountain Ranch Villages) (the "District") was formed in 2000, allows for utilization of CFDs to finance public facilities required in connection with development.

In accordance with the Mello-Roos Act and the Council Policy, following public hearings and a special election held in November of 2000, the City Council adopted the necessary resolutions and ordinances to form the District. After additional public hearings and a special election in July of 2002, the City Council adopted resolutions and an ordinance to modify the Rate and Method of Apportionment of Special Taxes ("RMA") for the District and to increase the bond authorization to an amount not to exceed $30 million. Subsequently, in August of 2008, the District issued the first of two contemplated bond issuances: the 2008 Bonds in the amount of $12.4 million. Pursuant to a Purchase and Finance Agreement between the City and Black Mountain Ranch LLC (the "Developer") entered into in conjunction with the District formation proceedings, the 2008 Bonds were issued to fund public infrastructure facilities within or serving the District, including street, sewer, and underground utility improvements. The 2008 Bonds provided funding for only a portion of the contemplated and authorized facilities.

The proposed second bond issuance will reimburse the developer for the remaining authorized infrastructure projects (street and underground utility improvements to Camino Del Sur and Carmel Valley Road, all completed in or prior to 2010), in an amount not to exceed $8.0 million, now that development of the overall project is further along and can support the issuance of the remaining bonds. In addition, due to currently favorable market conditions, the second bond issuance will be sized to include proceeds to refund the outstanding 2008 Bonds (see table below). Currently, $10.7 million of the 2008 Bonds remain outstanding. The bonds are eligible to be called on September 1, 2016, and the proposed issuance would fully refund these outstanding bonds. The refunding, in combination with the new money issuance, will result in an estimated bond issuance of $19.0 million.

The bonds are secured solely by Special Taxes levied via property tax bills upon parcels of primarily residential property located within the District. The Fiscal Year 2016 Special Tax Levy included 362 parcels of taxable property. Since the preparation of the 2016 levy, as of November 30, 2015, 48 additional building permits have been issued, increasing the number of taxable parcels to 410. At buildout, it is anticipated that the District will be comprised of a total of 526 residential parcels and two commercial parcels.

II. Discussion

New Money Bonds

The District was established to assist in the financing of certain public facilities required in connection with development of the Black Mountain Ranch area. The geographic boundaries of the District and the public facilities proposed to be financed are primarily within the Black Mountain Ranch Community Planning Area. Provision of major public facilities within this area is generally governed by the Public Facilities Financing Plan, which provides that public facilities projects that benefit a population larger than the local/adjacent development can be financed by a number of methods, including, as in this case, Community Facilities Districts.

Special Taxes are levied on properties within the District in accordance with the Rate and Method of Apportionment approved in connection with the District formation proceedings. Special Taxes were first levied within CFD No. 4 in Fiscal Year 2004. The Special Tax receipts may be used to pay debt service on the District Bonds, and/or to directly fund the authorized public facilities. To date, approximately $16.0 million has been reimbursed to the Developer for public facilities, and an additional $8.0 million is anticipated to be derived from the proposed 2016 Bonds. A summary of Developer project reimbursements to date, and from the 2016 Bonds is as follows:

Developer Reimbursements			
2008 Bonds	Pay-Go	Proposed 2016 Bonds	**Total**
$10,542,000	$5,457,000	$8,004,000	**$24,003,000**

Refunding Bonds

Based on current rates, all of the 2008 Bonds could be current refunded generating cumulative cash flow savings over the remaining term of the bonds (through 2037) of approximately $2.9 million for the 2008 Bonds. The average annual cash flow savings to the District and the special taxpayers would be approximately $138,000 for the 2008 Bonds between Fiscal Years 2017 and 2037. The net present value savings would be approximately 18.1%. No change to the repayment terms will be made; the term of the combined refunding and new money bonds will match the term of the 2008 Bonds, and the final payment date will remain September 1, 2037.

Special Tax Rates

Pursuant to the RMA referenced above, the special taxes must be levied at the Assigned Special Tax Rate until all authorized CFD No. 4 Bonds have been issued or the City Council has covenanted that it will not issue any additional CFD No. 4 Bonds (except refunding bonds), and all facilities intended to be financed by the District under the Purchase and Finance Agreement have been acquired by the City.

The Assigned Special Tax Rates are established at District formation and are generally set at a conservative rate to provide for directly funding authorized facilities and/or to pay debt service in support of a bond issue. Once all bonds have been issued and all facilities acquired, the RMA provides for reducing the actual Special Tax levied to an amount that meets the Special Tax Requirement, generally the amount required to pay debt service on the bonds and the costs of administering the District. The 2008 Bonds were sized based on the development that had occurred as of the date of issuance. Since that time, the Special Tax Levy has supported the 2008 Bonds debt service, and, as new development occurred, pay-go funds to partially reimburse the Developer for remaining completed authorized facilities. At this point, there is sufficient additional development, particularly recent development, to support the final series of bonds, which will fulfill the RMA requirements to allow the Special Taxes to be levied at rates reduced from the Assigned Rates.

It is anticipated that special taxpayers within the District will realize approximately a 20% reduction in their Special Taxes in Fiscal Year 2017 based on current market conditions and District development, and potentially greater Special Tax reductions thereafter as further development takes place and more taxable properties come on line to support the debt service and administrative costs of the District. As noted above, 48 additional building permits have been issued since the Fiscal Year 2016 Special Tax Levy, increasing the number of taxable parcels to 410. At buildout, it is anticipated that the taxable property in the District will be comprised of a total of 526 residential parcels and two commercial parcels.

Issuance Timeline

Debt Management anticipates taking the legal documents, POS, and Financing Resolution to City Council for review and approval in April 2016. The proposed CFD No. 4 Special Tax Bonds are expected to price by the end of May 2016, with bond closing planned for early June 2016. The refunding portion of the proceeds will be placed in an escrow fund until September 1, 2016, when the outstanding bonds will be redeemed.

CITY COUNCIL AUTHORIZATION

At this time, it is expected that the legal and financing documents for the transaction would be presented to City Council in accordance with the respective timeline provided above. The Disclosure Practices Working Group will review the disclosure document before it is docketed.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service
Objective #1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

FISCAL CONSIDERATIONS:

The pricing and closing of the 2016 Bonds would be subject to market conditions and the fulfillment of the City's net present value savings threshold of at least 3% for economic refundings for the portion of the 2016 Bonds designated to refund the 2008 Bonds. As described above, under current market conditions, the proposed economic refunding would provide an estimated 18.1% net present value savings, and would produce annual debt service savings to exisiting special taxpayers within the District.

In combination with the new money issuance, the 2016 Bonds would provide for payment of the remaining public facilities, which, under the RMA, allows for reduced Special Taxes to be levied on District property owners. Based on current market conditions and development, it is estimated that Special Taxes would be reduced by approximately 20% in fiscal Year 2017.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

On November 21, 2000, in conjunction with a Public Hearing and Special Election, Community Facilities District No. 4 was established and authorized to issue special tax bonds and to levy special taxes to pay debt service on the bonds and/or to directly pay for the acquisition of various public facilities. In July 2002, an additional Public Hearing and Special Election was held to authorize amendments to the Rate and Method of Apportionment and bond authorization amount. In addition, each year since inception of CFD No. 4, the special tax levies have been presented to the City Council for approval, the most recent of which occurred in July 2015.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Key stakeholders include Black Mountain Ranch LLC, the Developer, who would obtain final reimbursement for completed authorized facilities, and the special taxpayers in CFD No. 4, who would benefit from reduced Special Taxes due to lower debt service on the existing bonds, and fulfillment of RMA conditions allowing a reduction in Special Taxes from the Assigned Special Tax Rates.

Business entities involved in the proposed financing include investment banks, financial advisors, bond and disclosure counsel, special tax consultant, and trustee. The selected firms will be identified in the Report to City Council issued when the financing and legal documents are docketed for City Council action.

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