

**CITY OF MORENO VALLEY, CALIFORNIA**  
COMMUNITY FACILITIES DISTRICT NO. 3  
(AUTO MALL REFINANCING)

**FINAL REPORT**  
FOR FISCAL YEAR 2013/14



Report Date:  
November 2013

**Prepared by:**  
FINANCIAL AND MANAGEMENT SERVICES DEPARTMENT  
SPECIAL DISTRICTS DIVISION

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# I. INTRODUCTION

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## A. DESCRIPTION OF PROCEEDINGS

The City Council of the City of Moreno Valley ("City Council") adopted a Bond Indenture and issued bonds in order to finance a portion of the public facilities related to Moreno Valley Community Facilities District No. 2 (Moreno Valley Auto Mall) ("CFD No. 2"). In June of 1989, \$14,720,000 of the authorized debt was issued. On September 14, 1993, the City Council approved **Resolution No. 93-75**, which declared the existence of a surplus in the Improvement Fund. On September 29, 1993, the Certificate of Completion was issued which determined that the project, with the exception of a traffic signal to be constructed, was accepted by the City, and final payment, reimbursement, or encumbrance of project costs and all costs of issuance had been made. The City of Moreno Valley ("City") authorized and conducted a \$2,805,000 mandatory bond call and redemption of the Improvement Fund excess proceeds on December 1, 1993. The traffic signal was completed June 14, 1996, and the remaining funds were used to call \$95,000 in bonds on June 2, 1997. The total remaining principal of the bonds as of December 1999 was \$7,828,257.75.

Delinquencies in Special Tax payments on a number of properties resulted in the depletion of the Reserve Fund to cover debt service payments. On January 25, 2000, the City Council took the following actions:

- Approved the Agreement to Provide for the Refinancing and Restructuring of CFD No. 2 (Moreno Valley Auto Mall) of the City of Moreno Valley, the implementation of the Moreno Valley Auto Mall Participation Agreement and the release of claims among the City of Moreno Valley; CFD No. 2 (Moreno Valley Auto Mall) of the City of Moreno Valley, the Community Redevelopment Agency of the City of Moreno Valley ("RDA"), Diamond Chevrolet, Inc., Moreno Valley Imports, Inc., Moreno Valley Pontiac GMC Buick, Inc., Moreno Valley Motors, Inc., and Financing Facilitators, Inc. ("FFI") (the "Original Settlement Agreement");
- Adopted **Resolution No. 2000-07**, adopting a boundary map showing the boundaries of the territory proposed for inclusion in proposed Community Facilities District No. 3 of the City of Moreno Valley (Auto Mall Refinancing) ("CFD No. 3" or "District");
- Adopted **Resolution No. 2000-08**, declaring its intention to establish CFD No. 3 and authorizing the levy of a Special Tax to refinance the outstanding indebtedness;
- Adopted **Resolution No. 2000-09**, ordering and directing the preparation of a Community Facilities District Report for CFD No. 3;
- Adopted **Resolution No. 2000-10**, declaring the intention to issue bonds secured by special taxes to refinance certain indebtedness in CFD No. 3;

- Adopted **Resolution No. 2000-11**, adopting a boundary map showing territory proposed to be annexed in the future to CFD No. 3; and
- Adopted **Resolution No. 2000-12**, declaring the intention to authorize the future annexation of territory to CFD No. 3.

On March 7, 2000, the following actions were taken by the City Council and by the City Council acting in its capacity as the Board of Directors of the RDA:

- Adopted **Resolution No. 2000-22**, approving the Amended and Restated Agreement to Provide for the Refinancing and Restructuring of CFD No. 2, the Implementation of the Moreno Valley Auto Mall Participation Agreement and the Release of Claims and waiving certain delinquent special taxes, penalties, interest, and costs (“Amended and Restated Settlement Agreement”);
- Adopted **Resolution No. RDA 2000-01**, approving the Amended and Restated Settlement Agreement;
- Conducted the public hearing, considering the formation of CFD No. 3 and authorization to levy special taxes and incur a bonded indebtedness;
- Adopted **Resolution No. 2000-23**, forming and establishing CFD No. 3 and authorizing submittal of the levy of special taxes to the qualified electors;
- Adopted **Resolution No. 2000-24**, declaring the necessity to incur a bonded indebtedness in CFD No. 3 and submitting to the qualified electors a proposition to authorize such bonded indebtedness;
- Conducted the Special Election;
- Adopted **Resolution No. 2000-25**, declaring the results of the special election;
- Introduced and read **Ordinance No. 565**, authorizing the levy of a special tax in CFD No. 3;
- Conducted the public hearing, considering annexation of territory in the future to CFD No. 3;
- Adopted **Resolution No. 2000-26**, authorizing the annexation of territory in the future to CFD No. 3;
- Adopted **Resolution No. 2000-27**, authorizing and providing for the issuance of special tax bonds of the district, approving the form of Bond Indenture, Bond Purchase Agreement, Preliminary Official Statement and other documents, and authorizing certain actions in connection with the issuance of such bonds; and
- Adopted **Resolution No. 2000-28**, approving the form of an Escrow Agreement.

The following table provides a summary of the pertinent proceedings.

**Table 1: Summary of Proceedings**

<b>Community Facilities District No. 2</b>		
<b>Document</b>	<b>Number</b>	<b>Date</b>
Resolution of Intention	89-19	March 28, 1989
Resolution of Formation	89-46	May 9, 1989
Resolution of Bond Issuance	89-47	May 9, 1989

<b>Community Facilities District No. 3</b>		
<b>Document</b>	<b>Number</b>	<b>Date</b>
Resolution of Intention	2000-08	January 25, 2000
Resolution of Formation	2000-23	March 7, 2000
Resolution of Bond Issuance	2000-27	March 7, 2000

<b>Community Facilities District No. 3 Bonds</b>		
Date of Bond Issue		April 5, 2000
Date of Bond Maturity		September 1, 2030
Amount of Bond Issue		\$8,075,000
Bond Rating		Not Rated

## **B. THE DISTRICT**

CFD No. 2 was formed by the City in 1989 to finance the acquisition of certain public improvements described in Section I.C, Public Facilities and all necessary appurtenances and appurtenant work. CFD No. 2 consisted of approximately 58 acres subdivided into two zones and Open Space and included Eucalyptus Avenue (Hickory Avenue), Moreno Beach Drive, and other streets. The two zones were zoned for commercial and industrial use and fronted State Highway 60.

Of the sixteen parcels within CFD No. 2, only five were developed with automobile dealerships ("Developed Parcels") and made timely payments of the special taxes levied on these parcels. The payments of the special tax levied on the remaining eleven parcels to pay the debt service were delinquent for several years ("Undeveloped Parcels"). Judicial foreclosure proceedings were undertaken per the bond covenants; however, no bids were received at the public sales. Other foreclosure actions were stayed as a result of the bankruptcy of the owner of nine of the delinquent parcels. Beginning in December 1995, the delinquencies required the use of monies in the Reserve Fund to cover the amount of debt service payable to bondholders. An Event of Default occurred on December 1, 1999. Interest was paid in full; however, only 58% of the total principal due was paid to the bondholders with the outstanding balance accruing interest.

On January 25, 2000, the City approved the Settlement Agreement in order to enhance the prospects for development of the eleven parcels, settle any disputes regarding the application of the RDA contributions under the Participation Agreement and computation of the special tax, and resolve the delinquencies by payment of the outstanding bonds. The Settlement Agreement was subsequently amended and restated in an Amended and

Restated Settlement Agreement dated March 7, 2000, among the parties to the Settlement Agreement with the exception that CFD No. 3 was added as a party and Auto Mall Resolution, Inc. ("AMR"), an affiliate of Stone & Youngberg, LLC, was substituted as a party for Financing Facilitators, Inc. The Amended and Restated Settlement Agreement provides for (i) the formation of the District, (ii) the issuance of the Bonds to provide funds to refund in full the CFD No. 2 bonds, (iii) the release of claims by the owners of the Developed Parcels related to CFD No. 2 and the Participation Agreement, (iv) the purchase of three of the Undeveloped Parcels in CFD No. 2 by three of the owners of the Developed Parcels, (v) the purchase of the remaining eight Undeveloped Parcels in CFD No. 2 by AMR, and (vi) the manner in which available project Property Tax Increment and available project Sales Tax will be administered.

The original boundaries of the District contained only the Developed Parcels. Pursuant to the Amended and Restated Settlement Agreement, the Undeveloped Parcels were purchased by AMR and three of the owners of the Developed Parcels at a Public Auction Tax Sale held by the Riverside County Tax Collector on March 20-22, 2000, and were immediately annexed into the District upon completion of the sale. As a result, on April 5, 2000, the date of the issuance of the CFD No. 3 Bonds, the District boundaries contained all sixteen parcels.

The CFD No. 3 Bonds were sold in the amount of \$8,075,000. According to the Escrow Agreement, sufficient funds received through the special tax refinancing were deposited with State Street Bank and Trust Company of California, N.A., as Escrow Agent, to redeem the CFD No. 2 Special Tax Bonds, including the remaining December 1, 1999 principal with interest. The redemption of the CFD No. 2 Bonds was completed June 1, 2000.

Subsequent to the issuance of the CFD No. 3 Bonds, it was determined that the Official Statement, dated March 24, 2000, did not contain reference to Community Services District ("CSD") service charges/taxes annually levied on parcels within the City. These charges were not taken into account in the Appraisal or any of the value-to-lien tables in the Official Statement. On May 9, 2000, a Supplement to the Official Statement was distributed disclosing the following annual CSD charges/taxes that the parcels within the Auto Mall are subject to:

- Zone A (Park and Recreation Services) – \$87.50 per parcel;
- Zone C (Arterial Street Lighting) – \$9.00 per parcel; and
- Zone E (Extensive Landscaping) – \$1,900 per acre.

In order to reduce the burden of the Auto Mall landscaping charge on the property owners, the CSD maintained the landscaping using available reserves during Fiscal Year ("FY") 2001/02. Beginning July 1, 2001, a landscape maintenance agreement between the CSD and Moreno Valley Auto Mall Merchants Association ("Association"), a group formed by the Auto Mall property owners, shifted responsibility for the landscape maintenance to the Association. So long as the Association continues to provide landscape maintenance services with the same specifications or better than those previously provided through the CSD, no further CSD Zone E service charges will be levied. Both the Zone A and Zone C service charges/taxes will continue to be annually levied by the CSD.

Land use in CFD No. 2 was restricted to new car sales on fourteen of the sixteen parcels. Consistent with the Amended and Restated Settlement Agreement, the Specific Plan 209, Moreno Valley Auto Mall was amended to authorize additional types of land uses. Specific

Plan Amendment No. 3 was approved on January 8, 2002, and became effective on February 22, 2002. Each of the parcels have been assigned to Planning Areas A, B, C, or D. Any further updates or specific land use restrictions may be obtained from the City's Planning Division.

Proposition 218, a constitutional initiative known as the "Right to Vote on Taxes Act," was approved by California voters in November 1996. CFD No. 2 was established to finance the capital costs for roadway improvements, including grading, paving, sewers, sidewalks, landscaping, etc. Bonds were issued to provide the funding for these improvements. CFD No. 3 Bonds were issued to refinance the CFD No. 2 bonds. Only properties within the District have annual Special Tax levies placed on the property tax roll to repay the bonded indebtedness. Due to these factors, CFD No. 3 and the Bonds are in compliance with the provisions of Proposition 218. Subsequent increases, not addressed in the CFD No. 3 Community Facilities District Report ("CFD No. 3 CFD Report"), dated March 7, 2000, will be subject to a two-thirds voter approval.

### **C. PUBLIC FACILITIES**

The following is an account of the public facilities identified within the May 5, 1989 Moreno Valley Auto Mall Community Facilities District Report ("CFD No. 2 CFD Report"), as prepared by Albert A. Webb Associates, Riverside, California. The public facilities acquired by CFD No. 2 generally consisted of water improvements, sewer improvements, street improvements, utility distribution systems, landscaping improvements, and storm drain improvements, as described in the following:

#### **i. GRADING IMPROVEMENTS**

Grading improvements which provide for proper sewer installation and operation consist of tree removal, over-excavation, excavation, a four (4) foot high retaining wall, and appurtenances.

#### **ii. WATER IMPROVEMENTS**

The on-site water improvements consist of ductile iron pipe main lines, fire hydrant assemblies, appurtenances, and appurtenant work. The off-site water improvements consist of fair-share participation in costs associated with the construction of a 3-million-gallon water reservoir located at Locust Street and Oliver Street. This also includes installation of a 24-inch ductile iron pipe main line and appurtenant work.

#### **iii. SEWER IMPROVEMENTS**

The on-site sanitary sewer improvements consist of a Vitrified Clay Pipe main line, approximately 12 manholes, appurtenances, and appurtenant work. The off-site sewer improvements consist of fair share participation in the costs associated with the design and construction of the Vitrified Clay Pipe main line, including manholes, appurtenances, and appurtenant work.

#### **iv. STREET IMPROVEMENTS**

Street improvements include grading, asphalt paving over Class 2 base, concrete curb and gutter (medians), driveways, sidewalks, and wheelchair ramps on the following streets:

- Moreno Beach Drive – 110 foot wide section;
- Eucalyptus Avenue (Hickory) – 76 foot wide section from Moreno Beach Drive to its terminus at the easterly end of the project;
- Lot “A” – 76 foot wide section from Eucalyptus Avenue to Moreno Beach Drive.; and,
- Lot “B” – 48 foot wide section from Eucalyptus Avenue to Lot “A”.

#### **v. UTILITY DISTRIBUTION SYSTEM**

Utility distribution system improvements consist of gas, electrical, streetlight facilities, and telephone service. Electrical and telephone service extends approximately 7,900 feet from the present Cottonwood Avenue location. On-site improvements consist of electrical pull boxes, conduits, wiring, gas main, fittings, valves, joint use trench, and installation of approximately 52 streetlights, appurtenances, and appurtenant work. Also included, as part of the on-site improvements, is the relocation of an existing Southern California Edison 115 KV line located along the eastern boundary of the property.

#### **vi. LANDSCAPING IMPROVEMENTS**

Landscaping consists of landscaping materials including trees, shrubs, grass, ground cover, installation of an irrigation system, the placement of enriched paving, appurtenances, and appurtenant work. Constructed for future use is a 16-inch reclaimed water distribution line. When available, reclaimed water may be used to irrigate the public landscaping at the Auto Mall.

#### **vii. STORM DRAIN IMPROVEMENTS**

Storm drain improvements consist of the on-site construction of the Riverside County Flood Control District Line G and the City of Moreno Valley Line G-2, Line G-3, and Line G-4, appurtenances, and appurtenant work. Construction of these storm drains will implement a portion of the Moreno Valley Master Drainage Plan.

### **D. CONSTRUCTION PROGRESS & MAJOR EVENTS**

The infrastructure described in the CFD No. 2 CFD Report is complete. Construction of the traffic signal at the off ramp at Moreno Beach Drive and State Highway 60 began April 1, 1996, and was completed June 14, 1996. Two hundred thousand dollars (\$200,000) held in trust for the City by State Street Bank, the then appointed Trustee, paid for the construction of the traffic signal.

The Nason Street sewer main is complete. Eastern Municipal Water District (“EMWD”), the purveyor of sewer service, installed the sewer main. When the infrastructure was constructed, the District paid for the oversized sewer and water lines. When the City established CFD No. 3 to refinance CFD No. 2 bonds, the City Council approved the assignment of existing Reimbursement Agreements from CFD No. 2 to CFD No. 3. On April 20, 2004, EMWD remitted a total of \$292,251.26 to reimburse the District for this construction. Five additional EMWD reimbursements have been received - \$123,658.08 on December 21, 2004, \$334,611.60 on June 30, 2005, \$92,639.76 on November 22, 2005, \$50,917.17 on August 8, 2006, and \$25,594 on March 10, 2009. Under Section 4.03(a) of the Bond Indenture, Bonds maturing on or before September 1, 2010, may be redeemed at the option of the CFD on or after September 1, 2010 from such maturities as selected,

based upon a certificate of an Independent Financial Consultant at the redemption prices listed in the table below.

**Table 2: CFD No. 3 Bond Redemption**

<b>Redemption Period</b>	<b>Redemption Price</b>
September 1, 2010 through August 31, 2011	102%
September 1, 2011 through August 31, 2012	101%
September 1, 2012 and thereafter	100%

A bond call was performed on September 1, 2011, in the amount of \$910,000 plus redemption fees. On September 1, 2012, a bond call was performed in the amount of \$285,000 plus redemption fees. On September 1, 2013, a bond call was performed in the amount of \$105,000 plus redemption fees. This bond call paid in full the District Bonds. This call was based upon an optional redemption at the redemption price equal to the principal amount of the outstanding bonds plus accrued interest thereon to the redemption date without premium (the "Redemption Price") which could be from any source of funds. Funds were received in the amount of \$39,580.29, which allowed for the optional redemption of the bonds.

The City is a member agency of the Western Riverside Council of Governments ("WRCOG"), a joint powers agency, consisting of the County of Riverside, the City of Moreno Valley, 15 other cities situated in Western Riverside County, and the Eastern and Western Municipal Water Districts. On December 10, 2002, the Riverside County Board of Supervisors adopted Ordinance No. 824, which authorized participation in the Western Riverside County Transportation Uniform Mitigation Fee ("TUMF") program to address the impact of future development on the Regional System of Highways and Arterials. The fees collected under this program shall be used to help pay for the construction and acquisition of the Regional System improvements. The TUMF is collected on projects according to the City's fee schedule. Exemptions were granted to development projects that are the subject of a Public Facilities or Development Agreement entered into prior to the effective date of the TUMF ordinance. Because the properties within CFD No. 3 are subject to an existing Development Agreement with the City, the properties are exempt from the payment of fees to the TUMF program.

## II. FUND INFORMATION

The Bond Indenture, Section 3.01, requires the Trustee to establish funds and accounts for the administration and control of the revenues and the Bond proceeds.

### A. REBATE FUND – ARBITRAGE REBATE

The District, in accordance with the Bond Indenture (Section 3.06), calculates the Rebate Requirement based on the Tax Certificate of the District, dated the Delivery Date, and in writing, directs the Trustee to transfer funds to the Rebate Fund from funds furnished by the District. There was no rebate liability for the period April 5, 2000 to September 1, 2013. Table 4 reflects the final computation date, September 1, 2013. The final computation date is the date on which the obligations were redeemed. One hundred percent of the rebate liability was due no later than 30 days after this date.

**Table 3: Arbitrage Calculation Summary**

Arbitrage Yield:	7.11564%
FY of Prior Liability (09/01/10)	(469,898.24)
Reserve	(120,430.98)
FV Computation Date Credit (09/01/11)	(1,748.00)
FV Computation Date Credit (09/01/12)	(1,662.19)
Final Computation Date Credit (09/01/13)	(1,590.00)
<b>Total</b>	<b>\$ (595,329.41)</b>

Source: Arbitrage Report, as prepared by Wildan Financial Services, dated November 4, 2013

### B. ADMINISTRATIVE EXPENSE FUND

Funds remaining from the bonds will be dispersed per the terms of the Trust Indenture to pay Administrative Expenses.

**Table 4: Fund Balances**

<b>Fund / Account</b>	<b>Balance as of October 31, 2013</b>
Revenue Fund	\$ -
Bond Service Fund:	
Principal Account	-
Interest Account	-
Reserve Fund	-
Rebate Fund	-
Redemption Fund	-
Costs of Issuance Fund	-
Administrative Expense Fund	-

### **III. SPECIAL TAX PAYMENTS**

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#### **A. DELINQUENCIES IN PAYMENTS**

During FY 2012/13, the District levied \$75,878.00 in Special Taxes and collected the full amount. There are no delinquencies in Special Tax payments. In the event of a delinquency in the payment of any installment of Special Taxes, the District was authorized to commence judicial foreclosure proceedings. In the Bond Indenture, the District has covenanted for the benefit of the owners of the Bonds that it would commence and diligently pursue to completion judicial foreclosure proceedings against (i) properties under common ownership with delinquent Special Taxes in the aggregate of \$5,000 or more by October 1 following the close of the FY in which such Special Taxes were due, and (ii) against all properties with delinquent Special Taxes in the aggregate of \$2,500 or more by October 1 following the close of any FY.

## **Appendix A: CFD BOUNDARY MAP**

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