




**CITY of CALABASAS**

**CITY COUNCIL AGENDA REPORT**

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**DATE:** OCTOBER 2, 2017

**TO:** HONORABLE MAYOR AND COUNCILMEMBERS

**FROM:** DR. GARY J. LYSIK, CHIEF FINANCIAL OFFICER 

**SUBJECT:** ADOPTION OF RESOLUTION 2017-1564 APPROVING DOCUMENTS RELATED TO THE REFINANCING OF THE CITY OF CALABASAS COMMUNITY FACILITIES DISTRICT NO. 2001-1 SPECIAL TAX REFUNDING BONDS, SERIES 2006 AND THE ISSUANCE AND SALE OF THE NOT-TO-EXCEED \$20,000,000 SPECIAL TAX REFUNDING BONDS, SERIES 2017

**MEETING DATE:** OCTOBER 11, 2017

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**SUMMARY RECOMMENDATION:**

Staff recommends that City Council, acting for City of Calabasas Community Facilities District No. 2001-1 (the "CFD"):

1. Authorize the refunding of the City of Calabasas Community Facilities District No. 2001-1 Special Tax Refunding Bonds, Series 2006 and the issuance and sale of not-to-exceed \$20,000,000 principal amount of City of Calabasas Community Facilities District No. 2001-1 Special Tax Refunding Bonds, Series 2017;
2. Approve the execution of the Indenture, Refunding Escrow Agreement, and Placement Agent Agreement; and
3. Authorize the taking of certain actions in connection with the issuance and sale of such Special Tax Refunding Bonds.

## **BACKGROUND:**

In 1992, prior to the incorporation of the City, the County of Los Angeles (the "County") formed a Community Facilities District and issued its special tax bonds to fund certain roadway and other improvements within the District. In 2001, the 1992 County Special Tax Bonds were refunded by special tax refunding bonds issued by the CFD, then newly formed by the City, with the issuance of \$28,645,000 in Series 2001 Special Tax Refunding Bonds. In the 2006, \$26,535,000 in Special Tax Refunding Bonds Series 2006 (the "Series 2006 Bonds") were issued to refund the Series 2001 Special Tax Refunding Bonds. This proposed refunding is for the issuance of not-to-exceed \$20,000,000 principal amount of City of Calabasas Community Facilities District No. 2001-1 Special Tax Refunding Bonds, Series 2017 (the "Series 2017 Bonds") to refund the Series 2006 Bonds.

The CFD is comprised of 531 parcels, all of which are developed with homes except one commercial parcel located outside the Oaks development. The CFD is comprised of two tax rate areas: Tax Rate Area "A", and Tax Rate Area "B". Tax Rate Area "A" currently includes 530 single-family homes, whereas Tax Rate Area "B" consists of approximately 41.4 acres, of which approximately 14.7 acres can be developed. The current owner is TNHC Canyon Oaks LLC. At the time of original issuance in 2001, all of the property now part of the CFD was owned by NM Homes One, Inc., a Delaware corporation, which acquired the property in 1997.

The Series 2006 Bonds are proposed to be refunded to take advantage of lower interest rates which would result in significant savings for property owners within the District.

## **DISCUSSION / ANALYSIS:**

The interest rate on the current outstanding Series 2006 Bonds is 4.63%. At time of refunding, the interest rate on the Series 2017 Bonds is expected to be around 2.75% to yield a reduction in remaining bond debt service of approximately \$3.15 million, depending on market conditions at time of bid. The interest payment dates will remain the same and there is no extension for outstanding Series 2006 Bond maturities. The net present value savings, after accounting for all costs and contributions, are projected to be \$2.052 million or 11% of the outstanding Series 2006 Bonds. The Series 2006 Bonds are currently insured by AMBAC and rated "A" by Standard & Poor's Global Ratings. AMBAC also currently provides a 50% debt service reserve policy for the Series 2006 Bonds. Since the 2008 financial crisis, AMBAC's AAA bond rating has been withdrawn and AMBAC has no current rating.

Based on the current interest rate assumption, as a result of the proposed refunding, most homeowners (89%) will save between \$300 and \$470 per year through the remaining term of the Series 2017 Bonds (to 2031) depending the size of their lot. There are four different special tax classifications. The annual savings for the highest taxed home owners, the estate lots, will be \$770 per year. The savings estimated for the one commercial parcel will be \$10,000 per year. These savings will first be seen on the 2018/19 Tax Roll.

Special tax bonds are generally sold by public sale through a negotiation to an underwriter or by competitive sale. The Series 2006 Bonds were sold by public competitive sale. Under the current market conditions and given the short remaining (14 year) term on the Series 2006 Bonds, it is proposed to sell the Series 2017 Bonds as a bank private placement. This approach reduces the costs of issuing the Series 2017 Bonds by about 50%, significantly reduces City staff time, and increases savings over a traditional bond sale given the remaining 14 year term. This structure is also advantageous to the City since no public securities will be issued. No Official Statement or similar disclosure document is required and it is expected that the bond reserve fund will be reduced to 20% of maximum annual debt service. As compared to the Series 2006 Bonds, excess amounts on deposit in the bond reserve fund at the time of refunding will be used to reduce bonds outstanding. (The current bond reserve is 50% cash and a 50% AMBAC surety bond.)

Bids for purchase were solicited from over 20 banks, and roughly 10 bids are expected. The Series 2017 Bonds are highly desirable as the value to bond ratio is over 80 to 1. The property tax delinquency rate is under 2.0%.

The net proceeds from the sale of the Series 2017 Bonds will be deposited into an escrow fund under the Refunding Escrow Agreement, invested in Government Securities, and used to redeem the Series 2006 Bonds on March 1, 2018, the first available redemption date. Upon payment in full of the Series 2006 Bonds, the escrow bank will transfer any moneys or securities remaining in the refunding escrow, if any, to the CFD.

Once approved by City Council, staff will take the remaining actions required to finalize the Series 2017 Bond documents and close the transaction. Closing is expected to occur on December 3, 2017. On such date, the Series 2006 Bonds will be refunded and defeased, to be redeemed on March 1, 2018. Between December 3, 2017 and February 28, 2018, the Series 2006 Bonds will be secured only by the deposit to the escrow fund under the Refunding Escrow Agreement.

It is appropriate at this meeting to consider for adoption Resolution 2017-1564 of the City Council, acting for the CFD, authorizing the issuance and sale of the City of Calabasas Community Facilities District No. 2001-1 Special Tax Refunding

Bonds, Series 2017.

Description of Documents:

*Indenture:* Key legal document between the CFD and the bond trustee for the 2017 Bonds that lays out the legal structure and terms of the financing. It specifies payment dates, maturity dates of the bonds, revenues and accounts specifically pledged to the repayment of the bonds, flow of funds, additional debt requirements, default and remedy provisions, defeasance provisions in the event the bonds are prepaid, and covenants of the CFD (including foreclosure covenants). This document is drafted by Bond Counsel.

*Refunding Escrow Agreement:* Document between the CFD and the bond trustee for the Series 2006 Bonds governing the defeasance of the Series 2006 Bonds detailing how funds will be invested and held to pay off the outstanding Series 2006 Bonds. This document is also drafted by Bond Counsel.

*Placement Agreement:* Document between the CFD and Hilltop Securities Inc. ("Hilltop Securities") governing Hilltop Securities' efforts to place the Series 2017 Bonds with the purchasing bank. It is drafted and presented by Hilltop Securities.

**FINANCIAL IMPACT / SOURCE OF FUNDING:**

Since the Series 2017 Bonds are not a debt of the City of Calabasas, there will not be any fiscal impact to the City. However, the City will recoup the costs associated with the issuance of the refunding bonds - approximately \$25,000 - and deposit those funds into the General Fund.

**REQUESTED ACTION:**

Staff recommends that City Council, acting for the CFD, approve the refunding of the Series 2006 Bonds and the issuance and sale of not-to-exceed \$20,000,000 principal amount of the Series 2017 Bonds, the result of which would lower the annual tax bill for property owners within the CFD. The reduced tax obligation would be reflected on the land owner's next property tax bill beginning in December 2018, and the final maturity date for the bonds would remain unchanged at September 1, 2031.

**ATTACHMENTS:**

1. Resolution No. 2017-1564
2. Indenture
3. Refunding Escrow Agreement
4. Placement Agreement