



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: August 13, 2024

Subject: Community Facilities District No. 2019-2 (Nichols Ranch) Special Tax Bonds, Series 2024

Recommendation

Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ACTING AS THE LEGISLATIVE BODY OF THE CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH) AUTHORIZING THE ISSUANCE OF ITS SPECIAL TAX BONDS, SERIES 2024 IN A PRINCIPAL AMOUNT NOT TO EXCEED EIGHT MILLION FIVE HUNDRED THOUSAND DOLLARS (\$8,500,000) 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. 2019-2 (Nichols Ranch) (the “District”) in 2019 according to the Mello-Roos Community Facilities District Act of 1982, as amended.

The District contains approximately 58.19 gross acres and is in the City on the southeast quadrant of Interstate 15 and Nichols Road, adjacent to the Temescal Valley High School. The property Developer within the District is Meritage Homes of California (“Meritage”). Meritage is marketing the project as “Nichols Ranch.”

The property within the District is planned for 168 single-family detached homes. As of July 1, 2024, Meritage had completed and conveyed 83 homes within the District to individual homeowners, and as of such date, Meritage owned four model homes, 49 homes in various stages of construction, and 32 finished lots. Meritage expects to complete and convey all homes planned within the District to individual homeowners by the end of 2025. The development and ownership status of the planned homes within the District as of July 1, 2024, is shown in the table below.

Ownership and Development Summary (July 1, 2024)

	<u>Parcels</u>	<u>In Escrow</u>
Individually Owned		
Completed	83	--
Developer Owned		
Model Homes	4	--
Under Construction	49	16
Finished Lots	<u>32</u>	<u>--</u>
Subtotal	<u>85</u>	<u>16</u>
TOTAL	168	16

The Resolution before the City Council authorizes the issuance of special tax bonds (the “2024 Special Tax 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 described on the following pages.

Discussion

The proposed 2024 Special Tax Bonds are estimated to be issued in the principal amount of approximately \$7.815 million with a final maturity of September 1, 2054. The final structure and payment schedule will be determined when the 2024 Special Tax Bonds are priced and sold, which is expected to be in late August 2024. The bond closing is expected to occur approximately two weeks after pricing the 2024 Special Tax Bonds. The table below highlights preliminary financing statistics of the 2024 Special Tax Bonds based on current market conditions.

Summary of Financing Statistics¹	
2024 Special Tax Bonds	
Par Amount	\$7,815,000
True Interest Rate	5.01%
Estimated Cost to Homeowners	
FY 2024-25 Assessment ²	\$2,596 - \$3,118

The Fiscal Year 2024-25 estimated Special Tax levy on homes within the District ranges between \$2,596 to \$3,118, depending on the size of the home. Such rates will increase by 2.0% per year.

Given the level of development noted above and under the City policy, Meritage will provide a Letter of Credit that the District may draw upon to cover payment of special taxes levied on property owned by Meritage. The initial term of the Letter of Credit is one year and will be renewed each year until specific development and conveyance thresholds are met.

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

Approval of the Resolution for the issuance of the 2024 Special Tax 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 2024 Special Tax Bonds. It describes the District, the 2024 Special Tax Bonds, the proposed development within the District, and any other information that would be material to a prospective investor’s decision on whether to purchase the 2024 Special Tax Bonds. While the City’s counsel, consultants, and underwriter have participated in preparing the POS, the 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 2024 Special Tax Bonds. This document contains terms of the 2024 Special Tax Bonds including, but not limited to, the payment and redemption provisions, the pledge of revenues to pay the 2024 Special Tax Bonds, rights and duties of the Trustee, remedies upon a default in the payment of the 2024 Special Tax 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 must also report significant events to bondholders if and when they occur.

Bond Purchase Agreement: According to the Bond Purchase Agreement, the District agrees to sell the 2024 Special Tax Bonds to the underwriter, and the underwriter agrees to purchase the 2024 Special Tax 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 2024 Special Tax Bonds before executing the Bond Purchase Agreement.

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 working with the financing team to finalize all the documents mentioned above. As previously mentioned, the pricing date would target late August 2024.

Fiscal Impact

The 2024 Special Tax Bonds are paid from special taxes levied in the District. There is no fiscal impact on 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 \$2,596 and \$3,118. Such special taxes will increase by 2.0% per year under an agreement with the Developer.

Attachments

- Attachment 1 - Good Faith Estimates
- Attachment 2 - Resolution
- Attachment 3 - Preliminary Official Statement
- Attachment 4 - Bond Indenture
- Attachment 5 - Continuing Disclosure Certificate
- Attachment 6 - Bond Purchase Agreement
- Attachment 7 - Appraisal Report