THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: April, 4 2016 REPORT NO: 16-033

ATTENTION: Council President and City Council

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

REFERENCE: Budget and Government Efficiency Committee Report No. 16-001, titled Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds, Series 2016, dated January 15, 2016

REQUESTED ACTION:

1. Authorize the issuance of the Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds Series 2016 (the "2016 Bonds") in an aggregate principal amount not to exceed $20 million to reimburse Black Mountain Ranch LLC (the "Developer") for remaining authorized infrastructure projects within Community Facilities No. 4 (Black Mountain Ranch Villages) (the "District") and to refund all of the outstanding Community Facilities District No. 4 (Black Mountain Ranch Villages) Special Tax Bonds Series A of 2008 (the "2008 Bonds"). In addition, authorize the execution of related financing documents which include the Preliminary Official Statement, the Bond Indenture, the Bond Purchase Agreement, the Escrow Agreement, the Continuing Disclosure Certificate, and a Letter of Credit Agreement.

2. Authorize the City Attorney to retain and enter into an agreement with Bond and Disclosure Counsel, Stradling Yocca Carlson & Rauth, for the 2016 Bonds in an amount not to exceed $60,000.

STAFF RECOMMENDATION:

Approve the requested actions.

ITEM 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.

In accordance with the Mello-Roos Act and 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. 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 financed public facilities 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.

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 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 approximately $8.0 million 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), 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. 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 bond proceeds of approximately $18.9 million.

The bonds are secured solely by Special Taxes levied via property tax bills upon parcels of primarily residential property located within the District pursuant to the RMA. Special Taxes were first levied within CFD No. 4 in Fiscal Year 2004. The Fiscal Year 2016 Special Tax Levy included 362 parcels of taxable property. Since the preparation of the 2016 levy, as of the March 1, 2016 cutoff date for the subsequent year tax levy, 113 additional building permits have been issued, increasing the number of taxable parcels to 475. At buildout, it is anticipated that the District will be comprised of a total of 535 residential parcels and two commercial parcels.

DISCUSSION:

A. Plan of Finance

Issuer: Community Facilities District No. 4 (Black Mountain Ranch Villages)

Not to Exceed Amount: $20 million (new money and refunding component)

2016 Bonds: The 2016 Bonds will include a new money component and refunding component.

1. *New Money Component (approximately $8.3 million):* As described above under Item Background, at the time of district formation, the City entered into the Purchase and Finance Agreement with the Developer for reimbursement of District authorized

facilities completed by the Developer and accepted by the City. The 2016 Bonds will provide for the remaining reimbursement to the Developer for authorized facilities, completed in or prior to 2010. Under the RMA, 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**

2. ***Refunding Component (approximately $10.6 million):*** A current refunding will be utilized to refinance the $10.7 million outstanding 2008 Bonds. The refunding will produce positive savings in excess of the 3% NPV requirement.

Debt Service Reserve Fund: Similar to the existing bonds, a full debt service reserve fund sized approximately equal to the maximum annual debt service will be established. A debt service reserve fund is an important element of most CFD bonds because the security for repayment is limited to the Special Taxes levied on property within the district.

Legal Structure: Mello-Roos Act Special Tax Bonds issued pursuant to a Bond Indenture

Method of Sale: Public Offering; Negotiated Sale. With a negotiated sale, the underwriter is selected early in the financing process. This gives the underwriter adequate time to pre-market the bonds to appropriate investors.

Tax Status: The 2016 Bonds will be issued as a tax-exempt issuance. Interest on the 2016 Bonds will not be included in gross income for federal income tax purpose and will be exempt from present State of California personal income taxes.

Repayment Source: Payable from Special Taxes levied on taxable property within the District. No funds of the General Fund are pledged to repayment of the 2016 Bonds.

Final Maturity: No change to the repayment terms will be made; the term of the 2016 Bonds will match the term of the 2008 Bonds, and the final payment date will remain September 1, 2037.

B. Legal Structure

The 2016 Bonds would be Special Tax Bonds issued pursuant to the Mello-Roos Community Facilities Act of 1982. CFD No. 4 (Black Mountain Ranch Villages) is a separate legally constituted public entity formed under the Mello Roos Act, and the City Council, as the public entity that created the District, sits as the legislative body of the District. Under the Mello-Roos Act, the District has the authority to issue Special Tax Bonds and levy a Special Tax to repay the bonds. The bonds would be limited obligations of the District, secured by Special Taxes levied upon property within the District. CFD Special Tax Bonds are not fiscal obligations of the City; therefore, no City taxes or revenues are pledged to the repayment of the Bonds.

C. City Council Authorization

The City Council is requested to (i) authorize the issuance of the 2016 Bonds (ii) approve the respective financing and legal documents; and (iii) authorize the City Attorney to appoint the Bond and Disclosure Counsel. The financing documents include a Bond Indenture, a Bond Purchase Agreement, an Escrow Agreement, a Continuing Disclosure Certificate, and a Preliminary Official Statement. The City Council is also requested to approve a Letter of Credit Agreement, as described below.

D. Financing Schedule and Key Milestones

Following are the critical milestones related to the execution of the 2016 Bonds:

April 2016	Approval of the Financing Resolution authorizing the issuance of the 2016 Bonds, and approval of the disclosure (POS) and financing documents.
May 2016	Pricing
June 2016	Bond Closing
September 1, 2016	Bonds Redeemed

E. Financing Team

The CFD Financing Team for the 2016 Bonds consists of staff of the Department of Finance, including the Debt Management Department, the Comptroller's Office, and the Treasurer's Office. The Financing Team also includes the City Attorney's Office. External members include: Fieldman Rolapp & Associates ("Fieldman") as the municipal advisor; Stradling Yocca Carlson & Rauth ("Stradling") as Bond and Disclosure Counsel; Willdan Financial Services ("Willdan") as Special Tax Consultant; Stifel, Nicolaus & Company, Incorporated ("Stifel") and RBC Capital Markets ("RBC") as Underwriters; U.S Bank, N.A. as Trustee; and Wells Fargo, N.A. as Escrow Agent.

Municipal Advisor: Fieldman was selected to provide financial advisory services for the transaction through a competitive process utilizing the City's As-needed Financial Advisors Pool based on the firm's experience in land-secured bond financings and the fee proposal. The fee to Fieldman is for an amount not to exceed $28,500, plus out of pocket expenses not to exceed $750 to be paid out of bond proceeds.

Bond and Disclosure Counsel: The City Attorney's Office identified, via a RFP process, Stradling to serve as Bond and Disclosure Counsel for the 2016 Bonds. The fee is an amount not to exceed $60,000 inclusive of reasonable out of pocket expenses to be paid out of bond proceeds.

Special Tax Consultant: Willdan is the City's current CFD Administrator/Special Tax Consultant and will provide Special Tax Consultant services for the 2016 Bonds. The fee to Willdan is for an amount not to exceed $20,000, plus out of pocket expenses not to exceed $1,000 to be paid out of bond proceeds.

Underwriting Syndicate: Stifel was selected to serve as Senior Manager for the 2016 Bonds. In addition, the underwriting syndicate includes RBC as Co-Manager. They were selected through a competitive process utilizing the City's established pool of Underwriters. The syndicate members were identified based on the investment banking experience of the firms on CFD transactions and bond marketing outreach capabilities.

Trustee: U.S. Bank will serve as the Trustee for the 2016 Bonds. Compensation for the Trustee and its counsel is estimated to be $4,250 for the 2016 Bonds, with an estimated ongoing annual fee of $1,000.

Escrow Agent: Wells Fargo Bank, National Association, (the "Prior Trustee"), will serve as Escrow Agent for the 2016 Bonds. Compensation for the Escrow Agent is $2,500.

F. Financing & Legal Documents

The Financing Resolution approves and authorizes the execution of the following financing documents (*the attached documents contain various blank placeholders which will be filled in by Bond Counsel at the time of the bond sale*):

1. Form of Preliminary Official Statement (POS) – The POS describes the bond issue to potential investors. It provides information that a reasonable investor in these types of securities would need to make an informed investment decision. Specifically, the POS includes information about the Bonds, sources of repayment of the Bonds, the District, development status, and property ownership.

   The POS also includes information on risk factors. Land based securities are generally considered more risky than securities backed by a governmental entity such as the City. For example, a downturn in the economy or a natural disaster could result in a reduction in property values and could adversely affect the ability or willingness of property owners to pay the Special Taxes, which are the security for repayment of the 2016 Bonds.

   Appendices to the POS include: A copy of the Amended and Restated Rate and Method of Apportionment (Appendix A); demographic and economic information relating to the City (Appendix B); a summary of the Bond Indenture (Appendix C); the form of Bond Counsel Opinion (Appendix D); information concerning the Depository Trust Company's book entry only system (Appendix E); the form of the Continuing Disclosure Certificate of the District (Appendix F); and the form of the Continuing Disclosure Certificate of the Developer (Appendix G).

   The POS has been reviewed by the Disclosure Practices Working Group, which has approved forwarding the document to City Council for consideration.

2. Form of the Bond Indenture ("Indenture") – The Indenture is an agreement between the District and the Trustee for the bonds. The Indenture provides for the issuance of the bonds, and includes information regarding the amount of bonds, the maturities and interest rates on the bonds, the use of bond proceeds, and the nature of the security for the bonds (i.e., that the bonds are limited obligations of the District payable from Special Tax receipts). The Indenture also sets forth terms, including the specific rights, responsibilities, and obligations of each party with respect to the issuance of the bonds. Under the Indenture, the District covenants to levy sufficient Special Taxes annually to make principal and interest payments on the bonds, and to punctually transfer the Special Tax receipts apportioned to the District to the trustee for the benefit of bondholders.

3. Form of the Bond Purchase Agreement ("BPA") – The BPA is an agreement between the District and the Underwriter for the transaction pursuant to which the District agrees to sell, and the Underwriter agrees to buy, the bonds. It specifies the purchase price of the bonds, and terms of the bonds, such as interest rates and maturities. The agreement also specifies documents that the parties must receive prior to bond closing, including the Bond Counsel opinion regarding the validity and tax exempt nature of the bonds as well as certain opinions and certificates of the City Attorney and District officials. Such opinions and certificates would confirm, among other things, that all steps necessary to authorize the execution of the financing documents and the issuance of the bonds have been properly taken.

4. Form of the Escrow Agreement – The Escrow Agreement between the District and the Prior Trustee provides for the deposit of moneys in the escrow account to refund the outstanding principal of the 2008 Bonds since the 2016 Bonds will be issued prior to the redemption date. The agreement sets forth the manner in which funds are to be invested pending their expenditure, the payment of the September 1, 2016 debt service payments to be made with respect to the bonds being refunded, and application of funds to call all outstanding bonds maturing after September 1, 2016.

5. Form of the Continuing Disclosure Certificate ("CDC") – The CDC details the City's ongoing obligation to file annual reports and notices of certain enumerated events with the Municipal Securities Rulemaking Board ("MSRB") through its Electronic Municipal Market Access system for the benefit of the bondholders.

6. Form of the Letter of Credit Agreement ("LOC Agreement") – The LOC Agreement requires the Developer to provide enhancements securing the payment of Special Taxes on taxable property owned by the Developer. Given the recent rapid pace of building permit issuance, a significant number of Developer owned parcels are anticipated to be taxable for future special tax levies. Based on current information, the Developer owned parcels will be responsible for approximately 30% of the Special Tax levy in Fiscal Year 2017. Based on industry standards, until the Developer is responsible for less than 20% of the Assigned Special Tax that could be levied on taxable property and future taxable property, the LOC will be maintained to ensure sufficient funds are available to meet debt service requirements on the Developer owned parcels until their sale to individuals.

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:

Bond Proceeds, Interest Rate, Projected Debt Service and Savings

The Estimated Sources and Uses of Funds are based on interest rates as of April 1, 2016. The total proceeds from the 2016 Bonds are expected to be approximately $18.9 million which, together with the monies released from the 2008 Bonds debt service reserve fund and Pay-go and other funds on hand, will be used for the refunding, new money financing, and financing costs of issuance.

Estimated Sources and Uses of Funds *

	New money	Refunding	Total
Estimated Sources			
Bond Proceeds	$ 8,295,000	$ 10,633,000	$ 18,928,000
Release of DSRF[(1)]	--	890,000	890,000
Additional Available District Funds[(2)]	439,000	580,000	1,019,000
Total Sources of Funds	**$ 8,734,000**	**$ 12,103,000**	**$20,837,000**
Estimated Uses			
Refunding Escrow Fund Deposit[(3)]	--	$ 11,169,000	$ 11,169,000
Deposit to Project Fund	$ 8,005,000	--	8,005,000
2016 DSRF	557,000	714,000	1,271,000
Costs of Issuance[(4)]	172,000	220,000	392,000
Total Uses of Funds	**$ 8,734,000**	**$12,103,000**	**$20,837,000**

*Preliminary; subject to change. Based on interest rates as of April 1, 2016. Assumes June 22, 2016 delivery date.

(1) DSRF is Debt Service Reserve Fund.
(2) Projected Additional Available District Funds includes Special Taxes collected in Fiscal Year 2016 to pay the September 1, 2016 debt service due on the 2008 Special Tax Bonds, Pay-go funds, and other available District funds.
(3) Includes debt service on the 2008 Bonds to the call date (September 1, 2016) and redemption of remaining principal on the call date, net of escrow earnings. Escrow Fund duration expected to be approximately two months, which qualifies as a current refunding.
(4) Costs of Issuance includes underwriter's discount, bond and disclosure counsel fees, municipal advisory fees, trustee and escrow fees, verification agent fees, Preliminary Official Statement and Official Statement electronic printing/posting costs.

Under current market conditions as of April 1, 2016, the estimated All-in True Interest Cost ("All-in TIC") for the 2016 Bonds is approximately 3.5%. The actual cost of borrowing will depend on market conditions at the time the 2016 Bonds are sold.

New Money & Refunding Components

The 2016 Bonds new money component will provide approximately $8.0 million in project funds. The average annual debt service for the new money component is estimated to be $558,000 for Fiscal Years 2017-2037.

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 $3.4 million for the 2008 Bonds. The average annual cash flow savings to the District and the special taxpayers would be approximately $162,000 for the 2008 Bonds between Fiscal Years 2017 and 2037. The average annual debt service for the refunding component is estimated to be $710,000. The net present value savings would be approximately 21.8%. 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 earlier, 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 25% 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.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

Contracts or agreements associated with this action are subject to the City's Equal Employment Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and the City's Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

On January 27, 2016, Debt Management presented the 2016 Bonds item to the Budget and Government Efficiency Committee. The Budget and Government Efficiency Committee forwarded the item to the City Council for approval.

COMMUNITY PARTICIPATION AND 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 included in the financing: Stradling Yocca Carlson & Rauth (Bond and Disclosure Counsel); U.S. Bank (Trustee); Wells Fargo Bank, National Association (Escrow Agent); Fieldman Rolapp & Associates (Municipal Advisor); Willdan Financial Services (Special Tax Consultant); and Stifel Nicolaus & Company, Incorporated and RBC Capital Markets (Underwriters).

Debt Management Director

Mary Lewis

Chief Financial Officer