



REPORT TO CITY COUNCIL

To: Honorable Mayor and Members of the City Council

From: Jason Simpson, City Manager

Prepared by: Shannon Buckley, Assistant City Manager

Date: December 12, 2023

Subject: Issuance of Its Special Tax Bonds, Series 2024 for Community Facilities District No. 2006-4 (Rosetta Hills)

Recommendation

Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ACTING AS THE LEGISLATIVE BODY OF CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2006-4 (ROSETTA HILLS) AUTHORIZING THE ISSUANCE OF ITS SPECIAL TAX BONDS, SERIES 2024 IN A PRINCIPAL AMOUNT NOT TO EXCEED SIX MILLION DOLLARS (\$6,000,000) AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH.

Background

The City of Lake Elsinore (the “City”) formed the City of Lake Elsinore Community Facilities District No. 2006-4 (Rosetta Hills) (the “District”) in 2006 pursuant to the Mello-Roos Community Facilities District Act of 1982, as amended.

The District contains approximately 52.5 gross acres and 31.9 net taxable acres and is located approximately 1.5 miles northeast of Interstate 15, toward the northeastern portion of the City. The District is generally located to the north of the intersection of Rosetta Canyon Road and Elsinore Hills Road. The developer of the property within the District is KB Home Coastal Inc. (“KB Home”). The project is being marketed by KB Home as “Crimson Hills.”

The property within the District is planned for 178 single family detached homes. As of October 23, 2023, KB Home had completed and conveyed 102 homes within the District to individual homeowners, and as of such date, KB Home owned three model homes, 34 homes in various stages of construction, and 39 finished lots. KB Home currently expects to complete and convey all homes planned within the District to individual homeowners by the end of the first quarter of

2025. The development and ownership status of the planned homes within the District as of October 23, 2023 is shown in the table below.

Ownership and Development Summary (October 23, 2023)

	<u>Parcels</u>	<u>In Escrow</u>
Individually Owned		
Completed	102	--
Developer Owned		
Model Homes	3	--
Under Construction	34	18
Finished Lots	39	--
Subtotal	<u>76</u>	<u>18</u>
TOTAL	178	18

The Resolution before the City Council authorizes the issuance of special tax bonds (the “Bonds”) to finance the costs of construction of City facilities, including but not limited to public improvements to be owned by the City and water and sewer facilities to be owned and operated by the Elsinore Valley Municipal Water District. The Resolution also authorizes the approval and execution of certain documents further described on the following pages.

Discussion

The proposed Bonds are estimated to be issued in the principal amount of approximately \$4.81 million with a final maturity of September 1, 2054. The final structure and payment schedule will be determined when the Bonds are priced and sold, which is expected to be in January 2024. The bond closing is expected to occur approximately two weeks after the pricing of the Bonds. The table below highlights preliminary financing statistics of the Bonds based on current market conditions.

Summary of Financing Statistics¹	
2024 Special Tax Bonds	
Par Amount	\$4,810,000
True Interest Rate	5.56%
Estimated Cost to Homeowners	
FY 2024-25 Assessment ²	\$1,584 - \$1,954

The Fiscal Year 2024-25 estimated Special Tax levy on homes within the District range between \$1,584 and \$1,954, depending on the size of the home. Such rates will increase 2.0% per year.

Given the level of development noted above and pursuant to the City policy, KB Home will provide a Letter of Credit that may be drawn upon by the District to cover payment of special taxes levied

on property owned by KB Home in the event of delinquencies. The initial term of the Letter of Credit is one year and will be renewed each year until certain development and conveyance thresholds are met. The amount of the Letter of Credit is equal to the Special Tax attributable to the parcels owned by KB Home in the two fiscal years following the issuance of the Bonds.

As required under Section 5852.1 of the California Government Code, the good faith estimates as provided by the Municipal Advisor and Underwriter are set forth in Exhibit A to this staff report.

Approval of the Resolution with respect to the issuance of the Bonds approves the form of and/or authorizes the execution and delivery of the following documents:

- ✓ **Preliminary Official Statement**: The Preliminary Official Statement (the “POS”) is the “offering document” for the Bonds. It provides a description of the District, the Bonds, the proposed development within District, and any other information that would be material to a prospective investor’s decision on whether to purchase the Bonds. While the City’s counsel, consultants, and the underwriter have participated in preparing the POS, City Council and staff are ultimately responsible for ensuring that the POS is accurate, contains no misleading information and does not omit any information necessary to make the POS not misleading to investors.
- ✓ **Bond Indenture**: The Bond Indenture is a contract entered into between the District and Wilmington Trust, National Association, as the appointed Trustee for the Bonds. This document contains terms of the Bonds including, but not limited to, the payment and redemption provisions, the pledge of revenues to pay the Bonds, rights and duties of the Trustee, remedies upon a default in the payment of the Bonds, and other related matters.
- ✓ **Continuing Disclosure Certificate**: Executed for the benefit of bondholders, the Continuing Disclosure Certificate obligates the District to file an annual report each Fiscal Year which includes, among other things, the most recent audited financial statements of the City and financial data relating to the District. The District is also required to report certain events which are significant to bondholders if and when they occur.
- ✓ **Bond Purchase Agreement**: Pursuant to the Bond Purchase Agreement, the District agrees to sell the Bonds to the underwriter and the underwriter agrees to purchase the Bonds, subject to typical closing conditions. City staff, the City’s municipal advisor, and bond counsel will sign off on the final pricing of the Bonds prior to the execution of the Bond Purchase Agreement.
- ✓ **Appraisal**: The Appraisal provides an estimate of the market value of property within the District subject to the special tax lien. The estimates, provided by an

independent and impartial qualified appraiser, will be used to market the Bonds to prospective investors in the POS.

Bond Counsel and the City Attorney have reviewed the attached financing documents on behalf of the City. If this resolution is approved, City staff will continue to work with the financing team to finalize all of the aforementioned documents. As previously mentioned, the pricing date would be targeted for January 2024.

Fiscal Impact

The 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.

As previously mentioned, the Fiscal Year 2024-25 estimated Special Tax levy on homes within the District range between \$1,584 and \$1,954. Such special taxes will increase at 2.0% per year pursuant to an existing agreement with the Developer.

Attachments

- Attachment 1 - Resolution
- Attachment 2 - Preliminary Official Statement
- Attachment 3 - Bond Indenture
- Attachment 4 - Continuing Disclosure Certificate
- Attachment 5 - Bond Purchase Agreement
- Attachment 6 - Appraisal Report

Attachment A (Good Faith Estimates) follows this staff report.

ATTACHMENT A

GOOD FAITH ESTIMATES

The good faith estimates set forth herein are provided with respect to the Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the City by Urban Futures, Inc., the City's Municipal Advisor (the "Municipal Advisor") in consultation with Stifel, Nicolaus & Company, Incorporated, the Underwriter for the Bonds.

Principal Amount. The Municipal Advisor has informed the City that, based on the City's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the Bonds to be sold is \$4,810,000 (the "Estimated Principal Amount").

True Interest Cost of the Bonds. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the Bonds, is 5.56%.

Finance Charge of the Bonds. The Municipal Advisor has informed the City that assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the Bonds), is \$296,200. Additionally, there will be an annual Trustee fee of approximately \$2,000 for as long as the Bonds are outstanding.

Amount of Proceeds to be Received. The Municipal Advisor has informed the City that, assuming the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the City for sale of the Bonds, less the finance charge of the Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the Bonds, is \$4,088,603.

Total Payment Amount. The Municipal Advisor has informed the City that, assuming that the Estimated Principal Amount of the Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments the City will make to pay debt service on the Bonds, plus the finance charge for the Bonds, as described above, not paid with the proceeds of the Bonds, calculated to the final maturity of the Bonds, is \$10,730,240. Additionally, there will be an annual Trustee fee of \$2,000 for as long as the Bonds are outstanding.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the Bonds being different than the

date assumed for purposes of such estimates, (b) the actual principal amount of the Bonds sold being different from the Estimated Principal Amount, (c) the actual amortization of the Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the City's financing plan, or a combination of such factors. The actual date of sale of the Bonds and the actual principal amount of Bonds sold will be determined by the City based on the timing of the need for proceeds of the Bonds and other factors. The actual interest rates borne by the Bonds will depend on market interest rates at the time of sale thereof. The actual amortization of the Bonds will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the City.