



City of Rialto

Legislation Text

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For City Council Meeting [enter date here]

TO: Honorable Mayor and City Council

APPROVAL: Rod Foster, City Administrator

FROM: Matt Schneider, Community Development Director

Request City Council Conduct a Public Hearing for Formation of Community Facilities District (CFD) 2019-02 and consider the adoption of the following actions:

1. Adopting **Resolution No. 7584** calling for the of Formation of CFD 2019-02 (Exhibit A); and
2. Approve the Funding Agreement between the City of Rialto and HNK Associates, LLC (Exhibit B); and
3. Adopting **Resolution No. 7585** calling for the CFD Special Election (Exhibit C); and
4. Conducting the CFD Special Election; and
5. Adopting **Resolution No. 7586** Declaring the Results of the Election (Exhibit D); and
6. Adopting for first reading **Ordinance No. 1631** entitled "AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF RIALTO AUTHORIZING THE LEVY OF A SPECIAL TAX THEREIN" reading by title only and waiving further reading thereof (Exhibit E)

(ACTION)

BACKGROUND

Mello-Roos Districts

Cities in California commonly use community facilities district financing as a method of financing infrastructure and services for new development. Commonly referred to as a "Mello-Roos District," this land-secured financing permits the City to issue bonds to pay for public facilities and service costs associated with development. Debt service on the bonds is paid from special taxes levied on real property within the CFD boundary. The bonds are issued on a tax-exempt basis at the federal and state level, providing low cost financing for a portion of the overall project costs, with some or all of this benefit passed along to the homebuyers.

City Council Policy

The Mello-Roos Act provides that prior to initiating the CFD proceedings, the City Council must adopt a statement of local goals and policies concerning the use of the Mello-Roos Act. On November 1, 2005, the City Council adopted a policy for new development and annexations, which requires all new residential development to mitigate for all capital and operating costs imposed upon the City by that development. The policy also establishes general standards for the establishment of community facilities districts to finance infrastructure and services. Among these, the effective tax rate shall not exceed 2% of the expected value of each home, the aggregate special taxes net of administrative costs must equal or exceed 110% of annual bond debt service, and the Developer must provide disclosures to homebuyers acceptable to the City.

On August 8, 2017, the City Council supplemented its policies upon adoption of Resolution No. 7176 establishing a Debt Issuance and Management Policy in compliance with Government Code Section 8855(i). For CFD's, this policy requires a minimum value to lien ratio of 3:1 prior to the issuance of bonds among other standards.

The City's combined statement of policies related to the formation of CFD's and the issuance of debt are attached hereto as Exhibit F.

In accordance with the City policy, new residential developments must prepare a fiscal impact report to identify the revenues and expenses associated with the City's public service obligations to that residential development. New residential development generally does not generate sufficient direct and indirect revenue to support the City's public service costs at the current service level standard. For projects with infrastructure components, such as proposed CFD 2019-02, the City will consider the formation of a distinct CFD with levies for both infrastructure and services.

The Project

Christopher Development Group, Inc. proposes to develop a 16-acre project site into a private residential neighborhood consisting of 66 detached single-family dwelling units, 118 attached townhome dwelling units, private streets, recreational amenities, and landscaping (Project). The Project includes the subdivision of the project site into 7 residential condominium lots and 2 common lots for the private streets and recreational amenities. The City has approved all land use entitlements (other than construction permits) for the Project, with conditions of approval established in Master Case No. 2018-0057, Environmental Assessment Review No. 2018-0066, Tentative Tract Map No. 2018-003, and Precise Plan of Design No. 2018-0062.

On June 11, 2019, the City Council adopted Resolution No. 7527 approving a Fee Credit and Reimbursement Agreement with Christopher Development Group. The Fee Credit and Reimbursement Agreement grants credits and reimbursements for construction of Foothill Boulevard improvements. The proposed CFD financing excludes these credits and reimbursements from the definition of eligible expenditures.

Developer Petition to form CFD

Christopher Development Group requested the City facilitate formation of a Community Facilities District to finance a portion of its project costs. On May 14, 2019, the City Council approved a Deposit and Reimbursement Agreement with Christopher Development Group to initiate formation of a Community Facilities District and selected the financing team. The financing team consists of Fieldman, Rolapp & Associates, Inc. (Financial Advisor), Willdan (Special Tax Consulting), and Aleshire & Wynder (Bond Counsel). The Deposit and Reimbursement Agreement has provided sufficient funding to pay for the costs of forming the District.

The attached Funding Agreement (Exhibit B) outlines the parameters of the fees that are eligible to be financed by the proposed District. The Agreement also identifies the process for the developer to receive reimbursement from the proceeds of the bonds and other matters relating to the disbursement of bonds proceeds for eligible costs.

Subsequently, the City received a petition (Exhibit G) from the property owner within the proposed CFD boundary (Exhibit H) to establish the CFD for the purpose of financing public facilities (via

payment of development impact fees) in connection with a planned 184-unit residential development project within the Foothill Boulevard Specific Plan. The petitions authorize the levy of special taxes, the issuance of bonds, and establish an appropriation limit for the CFD.

Because the boundary of the proposed CFD 2019-01 has fewer than 12 registered voters, as verified by the San Bernardino County Registrar of Voters (Exhibit I) the election to form the CFD is voted on by the property owner. The City Clerk has received one ballot from the property owner for the CFD election.

On October 22, 2019, the City Council approved Resolution No. 7567, a Resolution of Intention to establish CFD 2019-02. At the same meeting the City Council also took action to set the public hearing to consider the formation of CFD 2019-02 to December 10, 2019.

ANALYSIS/DISCUSSION

Consistent with the Mello Roos legislation, the City Council must hold a public hearing to consider formation of the CFD; the Funding Agreement; declare if the CFD serves the public interest, convenience and necessity; consider the levy of taxes; approve the Rate & Method of Apportionment (RMA) that identifies the specific tax rate on affected parcels; and, established the specific tax formula to be applied to each parcel in the CFD. At the conclusion of the public hearing, and after considering any public input and testimony, the City Council may either approve or disapprove the formation of the CFD. The legislative body has complete discretion to form the CFD or abandon the proceedings after the public hearing.

Rate and Method of Apportionment

The Rate and Method of Apportionment (RMA), which is an exhibit to the Resolution of Formation, and is also a part of CFD 2019-02 Report attached as Exhibit J, identifies the City's methodology for annually apportioning the special tax to the individual units. The RMA sets the annual base year Special Tax A that pays for the facilities component of the CFD between \$1,274 and \$1,708 depending on the size of the home and whether it is attached or detached. After bonds are issued, the infrastructure component of the annual levy is fixed except for increases necessary to pay for increases in administrative costs and will retire upon defeasance of the bonds.

The Special Tax B portion that will annually pay for police/fire/public works services is \$300 unit. The Special Tax B component will run in perpetuity and increase annually by the lesser of the percent change in the Consumer Price Index (CPI) or three percent (3.00%).

The expected Effective Tax Rate for all property tax secured obligations is 1.86% which is less than the Council adopted rate of 2%. The proposed CFD meets all requirements of the City's adopted local goals and policies.

Summary of Public Hearing Process

During the public hearing, the Council will be presented with information regarding the CFD, the special taxes, and public facilities and services. The public will also have the opportunity to comment on the CFD. After the conclusion of the public hearing the Council may take the following actions:

1. Adopt a resolution establishing the CFD
2. Approve the Funding Agreement

3. Call a special election.
4. Conduct the election.
5. Adopt a resolution declaring the results of the election.
6. Introduce for first reading an ordinance authorizing the levy of special taxes.

ENVIRONMENTAL IMPACT

Not a "Project" as defined by the California Environmental Quality Act (CEQA). Pursuant to Section 15378(a), a "Project" means the whole of an action, which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment. According to Section 15378(b), a Project does not include: (5) Organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

GENERAL PLAN CONSISTENCY

The City of Rialto has identified several goals and objectives within the City's recently adopted General Plan through which the City looks to improve the community. The proposed action is consistent with the following goals and objectives contained in the General Plan:

Goal 3-1: Strengthen and diversify the economic base and employment opportunities and maintain a positive business climate.

Policy 3-1.2: Encourage a variety of businesses to locate in Rialto, including retail, high technology, professional services, clean industries, logistics-based businesses, and restaurants/entertainment uses to promote the development of a diversified local economy.

Goal 3-3: Attract, expand, and retain commercial and industrial businesses to reduce blighted conditions and encourage job growth.

Goal 3-6: Require that all developed areas within Rialto are adequately served with essential public services and infrastructure.

Policy 3-6.1: Coordinate all development proposals with other affected public entities to ensure the provision of adequate public facilities and infrastructure services.

Goal 3-7: Upgrade public infrastructure as an inducement to promote private investment.

LEGAL REVIEW

The City Attorney's office prepared the Resolutions and participated in the preparation of related documents by the City's financing team, including financial advisor, special tax consultant, and bond counsel. Legal Counsel and Bond Counsel are also requesting authority to make any revisions needed to the attached Resolutions or Ordinance that are deemed necessary and which are non-substantive in nature.

FINANCIAL IMPACT

Operating Budget Impact

The City commissioned Stanley R. Hoffman and Associates to prepare a fiscal impact analysis for the

project (Exhibit K). The analysis identified an annual deficit of \$250 per unit to maintain the City's current public service standard. However, the Developer has chosen to include a \$300/unit rate for the Special Tax B portion of the proposed CFD that will supplement existing City revenues to pay for police/fire/public works services. Consequently, the proposed CFD includes a service component that will generate \$55,200 per year for the general fund at build-out of the project. The City will deposit the annual levies into the General Fund, and the City Council may then budget public service enhancements. The special tax levy also pays for annual administration of the CFD.

The proposed public service levy intends to provide General Fund revenue to supplement public services such as public safety and maintain the current service standards. When combined with normal and customary expected revenues from residential development, the CFD levy will allow the City to maintain services at the current service standard. If General Fund revenues decline (due to recession or other factors) or General Fund costs exceed revenue growth, then the City may not have the ability to maintain the current service standard. Conversely, if revenue growth exceeds expenditure growth then the City may maintain or expand current service standards. The methodology is based upon reasonable assumptions and actual outcomes will vary based upon future actions.

Capital Improvement Budget Impact

The infrastructure component of the CFD will generate funds to pay the City development impact fees payable by the developer at building permit issuance. The project expects to pay approximately \$3.7 million in development impact fees using the proceeds from the CFD bonds. The City can then program these funds into capital projects. Should bonds not be sold, the Developer is still required to pay the development impact fees associated with the construction of the 184 unit residential project.

Licensing

There is no business license required because of this action.

RECOMMENDATION

Staff recommends the City Council:

1. Adopt a Resolution calling for the Formation of CFD 2019-02 (Exhibit A);
2. Approve the Funding Agreement between the City of Rialto and HNK Associates, LLC (Exhibit B); and
3. Adopt a Resolution calling for the CFD Special Election (Exhibit C);
4. Conduct the CFD Special Election;
5. Adopt a Resolution No. Declaring the Results of the Election (Exhibit D); and
6. Adopt for first reading an Ordinance entitled "AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF RIALTO AUTHORIZING THE LEVY OF A SPECIAL TAX THEREIN" reading by title only and waiving further reading thereof (Exhibit E)