



**Board Administrative Committee
November 5, 2020**

SUBJECT:

Adopt a Proposed Resolution of Issuance of the Board of Directors of Eastern Municipal Water District Acting as the Legislative Body of Community Facilities District No. 2016-72 (Hidden Hills) Authorizing the Issuance of its 2020 Special Tax Bonds and Approving Bond Documents as to Form

BACKGROUND:

Community Facilities District (CFD) No. 2016-72 (Hidden Hills) was formed pursuant to Resolution Nos. 2016-070 and 2016-071 adopted on June 1, 2016. Subsequent to the formation of the CFD, Resolution Nos. 2017-093 and 2017-094 were adopted on August 2, 2017 to amend and restate the Rate and Method of Apportionment. The CFD was formed for the purpose of financing Eastern Municipal Water District (EMWD) water and sewer improvements and is authorized to issue bonds in an aggregate principal amount not to exceed \$4,000,000.

The developer, KB Home Coastal, Incorporated (KB Home), has requested a bond sale to seek reimbursement for the previously incurred expenses related to water and sewer fees and facilities within the development according to the terms of the Funding Agreement between EMWD and KB Home related to CFD No. 2016-72 (Hidden Hills). Amendment No. 1 to the Funding Agreement (Exhibit H) extends the time period the CFD has to sell the bonds by 60 months from the date of the agreement. The CFD may issue additional bonds for refunding purposes only.

The CFD is located in the City of Menifee, on the southwest corner of Craig Avenue and Evans Road. The CFD is planned for a total of 397 detached single-family homes at buildout. The residential project in the CFD is part of a development called "Hidden Hills" and includes two neighborhoods known as "Cypress at Hidden Hills" and "Peppertree at Hidden Hills." Cypress at Hidden Hills is planned for a total of 202 homes and Peppertree at Hidden Hills is planned for 195 homes. All the property within the CFD is located within final Tract Map Numbers 30142 and 30142-2.

The Finance Team requested an independent appraisal for the properties within the CFD to ensure property values were not negatively affected by the current environment caused by the COVID-19 pandemic. The appraisal, with a September 15, 2020 date of value, was conducted by Kitty Siino & Associates, Incorporated. The total appraised value established by the Appraisal Report was \$116,805,306. The appraised value of all the property within the CFD is currently estimated at a value-to-lien ratio of 22.15:1, including all outstanding direct and overlapping debt for the CFD. This value-to-lien ratio exceeds the 4:1 ratio required by EMWD's Comprehensive Debt Policy.

KB Home owns more than 20 percent of the property being assessed the Special Tax within the CFD, therefore they are required per the Comprehensive Debt Policy to provide a Letter of Credit (LOC) as security. The security will be used to pay debt service in any period should a majority landowner fail to pay their special taxes. The amount of the LOC is calculated at \$142,245.73, based on 200 percent of the estimated Maximum Annual Debt Service on the Bonds times the Owner's share of the Maximum Special Tax. Once KB Home's Special Tax obligation drops below the 20 percent threshold, the LOC will be released.

As of September 15, 2020, there were 223 completed units conveyed to individual homeowners. As of such date, KB Home owned 21 completed homes (seven of which were model homes), 16 lots with homes under construction, and 137 lots in a finished condition. As of such date, 60 of the homes and lots owned by KB Home were in escrow to be sold to individual homeowners.

The results of the bond sale analysis (Exhibit F) are summarized in the table below. Approval of this proposed issuance will meet all bond financing requirements as described in EMWD's Comprehensive Debt Policy.

Criteria	Requirement	CFD 2016-72
1. Value to Lien ⁽¹⁾	4.00:1	22.15
2. Delinquency Levels ⁽²⁾	Less than 5%	0.99%
3. Effective Tax Rate ⁽³⁾	2%	1.87%
4. Number of Lots	150	397

(1)Value to Lien is based upon estimated sizing information and Appraised Values as of September 15, 2020

(2)Delinquency levels as of August 20, 2020. FY 2020-21 first installment data currently unavailable.

(3)Reflects the average effective tax rate for developed homes based on Appraised Values.

On October 9, 2017, the Governor approved Senate Bill 450 (SB 450), adding Section 5852.1 to the California Government Code. SB 450 requires prior to an issuance of bonds, a public agency disclose in a public meeting good faith financing estimates provided by an Underwriter, Municipal Advisor or private lender. These estimates include: a) the True Interest Cost of the bonds; b) the total finance charge of the bonds, equal to the sum of all fees and charges paid to third parties; c) the amount of estimated bond proceeds minus the total finance charge of the bonds, and any reserves funded from proceeds of the bonds; and d) the total payment amount, which includes the projected sum total of all payments the CFD will make to pay debt service on the bonds plus any portion of the finance charge of the bonds that will not be paid with the proceeds of the bonds. The total payment amount should be calculated to the final maturity of the bonds.

The estimated total finance charges associated with the bond issuance and estimated fees are shown below. The bonds will be sold via negotiated sale to the Underwriter, Piper Sandler &

Company, at an amount not to exceed two percent of the overall principal of the issuance. All fees listed below will be paid from bond proceeds.

Projected Par Amount	\$2,415,000
District Staff/Administrative Fee	10,000
District Counsel	10,000
Bond Counsel/Disclosure Counsel Fee	70,000
Municipal Advisor Fee and Expenses	36,000
Special Tax Consultant Fee	25,000
Fiscal Agent/Fiscal Agent's Counsel Fee	3,750
Appraisal Fee	15,500
Printer Fee	3,000
Contingency/Additional Proceeds	26,750
Underwriter's Discount	48,300
Total Fees	\$248,300

The following table includes the remainder of the SB 450 requirements. These estimates are subject to change, based upon market conditions at the time of bond sale.

Requirement	Estimate
True Interest Cost	3.35%
Estimated Bond Proceeds Minus Finance Charge ⁽¹⁾	\$2,066,287
Total Payment Amount to Maturity (9/1/2050)	\$4,082,753

(1) Less the amount to be deposited in the Debt Service Reserve Fund from Bond Proceeds, capitalized interest, and the bond issuance and estimated fees.

Approval of the Resolution of Issuance (Exhibit A) authorizes the issuance of bonds for CFD No. 2016-72 (Hidden Hills) in a principal amount not to exceed \$4,000,000, approves the substantially final form of the Trust Indenture (Exhibit B), the Bond Purchase Agreement (Exhibit C), the Continuing Disclosure Certificate, the Preliminary Official Statement (Exhibit D), and Amendment No. 1 to the Funding Agreement (Exhibit E). Upon approval of the Resolution of Issuance, the General Manager, the Deputy General Manager, or the Chief Financial Officer are authorized to provide all services necessary to effect the issuance of the bonds.

Depending upon market conditions, the bonds are expected to be priced on December 2, 2020 and the financing is anticipated to close on December 16, 2020.

FINANCIAL IMPACT:

None

STRATEGIC PLANNING GOAL/OBJECTIVE:

Financial Stability: Enhance and maintain EMWD's strong financial position and credit quality

by identifying and implementing specific opportunities to improve underlying financial metrics.

ENVIRONMENTAL IMPACT:

None

RECOMMENDATION:

Adopt a proposed Resolution of Issuance, which authorizes the issuance of bonds in an aggregate principal amount not to exceed \$4,000,000, approves as to form the Trust Indenture, the Bond Purchase Agreement, the Continuing Disclosure Certificate, the Preliminary Official Statement, Amendment No. 1 to the Funding Agreement, and authorizes the General Manager, the Deputy General Manager, the Chief Financial Officer, or his or her designees to provide all services necessary to effect the issuance of the bonds.

SUBMITTED BY:



Paul D. Jones II, P.E., General Manager

10/29/2020



Laura Nomura, Deputy General Manager

10/26/2020

Attachment(s):

Exhibit A - Resolution of Issuance

Exhibit B - Trust Indenture

Exhibit C - Bond Purchase Agreement

Exhibit D - Preliminary Official Statement

Exhibit E - Amendment No. 1 to Funding Agreement

Exhibit F - Bond Sale Analysis

11/18/20 Board Meeting

Staff Contact: Thomas Hays