



CITY OF SALINAS COUNCIL STAFF REPORT

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DATE: NOVEMBER 19, 2019

DEPARTMENT: FINANCE

FROM: MATT N. PRESSEY, CPA, FINANCE DIRECTOR

TITLE: COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA)
2019 SPECIAL TAX BONDS (IMPROVEMENT AREA NO. 2)

RECOMMENDED MOTION:

It is recommended that the City Council approve the attached Resolution authorizing the issuance of 2019 Special Tax Bonds ("Bonds") to finance the acquisition and/or construction of certain public facilities and improvements within Community Facilities District (CFD) No. 2016-1 ("District") Improvement Area 2 of the District and to approve the execution of necessary financing documents.

RECOMMENDATION:

Approve a Resolution of the City Council of the City of Salinas, acting as the legislative body of the District, authorizing the issuance of the Bonds in a principal amount not to exceed \$2,750,000 and approving certain documents and taking certain other actions in connection with the Bonds.

EXECUTIVE SUMMARY:

At the November 19, 2019 meeting the City Council, as legislative body of the District, will consider the approval of a resolution authorizing the issuance and sale of the Bonds in an aggregate principal amount not to exceed \$2,750,000 to finance the public infrastructure associated with Improvement Area No. 2 of the Monte Bella development.

BACKGROUND:

On November 29, 2016, Community Facilities District No. 2016-1 (Monte Bella) (the "District") was established by Resolution 21082 (the "Resolution of Formation") by the City Council which also designated Improvement Area No. 2; on the same date the City Council adopted Ordinance No. 2582 (the "Ordinance") providing for the levying of Special Taxes.

Also on November 29, 2016, consolidated elections among the landowners in Improvement Area No. 2 were held on the propositions of whether a bonded indebtedness in an aggregate principal amount of not to exceed \$3,025,000 should be incurred by and for the District for the purpose of financing certain public facilities, the annual levy of special taxes to pay principal of and interest

on bonds of the District and to approve the apportionment of Special Taxes for Improvement Area No. 2. The landowners approved the proposition.

The District, which is located entirely within the City, consists of Improvement Area Nos. 1, 2 and 3. Special taxes or other moneys derived from Improvement Area Nos. 1 and 3 are not available for payment of the Bonds. In addition, no funds of the City are available for payment of the Bonds.

Improvement Area No. 2 of the District consists of approximately 11.10 gross acres. Excluding public streets, open space and other public improvements, the 63 lots within Improvement Area No. 2 that will be subject to the Special Tax comprise approximately 7.53 acres. Improvement Area No. 2 is located in the southeastern portion of the City near the City limits northeast of the intersection of Monte Bella Boulevard and Sconberg Parkway. As of September 15, 2019, the date of value of the appraisal prepared by BBG, Inc. (the "Appraisal"), the developer of Improvement Area No. 2, KB HOME South Bay Inc., a California corporation (the "Developer"), 6 single family residences, 2 of which are utilized as model homes and 4 of which have been sold and closed to individual homeowners. The Developer has constructed additional homes since the date of the Appraisal.

ANALYSIS:

In accordance with Part IX.B.1 of the City's Financial Policies, the City Council, as the legislative body of the District, may sell bonds of the District only if it determines prior to the sale of such bonds that the value of the real property that would be subject to the special tax to pay debt service on the bonds will be at least three times the principal amount of the bonds to be sold and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Mello-Roos Community Facilities Act of 1982 on property within the District's Improvement Area No. 2.

The appraised value of the taxable property within Improvement Area No. 2, based on the Appraisal, is \$13,619,000 as of September 15, 2019. If the Bonds are issued in the not-to-exceed principal amount of \$2,750,000, then the appraised value of the taxable property in the District will be more than three times such principal amount of the Bonds (i.e.: 4.95 times). At formation, the agreed upon maximum indebtedness was \$3,025,000.

In accordance with Part IX.C.1(c) of the City's Financial Policies, the projected amount of the special taxes to be levied to repay the bonds, together with ad valorem property taxes and other direct and overlapping debt within Improvement Area No. 2 of the District, shall not exceed 2% of the projected assessed value of each improved parcel within Improvement Area No. 2.

In accordance with Part IX.B.7 of the City's Financial Policies, none of the faith, credit or taxing power of the City shall be pledged to the repayment of the Bonds. The City is also not obligated to replenish the reserve fund to be established in connection with the Bonds except from available Special Taxes or foreclosure proceeds.

The Resolution before you authorizes the City to proceed with the issuance of the Bonds and to execute and deliver the final form of the Purchase Contract between the City on behalf of the

District and Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) within certain parameters, which are (a) the true interest cost on the Bonds shall not exceed six percent , (b) the purchase price to be paid by the Underwriter for the purchase of the Bonds shall not be more than an amount equal to two and a half percent (exclusive of original issue discount) of the aggregate principal amount of the Bonds, and (c) the last maturity of the Bonds shall be paid and redeemed no later than September 1, 2049.

Exhibit A to the Bond Resolution sets forth good faith estimates with respect to the Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the and in consultation with the Underwriter.

DOCUMENTS TO BE APPROVED:

Approval of the Resolution will accomplish the following:

- Approves the form of the following documents:
 - Indenture (Attachment No. 2)
 - Bond Purchase Contract (Attachment No. 3)
 - Continuing Disclosure Agreement (Attachment No. 4)
 - Preliminary Official Statement (Attachment No. 5)
- Approves the sale of the Bonds in an amount not to exceed \$2.75 million.
- Authorizes the Authorized Officers, to execute all of the above documents, and such other documents and certifications that may be necessary to consummate the transaction.
- Approves the sale of the Bonds to the underwriter, Stifel, Nicolaus & Co., Inc. at a bond yield of not more than 6.00 percent and an underwriter’s discount of not more than 2.5 percent.

The documents, the form of which are presented to the City Council, relating to the issuance of the Bonds include an Indenture, Purchase Contract, Preliminary Official Statement, and Continuing Disclosure Certificate.

Indenture. The Indenture provides for the terms of the Bonds to be issued and provides for certain funds and accounts into which proceeds of the Bonds will be deposited and invested until spent on the Facilities. Additionally, the Indenture creates certain other funds and accounts which provide for the payment of principal of and interest on the Bonds, including the redemption the Bonds.

Bond Purchase Contract. The Purchase Contract provides the conditions which must be met in order to successfully deliver the Bonds to the Underwriter, and the price to be paid for the Bonds.

Continuing Disclosure Certificate. The Continuing Disclosure Certificate, which is included as an exhibit to the Preliminary Official Statement, requires that the City provide certain information regarding the development and the special taxes on a regular basis to the secondary market place.

Preliminary Official Statement. The Preliminary Official Statement describes the terms of the Bonds and describes the security for payment of the Bonds. Once the terms of the Bonds are set (i.e. price, interest rate and maturity), that information is included in a final Official Statement which is used by the Underwriter to provide to the investing public.

Should the Bond Resolution be approved, the bond sale will proceed according to a schedule which calls for the Bonds being delivered to the Underwriter in March 2019, in exchange for the purchase price that will be received on the date of closing.

CEQA CONSIDERATION:

Not a Project. The City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) (CEQA Guidelines Section 15378).

STRATEGIC PLAN INITIATIVE:

This financing accomplishes all five City Council goals of Economic Diversity and Prosperity, Safe, Livable Community, Effective, Sustainable Government, Excellent Infrastructure, and Quality of Life.

DEPARTMENTAL COORDINATION:

The formation of this district included the Community Development Department Planning division and the Public Works Department Engineering division. The Finance Department will continue to work with the Public Works Department Engineering division to ensure the public infrastructure that is paid for with the bond proceeds is completed to the City's satisfaction before reimbursement is made with the bond proceeds.

FISCAL AND SUSTAINABILITY IMPACT:

There is no direct fiscal impact of this CFD financing to the City. The CFD will cover all costs related to the CFD.

ATTACHMENTS:

1. Resolution
2. Indenture of Trust
3. Bond Purchase Contract
4. Continuing Disclosure Agreement
5. Preliminary Official Statement