

## REPORT TO THE CITY COUNCIL

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**DATE:** January 21, 2020

**TITLE:** Resolution Authorizing the Issuance of Special Tax Refunding Bonds for and on Behalf of the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area No. 1, Approving and Directing the Execution of a Fiscal Agent Agreement, Approving Sale of Such Bonds, and Approving other Related Documents and Actions

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### **RECOMMENDATION**

**Adopt a Resolution of the City Council authorizing the issuance of refunding bonds for and on behalf of Community Facilities District No. 2006-1 Improvement Area 1, approving the sale of such bonds and approving other related documents and actions described herein.**

### **BACKGROUND**

In November 2008, the City of Desert Hot Springs (the "City") Community Facilities District No. 2006-1 (the "District") issued the \$2,080,000 Improvement Area 1 Special Tax Bonds Series 2008A (the "2008 Bonds") to facilitate development within Improvement Area 1 of the District. At the time of issuance, the average coupon of the 2008 Bonds was 8.96%.

Then, in July 2010, given the relatively high interest rate environment at the time of issuing the 2008 Bonds (the height of the Great Recession), the City issued the \$2,285,000 Improvement Area 1 Special Tax Refunding Bonds Series 2010 ("2010 Bonds") to refinance the outstanding 2008 Bonds to provide savings to property owners. At the time of issuance, the average coupon of the 2010 Bonds was 6.29%.

The 2010 Bonds are currently outstanding in the principal amount of \$1,910,000 and given the current historic low interest rate environment, there is an opportunity to once again refinance for savings to property owners.

In order to refinance the outstanding 2010 Bonds, the City Council (on behalf of the District) is being asked this evening to approve the issuance of refunding bonds and approve certain documents and other actions further described herein. If the City Council approves the Resolution this evening, the refunding bonds are expected to be issued on or around February 1, 2020.

### **DISCUSSION**

Formed in early 2007, the District planned to accommodate more than 2,300 single-family residences on approximately 622 acres within five improvement areas, all part of a master-planned community known as 'Skyborne.'

Development within the District started with Improvement Area 1, which, upon completion, was to be comprised of 394 single-family residences on 60 acres, with approximately 58 acres devoted to common areas and private roadways. Due to the Great Recession, development stopped after the construction and sale of 178 homes, leaving the remaining 216 parcels unfinished. The current property owner of the 216 unfinished parcels is Skyborne Ventures LLC, a Delaware limited liability company.

Although development has been stagnant for much of the past 10 years, there is some degree of construction activity within Improvement Area 1. However, it is not known if or when the remaining 216 parcels will be complete.

The outstanding 2010 Bonds are secured by special taxes levied on the 178 completed single-family homes as well as 38 parcels owned by Skyborne Ventures LLC for which building permits had initially been issued.

As previously mentioned, given the relatively low interest rate environment, there is now an opportunity to refinance the outstanding 2010 Bonds at a lower interest rate that would reduce the special taxes levied in Improvement Area 1.

The proposed method of sale of the refunding bonds will be a private placement (direct placement of securities to one investor). The financing team is currently soliciting proposals from the most active private placement banks in the current market and expects to select the firm that provides a combination of the most attractive interest rate and proposed terms and provisions for the refunding bonds that result in the highest possible savings to property owners.

Based on current market conditions, the refinancing expects to generate total debt service savings of approximately \$478,000. Net present value (NPV) savings are estimated at \$325,000, or roughly 17% of par value being refunded. The savings will reduce special taxes for each of the 178 single-family homes as well as the 38 parcels owned by Skyborne Ventures LLC.

<b><u>Summary of Refunding Results</u></b>	
<b>2010 Bonds</b>	
Outstanding Amount	\$1,910,000
Average Interest Rate	6.29%
<b>2020 Refunding Bonds*</b>	
Par Amount	\$2,045,000
Average Interest Rate	3.50%
NPV Savings (\$)	\$325,852
NPV Savings (%)	17.1%
Total Gross Savings	\$478,645
Average Annual Savings (2020-2038)	\$25,192
Average Savings/Parcel**	\$116

*\*Estimates based on current market rates; subject to change.*

*\*\*Those parcels subject to the special tax (178 homeowners + 38 parcels owned by Skyborne Ventures)*

As required under Section 5852.1 of the California Government Code (Code), the good faith estimates as provided by the Municipal Advisor (Urban Futures, Inc.) in consultation with the Placement Agent (Stifel, Nicolaus & Company, Incorporated) are set forth in Exhibit 1 to this staff report.

#### DOCUMENTS TO BE APPROVED

Approval by the City Council, acting as the legislative body of the District, approves the form of and/or authorizes the execution and delivery of the following documents:

**Fiscal Agent Agreement:** Agreement by and between the City, acting on behalf of the District, and Wilmington Trust, National Association, the Fiscal Agent. This document governs the terms of the refunding bonds (including payment and redemption provisions, the pledge of revenues, the limitations on the issuance of any additional bonds, etc.).

**Irrevocable Refunding Instructions:** Set of instructions given by the City to Wells Fargo Bank National Association, the Fiscal Agent of the 2010 Bonds, to provide for the payment and redemption of the 2010 Bonds on March 1, 2020, the first date on which the 2010 Bonds can be redeemed.

The financing team has reviewed the attached documents on behalf of the City. If the Resolution is approved this evening, staff will continue to work with the financing team to finalize all the aforementioned documents. As previously mentioned, the closing date is expected to be on or around February 1, 2020.

**FISCAL IMPACT**

As illustrated on the previous page, an estimated \$325,852 in NPV savings and \$478,645 in total debt service savings would be generated by the proposed refinancing. This equates to roughly \$116 per parcel for property owners subject to the special tax within Improvement Area 1.

**EXHIBIT(S):**

- 1) Good Faith Estimates
- 2) City Council Resolution
- 3) Fiscal Agent Agreement
- 4) Irrevocable Refunding Instructions