



Agenda Report

Fullerton City Council

MEETING DATE: JULY 16, 2024

TO: CITY COUNCIL

SUBMITTED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES

PREPARED BY: ELLIS CHANG, DIRECTOR OF ADMINISTRATIVE SERVICES
TONI SMART, DEPUTY DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: COMMUNITY FACILITIES DISTRICT NO. 2 (AMERIGE HEIGHTS) SPECIAL TAX REFUNDING BONDS ISSUANCE AND SALE AND RELATED DOCUMENTS AND ACTIONS

SUMMARY

Consideration of 2024 Special Tax Refunding Bonds (the "2024 Bonds") issuance to refinance outstanding 2014 Bonds for Community Facilities District (CFD) No. 2 (Amerige Heights).

PROPOSED MOTION

1. Direct staff to refinance with a level debt structure.
2. Adopt Resolution No. 2024-XXX.

RESOLUTION NO. 2024-XXX - A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF FULLERTON, CALIFORNIA, AUTHORIZING THE ISSUANCE AND SALE OF SPECIAL TAX REFUNDING BONDS AND APPROVING RELATED DOCUMENTS AND ACTIONS

ALTERNATIVE OPTIONS

- Approve the Proposed Motion
- Do not approve the proposed motion
- Direct staff to maintain the escalating debt service structure and adopt Resolution No. 2024-XXX
- Other options brought by City Council.

STAFF RECOMMENDATION

Staff recommends the Proposed Motion.

CITY MANAGER REMARKS

This proposed refunding will be at a level debt and create long-term savings for the residents by maintaining the special tax levy at flat rate for the remainder of the bonds.

PRIORITY POLICY STATEMENT

This item matches the following Budget Policy Priority Statements:

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

FISCAL IMPACT

Issuing the 2024 Bonds to refinance the outstanding 2014 Bonds does not create a direct City obligation. Special Taxes levied on the properties within the CFD would secure the proposed 2024 Bonds. Staff estimates refinancing the 2014 Bonds based on current market conditions would provide, on average, approximately \$700 in annual savings to homeowners, through an annual Special Tax levy reduction within the CFD, net of all issuance costs.

BACKGROUND AND DISCUSSION

The City completed proceedings to form the City of Fullerton Community Facilities District No. 2 (Amerige Heights) in 2011. The CFD is entirely within the City boundaries and consists of approximately 10 acres of property with approximately 5.4 acres classified as taxable property. The CFD is fully built out and contains 113 single-family detached homes.

The City, on behalf of the CFD, issued \$7,570,000 Community Facilities District No. 2 (Amerige Heights) Special Tax Bonds, Series 2014 (the “2014 Bonds”) in May 2014. The 2014 Bonds bear interest at rates of 4.00% to 5.00% and have a final maturity of September 1, 2044. The 2014 Bonds are outstanding in the amount of \$6,920,000 and can be redeemed without premium on any date.

City Council directed staff to proceed with a refinancing of the 2014 Bonds to provide annual savings to homeowners through a reduction to the annual Special Tax levy within the CFD on April 16, 2024. Staff also informed City Council of the financing team assembled to refund the 2014 Bonds.

The 2014 Bonds are not currently rated but staff expects the 2024 Bonds to qualify for an investment grade rating and bond insurance, which would lead to a lower borrowing cost (and potentially more savings to property owners). The 2024 Bonds may also qualify for a reserve fund surety policy which would allow the City to downsize the 2024 Bonds, lower annual payments and increase savings to property owners.

Based on interest rates as of June 24, 2024, staff estimates total cash flow savings over

the life of the 2024 Bonds at approximately \$1.6 million, assuming the City removed the escalator and refinance applying a level debt structure. This translates to approximately \$0 to \$1,700 annual savings per parcel over the term of the bonds or approximately \$722, on average. Staff estimates net present value (NPV) savings of approximately \$265,009. Aggregate NPV savings equal 3.83% measured against the par value of the 2014 Bonds. The following estimated savings are net of all financing costs (including the cost of procuring bond insurance and a reserve fund surety policy). Interest rates have remained volatile in 2024. Staff will determine the final savings and refunding bonds interest rates when the bonds are priced and sold, anticipated to occur in late July 2024.

| <i>Estimated Savings for 2024 Bonds*</i> | |
|--|-----------|
| Net Present Value Savings (\$) | \$265,009 |
| Net Present Value Savings (%) | 3.83% |
| Avg. Annual Savings | \$81,532 |
| Avg. Savings Per Parcel ¹ | \$722 |

*Preliminary; subject to change. Savings summary reflects market conditions as of June 24, 2024.

1. Based on 113 taxable parcels. Reflects average over term of bonds; savings estimated to range from \$0 to \$1,700 in each year over the term of the bonds based on June 24, 2024 market conditions.

Staff and its financing team have evaluated the economics of removing the escalating debt service structure, thereby 'leveling out' payments by homeowners over time. The follow table illustrates the results. Staff recommends removing the escalating debt structure.

| <i>Estimated Savings for 2024 Bonds*</i> | | |
|--|---------------------------|-------------------------|
| | <i>Maintain Escalator</i> | <i>Remove Escalator</i> |
| Net Present Value Savings (\$) | \$219,153 | \$265,009 |
| Net Present Value Savings (%) | 3.17% | 3.83% |
| Avg. Annual Savings | \$61,988 | \$81,532 |
| Avg. Savings Per Parcel | \$549 | \$722 |
| <i>Savings Detail</i> | | |
| 9/1/2025 | \$60,269 | \$2,131 |
| 9/1/2026 | 62,500 | 2,250 |
| 9/1/2027 | 61,250 | 4,250 |
| 9/1/2028 | 60,000 | 6,250 |
| 9/1/2029 | 63,750 | 18,250 |
| 9/1/2030 | 62,250 | 24,750 |
| 9/1/2031 | 60,750 | 36,000 |
| 9/1/2032 | 64,250 | 51,750 |
| 9/1/2033 | 62,500 | 61,750 |
| 9/1/2034 | 60,750 | 71,250 |
| 9/1/2035 | 64,000 | 80,250 |
| 9/1/2036 | 62,000 | 93,750 |
| 9/1/2037 | 60,000 | 101,500 |
| 9/1/2038 | 63,000 | 113,750 |
| 9/1/2039 | 60,750 | 130,250 |
| 9/1/2040 | 63,500 | 140,750 |
| 9/1/2041 | 61,000 | 150,500 |

| | | |
|--|--------------------|--------------------|
| 9/1/2042 | 63,500 | 164,500 |
| 9/1/2043 | 60,750 | 182,500 |
| 9/1/2044 | 63,000 | 194,250 |
| Total | \$1,239,769 | \$1,630,631 |
| *Preliminary; subject to change. Savings summary reflects market conditions as of June 24, 2024. | | |

Staff provided good faith estimates, required by Government Code Section 5852.1, as an attachment to the draft resolution.

Staff worked with the City Municipal Advisor, Urban Futures, Inc. (UFI) and obtained fee proposals from Stifel as Underwriter, Jones Hall as Bond and Disclosure Counsel and DTA as special tax consultant. Staff evaluated bids from these firms with the CFD No. 1 refunding in 2021. Each firm has extensive experience executing California CFD transactions and familiarity with City CFD program and policies. The City received competitive fee proposals for the 2024 Bonds based on qualifications and fees.

Resolution

The draft resolution appoints and retains the financing team Urban Futures, Inc. as Municipal Advisor; Jones Hall as Bond and Disclosure Counsel, Stifel Nicolaus as Underwriter; DTA as Special Tax Consultant and U.S. Bank Trust Company National Association as Fiscal Agent. The draft resolution also approves all documents and actions needed to authorize the issuance and sale of the 2024 Bonds, including the following substantially final form financing documents, together with any changes or additions deemed advisable and approved by the Mayor, City Manager or Director of Administrative Services:

The 2024 Bonds financing documents are:

- Fiscal Agent Agreement between the City and U.S. Bank Trust Company, National Association as fiscal agent. This agreement contains the terms of the 2024 Bonds, including payment and redemption provisions, pledge of Special Taxes as security for the 2024 Bonds, rights and duties of the Fiscal Agent and final discharge of the 2024 Bonds.
- Escrow Agreement between the City and U.S. Bank Trust Company, National Association, as prior bonds fiscal agent for the 2014 Bonds. The agreement contains the terms by which U.S. Bank will redeem all the outstanding Bonds at a redemption price equal to the par amount together with accrued interest.
- Purchase Agreement between the City and the Underwriter (Stifel) which sets forth the terms and conditions under which the Underwriter will purchase the bonds.
- Preliminary Official Statement (including a Continuing Disclosure Certificate) pursuant to which the 2024 Bonds would be offered for purchase by the public and must contain all facts material to the 2024 Bonds and the City (with certain permitted exceptions to be completed in the final Official Statement) and must not omit or misstate any such material facts. The Preliminary Official Statement has been reviewed and approved for transmittal to City Council and City financing team. City distribution of the Preliminary Official Statement is subject to federal securities laws, including the Securities Act of 1933 and the Securities Exchange Act of 1934. These laws require

the Preliminary Official Statement to include all facts material to an investor of the 2024 Bonds. Material information is information that there is a substantial likelihood would have actual significance in the deliberations of the reasonable investor when deciding whether to buy or sell the 2024 Bonds. If City Council concludes that the Preliminary Official Statement includes all facts that would be material to an investor in the 2024 Bonds, it must adopt a resolution that authorizes staff to execute a certificate to the effect that the Preliminary Official Statement has been “deemed final.”

The Securities and Exchange Commission (the “SEC”), the agency with regulatory authority over City compliance with the federal securities laws, has issued guidance as to the duties of City Council with respect to approving the Preliminary Official Statement. In its “Report of Investigation in the Matter of County of Orange, California as it Relates to the Conduct of the Members of the Board of Supervisors” (Release No. 36761 / January 24, 1996) (the “Release”), the SEC indicated that, if a member of the Board has knowledge of any facts or circumstances that an investor would want to know about prior to investing in the 2024 Bonds, whether relating to their repayment, tax-exempt status, undisclosed conflicts of interest with interested parties, or otherwise, he or she should endeavor to discover whether the Preliminary Official Statement adequately discloses such facts. In the Release, the SEC indicated that the steps that a member of the Board could take include becoming familiar with the Preliminary Official Statement and questioning staff and consultants about the disclosure of such facts.

If City Council adopts Resolution No. 2024-XXX and financing documents, staff expects the 2024 Bonds to close in August 2024. Staff estimates property owners would save approximately \$722 per parcel annually through 2044, based on market conditions as of June 24, 2024. The savings quoted are net of all financing costs (including the cost of purchasing bond insurance and a reserve fund surety policy).

Attachments:

- Attachment 1 - Presentation
- Attachment 2 - Resolution No. 2024-XXX
- Attachment 3 - Fiscal Agent Agreement
- Attachment 4 - Escrow Agreement
- Attachment 5 - Purchase Agreement
- Attachment 6 - Preliminary Official Statement

cc: City Manager Eric J. Levitt