

CITY OF PALM DESERT STAFF REPORT

MEETING DATE: February 15, 2024

PREPARED BY: Veronica Chavez, Director of Finance

REQUEST: APPROVE RESOLUTION AUTHORIZING THE ISSUANCE OF UNIVERSITY PARK COMMUNITY FACILITIES DISTRICT NO. 2021-1 SPECIAL TAX BONDS, SERIES 2024

RECOMMENDATION:

Adopt a Resolution entitled, “A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PALM DESERT, CALIFORNIA, ACTING FOR ITSELF AND AS THE LEGISLATIVE BODY OF CITY OF PALM DESERT COMMUNITY FACILITIES DISTRICT NO. 2021-1 (UNIVERSITY PARK), TO AUTHORIZE THE ISSUANCE OF THE DISTRICT’S SPECIAL TAX BONDS, SERIES 2024, AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH).

BACKGROUND/ANALYSIS:

The City of Palm Desert Community Facilities District No. 2005-1 (University Park), issued two series of bonds in 2006 (the “2006 Bonds”) and in 2007 (the “2007 Bonds”) with a combined par amount of \$70 million. In early 2016, the City authorized a bond call of the outstanding 2007 Bonds and part of the outstanding 2006 Bonds using unspent bond proceeds.

On April 22, 2021, the City Council, as legislative body of the District approved a Resolution of Formation forming the District and held an election on May 13, 2021, authorizing the levy of a special tax and the issuance of bonds by the District in an aggregate principal amount not to exceed \$50,000,000. The District issued its Community Facilities District No. 2021-1 (University Park), Special Tax Bonds, Series 2021 (the “2021 Bonds”) in the amount of \$15,200,000, pursuant to a Bond Indenture dated as of July 1, 2021 (the “Master Indenture”).

The proceeds of the 2021 Bonds refunded a pro-rata share of the remaining 2006 Bonds and provided approximately \$1.974 million of new money for the Project. The remaining portion of the 2006 Bonds remained with the original Community Facilities District No. 2005-1 (University Park) and were subsequently refunded in a separate action.

As of the appraisal date, December 15, 2023, there were approximately 102 single-family homes owned by individuals, Toll Brothers owns 169 lots, UPI owns the remainder of the properties in the District including 53 single-family lots, 81 approved lots and 664 undeveloped lots. The debt service coverage, from maximum special taxes, is estimated to be greater than 1.25x each year when the debt service is combined for both the 2021 Bonds and the proposed 2024 Bonds. The appraised value of the property to the principal amount of both the outstanding 2021 Bonds and the proposed 2024 Bonds generates a value-to-lien ratio of approximately 6.64:1. The relatively high debt service coverage; the relatively high value-to-lien ratio; approximately 10% of the

property being with individual owners; a recent land sale to a merchant builder and good sales traffic within the District, all help to enhance the story and the credit of the 2024 Bonds.

The 2024 Bonds will be issued as non-rated securities in the approximate principal amount of **\$11,900,000** and, after costs of issuance, capitalized interest and a deposit to a reserve fund, will generate approximately **\$10,000,000** for the acquisition of public infrastructure. As part of the legislative action, the attached resolution authorizing the issuance requires certain not-to-exceed parameters to be established.

- The not-to-exceed principal amount is set at \$13,000,000
- The not-to-exceed true interest cost is set at 6.50%, and
- The not-to-exceed underwriter's discount is set at 1.50%.

The 2024 Bonds will be sold on parity with the 2021 Bonds. Parity means that both the 2021 Bonds and the 2024 Bonds have an equal right to the special tax revenue from the District and all funds held under the Master Indenture. As of January 4, 2024, the issuance is currently estimated as follows:

- Interest rates ranged from 4.25 to 5.50% and yields ranged from 4.50% to 5.58%.
- The currently principal amount is \$11,900,000
- The true interest cost is 5.56%
- The underwriter's discount is 1.30% (\$154,700), and
- The costs of issuance are at a fixed \$265,000.

The estimated interest rates and yields are subject to changing market conditions and will not be final until the date of sale, currently anticipated to be Wednesday March 6, 2024.

The Resolution of Issuance approves the following documents in substantially final form, and authorizes the Mayor (or in the Mayor's absence, the Vice Mayor) and the City Manager (or in the City Manager's absence, the Assistant City Manager) to execute such documents with such changes as approved by such authorized officer:

1. **First Supplemental Indenture:** The First Supplement Indenture, together with the Master Indenture, provides the terms of the 2024 Bonds, including provisions for security and payment of the 2024 Bonds. The Master Indenture for the 2021 Bonds established U.S. Bank National Association ("U.S. Bank") as Trustee for the 2021 Bonds. U.S. Bank will also be Trustee for the 2024 Bonds, will authenticate the 2024 Bonds and deliver them to the Underwriter in accordance with instructions provided in the Bond Purchase Agreement.
2. **Official Statement and Continuing Disclosure Agreement:** The Official Statement is the primary document used by the Underwriter to market the bonds to investors. The Official Statement describes the 2024 Bonds in detail and all the information about the District used by investors to make an informed purchase decision. The Preliminary Official Statement will be deemed final pursuant to Rule 15c-2-12 under the Securities Exchange Act of 1934. The only permitted items to be excluded from the Preliminary Official Statement are data and tables related to final pricing information for the 2024 Bonds.

The Continuing Disclosure Agreement, included as an attachment to the Official Statement, describes covenants of the City to provide ongoing continuing disclosure to investors in the form of an annual report due by April 1 each year and posted to the electronic platform known as the Electronic Municipal Market Access (“EMMA”) system. The City also covenants to provide notices of certain listed events also known as “material event notices” if and when they occur.

3. **Bond Purchase Agreement:** The Bond Purchase Agreement between the City and Piper Sandler & Co. as Underwriter will reflect all the terms and conditions of the sale and the required documents to close the transaction. The Bond Purchase Agreement, when executed, will reflect the final interest rates, yields and prices of the various maturities of the 2024 Bonds sold to investors.

There are many participants involved in the issuance of the 2024 Bonds.

Participant	Purpose	Description of Duties
Del Rio Advisors, LLC	Municipal Advisor (MA)	Assists City with structure, timing, and terms of the bonds. Was MA for the 2021 Bonds.
Piper Sandler & Co	Underwriter	Sells the bonds to market. Was the UW for the 2021 Bonds.
Richards Watson & Gershon	Bond Counsel	Advises City on Bond Law. Prepares key documents and delivers opinion regarding validity of the bonds.
Best, Best & Krieger	Disclosure Counsel	Prepares Official Statement (OS)
Willdan	Special Tax Consultant	Provides key information for OS, administers special tax statement, and assist with continuing disclosure requirements.
Capital Realty Analysts	Appraiser	Provides appraisal of all properties within the district
US Bank	Trustee	Manages the funds associated with the bonds and makes the debt service payments.

Legal Review:

This report has been reviewed by the City’s Bond Counsel at Richards, Watson & Gershon.

Strategic Plan:

Approval of the City of Palm Desert, Community Facilities District No. 2021-1 (University Park), Special Tax Bonds, Series 2024 (the “2024 Bonds”) supports the Land Use, Housing and Open Space Priority 2 by providing funds to assist in further development of Community Facilities District No. 2021-1 (University Park) (the “District”).

FINANCIAL IMPACT:

The 2024 Bonds are not a debt or obligation of the City. The debt service on the 2024 Bonds and the 2021 Bonds will be paid from the special tax, which is added each year to the property owner tax bills and paid in accordance with normal property tax collection and payment procedures.

The costs paid to the financing professionals for the 2024 Bonds includes compensation to the Underwriter in the form of an underwriter's discount which is based on a percentage of the principal amount and will vary depending on the final principal amount of the 2024 Bonds. Other fixed costs include the fees and expenses of the Municipal Advisor, the Bond Counsel, the Disclosure Counsel, the Special Tax Consultant, the Appraiser, the Trustee and other costs (i.e., staff costs and printing costs for the official statement). The total cost is estimated to be 3.53% of the total principal amount of the 2024 Bonds, or approximately \$420,418.54, which includes an estimated underwriter's discount in the amount of \$154,700.00 and the estimated fixed costs of issuance in the amount of \$265,718.54.

Good Faith Estimates

California Government Code Section 5852.1 requires that the City disclose specified information obtained as good faith estimates from an underwriter or municipal advisor prior to authorization of the issuance of the 2024 Bonds. The City has received such information from the Underwriter as set forth below:

(1) **Name of Underwriter:** Piper Sandler & Co.

(2) **City Council Meeting Date:** February 15, 2024

(3) **Name of Bond Issue:** City of Palm Desert, Community Facilities District No. 2021-1 (University Park), Special Tax Bonds, Series 2024

(4) **The Underwriter has provided to the City the following required good faith estimates relating to the 2024 Bonds in the estimated principal amount of \$11,900,000:**

- a) The true interest cost of the 2024 Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds: 5.558472%.
- b) The finance charge of the 2024 Bonds, which means the sum of all fees and charges paid to third parties: \$420,418.54 (includes both the underwriter's discount in the estimated amount of \$154,700.00 and costs of issuance in the estimated amount of \$265,718.54).
- c) The amount of proceeds received by the public body for sale of the 2024 Bonds less the finance charge of the 2024 Bonds described in subparagraph b) and less any reserves or capitalized interest paid or funded with proceeds of the 2024 Bonds: \$9,935,000.
- d) The total payment amount, which means the total of all payments the public body will make to pay debt service on the 2024 Bonds (which total payment amount is calculated to the final maturity of the 2024 Bonds): \$25,744,946.09.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the 2024 Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to a variety of factors. The actual interest rates borne by the 2024 Bonds and the actual amortization of the 2024 Bonds will depend on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the City.

ATTACHMENTS:

1. Resolution Approving the Sale of the 2024 Bonds
2. First Supplemental Indenture
3. Preliminary Official Statement (Including the Continuing Disclosure Agreement)
4. Bond Purchase Agreement
5. Draft Bond Numbers