

**SUBMITTAL TO THE BOARD OF SUPERVISORS,  
COMMUNITY FACILITIES DISTRICT'S LEGISLATIVE BODY  
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

109



**FROM:** COUNTY EXECUTIVE OFFICE

**SUBMITTAL DATE:**  
December 4, 2007

**SUBJECT:** Community Facilities District No. 05-8 of the County of Riverside, Resolution No. CFD 2007-25 Authorizing the Issuance of Special Tax Improvement Bonds.

**RECOMMENDED MOTION:** That the Board acting ex officio as the legislative body of Community Facilities District No. 05-8 of the County of Riverside, (1) approve and adopt Resolution No. CFD 2007-25; (a) authorizing the issuance of Community Facilities District No. 05-8 Special Tax Bonds, Series 2008 in an aggregate principal amount not to exceed \$12,000,000, (b) approving the form of and authorize the execution and delivery of a Bond Indenture, a Bond Purchase Agreement, a Continuing Disclosure Agreement, and a Preliminary Official Statement and (c) authorizing the preparation and distribution of an Official Statement and all other matters related thereto, and (2) approve and authorize the County Executive Officer or his designee to sign the consultant agreements for services required to facilitate the bond issuance process.

**BACKGROUND:** In April 2006, the Board of Supervisors formed Community Facilities District No. 05-8 of the County of Riverside (the "District") pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982 (the "Act"). Based on Resolution Nos. 2006-092 and CFD 2006-02 and an election, the District was authorized to issue up to \$100,000,000 in aggregate principal amount of bonds pursuant to the Act. The District estimates it will issue bonds in three series, with the actual aggregate principal amount depending on construction and financing costs at the time of issuance of each series of bonds.

Continued on next page

Jerry Norris, Principal Management Analyst

FORM APPROVED COUNTY COUNSEL  
BY *[Signature]* DATE 11/27/07  
DALE A. GARDNER Departmental Concurrence

<b>FINANCIAL DATA</b>	Current F.Y. Total Cost:	\$	In Current Year Budget:
	Current F.Y. Net County Cost:	\$	Budget Adjustment:
	Annual Net County Cost:	\$	For Fiscal Year: 2007/08

<b>SOURCE OF FUNDS:</b> Bond Proceeds	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

**C.E.O. RECOMMENDATION:** APPROVE

**County Executive Office Signature** BY:   
Dean Deines

Policy  
 Consent  
 Policy  
 Consent

Dept't Recomm.:  
 Per Exec. Ofc.:

The District now desires to issue the first series of new bonds in an aggregate principal amount not to exceed \$12,000,000 designated as the "Community Facilities District No. 05-8 of the County of Riverside Special Tax Bonds Series 2008" (the "Series 2008 Bonds") to provide construction proceeds for the expansion of Scott Road to four lanes between Antelope and Briggs which is the first phase of improvements. In order to effect the issuance of the Bonds, the Legislative Body needs to authorize the execution of a bond indenture with U.S. Trust National Association, a bond purchase agreement, a continuing disclosure agreement, and a preliminary official statement (the "POS") that are being presented to the Legislative Body in substantially complete form.

Due to the deteriorating real estate market and the volatile state of the municipal bond market investors have a heightened awareness of disclosure, as such, it is imperative that the Legislative Body understand its responsibilities with regards to the information being distributed in the POS. The Securities and Exchange Commission has stated that Board members have a duty to review and understand key portions of an Official Statement for any bonds being sold by the County and its subsidiary districts. Three key questions that Board members should ask are;

- (i) Is there any information about the County or the District not included in the POS that would be important for an investor to know before purchasing the Bonds?
- (ii) Is there any pending or threatened litigation or investigations against the County or the District that could have a negative impact on the County or the District that should be discussed in the POS?
- (iii) Are there any facts known to the County or the District that could negatively impact the completion of the development planned in the District or the collection of special taxes in the District in an amount sufficient to pay the debt service on the Bonds?

District staff and the consultants hired on behalf of the District have worked diligently in an attempt to answer all of those questions and to ensure that the Board has the pertinent information needed to make a sound decision. Following are some key issues that staff would like to highlight;

- (i) The bonds are secured by special taxes. The first two years of debt service will be paid from capitalized interest on the bonds and thereafter from special taxes. Based on current development in the District approximately 30% of the special taxes would be payable from the owners of 189 homes that have closed escrows in the District. Currently, the remaining 70% is payable from seven projects that are under development by Brenson, Beazer, DR Horton, Woodside Homes, Keystone Communities, Capital Pacific Holdings and Gallery Homes.
- (ii) While the value-to-lien ratios are fairly strong, ranging from 4-to-1 up to 24-to-1 on the seven active projects, there are a number of risks related to the financing given the rapidly deteriorating real estate market in the County. The declining market has resulted in the following:
  - a. Price reductions in the last two months for the active projects of up to 20%. The Appraiser expects further price reductions in 2008.
  - b. Even with price reductions, sales in the District have been very weak, averaging less than one unit per project per month. According to the Appraiser, home sales in the County fell more than 46% in August 2007 compared to August 2006 marking the worst sales numbers since August 1997.

- c. With sales of units in the District being so slow, the timely payment of special taxes could depend for some time on the willingness of the developers to pay the special taxes when due. If the developers of the seven active projects default in their payments, the District does have the ability to levy on the undeveloped property in the District as a source of additional special taxes from which to pay debt service on the bonds.
  - d. The delinquency rate in the County among existing homeowners has increased significantly in the last year and the delinquency rate among the 189 homeowners in the District could increase as well leading to the need for the County to commence foreclosures in the District. According to the Appraiser, the foreclosures in the County by lenders are 8 times what they were in 2006.
  - e. Several of the developers have stopped building for the time being either due to market conditions or lack of financing.
  - f. There are some developers that are either in default on existing loans or anticipate defaults in the near future. Specific information can be found in the "Property Owner and Development" section of the POS.
- (iii) If the active projects generate high enough special tax delinquencies it will be necessary to tax the undeveloped property owners to pay debt service on the bonds.
- (iv) Due to rising mortgage costs from adjustable rate mortgages and other forms of creative financing it is possible that there will be significant delinquencies among the individual homeowners in the District that also could necessitate foreclosures and a levy of special taxes on undeveloped property.

Staff is confident that all of the potential issues that we are currently aware of have been fully disclosed in the POS. Adoption of Resolution No. CFD 2007-25 will allow the District to proceed with the sale and issuance of the Series 2008 Bonds in an amount not to exceed \$12,000,000.

The proposed sale and issuance of the Series 2008 Bonds has been reviewed and approved by the County's Debt Advisory Committee.

3 **RESOLUTION NO. CFD 2007-25**

4 **RESOLUTION OF THE LEGISLATIVE BODY OF COMMUNITY FACILITIES**  
5 **DISTRICT NO. 05-8 (SCOTT ROAD) OF THE COUNTY OF RIVERSIDE**  
6 **AUTHORIZING THE ISSUANCE OF SPECIAL TAX BONDS IN A PRINCIPAL**  
7 **AMOUNT NOT TO EXCEED \$12,000,000, PRESCRIBING THE TERMS THEREOF,**  
8 **APPROVING VARIOUS FINANCING DOCUMENTS AND PROVIDING FOR OTHER**  
9 **MATTERS RELATED THERETO**

10 **WHEREAS**, the Board of Supervisors (the "Board of Supervisors") of the County of Riverside, California  
11 (the "County"), acting as the "legislative body of the District" (the "Legislative Body"), has heretofore undertaken  
12 proceedings to establish Community Facilities District No. 05-8 (Scott Road) of the County of Riverside (the  
13 "District") and declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions  
14 of the "Mello-Roos Community Facilities Act of 1982," as amended, being Chapter 2.5, Part 1, Division 2, Title 5  
15 (commencing with Section 53111) of the Government Code of the State of California (the "Act"); and

16 **WHEREAS**, pursuant to Resolution No. 2006-092 establishing the District, authorizing the levy of a  
17 special tax (the "Special Tax"), establishing an appropriations limit and calling an election, adopted by the Board  
18 of Supervisors on April 4, 2006, and Resolution No. CFD 2006-02 determining the necessity to incur bonded  
19 indebtedness in an amount not to exceed \$100,000,000, adopted by the Legislative Body on April 4, 2006, a  
20 special election was duly and legally held and conducted in the District on the 18th day of April, 2006, at which  
21 election there was submitted to the qualified voters of the District the questions of establishing the District,  
22 incurring bonded indebtedness, levying the Special Tax and establishing an appropriations limit for the District;  
23 and

24 **WHEREAS**, the Legislative Body hereby desires to proceed to issue bonds authorized in the aggregate  
25 principal amount of not to exceed \$12,000,000 designated as "Community Facilities District No. 05-8 (Scott Road)  
26 of the County of Riverside, Special Tax Bonds, Series 2008" (the "Bonds"); and

27 **WHEREAS**, the value of the real property that would be subject to the Special Tax to pay debt service on  
28 the Bonds will be at least three times the principal amount of the sum of the principal amount of the Bonds  
outstanding and the principal amount of all other bonds outstanding that are secured by the Special Tax levied  
pursuant to the Act on property within the District or a special assessment levied on property within the District;  
and

1           **WHEREAS**, Legislative Body of the District has determined in accordance with Government Code  
2 Section 53360.4 that a negotiated sale of the Bonds to Stone & Youngberg LLC in accordance with the terms of  
3 the Bond Purchase Agreement referred to herein will result in a lower overall cost to the District than a public sale;

4           **NOW, THEREFORE, IT IS HERBY RESOLVED, FOUND, DETERMINED AND ORDERED** by  
5 the Legislative Body of Community Facilities District No. 05-8 (Scott Road) of the County of Riverside, as  
6 follows:

7           **Section 1. Recitals.** Each of the above recitals is true and correct and is adopted by the Legislative Body.

8           **Section 2. Definitions.** For purposes of this Resolution, the following capitalized terms have the  
9 indicated meanings:

10           “Authorized Representative” means any one of the following County officials: (i) the County Executive  
11 Officer, (ii) the Assistant County Executive Officer, (iii) the County Finance Director; (iv) the Deputy County  
12 Executive Officer, (v) Principal Management Analyst or (vi) the written designee of the County Executive Officer,  
13 each of whom acting along is, authorized and directed, for and in the name of and on behalf of the County and/or  
14 the District, to execute and deliver necessary documents.

15           “Bond Counsel” means McFarlin & Anderson LLP, in its capacity as bond counsel with respect to the  
16 bonds referred to herein.

17           “County Counsel” means the County Counsel of the County, or his deputy.

18           “Officer(s) of the Legislative Body” means the Chairman of the Legislative Body, the Clerk of the  
19 Legislative Body, or the County Executive Officer acting on behalf of the District, or any written designee of the  
20 foregoing.

21           **Section 3. Issuance of Bonds.** The Bonds of the District, being the Community Facilities District No. 05-  
22 8 (Scott Road) of the County of Riverside, Special Tax Bonds, Series 2008, are hereby authorized to be issued in  
23 an aggregate principal amount estimated not to exceed \$12,000,000, pursuant to the Act. The Bonds shall be  
24 issued upon the terms and conditions contained in the Bond Indenture hereinafter referred to, which terms and  
25 conditions are by this reference incorporated herein. The Legislative Body determines that it is prudent in the  
26 management of its fiscal affairs to issue the Bonds.

27           **Section 4. Manner of Sale of the Bonds.** Pursuant to Section 53360.4 of the California Government  
28 Code, the Legislative Body hereby finds and determines that a negotiated sale of the Bonds to Stone & Youngberg

1 LLC would result in a lower overall cost to the District than a public sale; and the Bonds shall be sold at a  
2 negotiated sale.

3       **Section 5. Bond Indenture.** The proposed form of Bond Indenture, dated as of January 1, 2008 (the  
4 “Bond Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”),  
5 presented to the Legislative Body at this meeting, is hereby approved. The Chairman and the Clerk of the  
6 Legislative Body are, and each of them is, hereby authorized and directed, for and in the name of the District, to  
7 execute and deliver to the Trustee the Bond Indenture in substantially said form, with such changes therein as  
8 County Counsel and Bond Counsel may require or approve, such requirement or approval to be conclusively  
9 evidenced by the execution of the Bond Indenture by the Chairman of the Legislative Body. Such changes may  
10 include, but are not limited to a change in the additional bonds test for the issuance of bonds, such as a change in  
11 the minimum value-to-lien at the time of issuance of additional bonds or the portion of debt service on the bonds  
12 which shall be paid from Special Taxes on Developed Property and/or Approved Property (as such terms are  
13 defined in the rate and Method) and in the authorized denominations of the Bonds.

14       **Section 6. Bond Purchase Agreement.** The proposed form of Bond Purchase Agreement (the “Bond  
15 Purchase Agreement”) related to the Bonds, by and between the District and Stone & Youngberg LLC (the  
16 “Underwriter”), presented to the Legislative Body at this meeting, is hereby approved. The Officers of the  
17 Legislative Body are, and each of them acting individually is, hereby authorized and directed, for and in the name  
18 of the District, to execute and deliver to the Underwriter the Bond Purchase Agreement in substantially said form,  
19 with such price, interest rate, redemption dates and prices, selling compensation, and such other changes therein as  
20 County Counsel and Bond Counsel may require or approve, such requirement or approval to be conclusively  
21 evidenced by the execution of the Bond Purchase Agreement by an Authorized Representative; provided, that (i)  
22 the stated interest rate on the Bonds shall not exceed 7.25% per annum, (ii) the Underwriter’s discount shall not  
23 exceed 2.5% of the principal amount of the Bonds and (iii) the purchase price for the Bonds may include original  
24 issue discount as determined appropriate in connection with the pricing of the Bonds.

25       **Section 7. Official Statement.** The form of Preliminary Official Statement of the District with respect to  
26 the Bonds presented to the Legislative Body at this meeting, is hereby approved. The Authorized Representatives  
27 are, and each of them acting individually is, hereby authorized and directed, for and in the name of the District, to  
28 cause to be prepared a final Official Statement with respect to the Bonds (the “Official Statement”), consisting of

1 said Preliminary Official Statement with such changes therein as County Counsel and Bond Counsel may require  
2 or approve, and to execute the Official Statement. The Underwriter is hereby authorized to distribute said  
3 Preliminary Official Statement to persons who may be interested in purchasing the Bonds, and the Underwriter is  
4 hereby directed to deliver copies of the final Official Statement to all actual purchasers of the Bonds.

5 **Section 8. Continuing Disclosure Agreement.** The proposed form of the Continuing Disclosure  
6 Agreement, dated for reference purposes as of January 1, 2008 (the "Continuing Disclosure Agreement"), by and  
7 between the District and U.S. Bank National Association, as Fiscal Agent and as Dissemination Agent (the  
8 "Dissemination Agent"), presented to the Legislative Body at this meeting, is hereby approved. The Officers of  
9 the Legislative Body are, and each of them acting individually is, hereby authorized and directed, for and in the  
10 name of the District, to execute and deliver the Continuing Disclosure Agreement to the Dissemination Agent in  
11 substantially said form, with such changes therein as County Counsel and Bond Counsel may require or approve,  
12 such requirement or approval to be conclusively evidenced by the execution of the Continuing Disclosure  
13 Agreement by an Authorized Representative.

14 **Section 9. Determination to Proceed With Bond Issue.** In accordance with the Act and the County of  
15 Riverside policies adopted pursuant to Section 53312.7 of the Government Code, the Legislative Body hereby  
16 finds and determines that the Bonds shall be sold at a negotiated sale and that the value of the real property that  
17 would be subject to the Special Tax to pay debt service on the Bonds will be at least three times the sum of the  
18 principal amount of the Bonds to be sold and the principal amount of all other bonds outstanding that are secured  
19 by a special tax levied pursuant to the Act on property within the District or a special assessment levied on  
20 property within the District.

21 **Section 10. Authorization to Enter Professional Services Agreements.** The Authorized  
22 Representatives are, each of them hereby is, authorized and directed to enter into agreements with Harris Realty  
23 Appraisal, as appraiser, Empire Economics, Inc., as the market absorption consultant, McFarlin & Anderson LLP,  
24 as Bond Counsel and Stradling Yocca Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, in  
25 connection with their services on behalf of the District.

26 **Section 11. Delegation of Authority.** The Officers of the Legislative Body are, and each of them hereby  
27 is, authorized and directed to do any and all things, and to execute and deliver any and all documents which said  
28 Officers may deem necessary or advisable in order to consummate the issuance of the Bonds and otherwise to

1 carry out, give effect to and comply with the terms and intent of this Resolution, the Bonds, the Bond Indenture,  
2 the Continuing Disclosure Agreement, the Official Statement and the Bond Purchase Agreement.

3 **Section 12. Effective Date.** This Resolution shall take effect immediately upon its adoption.  
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19 FORM APPROVED COUNTY COUNSEL  
20 BY DALE A. GARDNER 11/27/07  
DATE

1 PASSED APPROVED AND ADOPTED this \_\_\_\_ day of \_\_\_\_\_, 2007.

2  
3 By: \_\_\_\_\_  
4 John Tavaglione, Chairman of the Legislative Body  
5 of Community Facilities District No. 05-8 (Scott  
6 Road) of the County of Riverside

7 **ATTEST:**  
8 Nancy Romero, Clerk of the Legislative  
9 Body of Community Facilities District No. 05-8  
10 (Scott Road) of the County of Riverside

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By: \_\_\_\_\_  
Deputy Clerk

1 STATE OF CALIFORNIA )  
 ) ss.  
2 COUNTY OF RIVERSIDE )

3 I, Nancy Romero, Clerk of the Legislative Body of Community Facilities District No. 05-8 (Scott Road) of the  
4 County of Riverside, Riverside County, California, do hereby certify that the foregoing Resolution was introduced  
and adopted at a regular meeting of the Legislative Body held on the \_\_\_\_\_ day of \_\_\_\_\_, 2007, by the  
5 following vote:

6 AYES:  
7 NOES:  
8 ABSENT:  
9 ABSTAIN:

10 IN WITNESS WHEREOF, I have hereunto set my hand this \_\_\_\_ day of \_\_\_\_\_, 2007.

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By: \_\_\_\_\_  
Deputy Clerk