



# City of Sacramento City Council

915 I Street, Sacramento, CA, 95814

[www.CityofSacramento.org](http://www.CityofSacramento.org)

**Meeting Date:** 3/22/2011

**Report Type:** Consent

**Title:** Natomas Central Community Facilities District No. 2006-02 and Natomas Meadows CFD No. 2007-01

**Report ID:** 2011-00265

**Location:** District 1

**Recommendation:** Adopt 1) a Resolution appropriating \$897,305 from special taxes collected for Natomas Central Community Facilities District No. 2006-02 (CFD 2006-02) to allow for the reimbursement of eligible developer costs; and 2) a Resolution creating an new accounting fund and establishing revenue and expenditure budgets for the Natomas Meadows Community Facilities District No. 2007-01 (CFD 2007-01).

**Contact:** Mark Griffin, Program Manager, (916) 808-8788, Department of Finance

**Presenter:** None

**Department:** Finance

**Division:** Public Improvement Finance

**Dept ID:** 06001321

## **Attachments:**

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1-Description/Analysis

2-Background

3-Resolution, Appropriation of Special Tax Revenue Natomas Central CFD

4-Resolution, Establish Fund and Revenue and Expenditure Budget for Natomas Meadows CFD

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## **City Attorney Review**

Approved as to Form

Joseph Cerullo

3/16/2011 4:59:13 PM

## **City Treasurer Review**

Prior Council Financial Policy Approval or  
Outside City Treasurer Scope

Janelle Gray

3/4/2011 6:24:19 PM

## **Approvals/Acknowledgements**

Department Director or Designee: Leyne Milstein - 3/10/2011 4:37:39 PM

Assistant City Manager: Patti Bisharat - 3/15/2011 12:58:46 PM

Eileen Teichert, City Attorney

Shirley Concolino, City Clerk  
Gus Vina, Interim City Manager

Russell Fehr, City Treasurer



## Description/Analysis

**Issue:** K. Hovnanian Forecast Homes Northern, Inc. (Developer) has incurred \$11,491,952 in expenses in its Natomas Central project that are eligible for reimbursement under City Agreement Nos. 2008-0683 and 2008-0683-1 (collectively, the Agreement) from special taxes collected within Natomas Central Community Facilities District No. 2006-02 (CFD 2006-02). Eligible public improvements have been constructed, verified, and accepted by the City at a cost to the Developer in excess of the special taxes collected to date. This Council item will appropriate current, available tax revenue of \$891,305 to allow reimbursement of eligible expenses from available funds. These taxes are collected solely for the purpose of financing public improvements within CFD 2006-02. As taxes are generated, staff will ask Council to approve additional appropriation authority until the Developer is fully reimbursed.

Natomas Meadows Community Facilities District No. 2007-01 (CFD 2007-01) is similar in structure to CFD 2006-02. Taxes were levied in CFD 2007-01 for the first time this year, and tax revenues in the amount of \$16,510 have been collected. Article IX, section 114, of the City Charter requires the Council to authorize the creation of an accounting fund to account for taxes collected in CFD 2007-01 and for future disbursements of those taxes under City Agreement 2008-0887. Approval of the attached resolution will authorize the addition of an accounting fund for this purpose. No disbursements are requested from CFD 2007-01 at this time.

**Policy Considerations:** Pursuant to the City Charter, City Council appropriation authority is required to reimburse the Developer under the Agreement and to establish a new accounting fund.

## Environmental Considerations

**California Environmental Quality Act (CEQA):** Under the California Environmental Quality Act (CEQA) guidelines, continuing administrative activities do not constitute a project and are therefore exempt from review.

**Sustainability Considerations:** There are no sustainability considerations applicable to administrative activities.

**Commission/Committee Action:** None

**Rationale for Recommendation:** Appropriation of funds in CFD 2006-02 will allow the Developer to be reimbursed for a portion of actual improvement costs incurred under the Agreement. Creation of an accounting fund for CFD 2007-01 is required by the City Charter and necessary to properly account for the revenues collected.

**Financial Considerations:** Special taxes are collected within CFD 2006-02 solely for the purpose of constructing public facilities and financing development fees within CFD 2006-02. To date, \$7,912,174 has been collected and \$7,004,869 has been disbursed, with \$6,937,134 reimbursed under the Agreement and \$67,735 reimbursed for

collection and accounting expenses. Of the difference of \$907,305, \$10,000 is being held in reserve for refunds and associated expenses. The balance of \$897,305 is recommended for disbursement to the Developer. Verified eligible expenses to date are \$11,491,952 as shown on Attachments 2, 3, and 4.

The history of Council action on disbursements from CFD 2006-02 is as follows:

- By Resolution No. 2008-814, \$2,244,930 was disbursed representing collections prior to July 1, 2008.
- By Resolution No. 2009-250, \$1,170,672 was disbursed representing the December 2008 tax collection.
- By Resolution No. 2009-571, \$1,031,000 was disbursed representing the April 2009 tax collection.
- By Resolution No. 2010-150, \$1,311,428 was disbursed representing the December 2009 tax collection of \$1,113,323 plus \$198,105 from interest and penalties through June 30, 2009.
- By Resolution No. 2010-677, \$1,179,104 was disbursed representing the April 2010 collection, plus interest and penalties, less refunds and administrative expenses through June 30, 2009, plus a portion (\$206,951) of the December 2010 collection of \$1,114,256

Approval of the attached resolution will release the \$897,305 in available funds as reimbursement to the Developer.

Approval of an accounting fund for CFD No. 2007-01 will provide a mechanism for accounting and reporting the activities of the CFD. Taxes in the amount of \$16,510 have been collected but no disbursements are requested at this time. Appropriations of \$1,649 are requested to reimburse County and City expenses for the cost of collecting the tax.

**Emerging Small Business Development (ESBD):** None. No goods or services are being purchased.



## BACKGROUND

### **Natomas Central Community Facilities District No. 2006-02**

In 2006, in accordance with the Mello-Roos law (Government Code section 66000 et seq.), the City formed Natomas Central Community Facilities District No. 2006-02 (CFD 2006-02) for the purpose of financing fees and public improvements that benefit properties within CFD 2006-02. On July 10, 2008, the City and K. Hovnanian Forecast Homes Northern, Inc. (the Developer) entered into an Acquisition and Shortfall Agreement that was designated as City Agreement No. 2008-0683 and was subsequently amended by City Agreement No. 2008-0683-1 (collectively, the Agreement). The Agreement obligates the City to reimburse the Developer for eligible expenses incurred within CFD 2006-02. Reimbursement can occur in two ways. First, the City can issue bonds through CFD 2006-02 and use the bond proceeds to reimburse the Developer in full as eligible expenses are incurred and verified, with debt service on the bonds paid from special taxes. Second, the City can reimburse the Developer directly from special-tax revenues as they are collected; the disadvantage of this pay-as-you-go approach is that the Developer won't be fully reimbursed until many years after incurring the expenses. Whether reimbursement is from bonds, from taxes, or from a combination of bonds and taxes, the Agreement specifies that total reimbursement cannot exceed \$35 million (less the cost of issuing any bonds).

CFD 2006-02 has been unable to issue bonds because of the FEMA restrictions and the general economic downturn. Therefore, the City has been reimbursing the Developer from special taxes collected each year. Total verified and reimbursable costs to date are \$11,491,952:

- The City's engineering consultant, Harris and Associates, has verified costs and compliance with the Agreement in the amounts of \$4,300,000 and \$1,600,000 for El Centro Road and Del Paso Road respectively (Exhibit A). Both roads were widened to four lanes and include medians, curbs, gutters, and sidewalks.
- The Department of Transportation has verified costs and compliance with the Agreement in the amount of \$3,911,129 for three interior, non-subdivision collector roads: Natomas Central Drive, Hovnanian Drive, and Manera Rica Drive (Exhibit B).
- The Department of Utilities has verified \$1,680,823 for construction and acquisition of the detention basin within CFD 2006-02 (Exhibit C).

When the City uses special taxes collected within CFD 2006-02 to reimburse the Developer, the City Council must authorize each appropriation of tax revenues. To date, the City has collected \$7,912,174 in special taxes and interest earnings. The City Council has previously authorized the use of these revenues to reimburse the Developer for \$6,937,134 of the \$11,494,952 in eligible costs. This was done in five separate payments: \$2,244,930 (Resolution No. 2008-814), \$1,170,672 (Resolution No. 2009-250), \$1,031,000 (Resolution No. 2009-571), \$1,311,428 (Resolution No. 2010-150), and \$1,179,104 (Resolution No. 2010-677) Of the \$975,040 remaining balance,

the City has expensed \$67,735 for accounting and collection costs and is holding \$10,000 in reserve, leaving \$897,305 available for reimbursement. Staff requests that this amount be appropriated to Project Number J22003600 to permit payment to the Developer. With this payment, the Developer's remaining unreimbursed expenses will be reduced to \$3,657,513:

Total reimbursable expenses:	\$11,491,952
Previous disbursements . . . . .	6,937,134
<u>Current disbursement . . . . .</u>	<u>897,305</u>
Unreimbursed expenses . . . . .	<b>\$3,657,513</b>

**Natomas Meadows Community Facilities District No. 2007-01**

Natomas Meadows Community Facilities District No. 2007-01 is also a pay-as-you-go district. Staff recommends the creation of an accounting fund to properly account for \$16,510 in tax levied for the first time this year. No reimbursements are requested at this time. Staff will return to Council for any reimbursements of verified costs. Appropriations of \$1,649 are requested at this time to reimburse County and City expenses for the cost of collecting the tax.



March 3, 2009

Mr. Mark Griffin  
Fiscal Manager  
*City of Sacramento*  
Development Services Dept.  
915 I Street, Suite 3000  
Sacramento, CA 95814

**SUBJECT: Natomas Central Acquisition-and-Shortfall Agreement CFD 2006-02  
REVISED**

Dear Mark,

On December 10, 2008, you forwarded us a copy of the Acquisition-and-Shortfall Agreement (A&S Agreement) between the City and K. Hovnanian Homes. Our task was to verify if the submittal for credit verification for Natomas Central improvements was also compliant with the provisions of Exhibit D of the A&S Agreement. On February 3, 2009, we submitted a recommendation letter regarding the developer's compliance with Exhibit D of the A&S Agreement, this letter replaces those recommendations.

On February 18, 2009, Exhibit A of the A&S Agreement was amended to revise the budgeted amounts available. The agreement covers Segment 3 and Segment 12 and not the signals reviewed with the PFFP credit submittal. The request for reimbursement under the A&S Agreement is for \$5,900,000 (\$1,600,000 for Del Paso Road Segment 3 and \$4,300,000 for El Centro Road Segment 12) as summarized in Table 1.1. Based on our review, we recommend release of \$5,900,000.00 for these segments under the A&S Agreement. The request for credits under the PFFP program is \$6,879,230.00 and is being reviewed separately.

Exhibit D of the Acquisition-and-Shortfall agreement outlines requirements that are to be followed in order for the developer to be reimbursed. Our review focused on the requirements set forth in Section 6.0 of Exhibit D. Harris & Associates has a department experienced with labor compliance. Per discussion with this department, we were able to determine what documentation is required for compliance with California prevailing wage statutes. See item #4 below for a discussion of the prevailing wage issues.

On December 17, 2008, we emailed you a list of items required in the agreement that were not submitted with the PFFP reimbursement request. Since that time, more information has been submitted for this review.



DEPARTMENT OF  
TRANSPORTATION

ENGINEERING SERVICES DIVISION

CITY OF SACRAMENTO  
CALIFORNIA

DEVELOPMENT ENGINEERING  
300 RICHARDS BLVD., 2nd FL.  
SACRAMENTO, CA 95811-0218

PH (916) 808-8300  
FAX (916) 808-1984

Revision No.1

February 25, 2010

Mark Griffin  
Program Manager  
Planning Department, Public Improvement Financing Division  
915 I Street, 3<sup>rd</sup> Floor  
Sacramento, Ca 95814

**SUBJECT:** Natomas Central CFD No. 2006-02 Submittal # 2  
Acquisition and Shortfall Agreement 2008-0683 and 2008-0683-1

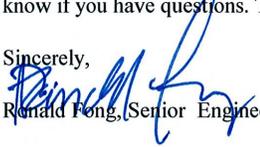
Dear Mark,

This letter is a **revision** to my previous recommendation letter dated July 23, 2009. Costs related to utility improvements have been excluded from this cost validation.

Request for reimbursement/credit for the construction of Natomas Central Detention Basin and collector streets Natomas Central Drive, Hovnanian Drive and Manera Rica Drive has been submitted by K. Hovnanian Homes, Inc. Supporting documents as required per A & S Agreement 2008-0683 and 2008-0683-1 between City and K Hovnanian Homes has been reviewed and validated.

Based on our review, K. Hovnanian is eligible for reimbursement/credit in the amount of **THREE MILLION NINE HUNDRED ELEVEN THOUSAND - ONE HUNDRED TWENTY NINE & 37/100 DOLLARS (\$3,911,129.37)**.

Detailed cost summary table and Notices of Completion are hereby enclosed for your reference. Let me know if you have questions. Thank you.

Sincerely,  
  
Ronald Fong, Senior Engineer

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Department of  
**TRANSPORTATION**  
City of Sacramento

**TABLE 1.0  
COST SUMMARY  
COLLECTOR ROAD FACILITIES  
NATOMAS CENTRAL DRIVE, HOVNIAN DRIVE, MANERA RICA DRIVE**

Acquisition and Shortfall Agreement 2008-0683-1 (Budgeted Amount)	\$5,200,000.00
Construction Cost Submitted	3,940,927.57
Verified Construction Cost	3,911,129.37
Reimbursement Requested	3,940,972.57
<b>Eligible for Reimbursement/Credit Amount</b>	<b>\$3,911,129.37</b>

**TABLE 1.1  
DETAILED COST TABLE  
NATOMAS CENTRAL COLLECTOR ROAD FACILITIES  
(NATOMAS CENTRAL DRIVE, HOVNIAN DRIVE, MANERA RICA DRIVE)**

INVOICE NUMBER	AMOUNT REQUESTED	AMOUNT INVOICED	RETENTION	DISALLOWED AMOUNT	VERIFIED AMOUNT
1376907	\$ 222,811.26	\$247,568.07	\$24,756.81		\$222,811.26
1415784	2,961,909.87	3,291,010.97	329,101.10		2,961,909.87
1454476	235,833.58	262,037.31	26,203.73		235,833.58
1454476®	304,049.31	304,049.31	(304,049.31)		304,049.31
1497854	62,073.20	63,340.00	1,266.80		62,073.20
1534362	41,031.00	45,950.00	4,559.00		41,031.00
1586361	13,032.04	13,298.00	265.96		13,032.04
1608737	9,723.78	9,922.22	198.44		9,723.78
1354404	8,041.88	8,206.00	164.12		8,041.88
1654404®	78,819.45	78,819.45	(78,819.45)		78,819.45
CO#5 P#1169295				\$10,500.00	
CO#11 P#1169213				7,490.00	
CO# 7 P#1169407				8,206.00	
<b>TOTAL</b>	<b>\$3,937,325.37</b>	<b>\$4,323,841.33</b>	<b>\$386,515.96</b>	<b>\$26,196.00</b>	<b>\$3,911,129.37</b>

Contract # 201169125 A-C	
Contract Amount	\$ 3,933,351.35
Change Orders	36,968.22
Total Project Cost	\$ 3,970,319.57



Department of Utilities  
Office of the Director

CITY OF SACRAMENTO  
CALIFORNIA

1395 35<sup>th</sup> Avenue  
Sacramento, CA 95822-2911  
phone (916) 808-1400  
fax (916) 808-1497/1498

January 7, 2010  
092577

Rich Alexander  
c/o K. Hovnanian Homes  
1375 Exposition Blvd., Ste. 300  
Sacramento, CA 95815

**SUBJECT: Reimbursement Submittals #2 and #3 for Natomas Central CFD No. 2006-02**

Dear Mr. Alexander;

This letter summarizes Department of Utilities' (DOU's) review of the sewer and drainage facilities included in the subject submittals. DOU has not reviewed the Collector Roads portion of the submittals. DOU reviewed the sewer facilities at your request, even though they are Sacramento Area Sewer District (SASD) facilities.

Submittal #2 requested reimbursement for construction of the Detention Basin and the Common Drainage (pipeline) facilities. As indicated in separate correspondence, only \$1,680,823 is presently eligible for construction of these drainage facilities. This is the amount exempted from competitive bidding per City Agreement #2008-0683-1 (the amended Acquisition & Shortfall Agreement, a.k.a. the 'Agreement'). The pipelines were not competitively bid.

Submittal #3 requested reimbursement for construction of two facilities (the Trunk and Collector Sewer, and the Sewer Lift Station), plus 10-percent for approved facility design expenses. 'Agreement' article 3(b) allows separate reimbursement for engineering costs as a percentage of the construction, and your requested 10% amount is reasonable. DOU presupposes, however, that design costs are eligible for reimbursement only if the facility designed is also eligible. The Trunk Sewer is a budgeted facility in the 'Agreement', and thus should be eligible, but it appears that it was not competitively bid and Council did not exempt it. The Sewer Lift Station was not a listed facility. Thus neither of the Submittal #3 facilities is considered eligible at this time. Therefore, only \$168,082 of the design expense amount requested in Submittal #3 (10% of the Detention Basin costs) is currently eligible for reimbursement.



CITY OF SACRAMENTO  
DEPARTMENT  
OF UTILITIES

*Making a Difference in Your Neighborhood*

Rich Alexander Letter  
Reimbursement Submittals #2 and #3 for Natomas Central CFD No. 2006-02  
January 7, 2010  
Page 2

As indicated in the July 21, 2008 letter to you from Mark Griffin, City staff may request Council to amend the 'Agreement' thereby permitting additional facilities not competitively bid to be reimbursed. If Council were to waive all competitive bidding requirements, then submittal #2 and #3 contain sufficient documentation to approve reimbursements up to \$8,351,724.28 for constructed and accepted drainage facilities; \$835,172 for design of the drainage facilities; and up to \$4,058,619.40 for design and construction of the Trunk and Collector Sewer. Prior to approving full Trunk Sewer reimbursement, however, additional documentation for the two change orders and certification from SASD that they've approved and accepted construction of the sewer is required.

Please let me know if you require additional clarification of the items discussed herein.

Sincerely,



Marty Hanneman  
Director of Utilities

cc: Dave Brent, Engineering Services Manager  
Mark Griffin, Program Manager  
Stu Williams, Senior Engineer  
File



## RESOLUTION NO.

Adopted by the Sacramento City Council

### APPROPRIATION OF SPECIAL-TAX REVENUE NATOMAS CENTRAL COMMUNITY FACILITIES DISTRICT NO. 2006-02

#### BACKGROUND

- A.** Under City Agreement No. 2008-0683 as amended by City Agreement No. 2008-0683-1, K. Hovnanian Forecast Homes Northern, Inc. (the “Developer”) is entitled to reimbursement for eligible expenses incurred within Natomas Central Community Facilities District No. 2006-02 (the “CFD”), subject to the availability of funds. The City has verified eligible expenses of the Developer in the amount of \$11,491,952 to date.
- B.** To date, the City has received \$7,912,174 in interest and Mello-Roos special taxes levied for the purpose of financing eligible expenses within the CFD, with \$6,937,134 disbursed in increments of \$2,244,930, \$1,170,672, \$1,031,000, \$1,311,428, and \$1,179,104 under Resolution Nos. 2008-814, 2009-250, 2009-571, 2010-150, and 2010-677 respectively, leaving a balance of \$975,040.
- C.** Of the \$975,040 balance, \$67,735 has been expensed for accounting and collection costs and \$10,000 is being held in reserve for any refunds, associated expenses and contingency, leaving \$897,305 available for disbursement to the Developer.
- D.** The appropriation of available funds of \$897,305 will permit partial reimbursement to the Developer, totaling \$7,834,439 with this action, leaving a balance of verified, unreimbursed expenses of \$3,657,513.

#### **BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1** The City Manager’s designee is authorized and directed to appropriate \$897,305 from revenues of the CFD (i.e., special taxes and interest) to Project J22003600 to reimburse the Developer in part for eligible expenses.



## RESOLUTION NO.

Adopted by the Sacramento City Council

### **ESTABLISHING AN ACCOUNTING FUND AND AMENDING THE REVENUE AND EXPENDITURE BUDGETS FOR THE NATOMAS MEADOWS CFD NO. 2007-01, FUND 3332, FOR FISCAL YEAR (FY) 2010/11**

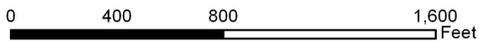
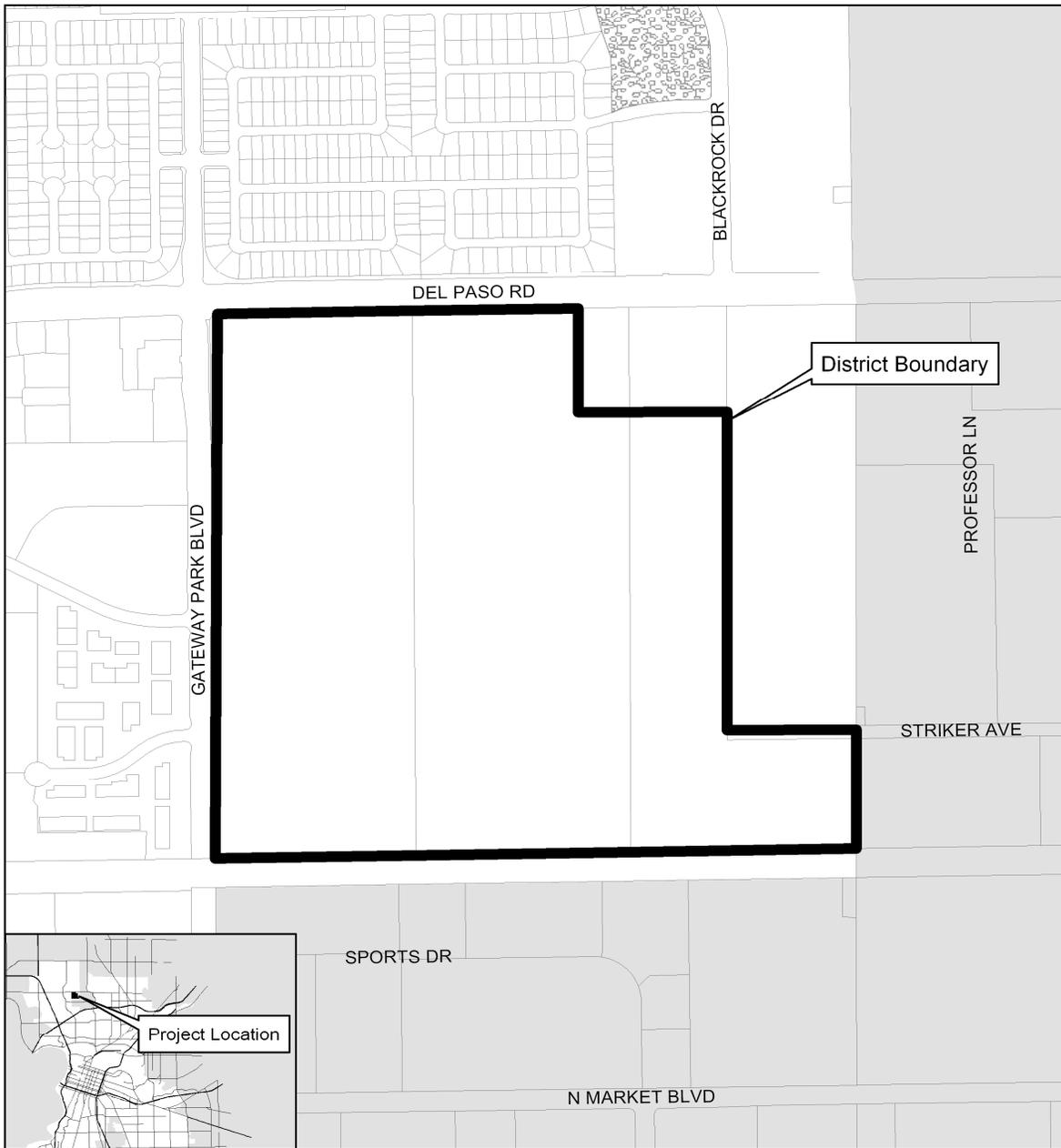
#### **BACKGROUND**

- A.** On October 9, 2007, the property owner of the area within the boundaries of the Natomas Meadows Community Facilities District No. 2007-01 (CFD 2007-01) as shown on Exhibit A voted to approve the formation of the district.
- B.** CFD 2007-01 formation was approved by the City Council on July 17, 2007. FY2010/11 is the first year that taxes have been levied in CFD 2007-01. A new accounting fund needs to be created in accordance with article IX, section 114, of the City Charter.
- C.** Property owners within the boundaries of CFD 2007-01 are assessed a special tax (Exhibit B) to reimburse developer costs and associated expenses incurred for the construction of capital improvements benefiting the district and as provided for City Agreement 2008-0887.
- D.** Special taxes to be collected in FY2010/11 total \$16,510. No disbursements to the developer are requested at this time.
- F.** Appropriations of \$1,649 are required to reimburse County and City expenses for the cost of collecting the tax.

#### **BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City Council finds and determines that the background statements A through F are true.
- Section 2. The Finance Director is authorized and directed to create a new accounting fund, Fund 3332, to be known as Natomas Meadows CFD No. 2007-01.
- Section 3. The Finance Director is authorized and directed to amend the revenue and expenditure budgets of CFD 2007-01 to \$16,510 and \$1,649 respectively, and as shown on Exhibit B.

# Natomas Meadows CFD No. 2007-01 Location Map



*NATOMAS MEADOWS CFD NO. 2007-01  
FY2010/11 BUDGET*

Beginning Fund Balance	\$ 0
<b>Total Assessed to Property Owners</b>	<b>\$16,510</b>
Developer Reimbursement	\$0
Special Districts Administration (PIF)	0
Billing Administration	
Consultant	250
Accounting	1,315
County	84
<b>Total Expenditures</b>	<b>\$1,649</b>
Ending Fund Balance (Contingency)	<b>\$14,861</b>