



# CITY COUNCIL AGENDA STATEMENT



March 16, 2021

File ID: 20-0551

## **TITLE**

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA, ACTING IN ITS CAPACITY AS THE LEGISLATIVE BODY OF COMMUNITY FACILITIES DISTRICT NO. 16-I (MILLENNIA), AUTHORIZING AND PROVIDING FOR THE ISSUANCE OF SPECIAL TAX BONDS FOR IMPROVEMENT AREA NO. 2 OF SUCH COMMUNITY FACILITIES DISTRICT, APPROVING THE FORM OF BOND INDENTURE, BOND PURCHASE AGREEMENT, PRELIMINARY OFFICIAL STATEMENT AND OTHER DOCUMENTS RELATED THERETO AND AUTHORIZING CERTAIN ACTIONS IN CONNECTION WITH THE ISSUANCE OF SUCH BONDS

## **RECOMMENDED ACTION**

Council adopt the resolution.

## **SUMMARY**

In September 2016 the City formed Community Facilities District No. 16-I (Millenia) (the "District") and designated two improvement areas therein ("Improvement Area No. 1" and "Improvement Area No. 2") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (the "Act"), to finance the acquisition or construction of certain public improvements. The District is authorized to issue up to \$21,000,000 principal amount of bonds with respect to Improvement Area No. 2. In June 2018, the District issued \$12,280,000 of special tax bonds for Improvement Area No. 1 to fund the acquisition of certain public facilities. The District now intends to issue a series of special tax bonds (the "Bonds") secured by special taxes levied within Improvement Area No. 2.

## **ENVIRONMENTAL REVIEW**

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

## **BOARD/COMMISSION/COMMITTEE RECOMMENDATION**

Not Applicable

## **DISCUSSION**

The District was formed by the City pursuant to the Act and Improvement Area No. 1 and Improvement Area No. 2 were designated therein. The District constitutes a governmental entity separate and apart from the City.

Pursuant to the Act, on August 2, 2016, the City Council adopted Resolution No. 2016-154 stating its intention to form the District, designate Improvement Area No. 1 and Improvement Area No. 2 therein, and to authorize

the levy of a special tax on the taxable property within each of Improvement Area No. 1 and Improvement Area No. 2. On August 2, 2016, the City Council also adopted Resolution No. 2016-155, stating its intention to incur bonded indebtedness in an aggregate principal amount, with respect to Improvement Area No. 2, not to exceed \$21,000,000, for the purpose of financing the acquisition, construction, expansion, improvement, or rehabilitation of certain public facilities to serve the area within the District and its neighboring areas.

Subsequent to a noticed public hearing, the City Council adopted Resolution Nos. 2016-184 and 2016-185 on September 13, 2016, which established the District, designated Improvement Area No. 1 and Improvement Area No. 2 therein, authorized the levy of a special tax within each of Improvement Area No. 1 and Improvement Area No. 2, determined the necessity to incur bonded indebtedness within the District with respect to each of Improvement Area No. 1 and Improvement Area No. 2, and called an election within each of Improvement Area No. 1 and Improvement Area No. 2 on the propositions of incurring bonded indebtedness, levying a special tax and setting an appropriations limit within the District.

On September 13, 2016, an election was held within Improvement Area No. 2 at which the landowners within Improvement Area No. 2 eligible to vote approved the issuance of bonds for the District with respect to Improvement Area No. 2 in an amount not to exceed \$21,000,000. A Notice of Special Tax Lien for Improvement Area No. 2 was recorded in the office of the County of San Diego Recorder on September 23, 2016 as Document No. 2016-0502330.

On September 20, 2016, the City Council, acting as the legislative body of the District, adopted an ordinance which authorized the levy within Improvement Area No. 2 of a special tax pursuant to the Rate and Method of Apportionment of Special Tax for Improvement Area No. 2 approved at the September 13, 2016 election.

After the formation of the District, the master developer of property within the District requested that the City Council, acting as the legislative body of the District, delete certain commercial property from Improvement Area No. 2 and initiate proceedings to consider modifying the rate and method of apportionment for Improvement Area No. 2 (the "RMA"). The City Council adopted Resolution No. 2020-001 on January 7, 2020, declaring its intention to consider changes to the RMA and to amend the boundary map of the District to remove certain property from Improvement Area No. 2. Subsequent to a noticed public hearing, the City Council adopted Resolution No. 2020-029 on February 18, 2020, which called a special election on the proposition of levying a special tax in accordance with the Amended and Restated Rate and Method of Apportionment of Special Tax for Improvement Area No. 2 (the "Amended RMA").

On February 18, 2020, an election was held within Improvement Area No. 2 at which the landowners within Improvement Area No. 2 eligible to vote approved the levy of a special tax within Improvement Area No. 2 in accordance with the Amended RMA. On February 18, 2020, the City Council adopted Resolution No. 2020-30, which declared the results of the election approving the Amended RMA. An Amendment to Notice of Special Tax Lien for Improvement Area No. 2 was recorded in the office of the County on February 28, 2020, as Document No. 2020-0105261.

On July 28, 2020, the City Council, acting as the legislative body of the District, adopted Ordinance No. 3492 which authorizes the levy within Improvement Area No. 2 of a special tax pursuant to the Amended RMA.

The District is located in the eastern portion of the City of Chula Vista approximately 8 miles southeast of the City of San Diego, within the Otay Ranch master planned community. The District consists of approximately 66 gross acres of which 42 acres are contained within Improvement Area No. 1 and 24 acres are contained within Improvement Area No. 2. The District is a portion of a larger development within Otay Ranch known as "Millenia." The Millenia development is located south of Birch Road, east of State Route 125, and west of

Eastlake Parkway. The Millenia project covers approximately 206 acres and is a mixed-use development consisting of both rental and for-sale residential units and a maximum of 3.3 million square feet of commercial uses, including a hotel, retail space and a business district of up to two million square feet of office space. The Millenia project is expected to be served by a number of parks and a civic core including library facilities, an elementary school and a City fire station. Completed developments within Millenia include single family homes, apartments, attached and detached condominiums, retail centers and an Ayres hotel.

Improvement Area No. 2 of the District is made up of four separate project areas. Residential development is underway in three of the project areas which are planned to include 335 for-sale market-rate homes at buildout. The fourth project area is located within the portion of Millenia designated primarily for commercial use, however, residential uses are also permitted. The development within Improvement Area No. 2 is part of the second phase of Millenia.

### **PROPERTY OWNERSHIP**

SLF IV-Millenia, LLC, a Delaware limited liability company (“SLF”), is the master developer within the District. SLF has contracted with Meridian Communities, LLC (“Meridian”), a land development and homebuilding company, to manage the development of the property within Millenia, including the District. SLF and Meridian are not affiliated entities.

SLF has conveyed the three residential project areas within Improvement Area No. 2 to Lennar Homes and Pinnacle New Homes LLC (which is a joint venture entity formed by SLF and Meridian to develop one of the residential projects within Improvement Area No. 2). The fourth project area consists of an approximately eight acre finished lot owned by SLF, which may be used for commercial and/or residential development. SLF has not made a decision as to whether any residential projects will be located in the fourth project area.

Lennar Homes is developing two residential communities totaling 209 homes and being marketed as “Cleo” and “Vibe.” Pinnacle Homes is developing a residential community with 126 homes being marketed as “Pinnacle at Millenia.”

The major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed to serve the property within Improvement Area No. 2 is substantially complete, with minor street improvements and a pedestrian crossing remaining. Millenia is accessed via Birch Road and Eastlake Parkway, the arterial roads which border Millenia. The property within Improvement Area No. 2 varies from finished lots to completed homes owned by individuals. The remaining in-tract improvements are expected to be constructed by the homebuilders as development within their respective projects continue to progress.

SLF is responsible for constructing six parks within the Millenia project pursuant to a Park Agreement (the “Park Agreement”) with the City. The Park Agreement gives the City the right to withhold building permits for units or properties within Millenia should commencement of park construction or park completion not occur as provided for in the Park Agreement. To date there have been no violations of any of the park thresholds identified in the Park Agreement.

### **DEVELOPMENT STATUS**

As of March 1, 2021, the status of the residential developments owned by homebuilders within Improvement Area No. 2 was as follows: (i) Lennar Homes had completed and conveyed 35 homes to individual homeowners, owned a five-unit building with 3 completed model homes, had 73 homes under construction (50 of which are in escrow and nearing completion) and owned 96 finished lots; and (ii) Pinnacle New Homes, LLC had completed and conveyed 36 homes within Improvement Area No. 2 to individual

homeowners, owned six completed model homes, had 54 homes under construction (44 of which are in escrow and nearing completion) and owned 30 finished lots.

SLF owns the remaining project area within Improvement Area No. 2, which consists of an approximately eight-acre finished lot (“Lot 19”). Lot 19 and an adjacent 11-acre lot (“Lot 1”) together comprise the “business district” within Millenia. Lot 1 is not located within Improvement Area No. 2. The business district is entitled for commercial development with a minimum building square footage of 800,000 and a maximum of 1,900,000. The business district is also entitled for up to 225 residential units, which may be for-rent or for-sale products. If a residential project is included in the business district, it may be located within either Lot 19 or Lot 1. SLF has not decided whether any residential development will be included within Lot 19 and is currently not able provide an estimated timeframe for a decision as to whether there will be any residential development within Lot 19. SLF expects to monitor the demand for residential and commercial space to make a determination as to the plan of development within Lot 19 and Lot 1.

The parcels in all three residential developments are in the process of being segregated from the original master parcel into individual condominium parcels. For phases within which at least one unit has closed escrow to an individual homeowner prior to January 1 of each year, the Treasurer-Tax Collector of the County of San Diego ( “Tax Collector”) is obligated to segregate and assign individual assessor parcel numbers to all units within that phase and send property tax bills for the next tax year to each owner of record as of January 1. For phases without at least one closing to an individual homeowner prior to January 1 of each year, but with closings to individual homeowners prior to July 1 of such year, the Tax Collector is expected to complete a different segregation process (“Tax Collector Segregation”) for the tax year beginning July 1. During this process the Tax Collector instructs the owner of the parent parcel not to pay the property tax bill received for the parent parcel until completion of the Tax Collector Segregation which can take between six (6) to twelve (12) months. Once the parcels are segregated new tax bills (the “Delayed Tax Bills”) will be mailed by the Tax Collector to the then owners of record.

Delays in the payment of Improvement Area No. 2 special taxes levied and collected on property tax bills have occurred and are expected to occur in the future as a result of the Tax Collector Segregation process. This is due to the Tax Collector’s practice of instructing property owners not to pay the special taxes levied on the original master parcels or the parcels created as a result of segregation (“Segregated Parcels”). These property tax bills are not noted as delinquent by the Tax Collector and cannot be paid without stopping the segregation process. Once the process is completed the Delayed Tax Bills are mailed by the Tax Collector.

To mitigate the potential time delay in the collection of the special taxes from the Delayed Tax Bills, staff is proposing that the CFD enter into a Deposit Agreement with SLF to provide for the advance by SLF of monies to be held by the CFD in the event Tax Collector Segregation causes a delay in the payment of the special taxes for the master parcels or the Segregated Parcels. The amount to be deposited with the CFD is \$1,003,113.34 which is comprised of the following:

	<b>Pinnacle</b>	<b>Vibe</b>	<b>Cleo</b>	<b>Total</b>
<b>FY 20-21</b>	74,012.40	-	-	74,012.40
<b>FY 21-22</b>	134,454.96	122,225.92	203,495.14	460,176.02
<b>FY 22-23</b>	155,950.20	124,671.20	188,303.52	468,924.92
<b>Total</b>	<b>364,417.56</b>	<b>246,897.12</b>	<b>391,798.66</b>	<b>1,003,113.34</b>

Monies will be released back to SLF once a year based on the receipt of the Delayed Taxes or the ability to levy the special taxes on the tax roll. The \$1,003,113.34 deposit will be made after approval of the Deposit

Agreement by the City Council and prior to printing the Preliminary Official Statement for the Bonds.

## **AUTHORIZATION AND SALE**

The Bonds are authorized to be issued pursuant to the Act, the resolution (the “Resolution”) presented for consideration of adoption by the City Council of the City of Chula Vista, acting as the legislative body of the District, and a Bond Indenture dated as of April 1, 2021 (the “Indenture”), by and between the District and Wilmington Trust, National Association, as Fiscal Agent. The resolution approves the form of the following documents in connection with the financing:

1. Indenture;
2. Bond Purchase Agreement (the “Bond Purchase Agreement”), by and between the District and Stifel, Nicolaus & Company, Incorporated (the “Underwriter”);
3. Preliminary Official Statement (“Preliminary Official Statement”);
4. Continuing Disclosure Agreement (“Continuing Disclosure Agreement”), by and between the District and Spicer Consulting Group, as dissemination agent; and
5. Deposit Agreement by and between the City, the Community Facilities District and SLF IV-Millenia, LLC.

The Resolution also approves the distribution of the Preliminary Official Statement and authorizes the execution of the Bond Purchase Agreement and Deposit Agreement by the City Manager, a Deputy City Manager, or the Director of Finance, as well as provides certain sale parameters. These parameters are as follows: (1) the par amount of the Bonds cannot exceed \$13,000,000, (2) true interest cost cannot exceed 4.5%, and (3) the underwriter’s discount cannot exceed 1.15% of the par amount of the Bonds.

Except for the special taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are not general or special obligations of the City nor general obligations of the District but are special obligations of the District payable solely from special taxes levied within Improvement Area No. 2 and amounts held under the Indenture.

In connection with the issuance of the Bonds, the City has been represented by Best Best & Krieger LLP as Bond Counsel, Stradling Yocca Carlson and Rauth, a Professional Corporation as Disclosure Counsel, Harrell & Company Advisors, LLC as Municipal Advisor, Spicer Consulting Group as Special Tax Consultant, Kitty Siino & Associates as Real Estate Appraiser and Meyers Research LLC as Market Absorption Analyst. Wilmington Trust, National Association, will act as Fiscal Agent for the Bonds. The Bonds, if issued, will be sold on a negotiated sale basis to Stifel, Nicolaus & Company, Incorporated as Underwriter.

## **USE OF PROCEEDS**

The amount of Bonds to be issued is currently estimated at \$11,255,000. The proceeds of the Bonds will be used to (a) pay the costs of forming the District; (b) pay the cost and expense of acquisition of certain public facilities required in connection with the development of the District; (c) fund capitalized interest on a portion of the Bonds through September 1, 2021; (d) fund a Reserve Fund securing the Bonds; and (e) pay costs of issuance of the Bonds. The special taxes that were levied in Fiscal Year 2020-21 will be used to make an initial deposit to the District’s Administrative Expense Fund for Improvement Area No. 2. The major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by SLF to serve the property within Improvement Area No. 2 is substantially complete.

## **CREDIT FEATURES**

The District is being actively developed. Existing developments within the Millenia community include apartments, single family homes and a hotel. As of March 1, 2021, 95% of the Improvement Area No. 2

residential property is considered developed and 5% considered undeveloped. Fiscal Year 2020-21 was the first fiscal year in which special taxes were levied within Improvement Area No. 2 (based on building permits issued by March 2020) so there are no delinquencies of special tax, but the Fiscal Year 2020-21 special taxes levied will be deposited under the Deposit Agreement. It is estimated that for Fiscal Year 2021-22 approximately 45% of the special tax obligation will be the responsibility of individual owners, if all homes currently in escrow close, with the remaining 55% the responsibility of SLF and homebuilders. Lennar will be responsible for approximately 34% of the total levy, Meridian about 12% and SLF Millenia about 9%. The appraised value of property as of December 15, 2020 to the estimated lien is estimated at 5.24 to 1. Since the Appraisal was completed several months ago, the appraiser has provided a Supplement to the Appraisal stating the that appraised value of the property as of February 15, 2021 is not less than the appraised value of property as of December 15, 2020. As with most community facilities district bonds, the Bonds will not have a rating.

### **SB 450/GOVERNMENT CODE 5852.1**

California law requires prior to authorization of the issuance of bonds with a term greater than 13 months the governing body of a public body to obtain and disclose all of the following information in a meeting open to the public:

(A) True Interest Cost of the Bonds: 3.62 %

(B) Finance Charge of the Bonds (Sum of all fees paid to third parties): \$ 422,000.00

(C) Net Proceeds to be Received (net of finance charges, reserves and capitalized interest, if any): \$10,562,000

(D) Total Payment Amount Through Maturity: \$20,854,000 (Exhibit A to the Resolution provides a breakdown of this information.)

### **DECISION-MAKER CONFLICT**

Staff has reviewed the property holdings of the City Council members and has found no property holdings within 1,000 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(7) or (8), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

### **CURRENT-YEAR FISCAL IMPACT**

The estimated costs of issuance associated with the issuance of the Bonds, including costs for the underwriting, are contingent upon the actual sale the Bonds, anticipated to occur by the end of March 2021, and are payable from the bond proceeds or reimbursed from funds deposited by SLF to pay such costs.

### **ONGOING FISCAL IMPACT**

The costs to administer the District, shall be paid from the proceeds of special taxes to be levied within the District. There is, therefore, no ongoing fiscal impact on the City's General Fund.

## **ATTACHMENTS**

1. Bond Indenture
2. Bond Purchase Agreement
3. Appraisal
4. Supplement to Appraisal
5. Continuing Disclosure Agreement
6. Preliminary Official Statement
7. Market Absorption Study
8. Deposit Agreement

*Staff Contact: Kimberly Elliott*