



Hiddenbrooke Property Owners Association, Inc.

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Vallejo, CA 94591

Phone: 855 355-4762
Listen to Options

February 24, 2015

Jon Oiler
City of Vallejo, Finance Department
555 Santa Clara Street
Vallejo, CA 94590

Re: Hiddenbrooke Improvement District annual levy

Dear Mr. Oiler;

The purpose of this letter is to renew the annual request by Hiddenbrooke homeowners for tax relief under the HID tax, and to request that the City establish a target for future relief. We are hoping to set up a repeat meeting with you and the other Finance and Public Works officials concerned with the District's funds.

Background.

The Hiddenbrooke Improvement District was formed by the City in 1988 (originally called the Sky Valley Improvement District) to finance infrastructure improvement in Hiddenbrooke – streets, lights, water and sewer, drainage and underground electric. In 2004, the City repurchased the original bonds and refinanced the remaining balance with a new issuance at a more favorable interest rate (\$22.8 million to be paid over 27 years). As originally drafted in July 2004 and presented to Council, the refinancing documents simply provided for paying off the remaining principal, but amended documents were created, dated August 1, 2004 and August 30, 2004 to include a new "Surplus Account" under which the City could continue to charge homeowners based on the original amortization schedule, and retain the savings generated for capital projects in Hiddenbrooke. In effect the District was turned into a revolving account, available for new capital expenditures as it continued to also operate to pay down the original debt.

The Surplus Account has been growing at some \$500,000 per year, well above (actually double) the July, 2004 estimate. By FY 2009-2010 the accumulated surplus exceeded \$4 million, over and above amounts held for the next year's payment and a \$1 million required Delinquency Maintenance Account.

As a result, City staff has been meeting annually with Hiddenbrooke homeowner representatives and has recommended, and the Council has approved, tax relief for homeowners. In FY 2010-2011, \$1 million of the principal was redeemed early (resulting in about \$60,000 in reduced payments to bondholders each year going forward) and the collection from homeowners was reduced by \$500,000 (technically the levy amount nominally stayed the same but surplus was used to pay part of the levy, so tax bills went down). In FY 2011-2012, another \$500,000 in

relief was approved. No relief was given in FY 2012-2013. \$250,000 in relief was approved each year in FY 2013-2014 and 2014-2015.

Expenditures.

There have been some expenditures from the HID Surplus Account in the last few years. The account was used to fund street resurfacing in Hiddenbrooke at a cost of about \$308,000 and we expect this District to continue to fund future Hiddenbrooke street repairs, including pavement repairs to the Napa County portion of Hiddenbrooke Parkway and St John's Mine Road. Four radar speed signs were purchased at a cost of \$40,000, and there was a recent allocation to purchase new stop signs for the Welcome Center as well as re-mark the lanes approaching the Welcome Center to provide two full lanes.

The Surplus account may also be called upon to fund erosion repairs along St. John's Mine Road (stemming from a large winter storm in 2005), sometimes referred to as the "utility corridor" through which water, sewer, etc. is connected to Hiddenbrooke. The extent of this exposure for such costs is uncertain, as the necessity for improvements, their scope, and any required environmental mitigation measures are all open topics of discussion. However City staff has advised that even under the broadest estimate this should not cost more than \$750,000 – and it should be emphasized that the City has not agreed to any liability for erosion, nor that any erosion has been caused by City utilities. Further the City has re-engineered proposed drainage improvements (as Mr. Kleinschmidt advised us last year) in an attempt to reduce costs and avoid the necessity of triggering any mitigation obligations. (Note that St. John's Mine Road is a private road not open to the public, but also is subject to a City easement for utilities and provides potential alternate access for City emergency vehicles.)

Going forward.

The chief issue presently for the City regarding HID is to determine how much should be reserved for future road maintenance. We have been asking for several years now that staff prepare an estimate for the total expected cost for periodic resurfacing. This has not yet been done formally (the Public Works Department advised at our last annual meeting that the 10 year estimate would be about \$2 million).

1. We would like to see a reasonable target level of funding estimated, so that the City can in turn determine a target amount for holding in the Surplus Account, and in turn, make tax relief for Hiddenbrooke homeowners more regular and certain. We understand that there may be a desire not to commit to a fixed amount of tax relief without regard to future events, but a target could be set (for both the amount retained in the Surplus Account and the amount added each year) and left in place subject to adjustment if unexpected needs arise. This might be revisited periodically, perhaps every 5 years.

2. It is important to understand that the current Surplus exceeds the amount needed to fund the projects above by a significant amount; therefore, the tax burden in addition to causing equity issues (discussed below) is not justifiable.
3. There should be no plan to accumulate Surplus simply to roll over to the general fund at the end of the bond, since that would be inconsistent with the District's purpose of funding capital improvements in the District area, and Hiddenbrooke residents would seek to have any remaining funds contribute to an earlier retirement of the bond instead.

Equity issues.

There are other good reasons for trying to make tax relief more certain. First, Hiddenbrooke homeowners are heavily taxed already. The homes are of recent construction (1999 forward) and thus have high base values under Proposition 13. In addition to the Improvement District, there are special taxes for a Maintenance District (\$650 per home) and eleven different Mello Roos taxes for the School Districts (nearly \$2000 more per home).

Further, there is a tax equity issue involved. Some of the developers paid the Improvement District bond liability down entirely; others paid it down partially, so that some homeowners pay nothing for HID bonds, and others pay fixed amounts in a range of \$1200-\$2100 per year. Other developers did not pay them down at all, and the owners of those homes (particularly, in the Reflections development) are billed \$3591 per year for HID. The Orchards subdivision was excluded from the District and also pays nothing towards it. Thus any new capital improvements funded from the Surplus Account benefit everyone, but are being paid for by only some of the homeowners, and the tax burden falls very unevenly.

We therefore think the District funds should be used sparingly, and the Surplus Account used for tax relief to the extent reasonably possible.

Background document references.

The Official Statement of the Vallejo Public Financing Authority for the issuance of the 2004 bonds indicates, at pages 30-31, that the bonds are subject to a potential voter initiative under Proposition 218 to reduce the levy, at least as long as reduction would not interfere with timely retirement of the District Bonds. The 8/30/04 First Supplemental Agreement between the City and Wells Fargo as Successor Fiscal Agent, at Section 5.08, indicates that the levy will be in an amount at least sufficient to pay principal and interest plus administrative expenses for the ensuing fiscal year, taking into account Improvement Levy Fund balances. Sections 5.18 and 5.19 go beyond this, however, to also indicate that the levy can be reduced to an amount estimated to be not less than 103% of the annual debt service plus administrative expenses, and separately covenants not to set the levy below that amount. The Indenture of Trust, at Section 5.06 (c) indicates that the Surplus Account be used to "pay costs of public capital improvements that the [Vallejo Public Financing] Authority determines are of benefit to the District (as defined in the Fiscal Agent Agreement)." (Thus the funds must be spent in Hiddenbrooke, and only on

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capital improvements.) Section 5.06 (d) also indicates the Surplus Account can be used to redeem bonds early or to reduce the levy in the current or succeeding fiscal year.

Further action requested.

As indicated, we'd like to meet with City staff in the next several weeks and consult on the above referenced issues. Specifically, we would:

- a) ask that the City staff provide estimates of the long term pavement needs in Hiddenbrooke,
- b) agree to a target for a Surplus cap, to be reviewed every five years, and
- c) provide annual reductions in the bond levy, consistent with the cap above.

With these agreements we would then be able to join staff in supporting a recommendation to the City Council.

Thanks for your attention to this and your continuing courtesies to us.

Very Truly Yours,



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