



## City of Corona FLED Committee

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### *Debt Policy – Consideration of changes related to Land-Based Financing*

**CSG** | advisors

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July 1, 2020

## **City Council Considerations in CFD Policy-Making & Execution**

- Continue to prioritize Services CFDs ahead of Facilities CFDs to limit fiscal impacts of new development on the City's General Fund & existing residents
  - Refine periodically as-needed to ensure services taxes are adequate or appropriate
- Direct staff to develop & recommend a consistent strategic approach to Facilities CFDs that:
  - Clarifies current policy with respect to maximum Effective Tax Rate
  - Considers capturing a portion of CFD financing capacity for underfunded City capital needs
- Continue to ensure good stewardship in administering CFDs (the City has historically done this very well)

## Recommendation #1 – Establish a Single Effective Tax Rate (ETR) Limit

<b>Existing Policy</b>	<ul style="list-style-type: none"> <li>• Current City policy requirement that the facilities CFD tax (plus other property taxes, liens, fees &amp; charges) cannot exceed <b>1.75%</b> of the projected home sales price <u>“or up to 1.95% if it is determined by the Assistant City Manager and the City Manager to be in the beneficial interest of the City”</u></li> </ul>
<b>Recommended Change</b>	<ul style="list-style-type: none"> <li>• That the facilities CFD tax (plus other property taxes, liens, fees &amp; charges) cannot exceed <b>1.95%</b> of the projected home sales price</li> </ul>
<b>Rationale</b>	<ul style="list-style-type: none"> <li>• Consistent with regional issuers &amp; fairly typical tax burden for new development in the Inland Empire</li> <li>• Does not have to be negotiated each time by staff</li> <li>• As home values rise &amp; bonds refinanced, the ETR declines over time</li> </ul>

## Background for #1 -- Regional ETR Policy Comparison

Public Agency	Effective Tax Rate Limit	CFD “Financing Strategy”
<b>Corona-Norco Unified School District</b>	2.00%	30-100% Premium on Level 1 School Fee
<b>Eastvale (Jurupa Community Services District)</b>	2.00%	Prioritize City services, enhanced park program partially funded by CFDs
<b>City of Fontana</b>	1.95%	Prioritizes City services & City typically receives 20% of proceeds for “City choice” public improvements
<b>City of Lake Elsinore</b>	2.00%	Prioritizes City services
<b>City of Ontario (Ontario Ranch)</b>	1.95% or 2.15% (inclusive of HOA fees)	Negotiated robust City services tax; facilities tax also can convert to additional services tax after bonds paid

# Background for #1 -- Residential Taxpayer Affordability & Transparency

- We measure special tax affordability based on all taxes and charges placed on a homeowner tax bill related to their home price (the ratio is called the **Effective Tax Rate**)
- The California Debt & Investment Advisory Commission (CDIAC) recommends local issuers impose policies that limit the Effective Tax Rate to no more than 2.00%
- The City engages an independent market consultant to review developer pricing & confirm it is market appropriate at time of formation of the CFD and prior to the issuance of bonds
- State law requires a home seller to disclose the maximum annual tax of any CFD tax to be imposed on the subsequent buyer of such home (the homebuyer signs a certificate that the maximum CFD tax has been disclosed at the time of home closing)

SAMPLE FINANCING SCENARIO -- 250 LOT SUBDIVISION W/ HOUSE PRICE AVERAGE = \$600,000			
	A	B	C
<b>Base Home Price</b>	600,000	600,000	600,000
<b>Tax Structure</b>			
AV (1.01%)	6,060	6,060	6,060
GO Bonds	840	840	840
Other (Estimate)	34	34	34
Corona 2016-1 Public Services	604	604	604
2016-3 (Estimate)	250	250	250
<b>CFD facilities tax rate</b>	<b>3,612</b>	<b>3,912</b>	<b>4,212</b>
<b>Total Taxes</b>	<b>11,400</b>	<b>11,700</b>	<b>12,000</b>
<b>Effective Tax Rate</b>	<b>1.90%</b>	<b>1.95%</b>	<b>2.00%</b>
<b>Units</b>			
	250	250	250
<b>Annual CFD Revenues</b>			
Admin	50,000	50,000	50,000
<b>Revenues at 110% for Bonds</b>	<b>775,455</b>	<b>843,636</b>	<b>911,818</b>
<b>Bond Assumptions</b>			
Term	30	30	30
Rate	5.00%	5.00%	5.00%
<b>Bond Amount</b>	<b>11,920,637</b>	<b>12,968,759</b>	<b>14,016,880</b>
Reserve	(775,455)	(843,636)	(911,818)
Cap Int & Transaction Costs	(756,934)	(801,506)	(846,076)
<b>Project Fund</b>	<b>9,631,315</b>	<b>10,522,111</b>	<b>11,412,910</b>
Difference	(1,781,595)	(890,800)	-
Difference %	-15.61%	-7.81%	-

## Recommendation #2 – Establish Secondary Effective Tax Rate Limit inclusive of HOA fees

<b>Existing Policy</b>	<ul style="list-style-type: none"> <li>• HOA fees do not factor into the calculation of the Effective Tax Rate burden</li> </ul>
<b>Recommended Change</b>	<ul style="list-style-type: none"> <li>• That the facilities CFD tax (plus other property taxes, liens, fees &amp; charges) cannot exceed 1.95% of the projected home sales price <b><i>or 2.15% inclusive of HOA fees (except that HOA fees for private security services, pools, clubhouses or specialized amenities as may be deemed as such by the City in its sole discretion are excluded from such calculation)</i></b></li> </ul>
<b>Rationale</b>	<ul style="list-style-type: none"> <li>• Provides further homeowner tax burden protection where HOA fees are high due to costs to maintain supporting infrastructure &amp; landscaping and cannot be shifted to an HOA simply to improve financing capacity</li> </ul>

## Background for #2 – Estimated additional capacity for HOA fees without reducing the primary Effective Tax Rate limit

- The below table estimates the additional capacity for HOA fees under the secondary limit before the primary limit would need to be reduced.

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<b>Base Home Price</b>	600,000	600,000	600,000
<b>Tax Structure</b>			
AV (1.01%)	6,060	6,060	6,060
GO Bonds	840	840	840
Other (Estimate)	34	34	34
Corona 2016-1 Public Services	604	604	604
2016-3 (Estimate)	250	250	250
<b>CFD facilities tax rate</b>	3,612	3,912	4,212
<b>Total Taxes</b>	11,400	11,700	12,000
<b>Effective Tax Rate</b>	<b>1.90%</b>	<b>1.95%</b>	<b>2.00%</b>
Available for HOA Fees	1,500	1,200	900
Monthly Fees	125	100	75
<b>Secondary Tax Rate Limit</b>	<b>2.15%</b>	<b>2.15%</b>	<b>2.15%</b>

## **Recommendation #3 – Establish funding priority for HOA fees**

<b>Existing Policy</b>	<ul style="list-style-type: none"><li>• Silent on HOA fees as this does not pertain to Debt Policy. The committee may consider bringing to Community Development Dept. for consideration as relates to the entitlement process &amp; what requirements are currently imposed on new development to participate in CFD services funding programs</li></ul>
<b>Recommended Change</b>	<ul style="list-style-type: none"><li>• In cases where the HOA funds drainage, park maintenance, trails or open space maintenance, the City would evaluate and consider imposition of contingent special tax for services in the event the HOA abandons or does not adequately maintain such facilities</li></ul>
<b>Rationale</b>	<ul style="list-style-type: none"><li>• Provides protection to the General Fund, that the City does not incur costs to reduce a public safety hazard</li></ul>

## Background for #3 - CFD vs HOA for Certain Ongoing Services Costs

CFD funded	Funded by Either	HOA funded
<b>Publicly-owned facilities</b>	<b>If funded by an HOA, City may impose contingent CFD tax</b>	<b>Privately-owned facilities (typically gated communities)</b>
<ul style="list-style-type: none"> <li>• Landscaping (Street frontage, medians, slopes, open space, trees)</li> <li>• Lighting (Streetlights, Traffic Signals)</li> <li>• Street Maintenance (Street Sweeping, Pavement Management)</li> <li>• Sidewalks</li> <li>• Graffiti Abatement</li> </ul>	<ul style="list-style-type: none"> <li>• Drainage (Basins, BMP Facilities)</li> <li>• Park Maintenance (Neighborhood and Community Parks)</li> <li>• Trails (Fencing, DG or Cement)</li> </ul>	<ul style="list-style-type: none"> <li>• Landscaping (Street frontage, medians, slopes, open space, trees)</li> <li>• Lighting (Streetlights)</li> <li>• Street Maintenance (Street Sweeping, Pavement Management)</li> <li>• Sidewalks</li> <li>• Clubhouse &amp; Pools</li> </ul>

**Recommendation #4 – Establish more specific criteria whereby City would CFD finance improvements related to development impact fees or in-tract improvements**

<b>Existing Policy</b>	<ul style="list-style-type: none"> <li>• Development impact fee obligations imposed by the City, approved to be financed by the City in its sole discretion, and subject to limitations that may be imposed by the district’s tax counsel related to the issuance of bonds. The City will not, generally, consider an application to finance fee obligations, but may consider such financing on a case-by-case basis if it is determined that certain public benefits can be achieved.</li> <li>• In-tract infrastructure generally will not be financed through the City’s use of the Act.</li> </ul>
<b>Recommended Change</b>	<ul style="list-style-type: none"> <li>• Add the following: The City generally will not finance development impact fee obligations or in-tract infrastructure unless such financing approach meets one of following criteria:             <ol style="list-style-type: none"> <li>1. The City may achieve a financial or community enhancement objective not otherwise achievable through the development entitlement process or without such CFD financing mechanism</li> <li>2. As may be negotiated under a Development Agreement, whereby the City receives a negotiated benefit</li> </ol> </li> </ul>
<b>Rationale</b>	<ul style="list-style-type: none"> <li>• With this criteria, the City Council can be assured that the inclusion of such facilities in a CFD financing plan are not simply an accommodation to increase the CFD bond amount solely to reduce the developer’s cost of development</li> </ul>

# Richland CFD Proposal – Skyline Heights

Proposal Summary	Compliance with Debt Policy inclusive of recommendations
<p><b>Effective Tax Rate of 1.95%</b></p>	<p>Complies with Recommendation #1; Would need HOA budget to determine if complies with Recommendation #2</p>
<p><b>Eligible Costs to be financed:</b>  <b>Off-site Improvements \$6.03M</b>  <b>On-site Improvements \$7.46M</b>  <b>Corona DIF fees \$1.53M</b>  <b>Corona Water fees \$4.86M</b>  <u><b>Corona Sewer fees \$1.36M</b></u>  <b>Total Eligible Costs \$21.24M</b>            (Estimated bond capacity ~ \$18-19M in net projected project fund proceeds, developer assumes cost of any eligible costs not financed from bonds or otherwise not available as described below)</p>	<p>Would need to meet criteria under Recommendation #4</p>
<p><b>City Maintenance CFD to include \$225/unit/year tax to maintain additional slopes along Foothill Pkwy not conditioned to the Project (provides 40-year NPV benefit to City General Fund of \$2.11M at 4% discount rate)</b></p> <p><b>City would retain 9% of net bond proceeds (with a floor of \$1.56M) for City improvements of its choice not required of the Project (at 5% bond rate, projects to \$1.67M)</b></p> <p><b>Together the City receives ~19% of total projected CFD funding amount</b></p>	<p>The City may achieve a financial or community enhancement objective not otherwise achievable through the development entitlement process or without such CFD financing mechanism</p>