

Lytle Development

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RE: El Rancho Verde (TR No. 20092) – CFD Services Tax

Mr. Matthew Schneider

Recently, the City has requested that Lytle Development (Lytle) look for ways to increase the services tax component of the CFD that Lytle and the City have been working on for the last year and half plus. More specifically, the City has requested that Lytle Development consider increasing the services component of the CFD from \$104 (as previously agreed to based on prior fiscal analyses and detailed in the approved Development Agreement) to a service tax of \$302.90. Wanting to accommodate the City, we have been working with our consultants and believe we have come up with some solutions that would allow us to increase the services component while still maintaining the needed funding for improvements that are important for the success of this project.

To provide some context to understanding the CFD issues, note that the following has occurred. The City Council approved a Deposit and Reimbursement Agreement with Lytle Development Company (“Developer”) to cover the City costs related to the formation of a CFD as contemplated by the Development Agreement on July 25, 2017. Since this time, the City’s consultants have prepared several draft documents necessary for the formation of the CFD, including the Rate and Method of Apportionment of Special Tax (“RMA”). The RMA includes a Special Tax A for facilities (“Facilities Tax”) and a Special Tax B for City services (“Services Tax”). The Services Tax included in the RMA for the project is set at \$104.00 per unit (as specified in the Development Agreement).

At the March 27, 2019 Economic Development Committee (“EDC”) meeting, City staff discussed with the EDC options and methodologies that could be used for determining the services tax applicable to other new residential developments, including a Citywide services tax or preparation of a project specific fiscal impact report. The EDC was informed at this time that the City Council on August 14, 2012 approved a Development Agreement with Lytle Development that set the El Rancho Verde Services Tax at \$104.00 per unit. This services tax was based on the fiscal impact report prepared by the City’s consultant Stanley R. Hoffman & Associates.

The City requested increase in the Services Tax requires a corresponding reduction to the CFD Facilities Tax in order to maintain the targeted 1.90% effective tax rate for the project. The decrease to the Facilities Tax (due to raising the Services fee from \$104 to \$302.40) results in a loss of CFD facilities funding of approximately \$2.6M (“Funding Loss”). The Funding Loss is comprised of CFD bond proceeds and Facilities Taxes for pay as you go funding (“Pay-Go”) as shown in the Table 1 below.

TABLE 1

CFD Funding Component	<u>Amount</u> (<u>\$Millions</u>)
Bond Proceeds	(\$2.4)
20 Years - Pay-Go Funding Loss *	(\$0.2)
Total Funding Loss	(\$2.6)

** Represents the loss of Pay-Go funding over a 20-year period as a result of a lower Facilities Tax.*

In exchange for an increased Services Tax, City staff requested Developer to propose CFD options that would mitigate the Funding Loss. Table 2 below presents two options for covering the Funding Loss. Option 1 requires (i) increasing the term of the CFD bonds from 30 years to 35 years, resulting in an estimated \$1.8M in additional CFD bond proceeds, and (ii) increasing the term for collecting the Pay-Go special taxes from 20 years to 30 years, resulting in an approximately \$1.0M of additional CFD funding. Option 2 also requires increasing the bond term to 35 years, but instead of increasing the term of the Pay-Go special taxes the City agrees to waive the Development Agreement Fee of \$1,030 per lot (i.e., \$799,280 = 776 lots x \$1,030). Some additional information regarding an increased bond term and Pay-Go special taxes is provided below.

TABLE 2

Funding Component	<u>Option 1</u> <u>Amount</u> (<u>\$Millions</u>)	<u>Option 2</u> <u>Amount</u> (<u>\$Millions</u>)
Bond Term (Increased from 30 Yrs to 35 Yrs)	\$1.8	\$1.8
Pay-Go Term (Increased from 20 Yrs to 30 Yrs)	\$1.0	N/A
Development Agreement Fee Waiver	N/A	\$0.8
Total Funding Recovery	\$2.8	\$2.6

Bond Term

There is no financial impact to the City for issuing bonds with a term of 35 years. The current draft of the RMA for the project authorizes the Facilities Tax to be levied for 45 years. Although the Facilities Tax is not expected to be levied for this entire period, the CFD disclosure provided to the homebuyer specifies that the Facilities Tax can be levied for 45 years. Many agencies have authorized a CFD special tax term that allows for bonds to be issued with a term greater than 30 years. For example, the City of Ontario includes a tax term of 100 years in their CFDs, which allows them to issue three 30-year bonds over the term of the CFD. Additionally, the City of Irvine recently issued bonds for a master planned community that included a bond term of 35 years. Given the extensive infrastructure costs and amenities required for the El Rancho Verde project, we believe a bond term of 35 years would be a viable option for the City to consider that would accommodate both the goals of the City and still allow for the anticipated infrastructure funding that is necessary for this project.

Pay-Go Taxes

Many cities and school districts levy the Pay-Go component of special taxes, including the City of Irvine, City of Calimesa, City of Fullerton, City of Chino, and almost every school district. It is a means of utilizing the entire special tax that is disclosed to the homebuyer. As described below, a portion

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of the Facilities Tax goes to pay debt service on the bonds. The proceeds of the bonds will be used to acquire public facilities constructed by the Developer. Likewise, the PayGo portion of the Facilities Tax will also acquire public facilities from the Developer. Instead of coming in one lump sum at the time bonds are issued, the Pay-Go is simply collected annually. In both instances, the purpose of the Facilities Tax is being achieved. Below is an illustration of these two components of the Facilities Tax.

Table 3 below details the anticipated property taxes applicable to an average home within the project. The Pay-Go taxes represent the portion of the Facilities Tax that is not needed to pay debt service on the CFD bonds or pay City administrative costs. This is illustrated in the “CFD Facilities Tax Components” section of Table 3. The “Pay-Go Component” represents a very small amount of the property tax bill at \$15.27 per month or 2.2% of the overall tax bill (i.e., 15.27 / 688.78 = 2.2%). The levy of the full Facilities Tax further allows the CFD to accomplish its purpose of funding public infrastructure.

TABLE 3

<u>Property Tax Bill Line Items</u>	<u>Annual Taxes</u>	<u>Monthly Taxes</u>
Ad Valorem Property Tax (1.2835%)	\$5,565	\$463.76
Other Fixed Charges	\$32	\$2.64
School District CFD	\$600	\$49.97
City CFD Facilities Tax *	\$2,069	\$172.40
Total Property Taxes	\$8,265	\$688.78
CFD Facilities Tax Components		
Debt Service Component	\$1,833	\$152.72
City Annual Administration	\$53	\$4.40
Pay-Go Component	\$183	\$15.27
City CFD Facilities Tax *	\$2,069	\$172.40
<i>* Represents the amount disclosed to homebuyers at time of purchase and is typically levied for the first 2 to 3 years of the CFD. Continuing to collect this amount (already including the Pay-Go Component) does not result in an increase of taxes to the homeowner.</i>		

Lytle is very much interested in accommodating the City’s request of providing increased funding for public services, while still maintaining the anticipated proceeds expected from the CFD. In order to accomplish this goal, we are asking that the City consider the two options (Option 1 or Option 2) as shown in Table 2. We believe that either one of these options shouldn’t result in an impact to the City.

Best Regards,


 Ron Pharris,
 Chairman, Lytle Development

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CC: Rod Foster, City Manager
Fred Galante, City Attorney
Linda Daniels,