



October 1, 2019

John W. Vineyard
Presiding Judge
Superior Court of California, County of Riverside
4050 Main Street
Riverside, Ca. 92501

Riverside County Grand Jury
P.O. Box 829
Riverside, Ca. 92502

Riverside County Clerk-Recorder
2720 Gateway Drive
Riverside, Ca. 92507

RE: City of Beaumont Response to *“2018-2019 Grand Jury Report: Community Facilities District Bond Funding in Riverside County Perpetual Debt Under CFD and Service Area Taxes”*

VIA HAND DELIVERY

Honorable Judge Vineyard, Riverside County Civil Grand Jury Foreman and Members of the Riverside County Civil Grand Jury:

On June 27, 2019, the Riverside County Civil Grand Jury (RCCGJ) issued a report titled, *“2018-2019 Grand Jury Report: Community Facilities District Bond Funding in Riverside County Perpetual Debt Under CFD and Service Area Taxes.”* Included herein is the City of Beaumont’s response to the report. Even though the report was addressed to the Riverside County Superintendent of Schools, the City of Beaumont is referenced directly within the body of the report. The Grand Jury report has also been the basis of public scrutiny within the Beaumont community and thereby has had a direct impact.

Beaumont understands and appreciates the RCCGJ’s investigative efforts regarding the implementation of community facility district (CFD) programs throughout Riverside County which have been authorized under The Mello-Roos Community Facilities Act of 1982 (Gov. Code, Title 5., Division 2., Part 1., Chapter 2.5.). CFDs have been a tool used throughout the State of California and Riverside County to facilitate new development and ensure operational sustainability of local government. CFDs are complex and have long-term implications for homeowners. Over the past several years the Beaumont City Council has developed policies and deployed strategies that have yielded taxpayer relief. In connection with the City of Beaumont’s annual CFD levy for Fiscal Year 2019-20, CFD tax reductions were realized for

2,717 of the 13,910 separate parcels in the City of Beaumont that are subject to CFD special taxes.

The reductions in CFD special taxes implemented by the City of Beaumont have been achieved over the course of the past three years. During that time, reductions were realized to 13,215 (95%) of the 13,910 separate parcels in the City of Beaumont that are subject to CFD special taxes. These savings were realized through the exercise of several strategies that included refinancing eligible outstanding bonds, finalizing bond issuances within specific improvement areas in order to reduce special tax levies required to pay directly for the cost of public facilities, and where possible reducing the special tax rates for improvement areas within CFDs not yet fully bond funded.

This response pertains to Beaumont's specific facts and conditions. Multiple local agencies who have implemented CFD programs were also included in the RCCGJ investigation. Without the opportunity review the data used as the basis for the Grand Jury's report it is not possible to fully understand the context of the observations and findings of the report. It is anticipated that other agencies who were subject to the investigation will also file responses and the City of Beaumont looks forward to the opportunity to review them in order to gain a better insight.

As mentioned, the City of Beaumont has implemented new policies and procedures over the past several years. These new policies and procedures have been developed and implemented in order to improve transparency, minimize and reduce special taxes, and ensure fiscal and operational sustainability.

The City of Beaumont continues to look for ways to improve its CFD program and increase public awareness. Contained within the body of this response is an outline of the next steps being implemented by the City Council. The review and evolution of the program will be necessary in order to keep pace with the ever-changing needs and complexities of the community.

I hope that you find the response provided with this letter to be helpful and informative as you look into the use of CFD financing programs in Riverside County. Because this is an involved and complex issue, Beaumont City staff and its team of finance professionals would like the opportunity to meet with the RCCGJ to answer questions, provide further information, and aid the RCCGJ in gaining a better understanding of CFD programs as a means to finance public facilities and services. I look forward to hearing from the RCCGJ and setting a date and time for such a meeting.

Sincerely,



Todd Parton
City Manager

Xc: Beaumont City Council
John Pinkney, Beaumont City Attorney

Response to Civil Grand Jury Report
“2018-2019 Grand Jury Report:
Community Facilities District Bond Funding in Riverside County
Perpetual Debt Under CFD and Service Area Taxes”

Over the past several decades Southern California has experienced sustained population and business growth. This growth began within and adjacent to the greater metropolitan hubs of San Diego and Los Angeles. As growth within these hubs reached a critical point it began to emanate outward and into areas where developable land was more abundant and land costs were less expensive. Many small communities began to experience significant levels of residential and commercial development especially since they offered high quality, lower cost housing options in less congested environments that were convenient to the major employment centers. The development pattern kept radiating outward as land was consumed.

A consequence of this growth was quickly escalating property values and, as a direct result, quickly escalating property taxes. California became concerned about the affordability of its housing stock and began to take measures to curb increases to property tax assessments. Ultimately, Proposition 13 was passed in 1978 greatly restricting ad valorem property tax revenues for local communities.¹ However, growing communities require significant infrastructure improvements in order to mitigate the impacts of new development and to serve quickly expanding residential populations, especially development to the scale that was occurring in Southern California.

An alternative funding option to finance infrastructure and to provide municipal services required of new development was established in 1982 via the “Mello-Roos Community Facilities Act of 1982,” commonly referred to as the “Mello-Roos Act.”² It enabled local agencies to create special districts that could establish special taxes and issue bonds to pay for the costs of certain infrastructure and services. These districts are called “Community Facilities Districts” or “CFDs.” “CFDs” became a common mechanism throughout California, especially in Southern California due to the rapid pace of development. According to the California Debt and Investment Advisory Commission's (CDIAC) FY 2018-19 report - Riverside County contained 41 agencies responsible for 354 separate CFDs with a total of \$2.8 billion in bonds outstanding.³

The City of Beaumont began implementation of a city-wide “CFD” program in 1993 with the creation of Beaumont CFD 93-1. Beaumont’s “CFD” program has changed significantly over the past three years in order to provide taxpayer relief, ensure sustainable levels of municipal services, and improve public education and awareness. Today, the city has formed seven “CFDs” – CFD 93-1, 2016-1, 2016-2, 2016-3, 2016-4, 2018-1 and 2019-1. CFD 93-1 has 37 active Improvement Areas.

What is a “CFD?”

As mentioned, “CFDs” find their statutory basis in the “Mello-Roos Act” which was co-authored by Senator Henry Mello and Assemblyman Mike Roos. As a result, “CFD” special

¹ Understanding Mello-Roos, 2019, California Land Title Association.

² What is Mello-Roos?, 2019, California Tax Data.

³ CDIAC FY2018-19 Annual Report, 2018, California Debt and Investment Advisory Commission.

taxes are often also referred to as “Mello-Roos taxes.” According to the California Land Title Association “The Mello-Roos Act” was passed as a result of Proposition 13 in 1978 that severely restricted local agencies abilities to finance capital improvements and services through increasing real property taxes.⁴ “CFD” special taxes are subject to the two-thirds voter requirements contained Proposition 13. The special taxes are applied equally and uniformly to all properties within a “CFD” and are not calculated based on property value. “CFDs” may be applied to developed, undeveloped, or developing projects.⁵ The Riverside County Civil Grand Jury (“RCCGJ”) report applied solely to “CFD” utilization for undeveloped projects and, therefore, this response will be limited to the same application.

A “CFD” is a geographically designated area (district) that is formed by a local agency to levy special taxes on real property to secure public financing for certain public improvements and for the ongoing provision of public services. Special taxes generated through the “CFDs” may be used to pay directly for facilities, pay directly for services, pay debt service on bonds used to finance facilities, or for any combination thereof.⁶ “CFD” formation documents must state the purpose(s) for which special taxes will be used and it is common that they are formed for the combination of uses described above.

“CFD” district boundaries are not required to be consistent with a local agency’s boundaries nor are they required to be contiguous. District boundaries define the area(s) where the special taxes are to be levied. It should be noted that a local agency may not form a “CFD” beyond its boundaries without forming a joint powers authority (“JPA”) with the other agency into which the “CFD” extends.⁷

In Beaumont’s case, two variants of “CFDs” have been created. Most have been established to provide funding for public facilities and the provision of municipal services. One “CFD” known as CFD 2018-1 has been created solely for the purpose of funding general services and public safety services.

What is the point of a “CFD” program?

Many current and future property owners often question why a “CFD” program should be implemented and what benefit(s) it provides. Conventional wisdom is that the developer should bear the full cost of the development and roll the costs into the retail price of the lot and/or the home. Ultimately, the homeowner will bear a portion of all the direct and indirect costs to develop their lot and build their home. However, this argument does not contemplate the ongoing need to provide public maintenance and public safety services. It should be mentioned that the facilities financed through a “CFD” program must be public facilities that will become city-owned upon completion of construction and acceptance by the City Council.

In contemplating the benefit of a “CFD” as it applies to facilities it is important to analyze the cost factors that go into the retail price of a finished residential lot and newly constructed home. Production builders strive to achieve a profit margin of approximately 10%. This profit margin is somewhat fluid in that price can be adjusted to ensure the desired margin, however, the local housing market will also influence how much a buyer is willing to pay for a

⁴ Understanding Mello-Roos, 2019, California Land Title Association.

⁵ An Introduction to California Mello-Roos Community Facilities, 2006, Daniel C. Bort, Page 4.

⁶ Ibid, Page 5.

⁷ Ibid, Page 7.

given product and there is a practical limit to how much the price can be adjusted.⁸ If all attributable costs, including financing costs for land acquisition, land development, and home construction, are rolled directly into the retail price then the homeowner will likely carry a mortgage which also has to cover the developer's and builder's carrying costs and will layer in an additional amount of compounded interest. Furthermore, this value is rolled into the assessed value on the tax roll and is applied to the ad-valorem property taxes paid by the purchaser. Additionally, when the home sells the seller must ensure that the sales price covers the outstanding balance which has been rolled into the home loan.⁹

If a "CFD" is formed for which a developer knows that a portion of the development costs will ultimately be reimbursed, the price of the home may be adjusted accordingly. A lower price point is required for the developer to attain its profit margin since development costs are offset through the reimbursement. It must be noted that in Beaumont the developer must secure all the necessary funding, cause the improvements to be built, and significantly build out the project before the City will initiate a bond sale and provide any reimbursement. "CFD" bond proceeds are also tax exempt, are less expensive than commercial bank loans, and ultimately can help to lower the actual cost of the home.¹⁰

When contemplating these two scenarios the choice is whether the facilities costs associated with the house are borne through the purchase price and property taxes or through the special taxes. An additional advantage of the special tax is that it is a flat rate charged equally according to the RMA that is passed on in equal measure to subsequent buyers. It is also a more equitable method of assessment than through an ad-valorem property tax assessment which can vary significantly among similar properties within a single neighborhood depending on the timing of sale.¹¹

Services "CFD" special taxes are important to ensuring that the City can sustain adequate levels of maintenance and public safety services. Most of Beaumont's residential developments are in areas that were annexed into the community through the entitlement process. As a result, they are subject to a tax apportionment agreement which states that the County maintains 75% of that portion of the property taxes for local agencies in perpetuity. The City's share is limited to 25% even though it must provide full municipal services – streets, parks, police, fire, animal control, etc. On average, new single-family residential properties contribute approximately \$250 per year in property taxes to fund municipal services. This represents approximately 15% of the average annual general government cost of \$1,700 per improved single-family residential property. Without special taxes for services, City services would be stretched even further and existing service levels would erode.

How is a "CFD" formed?

"CFD" formation is comprised of three primary processes. These steps are interrelated, and it is common for them to be implemented concurrently. The three processes are:

1. Form the "CFD" and authorize a special tax;
2. Authorize the "CFD" to incur bonded indebtedness; and

⁸ Pricing Opens the Door to Profit, April 30, 2002, Professional Builder.

⁹ An Introduction to California Mello-Roos Community Facility Districts, 2006, Daniel C. Bort, Page 14.

¹⁰ Ibid, Page 14.

¹¹ Ibid, Page 14.

3. Establish a maximum threshold for bonded indebtedness that can be secured through the “CFD.”¹²

Prior to “CFD” formation, local goals and policies must be adopted. Government Code, Section 53312.7 specifies that the local goals and policies must include:

1. Priorities of the various public facilities and services to be financed;
2. Credit quality requirements of bonds that might be issued;
3. Steps to be implemented to ensure that property purchasers are fully informed about their taxpaying obligations;
4. Definitions, standards, and assumptions to be used for appraisals of the taxable properties that will be used to secure the bonds.¹³

Specific formation steps to the formation process are:

1. Application and Petition – those wishing to form a “CFD” submit a formal request to the City.
2. Adoption of Goals and Policies – as stated above, these must be adopted and in place prior to formation.
3. Resolution of Intention – a formal resolution adopted by the local agency that sets forth the following:
 - a. Describe the “CFD” and/or Improvement Area (“IA”) boundaries,
 - b. Identify the facilities and services to be funded by the “CFD” and/or “IA,”
 - c. Declare the intention to form a “CFD” /designate an “IA,” levy a special tax, and issue bonds;
 - d. State that a special tax sufficient to pay for facilities and services are to be secured by the recordation of a lien against all non-exempt property within the “CFD” or “IA;” and
 - e. Set a public hearing.
4. Public Hearing – conduct a public hearing and consider the following:
 - a. Establishment of “CFD”/”IA boundaries;
 - b. Declaration of a necessity to incur bond debt;
 - c. Authorization to levy special tax assessments;
 - d. Approval of the facilities and services to be financed; and
 - e. Set an election.
5. Special Election – conduct a special election pursuant to the following conditions:
 - a. Election may be held the same day as the public hearing specified in 4. above provided that all the eligible voters waive the election period;
 - b. Minimum 2/3 voter approval requirements must be met, if there are less than 12 registered voters resided within the boundaries of the CFD or IA during each of the 90 days preceding the public hearing, then it is a landowner vote, if there are 12 or more registered voters than it is a registered voter election; and
 - c. Voters consider and cast a ballot for the levy of a special tax, establishment of an appropriations limit, and authorization to issue bond debt.
6. Post-Election – finalize the election results to include the following:

¹² Ibid, Page 19.

¹³ Ibid, Page 20.

- a. Certify the election results;
- b. Adoption of an ordinance to levy a special tax;
- c. Recordation of a notice of a special tax lien; and
- d. Authorize the issuance of bonds.

How is the “Mello-Roos tax” established?

“Mello-Roos tax” rates are established through a rate and method of apportionment (“RMA”) which is adopted as part of the “CFD” formation process approved by 2/3 of the eligible voters within the “CFD” or “IA.” The “RMA” assigns special tax rates for developed and undeveloped property for all fiscal years. Up to three different special taxes are levied in the City of Beaumont “CFDs/IAs” – facilities special taxes, general services special taxes, and public safety services special taxes.

Beaumont’s standard practice has been to assign fixed special tax rates for facilities based on constructed square footage for a home. Larger homes are typically assigned higher rates which is standard within the “CFD” industry. Special tax rates for general services and public safety services are calculated as a flat rate applied equally to each developed residential lot and equally on an acreage basis for non-residential and undeveloped tracts.

Facilities assigned special tax rates are calculated to ensure that maximum debt service obligations will be met. They contemplate that the maximum debt prescribed through the “CFD” formation process will be issued as well as the cumulative value of improved property within the district at its planned build out – this reflects the entitlements of the development in addition to the market absorption of the project. Special tax rates for facilities may be structured so that they are subject to annual escalators of up to 2%. Most of Beaumont’s “IAs” have been structured with 2% annual escalators but since 2016 “CFDs” and “IAs” have been structured with 0% escalators.

How is the maximum threshold for bonded indebtedness calculated?

Determining the maximum threshold for bonded indebtedness is a determined primarily upon the ultimate value of development within the “CFD” or “IA” at build out and the financial policies implemented by the City of Beaumont. The greater the land value within a developed area, the greater the bond capacity. Bond capacity is further restricted by policies pertaining to credit quality requirements, equity requirements, and caps on the tax assessments.

Credit quality requirements are implemented to minimize the likelihood of defaulting on payments to the bond holders. Typical credit quality requirements include:

1. A minimum reserve fund that is equal to lesser of (i) maximum annual debt service on the bonds, (ii) 125% of the average annual debt service for all outstanding bonds, or (iii) 10% of the principal amount of the bonds to be issued;¹⁴
2. A minimum property value to public lien ratio of three to one,¹⁵ and
3. The maximum special taxes to be collected are at least equal to 110% of the debt service on the bonds proposed to be issued;¹⁶ and

¹⁴ Structuring and Sizing the Bond Issue – How to Develop an Optimal Financing Approach, 1995, Government Finance Officers Association, Page 7.

¹⁵ Understanding land-secured municipal bonds, April 2019, Nuveen, Page 2.

4. A maximum cap on the total special assessment rate equal to 2% of the market value of the property – said cap to be cumulative of all other existing and expected special assessments.¹⁷

Additionally, CFDs also have the following requirements: Collection of special taxes to cover the reasonable and necessary administrative expenses of the “CFD” or “IA:”

1. A requirement that special assessments also be collected for general services and public safety services, and
2. A limit of 2% on annual increases to the facility portion of the special assessments.¹⁸

When must the “Mello-Roos tax” special taxes be collected?

“Mello-Roos tax” special taxes must be annually placed on the county tax rolls prior to August 10 of each year. Special Taxes are usually levied commencing immediately upon the formation of the “CFD” or “IA.” The maximum assigned rate must be collected until such time as the “CFD” or IA” is completely built out and all debt has been fully issued.

There are instances where the local agency’s government body may implement rate reductions. Where a “CFD” or “IA” has been fully built out and where the governing body has deemed that all bonds have been issued and the maximum assigned rate may be reduced to meet debt service obligations and cover administrative expenses.

When must a potential buyer be notified of a “CFD” or “Mello-Roos” district assessment?

Property owner notice of the existence of a “CFD” or “Mello-Roos” assessment is mandated in Civil Code, Section 1102.6b. This section requires the seller of the real property to provide the “Notice of Special Tax” that is mandated in Government Code, Section 53340.2.

Government Code, Section 53340.2.(c) contains provisions that specify the form of the “Notice of Special Tax” to be provided for transactions of properties subject “CFD” or “Mello-Roos” special assessments. This notice must be provided prior to the purchase of real property. It also provides that a purchaser may terminate a contract within three days of receiving the notice if it was delivered by hand or within five days if the notice was received via mail.

State code requires that the notice include the following:

1. Statement that the property is subject to a special tax that is in addition to regular property taxes and any other charges and benefit assessments on the parcel;
2. Maximum special tax to be levied against the property for public facilities in the current fiscal year and the amount that this special tax will increase in future years;
3. Additional special taxes to be levied against the property for ongoing services, the maximum amount of this tax during the current fiscal year, and the amount it might increase in future years;
4. A list of the authorized facilities that are paid for by the special taxes and by bond proceeds that are being repaid by the special taxes;

¹⁶ Guidelines for Mell-Roos Financing, October 1991, Kathleen Brown, California State Treasurer and Chair, California Debt Advisory Commission. Page 10.

¹⁷ Fundamentals of Land Secured Financing, February 2008, California Debt and Investment Advisory Commission.

¹⁸ Ibid, Page 9.

5. A notice that the purchaser may terminate the contract; and
6. A signature block for the purchaser.

What is the Beaumont “CFD” program?

Beaumont’s “CFD” program has evolved significantly over the past three years. There are two components of this evolution – 1) tax relief for existing citizens, 2) structuring new “CFDs” to minimize future impacts, and 3) structuring new bond sales to minimize future impacts and reflect actual improvements for existing “CFDs” and “IAs.”

Tax Relief for Existing Citizens

Beaumont’s “CFD 93-1” program has been an important financing mechanism to fund the infrastructure and maintenance services costs directly associated with new development. It has been a funding source for major infrastructure projects directly and indirectly tied to that same growth. Since the inception of the “CFD” program in 1993, a total of \$353.6 million of new money bonds have been issued, of which a total of \$155.5 million have been refinanced for savings during the same period (\$99.8 million since 2017) to take advantage of opportunities to reduce the rate of interest on outstanding bonds.

“CFD 93-1” was formed pursuant to and under the authority of the “Mello-Roos Act” and, specifically, in accordance with Government Code Sections 53325.5 and 53328.1. These sections specify that “CFD” district geography does not have to be contiguous and that new areas may be annexed into an existing “CFD.” It should be noted that the annexation of an area into an existing “CFD” follows the same fundamental process as that required for the formation of an entirely new and distinct “CFD.” Large geographic areas develop over time through multiple phases and these two sections of the code are intended to accommodate these scenarios.

“CFD 93-1” was created to encompass nearly the entire City and is comprised of several “IAs” that function as separate entities within the “CFD.” As new developments were entitled through the development process, they were classified into new “IAs” and annexed into “CFD 93-1.”

In accordance with Government Code, Section 53312.7., Beaumont adopted the “City of Beaumont Goals and Policies for Community Facilities Districts” on May 8, 1995, with the adoption of Resolution No. 1995-23. These policies meet the requirements specified in the “Mello-Roos Act.” Credit quality requirements, equity requirements, property appraisal standards, and property seller notice requirements are all specified. Policy provisions addressing escalators for facilities or services special assessments were not included with the goals and policies.

Although fully compliant with the Government Code and the Civil Code, the practices initially implemented under prior City administration were burdensome to many of the taxpayers located within the boundaries of “CFD 93-1.” Additionally, the prior City administration failed to provide adequate accountability and transparency of “CFD 93-1” finances for many years which prompted new members of the City Council to conduct a full

financial review by independent consulting team and on March 27, 2017, the results of the review were presented at an open meeting.

The comprehensive report segregated the outstanding bond indebtedness applicable by each "IA" and listed the characteristics for each. This analysis provided a clear basis for which the City Council was able to consider options for providing taxpayer relief. It identified which of the bonds were candidates for refunding at that time and when the remaining balance of bonds would reach eligibility.

Upon completion of its review the City Council directed that:

1. Transparency and accountability be applied to this program in a manner consistent with what is expected for the balance of the City's financial operations;
2. Options be identified and evaluated to reduce the burden on taxpayers either through immediate rate relief or over time, or through reducing or eliminating the 2% annual escalator on the facilities portion of the CFD special tax levy where such escalators were applied;
3. Refunding bonds would be structured so that they would remain consistent with the maturity date for existing bonds;
4. A minimum savings of 3% must be achieved in order to refund existing bonds; and
5. Total tax rate, inclusive of all existing or contemplated special taxes, will not exceed 2% of the purchase price of the home.

Options identified and considered for providing taxpayer relief include the use of one or more variables where possible:

1. Application of Available Fund Balance (monies left over from previous fiscal years that were not specifically earmarked);
2. Reduction in "Future Facilities," sometimes called "pay go" in a "mature" "IA" (a portion of the budget that is not currently needed to meet the CFD's financial obligations such as debt service, administration expense, or delinquency reserve); and
3. Refinancing for Debt Service savings (reflects the necessary payment of principal and interest for current bonds outstanding). Refinancing bonds for savings result in reduced debt service payments which can translate into special tax reductions for property owners.

"Mature" "IAs" are those where all bonds are issued, and the areas are fully developed. With respect to the Debt Service variable, the City was able to refinance some of the bonds to achieve lower interest rates, thereby reducing the annual special tax levy to cover debt service costs for the bonds in that "IA." To the extent there was available fund balance and/or prepayments ("IA" assessments paid in advance of being due to extinguish the "CFD" lien on the property) in the same "IA" that is eligible for refinancing; these funds were applied to "buy down" the outstanding bonds, thus reducing debt service costs even more.

Refunding packages for each applicable "IA" were prepared consistent with the City Council's direction. Afterward, four town hall meetings were held – May 3, May 6, May 9, and

May 10, 2017. These town hall meetings were advertised through the City's normal channels and through each of the home owners' associations. Each meeting focused on a specific quadrant of the City so that the presentation could concentrate on the specific issues for that segment of the community. Information presented at each town hall meeting included an overview of the "CFD" program, description of how special assessments are calculated, which "IAs" were eligible for refunding, options for tax reductions available to "IAs" for which bonds could not be refinanced, and the projected savings for each "IA." City staff and the City's consulting team also fielded open questions in a typical town hall format.

At its regular meeting of June 20, 2017, the City Council considered various options for refunding eligible outstanding bonds as described above and the refunding of \$97.5 million of outstanding par was approved. Gross savings of \$32.8 million were achieved for 7,515 property owners in 10 "IAs" with said savings ranging from a low of 2.56% to a high of 30.86%. Level debt service was achieved immediately for 9 of the "IAs." One "IA" was refunded with escalating debt service in the initial years and ultimately achieving level debt service in later years. This structure provided for greater savings and, as a result, lower tax rates.

City Council also directed that outstanding "CFD" bond debt be evaluated annually to determine where savings may be achieved for other "IAs" with any future bond refunding efforts being required to meet the same criteria. As a result of this program, bonds were refunded for "IAs" 3, 9, 10A, 11, and 12 in July 2019 with a total tax savings of \$1.9 million and average annual tax savings ranging from \$103 to \$213 per lot. City staff and the City's consulting team will continue to monitor outstanding "CFD" bonds for savings opportunities.

The City's FY2019-20 special tax enrollment consisted of 28,674 separate charges on 13,910 individual parcels. Since 2017 the Beaumont City Council has provided relief by reductions to 20,867 separate charges with all 13,910 individual parcels receiving a benefit. This has been achieved through pay-go reductions for 12,300 charges and bond refunding for 8,567 parcels.

Structuring New "CFDs" to Minimize Future Impacts

City Council has formed six entirely new "CFDs" since 2016. These "CFDs" are separate and distinct from "CFD 93-1" – "CFDs 2016-1, 2016-2, 2016-3, 2016-4, 2018-1, and 2019-1." The most recent of these is "CFD 2019-1," which was formed on February 19, 2019. The formation of "CFD 2019-1" serves as a prime example of the new structure being implemented by the City Council. Key features are:

1. Calculation of a maximum debt cap that is based on a property appraisal estimating value at final build out in addition to the City's security and equity policies,
2. Clear delineation of the facilities and services to be funded,
3. Flat special tax rate for facilities (no escalator), and
4. Annual escalators for general maintenance and public safety services to ensure consistent levels of service.

For "CFD 2019-1," a bond indebtedness cap of \$4 million was established for the facilities special tax assessments. This cap was calculated on the basis of a current property appraisal (estimating value a full build out) and the application of the City's bond security and equitability policies and practices. A key equity factor was that no annual escalator was allowed for the facilities special assessment.

The “CFD 2019-1” RMA provides an itemized list of items that would be eligible for reimbursement through bond financing. It also provides an itemized estimate of the cost of general municipal service demands generated by the development.

“CFD 2019-1” was formed with two services special tax components. A maximum special tax rate was set for general maintenance services and a maximum special tax rate was set for public safety services. Both rates were implemented with annual adjustments. The general maintenance services rate is subject to an annual adjustment of the greater of CPI or 2% and the public safety serviced rate is subject to an annual adjustment of the greater of CPI or 5%. This is because the special taxes for services were assumed to be perpetual and would need to grow in order to keep up with the increasing costs of maintaining these services at comparable levels of service. Maintenance and public safety services costs are greatly impacted by personnel, equipment, fuel, and inflationary factors and, since special taxes are not ad-valorem taxes, they are flat rates that would not otherwise change. These special taxes are necessary to preserve an adequate level of service to the community. The increase in property tax revenues resulting from new development does not come close to offsetting the costs of providing the required services needed to service such new development.

Structuring New Bond Sales to Minimize Future Impacts and Reflect Actual Improvements for Existing “CFDs” and “IAs”

Issuance of bonds to fund public facilities is at the sole discretion of the City Council. This means that the City Council controls the timing, terms, and par amounts of the bond issuance. Bonds are only issued after an acquisition agreement has been negotiated between the City and the developer. Additionally, the preparation process for the bond sale will not begin until such time that lot sales have achieved approximately 75 to 85%. Waiting until a project is significantly or fully built out before bonds are issued is beneficial to the City because the actual value of construction is known and the bond amount may be sized accordingly and, since the bond is a land secured financing, the City will receive better financing terms that help to reduce tax rates. Additionally, the diversification of ownership of the land in the hands of homeowners versus developers significantly reduces the risk of delinquency and default.

Bond proceeds are generally limited to the reimbursement for qualified public infrastructure improvements installed by the developer. In some cases, the funds may be used to reimburse the developer for cash advances made toward its development impact fee requirements. These offer significant benefits to the City in that it can ensure that public improvements are made and that the actual costs are quantified, or that significant cash is received much earlier in the development process in order to fund infrastructure expansion needs.

Thus far, the City Council has been able to structure parity debt in such a way that its final maturity schedule matches that of the underlying debt. Parity debt is where bonds are sold in a “CFD” or “IA” that has outstanding debt. The City Council will continue to evaluate this as an alternative in the future. It should be noted that not many parity bonds have been issued over the past several years because bonds have been issued in the latter stages of the development cycle and all the bonds have been issued at one time.

Implementation of the practices and policies described here often mean that the actual debt issued is often lower than the maximum debt cap established at the time of “CFD” or “IA” formation. This provides an opportunity to declare these areas to be fully funded and, thereby, reduce the facilities tax rate to the actual debt service plus the costs of administering the CFD. The City Council intends to terminate the facilities special tax once all the bonds have achieved maturity.

Beaumont has successfully implemented this program and achieved significant reductions to facilities special tax rates and established a level debt service schedule. On October 16, 2018, the City Council authorized the issuance of Special Tax Bond, Series 2018 for “IA” 7D. A par amount of \$3.7 million was issued, the City Council declared the “IA” to be fully bonded, the facilities special tax enrollment was reduced by approximately 10%, and the debt service schedule was structured so that the need for the 2% annual escalator was eliminated.

Where did Beaumont’s “CFD” dollars go?

In responding to the Riverside County Civil Grand Jury’s demand for information pursuant to the “2018-2019 Grand Jury Report: Community Facilities District Bond Funding in Riverside County Perpetual Debt Under CFD and Service Area Taxes,” a copy of the reconciliation report for the “CFD” program was provided. This report was prepared in June 2016 and contains a comprehensive review of the source and use of the funds. Financial transactions from 1993 to 2015 were studied.

During the time period, there were 34 bond issuances for 32 “IAs.” The par value of all bonds sold was \$367.2 million of which \$257.9 million were issued as new money bonds and \$109.3 million were issued as refunding bonds. Total expenses of \$258.1 million were confirmed by the reconciliation. Of those expenditures, approximately \$41 million was paid to members of the prior administration based on invoices for services purported to be provided and is the amount for which recoveries have been and are actively being pursued through restitution awards, settlements, insurance claims, and pending litigation.

Comprehensive financial reforms have occurred since 2015. These post-2015 reforms address financial policies, practices, and reporting. Beaumont’s financial records are accurate, timely, and reported regularly to the Finance and Audit Committee and City Council.

How are bond proceeds handled?

It is important to note that the City of Beaumont does not hold the bond proceeds. Once funded, proceeds are deposited with a third-party trustee who places them into a restricted, interest bearing account. The trustee will only disburse funds after a request has been submitted by the City with full backup showing the amounts and purposes for the requested amounts. Once the trustee reviews and approves the disbursement request, the funds are either deposited with the City who then provides them to the appropriate party or paid directly to the third party upon direction by the City to the Trustee to make such payment.

Prior to the City requesting a disbursement of bond funds from the trustee to reimburse a developer, a developer must submit its request for reimbursement to the City. The form and content of the reimbursement request is outlined in the applicable acquisition agreement. The

information submitted with the developer's reimbursement request is reviewed and confirmed by the City prior to preparation of the disbursement request.

How long do "CFD" assessments last?

The "Mello-Roos Act" requires that the resolution of intention clearly identify the term of any proposed special tax. Normally, special taxes for facilities are authorized to be levied for 40-50 years, but in no event longer than what is required to pay debt service on the bonds and pay for the costs of authorized facilities. Special Taxes for service are usually authorized to be levied in perpetuity. The term of the tax is approved by the eligible voters in the CFD or IA at formation.

A legislative body may not terminate a special tax that is required for debt service payments. Additionally, the use of all future special tax collections is restricted to the facilities and services specified in the formation documents of the "CFD" or "IA."

As described earlier in this response, the Beaumont City Council has been declaring "IAs" to be fully bonded as soon as possible. This is to help ensure the termination of the facilities special taxes at such time that the bonds have been fully extinguished which will ultimately provide the opportunity to significantly reduce taxes in the future.

Special taxes for services may also be reduced or eliminated at the sole discretion of the City Council. However, without an alternative source of funding to replace the revenue generated through these special taxes the community will likely need to reduce its levels of service. For FY 2019-20 special taxes for services contributed approximately \$3.6 million toward General Fund expenditures. This accounts for approximately 11% of the General Fund's revenues. To put this number into context approximately half of the General Fund is dedicated to providing police and fire services, approximately \$16 million for FY 2019-20 of which the City's Cal Fire contract cost is approximately \$4.6 million.

Beaumont's Continuing Efforts to Improve the "CFD" Program!

Major strides have been made over the past three years to provide relief to tax payers, increase transparency and accountability, and refine the "CFD" program to provide tangible benefits to the community. However, the City Council strives to further improve the program. Initiatives intended to better inform prospective homeowners, better communicate to existing homeowners, inform the local real estate industry, and modify "CFD" goals and policies evolve the program to the community's evolving needs. The following initiatives are in the early stages of development:

1. Create a Frequently Asked Question (FAQ) document to be posted on the City of Beaumont website;
2. Coordinate with the City of Beaumont Finance and Audit Committee to develop a regular financial report to disclose the status of outstanding bonds, track the status of debt service payments, disclose existing bond proceed cash balances, and disclose allocations for reimbursements to third parties;
3. Conduct an annual, City-sponsored meeting with the local real estate community to update them on the City's "CFD" program and keep them abreast of key changes or trends and make them aware of seller notification requirements; and

4. Hold a City Council workshop to review and consider modifications to the “CFD” goals and policies (Beaumont bids out its financial services contracts to ensure that a cost-effective team is in place).

CONCLUSION

Four of Beaumont’s five City Council members are subject to “CFD” tax assessments. As a body they fully appreciate the impacts of the program and how it impacts their fellow citizens and the community as a whole. These sitting members are change agents that have implemented the “CFD” program modifications that have provided significant tax payer relief, community sustainability, and accountability.

“CFD” programs are complex and no two “CFDs” or “IAs” are exactly alike. This can be confusing, and every effort must be made by local agencies to inform the general public of the existence and impact of “CFDs.” These programs can be effective tools to manage growth, but they must be implemented with the utmost care to ensure that the public interest is protected, and the tax dollars are used to the maximum public benefit.

The negative aspects of Beaumont’s past experience with its “CFD” program is well documented. However, the program was established in a manner that fully complied with all applicable statutes. Quite a few of the issues mentioned in the RCCGJ report had already been recognized and addressed by the City of Beaumont, with many of them being implemented as early as 2016 and 2017. All local government programs must be carefully managed with full public oversight of their governing bodies and “CFD” programs are no different.

There is little said about the manner in which “CFD” programs may be implemented to the benefit of a community. They can help offset the purchase price of a home through a more advantageous financing vehicle that can help control housing prices, reduce property taxes, and provide for a more equitable distribution of costs among citizens. They can also be used to facilitate large-scale infrastructure improvements to mitigate development impacts and help ensure that services are better able to keep pace with growth. This is extremely critical due to the impacts of Proposition 13 and the property tax apportionment agreement with Riverside County.

Beaumont is a community that continues to evolve as a regional economic hub. Evidence can be seen with the addition of new major employers (Amazon and CJ Foods) as well as the construction of regionally significant retail, service, and commercial projects (San Gorgonio Village Marketplace and Sundance Corporate Center). This evolution will further elevate all segments of the community; however, it will also create tangible impacts that must be mitigated. Impacts may be more quickly mitigated through the cooperative efforts of the public and private sectors. “CFDs” provide an effective vehicle to facilitate cooperation and help the community grow in a sustainable way. However, the City must adhere to higher standards and must continue to deploy strategies that protect existing and future residents. Strides made thus far are only the beginning and the City’s leadership continues to find ways to raise the bar higher.

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