



## Legislation Text

---

**File #:** 18-494, **Version:** 1

---

*Report Prepared by: Venus Rodriguez, Finance Officer*

**SUBJECT:** Amendments to Land Secured Financing Policies

### REPORT IN BRIEF

Consider adopting Amendments to the City's Land Secured Financing Policies.

### RECOMMENDATION

**City Council** - Adopt a motion adopting **Resolution 2018-68**, a Resolution of the City Council of the City of Merced, California, adopting Land Secured Financing Policies.

### ALTERNATIVES

1. Approve, as recommended by staff; or
2. Deny; or
3. Refer back to staff for reconsideration.

### AUTHORITY

Government Code Section 53311.

### CITY COUNCIL PRIORITIES

As provided for in the 2018-19 Adopted Budget.

### DISCUSSION

The Mello-Roos Community Facilities Act of 1982 (beginning with Government Code Section 53311) (the "Act") is the statutory framework that provides the authority and describes the methodology that local agencies may use to form Community Facilities Districts (CFDs) and levy special taxes within the boundaries of those CFDs. Under the Act, CFDs may be used to fund the provision of certain authorized public services or maintenance, and to finance the purchase, construction, expansion, improvement or rehabilitation of public facilities. CFDs may issue bonds secured by special taxes as a financing instrument. The Act requires that, prior to initiating any proceedings to establish a CFD, a local agency must consider and adopt local goals and policies concerning the use of the Act. This is also true for land secured debt issued for assessments districts formed pursuant to the Municipal Improvement Acts of 1911 and 1913.

In recognition of the need to adopt policies and procedures for land based financings, the City Council was provided education through a study session on "Basic Municipal Financing Concepts" in 2002. Based on the discussion during the study session Fieldman, Rolapp & Associates prepared the Land Secured Financing Policies that were adopted and approved by the City Council on

September 16, 2002.

Due to change in development, financing market, and/or circumstances it is good practice to review and update, if and as needed, the Land Secured Financing Policies every five years. The City Council approved the last proposed revisions to the policies on September 4, 2007.

City staff working with our municipal advisor, Fieldman, Rolapp & Associates, have recently reviewed the current Land Secured Policies. The revisions recommended today are substantially to reformat and expand on the document. Other recommended changes are to provide stronger security for the City and bond holders, while allowing some flexibility for determining which developments could qualify for Land Secured Financing.

#### ANALYSIS

In general, the City's existing Land Secured Financing Policies cover the issues outlined below.

- Setting the City's priorities for using the special taxes generated by a Mello-Roos CFD so that revenue generated from special taxes is dedicated to the public facilities and services most important to the City.
- Establishing the City's expectation for credit quality when Mello-Roos taxes are used to secure bonds. While Mello-Roos bonds are a limited obligation of the property in the CFD, not a general obligation of the City, the credit quality requirements help to ensure that these limited obligation financings will be repaid.
- Providing specific steps and mechanisms to ensure that prospective property purchasers are aware that the property is subject to a special tax.
- Providing specific criteria for evaluating special tax formulas to make sure that they are fair and that the maximum tax rate on residential owner-occupied property, including all general property and special taxes, does not exceed 1.8% of the property value.
- Defining the City's standards for the appraisals that support the assumptions about property values.
- Defining the City's process for securing advance deposits and reimbursements of its costs for establishing CFDs.
- Defining the City's goals for coordinating bond sales with development phases.

The proposed amendments are generally intended to provide clarification of the City's Land Secured Financing Policies. Major changes include:

- Clarifying that when the City evaluates special taxes with respect to credit quality and bond sales, it will include any taxes pledged to fund services and maintenance in this evaluation;
- Clarifying that specific steps and mechanisms to ensure that prospective property purchasers are aware that the property is subject to a special tax is a policy of the City, not a goal;

- Clarifying that the City will not allow the use of escalator on special taxes that secure bonds for residential districts (because debt service costs are fixed).

The proposed amendments also make relatively minor changes to bring the Land Secured Financing Policies current with the underlying laws and to better coordinate reviews by the City and potential CFD proponents during the formation process.

The Building Industry Association (BIA) reviewed the amended policies and requested three changes. We did accommodate two of the three changes. The third change requested was to change the value-to-lien ratio requirement from 4:1 to 3:1. The adopted policies have never had the value-to-lien ratio as low as 3:1. The original policy had the value-to-lien ratio at 3.5:1, the current policy is 4:1. The amended policies proposed tonight keeps the value-to-lien ratio at 4:1 but adds language stating “a slightly lesser value-to-lien ratio may be considered when recommended for approval, upon compelling justification, by both bond counsel and the City’s municipal advisor. In no event shall a value-to-lien of less than 3.5:1 be allowed.”

At this time staff does not recommend lowering the value-to-lien requirement for the security of the bond holders. We notified the BIA what our recommendation to City Council would be and had not heard back as of the due date of this report.

## **IMPACT ON CITY RESOURCES**

There is no impact on City resources.

## **ATTACHMENTS**

1. Resolution with Amended Land Secured Financing Policies
2. Current Land Secured Financing Policies