



**ACTION MINUTES**

**CITY OF DANA POINT**

**INVESTMENT REVIEW COMMITTEE**

**MONDAY, JANUARY 13, 2014**

**2:30 PM**

**LOCATION:** City Hall, Second Floor, Suite 212, Public Works Conference Room,  
33282 Golden Lantern, Dana Point, CA 92629

**CALL TO ORDER:**

The meeting of the Investment Review Committee of the City of Dana Point was called to order by Committee Member Lisa Bartlett at 2:40 p.m.

**ROLL CALL OF COMMITTEE MEMBERS:**

Lisa Bartlett, Committee Member  
Steven Weinberg, Committee Member  
Doug Chotkevys, Committee Member  
Mike Killebrew, Committee Member  
Larry Rolapp, Public Member  
Nancy Baumann, Public Member

**Staff Present**

Beverly Brion, Sr. Management Analyst  
Ursula Luna-Reynosa, Director of Community Development  
DyAnne Weamire, Administrative Secretary

**Also Present**

Bill Marticorena, Attorney  
Jim Fabian, Principal, Fieldman, Rolapp & Associates

## **PUBLIC COMMENTS:**

There were no Public Comments.

## **APPROVAL OF MINUTES:**

### **ITEM 1: Minutes of the Investment Review Committee of April 15, 2013.**

Committee Member Larry Rolapp commented that with the following correction he would approve the minutes of the meeting of April 15, 2013 as shown.

1. On page 3 under section titled Review CFD 2006-1 Special Tax Bond Documents, that the first sentence show that Mr. Rolapp recused himself from the discussion and left the meeting room.

### **ACTION:**

It was moved by Committee Member Weinberg, Seconded by Committee Member Chotkevys, to approve minutes from the April 15, 2013 meeting with the noted correction.

The motion carried by the following vote:

AYES: Committee Member Lisa Bartlett, Committee Member Steven Weinberg, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Committee Member Larry Rolapp, Committee Member Nancy Baumann.

NOES: None

## **NEW BUSINESS:**

### **ITEM 2A: Investment Review Committee Reorganization**

### **ACTION:**

It was moved by Committee Member Weinberg, Seconded by Committee Member Chotkevys that the new Chair be Lisa Bartlett

The motion carried by the following vote:

AYES: Committee Member Lisa Bartlett, Committee Member Steven Weinberg, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Committee Member Larry Rolapp, Committee Member Nancy Baumann.

NOES: None

It was moved by Committee Member Chotkevys, Seconded by Committee Member Rolapp that the new Vice Chair be Steven Weinberg

The motion carried by the following vote:

AYES: Chair Lisa Bartlett, Committee Member Steven Weinberg, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Public Member Larry Rolapp, Public Member Nancy Baumann.

NOES: None

**ITEM 2B: Community Facilities District No. 2006-1 of the City of Dana Point 2014 Special Tax Bonds**

Public Member Larry Rolapp recused himself from this item and left the meeting room until the end of this item.

Committee Member Mike Killebrew summarized the 14-page City of Dana Point Community Facilities District 2006-1 Strand at Headlands Development presentation to the remaining Members. He recapped the first several slides of the presentation and the scope of the project, actions taken to date, and stated that after the recession and through 2012, not many parcels had sold. As of 2013, 16 additional parcels had sold and in addition to issuing the 2013 bonds the City also refunded the original 2008 bonds at better rates. As of May 2013 the amount of bonds sold were \$17,885,000. He further explained that the previous bond sizing was based on 45 of the 118 residential parcels sold to date and two developer-owned parcels. Four parcels prepaid their Facilities Tax. He stated that the 2014 bond sizing is based on 120 parcels, excluding the clubhouse which is owned by the HOA and the four parcels that prepaid the Facilities Special Tax. He further explained that the current appraisal of the undeveloped parcels is \$486.7 million, providing for a 10.8 to 1 value to debt ratio which far exceeds current City policy which requires a minimum of a 3 to 1 value to debt ratio.

Committee Member Doug Chotkevys asked for the ratio from the prior bond issuances. Member Killebrew responded that it was much higher, close to 17 to 1.

Jim Fabian confirmed the first issuance in 2008 had a 17 to 1 ratio and the second issuance in May 2013 had a 15.28 to 1 ratio. He further stated that the first CFD used an appraisal value and the second CFD used an assessed value of the properties, and that this time we again had an appraisal done by James Harris and Associates.

Committee Member Doug Chotkevys asked how the appraised value compares to the assessed value.

Jim Fabian explained that the appraised value as stated earlier is \$486.7 million and the assessed value dated as of January 1, 2013 was \$309 million, so the appraiser is recognizing the inherent increase in value based on current conditions as of November 10, 2013.

Committee Member Mike Killebrew continued to summarize the presentation explaining that there is a \$3 million maximum Annual Special Tax on the 62 residential parcels owned by third parties, two residential parcels owned by the developer with permits, 50 residential parcels owned by the developer without permits, a hotel site owned by the developer and a retail site

owned by a third party. He further explained that 46% of the annual debt service payment would come from the developer's parcels, accounting for \$1,378,400 of the Annual Special Tax that would be due from the developer annually. Therefore, the City's concern is if the developer were to miss a tax payment the City would still have a fiduciary responsibility to ensure bond holders get paid from Annual Special Tax collections, or foreclosure proceeds if necessary. The City has been working with the developer to find ways to mitigate this potential credit risk. Currently, the foreclosure process takes over 200 days from the tax due date, which is past bond payments and requiring the City to utilize the debt service reserve funds set aside from bond proceeds. The City has identified ways to expedite the foreclosure process to include having the developer notify City staff within five days after a payment was made instead of waiting approximately 40 days to find out from the county that a payment was missed, allowing the City to begin the foreclosure process sooner if necessary. Additionally, should the City take action in court it is agreed that court proceedings response times be shortened significantly. The staff is ready to move forward with a Letter Agreement signed between the City and the developer that shortens the foreclosure process.

Committee Member Doug Chotkevys asked how many of the developer-owned lots are currently in escrow. Committee Member Mike Killebrew responded that it is estimated that as of this date approximately 20 parcels are currently in escrow.

Committee Member Mike Killebrew continued that the developer requested an increase in the maximum bond issuance from \$40 million to \$45 million and in return the City is asking for an amendment to the Acquisition Agreement in exchange for consideration that the City not be required to pay \$30K annually for the operation of the funicular to the extent that Maintenance Taxes collected are sufficient to cover the costs of the funicular; if a City contribution is necessary, it will not exceed \$30K.

Committee Member Lisa Bartlett asked what has been the average annual cost for the operation of the funicular. Committee Member Mike Killebrew responded that CFD maintenance costs have been approximately \$90K - \$110K annually but this includes maintenance costs, repairs, replacement parts and money set aside in reserves.

Committee Member Mike Killebrew explained that the remaining cap on the \$45 million after you take into account the bonds that were issued last year is \$26.245 million. Jim Fabian believes that the final bond maturity date will be 2045. Committee Member Mike Killebrew stated that if the Investment Review Committee approves this recommendation he would like to propose it to the City Council at the meeting on February 18, 2014.

#### **ACTION:**

Motion made by Chair Lisa Bartlett to recommend to the City Council to authorize issuance of the City of Dana Point 2014 Special Tax Bonds and seconded by Vice Chair Steven Weinberg.

The motion carried by the following vote:

AYES: Chair Lisa Bartlett, Vice-Chair Steven Weinberg, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Public Member Nancy Baumann

NOES: None

ABSENT: Public Member Larry Rolapp

**ITEM 3:      Annual Review of Investment Policy**

Public Member Larry Rolapp returned to the meeting room.

Committee Member Mike Killebrew stated that the City is required to review its investment policy in our annual audit contract with our outside auditors and to provide the City with any recommendations as far as best practices or legal requirements. Last year we had no changes, and this year there are small changes to include changing the date on the front page and on page 3, and then on page 10 we are required to have no more than 20% of the market value of the portfolio invested in repurchase agreements; however, the City does not have any repurchase agreements.

Public Member Larry Rolapp asked if that change was a statute change or a policy change, Member Killebrew responded that it was a statute change. He further added that the City would like to recommend to the IRC to recommend these changes to the next City Council meeting for approval.

Committee Member Weinberg asked if the City has looked into finding ways to earn higher rates of return on its money. Committee Member Killebrew responded that 5 years ago it had hired an agency to review its current investments but it was determined not to change its very conservative investment practices which include investing in Local Agency Investment Fund (LAIF) at the state level and two-year Treasury Notes.

Committee Member Bartlett asked what the annual average rate of return in on the City's investments. Committee Member Killebrew responded saying approximately 40 basis points.

Committee Member Weinberg stated that he understands that the City of San Juan Capistrano had voted to use an investment manager. Committee Member Chotkevys would like City Staff member, Beverly Brion, to watch City of San Juan Capistrano's investment performance and to update him every couple of months.

**ACTION:**

It was moved by Public Member Larry Rolapp, Seconded by Public Member Nancy Baumann to approve the changes as noted and recommend to City Council that the changes be approved at the next City Council meeting.

The motion carried by the following vote:

AYES: Chair Lisa Bartlett, Vice-Chair Steven Weinberg, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Public Member Larry Rolapp, Public Member Nancy Baumann

NOES: None

**ITEM 4: Consider recommendation to enter the Statewide Community Investment Pool (SCIP)**

Committee Member Doug Chotkevys summarized the SCIP program explaining the program as another tool in the City's toolbox to offer land developers for current and future projects.

Committee Member Mike Killebrew further explained that a developer, depending on the project, may create impacts on the surrounding community and therefore would incur impact fees for necessary public improvements. These fees would come out of the developers pocket and the SCIP financing program could help pay for those cost over time. In addition, the program is administered by California Statewide Communities Development Authority (CSCDA), a Joint Powers Authority that government entities can join.

Ursula Luna-Reynosa explained that this program is put in place for small projects that are pooled together with other small projects from other cities so that the cost of financing gets spread out and becomes more affordable for each developer that otherwise wouldn't have this tax exempt financing available to them. Also, due to the current economics this tool would be another available to the developer that would allow them to finance these small project's impact fees, such as traffic mitigation fees, over a 30-year period.

Public Member Larry Rolapp agreed that he felt this program was a good tool for smaller projects but cautioned that if the City were looking at a major development or other assessment, that the City would be better off financing it through their own financing mechanisms instead of relegating some of the negotiating controls to an authority. In addition, he wanted to make sure that if the City does move forward with this program he warned the City to make sure that all resolutions the City enters into should be clear that the City does not lose its flexibility or will be precluded from doing their own assessment measures, their own CFD's or own financing. In addition, the staff and City should know what the due diligence and legal obligations are. He further explained that there is language in a couple of documents he read that explains that if refinancing assessments and property taxes are reduced the monies go back to the local agency and not back to reduce the assessment and special taxes.

**ACTION:**

It was moved by Vice-Chair Steven Weinberg, Seconded by Chair Lisa Bartlett to recommend to the City Council that the City be allowed to move forward to joining with the Statewide Community Infrastructure Program (SCIP).

The motion carried by the following vote:

AYES: Chair Lisa Bartlett, Vice-Chair Steven Weinberg, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Public Member Larry Rolapp, Public Member Nancy Baumann

NOES: None

## **ITEM 5:      Review City's Fund Balance Reserve Policy**

Committee Member Mike Killebrew summarized the history of the Fund Balance as of 2006 and the policy that established the General Fund Reserves based on the GFOA's recommended best practices to the Investment Review Committee. In 2007, the City Council also set up a State Budget Impacts Reserve in the event the state borrowed from the City. Changes at the State level, specifically Proposition 26, specify the state can only borrow up to 8% of the City's property tax money in any given year, and they cannot borrow more than twice in a 10-year period. Due to this Proposition, Committee Member Mike Killebrew stated that the City reduce the State Budget Impacts Fund from \$2.1 million to \$1.5 million. In addition, when the Council adopted this year's budget the City had over \$8 million in the Undesignated Fund Balance however, the Council approved \$7.7 million from Undesignated Fund Balance to help pay the costs of the Town Center project. The current policy that was adopted in 2006 that created the reserves does not provide direction on how to rebuild the Undesignated Fund Balance, or how much there should be as a minimum. Committee Member Mike Killebrew is recommending that we reduce our Cash Flow Reserves fund from 10% to 5% and reduce the Emergency Reserve fund from 20% to 15%. In addition he would like to establish a policy that the City have an Undesignated Fund Balance minimum of \$1 million or 3% of revenues. These changes would provide for \$1.4 million in the Cash Flow reserves and \$4.3 million in the Emergency Fund reserves.

Public Member Larry Rolapp asked if the City were to borrow money given these proposed reserved levels would it impact the City's bond rating negatively.

Committee Member Mike Killebrew responded that he did not believe it would impact the City negatively and had taken the GFOA's recommendations into account when determining these percentages. He further added that in today's environment, and because the City's revenues are sound, and the City has demonstrated flexibility in expenditures and therefore can make adjustments for any kind of cash debt service, it has been his experience in talking with rating agencies that this is very important. Committee Member Mike Killebrew explained that he is not pressing for a decision regarding these percentages today and will wait for the mid-year budget report in March to see where our projections are in relation to our expenditures. He anticipates then proposing at another meeting of the Investment Review Committee.

## **UNFINISHED BUSINESS:**

There were no unfinished business items.

## **ADJOURNMENT:**

Chair Lisa Bartlett declared the meeting adjourned at 3:55 p.m.

## **CERTIFICATION:**

I, Kathy M. Ward, City Clerk of the City of Dana Point, do hereby certify that a copy of the foregoing Agenda was posted at Dana Point City Hall, the Dana Point Post Office, the Capistrano Beach Post Office and the Dana Point Library, on Thursday, April 11, 2013 in accordance with law.

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KATHY M. WARD, CITY CLERK

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DATE

PURSUANT TO THE AMERICANS WITH DISABILITIES ACT, PERSONS WITH A DISABILITY WHO REQUIRE A DISABILITY-RELATED MODIFICATION OR ACCOMMODATION IN ORDER TO PARTICIPATE IN A MEETING, INCLUDING AUXILIARY AIDS OR SERVICES, MAY REQUEST SUCH MODIFICATION OR ACCOMMODATION FROM THE CITY CLERK AT (949) 248-3500 (TELEPHONE) OR (949) 248-9920 (FACSIMILE). NOTIFICATION 48 HOURS PRIOR TO THE MEETING WILL ENABLE THE CITY TO MAKE REASONABLE ARRANGEMENTS TO ASSURE ACCESSIBILITY TO THE MEETING.