



## Legislation Text

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*Report Prepared by: Venus Rodriguez, Finance Officer*

**SUBJECT:** Authorization to Forgive Community Facilities District (CFD) Loans from the General Fund Totaling \$1,710,991.71

### REPORT IN BRIEF

Considers forgiving Community Facilities District loans from the General Fund totaling \$1,710,991.71.

### RECOMMENDATION

**City Council** - Adopt a motion:

A. Approving **Resolution 2022-25**, a Resolution of the City Council of the City of Merced, California, Authorizing Forgiveness of the Loan Agreements between the City of Merced's General Fund and City of Merced's Community Facilities District Public Safety Police Fund, Fire Fund, and Parks Fund; and,

B. Authorizing the City Manager or the Deputy City Manager to execute any necessary documents; and,

C. Authorizing the Finance Officer to make necessary budget adjustments.

### ALTERNATIVES

1. Approve the action as recommended.
2. Request modification or amendment to the documents and provide direction to City staff regarding the same.
3. Decline to authorize action as recommended.

### AUTHORITY

Merced City Charter, Section 200 Powers of City and Section XI Fiscal Administration

### CITY COUNCIL PRIORITIES

As provided for in the FY 2021-22 Adopted Budget.

### DISCUSSION

#### Background

In 2003, the City approved a policy requiring all new development within the City to annex to a

Community Facilities District (CFD) for services pursuant to the Mello Roos Community Facilities Act of 1982, for the provision of certain services to new developments. The services to be provided may include all or a portion of the following: police and fire protection services, maintenance of parks, landscaping, parkways, open space and storm drain maintenance, and other services authorized or to be authorized by the Act or the City's Municipal Code. The formation or annexation to the Community Facilities District is a condition of approval for new developments. This was in line with the concept "growth pays for growth" that the council had implemented.

In 2005, the City began collecting CFD special taxes. At the time the CFD was formed, housing was booming and the thought was that we would be able to collect special taxes in order to provide the additional services needed due to the growth in the City. The pace at which the city was growing was putting a strain on city resources, specifically public safety and parks. Although several improvement areas had begun annexing into the CFD for services there was insufficient funds to hire the personnel needed. With anticipation that the housing would come and provide the revenue needed, additional staff was hired to be funded by the CFD's. In order to fund them before the revenue was realized there were several General Fund advances (loans) to CFD Fire, CFD Police, and CFD Parks from 2006 to 2009 approved by the City Council through direct Council actions or through the budget adoption process. On July 24, 2006 there was a Council approved action authorizing an increase in the General Fund loan to the CFD for \$267,316. This action included acceptance of the SAFER grant of \$900,000 and adding and appropriating funds for six additional firefighters. The loan was to be used as part of the match requirements. All other actions were approved through the budget adoption process. Staff anticipated housing would be developed quickly creating sufficient revenue to pay back the General Fund loan and pay for the newly hired personnel.

In 2008, the city realized the housing market had crashed and we were in an economic downturn. Several developers had stopped building completely, some abandoned their developments, and others declared bankruptcy or went through foreclosures. In 2009, the City started to restructure, layoff, etc. due to reduction in revenues city-wide. Several positions could not be fiscally supported in the CFD's and since it was unknown when housing would start to develop again staff stopped depending on the General Fund to advance funding.

### General Fund Loans

There are currently three active loans that need to be paid back to the General Fund from the CFD's as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Fund 156 CFD-Fire	\$ 740,654.44	\$455,852.45	\$1,196,506.89
Fund 157 CFD-Police	694,696.28	372,774.84	1,067,471.12
Fund 158 CFD-Parks	<u>275,640.99</u>	<u>143,123.39</u>	<u>418,764.38</u>
Total	\$1,710,991.71	\$971,750.68	\$2,682,742.39

There have only been two loan documents found between the General Fund and Merced's Community Facilities District Public Safety Police Fund (157) in the amount of \$177,939 and Public Works Parks Maintenance Fund (158) in the amount of \$77,312 (see attachments). The terms of the loan state it would be paid back with an interest rate equal to the rate earned on the city's investment portfolio from date of the loan and it will be repaid from funds received by the annual special tax apportioned among the lots or parcels of property within the district as available. The other loan

amounts were done through other council actions or the budget process and did not have accompanying documents. Due to the absence of loan documents all loans have used these original loan documents as the basis for the terms of all the loans.

Since 2006 there has only been one interest payment made to the General Fund from each of the loans in 2012. Although we have had increased activity in housing in the last few years, we are still limited in resources. Therefore, based on city needs in these areas no additional payments have been identified as “available” per the loan terms.

### Recommendation

Staff is recommending that the City Council forgive the General Fund loans that were made to the CFD's. Although we are receiving additional special tax revenue from the CFD's annually it is still not enough for the basic needs of the city. Studies have shown that we do not have enough Police or Fire personnel for the current size of the City. Due to the possible sunset of Measure C in 2026 it has been the City Council's priority to shift personnel into the CFD as funding becomes available. Between the shift in personnel and the increase in salary and benefits and supply and service costs there has been no funding available to make payments back to the General Fund to repay the loan. If Measure C does sunset, we will likely not have funding for payments for decades. If Measure C is renewed, we need additional funding to accommodate the continual growth of the city in these areas. Personnel for fire, police, and parks has historically been funded by discretionary revenue sources in the General Fund. If the CFD's were not a resource, the General Fund is where we would have added these costs. So, it is not inappropriate for the General Fund to absorb these loans. In addition, if the city were to want to be rated for issuing bond debt in the future, keeping these loans on the balance sheet could negatively impact the rating we are given. Staff has determined that it would make more sense to forgive the loan and remove it from the balance sheet. It is unrealistic to continue to add interest annually to the balance of the loan in which the CFD will be unable to make payments for several years, if any.

### **IMPACT ON CITY RESOURCES**

The General Fund loaned the CFD funding from 2006-2009. If the General Fund loans are forgiven, the General Fund will not be repaid \$1,710,991.71 plus interest that is currently outstanding. On the other hand, the CFD's will no longer have to pay back the loan and will be able to use all their allocated funding for City needs and not have to earmark any for loan repayments.

### **ATTACHMENTS**

1. Resolution
2. Fund 157 Loan
3. Fund 158 Loan
4. Presentation