STONERIDGE COMMUNITY FACILITIES DISTRICT
REQUEST FOR BOARD ACTION
Date: April 11, 2013

SUBJECT: Update Re Potential StoneRidge CFD Bond Refinancing

SUBMITTING DEPARTMENT: District Management

PREPARED BY: Larry Tarkowski, District Manager

AGENDA LOCATION: Comments/Communications ☐, Consent ☐, Work/Study☒,
New Business ☐, Public Hearing ☐, Second Reading ☐

ATTACHMENTS: a) RBC Proposed Refinancing Comparison, and b) RBC Proposed Refinancing Schedule

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SUMMARY/BACKGROUND: After formation of the StoneRidge Community Facilities District (SRCFD), an election on Nov 13, 2001 authorized issuance of up to $33,000,000.00 in general obligation bonds to construct needed public improvements over the life of the project. Based on a plan presented for the current development, the SRCFD Board issued $14,800,000.00 in bonds on Dec 1, 2001. The developer at the time (SunCor) entered into an agreement to make semi-annual "standby contributions" to supplement ad valorem tax collections from StoneRidge property owners in order to make the bond payments. SunCor also agreed to deposit $2,960,000.00 in cash with the bond trustee (Wells Fargo) for use if the stand-by contributions ceased for any reason.

The project was successful for several years and SunCor made its standby contributions. Unfortunately, the economic downturn eventually resulted in efforts by SunCor (beginning in 2009) to end its obligations as the StoneRidge developer. On Jun 11, 2011 those efforts culminated in agreements for SunCor to convey the StoneRidge Community Center to SRCFD and for SRCFD (in turn) to lease the Center to the StoneRidge HOA until 2026 (the remaining bond term). At that point, the Center would automatically become HOA property. In the meantime, HOA rental payments (approximately $168,000.00 annually) would irrevocably be used toward bond payments. Those efforts also resulted in SunCor assigning its interests in the various project agreements to Univest. On Aug 18, 2011, the SRCFD Board and Town Council took actions extending the term of the Development Agreement to Jun 30, 2030 and approving the assignment to two new single-purpose entities formed by Univest (Univest-StoneRidge, LLC and Univest-StoneRidge Golf, LLC).

SunCor filed for Chapter 11 bankruptcy on Feb 24, 2012. Unfortunately, it listed the cash deposit as an asset of the bankruptcy estate. After unsuccessful efforts to have SunCor voluntarily change that listing, SRCFD's bankruptcy counsel (Jared Parker) filed an adversary proceeding on Jul 11, 2012. SRCFD and Wells Fargo also jointly filed a claim for $6,335,802.00 (the estimated present value of potential standby contributions until 2026) and SRCFD filed a separate claim for attorney fees. On Sep 13, 2012, SunCor agreed to settle the adversary proceeding and to release its claim on the deposit. And, after much negotiation with all the bankruptcy creditors, a bankruptcy "plan" was approved. Pinnacle West (SunCor's parent company) would make a cash payment of $7,000,000.00 and subordinate its own claims as a creditor. Univest would also contribute $100,000.00 into the plan. This would allow approximately $5,100,000.00 for the claims by the various CFDs (including $1,358,436.00 for the joint claim by SRCFD and Wells Fargo). To help SRCFD accept the proposed amount, Univest also agreed to make a separate payment of $100,000.00 directly to SRCFD in recognition of SRCFD's legal costs. The SRCFD Board voted to approve this plan on Dec 11, 2012.

After notice to all creditors (including holders of bonds issued by the various CFDs), the plan was approved and then confirmed by the bankruptcy court after a hearing on Mar 5, 2013. When no final objections were filed, the plan became effective on Mar 25, 2013. Based on a Special Reserve Fund Agreement between SRCFD and Wells Fargo, Wells Fargo received the plan distribution and reimbursed its costs of $95,470.47 and SRCFD's costs of $187,397.17 ($29,658.31 to file the joint claim and $157,738.86 in legal fees since Dec 2010). This left $1,075,568.36. The SRCFD Manager had already made an Issuer Request for those funds under the Special Agreement, and those funds were delivered to SRCFD on Mar 28, 2013.

Since Aug 2011, the two Univest entities have operated as the developer of StoneRidge (including operation of the golf course). This includes having made standby contributions towards the StoneRidge bond payments in Jan 2012 and Jul 2012. No standby contribution was needed for the Jan 2013 bond payment. However, Univest has indicated that its long-term economic model requires that the bond eventually be refinanced to remove the uncertainty of future standby contributions. Since any balance in the $2,960,000.00 deposit would be returned to Univest after the bonds were paid in 2026, Univest has indicated a willingness for that money to be used as part of any refinancing. Presuming the HOA lease payments would continue to be available for bond payments until 2026, the potential for refinancing was explored with the bond underwriter (RBC Dain Rauscher) and StoneRidge residents. On Mar 1, 2012, the HOA Board made a presentation to the SRCFD Board indicating that a majority of residents favored refinancing. Unfortunately, exploration of refinancing was put on hold by the SunCor bankruptcy.

Now that the SunCor bankruptcy has been resolved (and an additional $1,075,568.36 is available), the potential for bond refinancing is again being explored before the Jul 2013 bond payment must be made. To this end, the SRCFD Manager has proposed that the full $100,000.00 of Univest's direct contribution towards legal costs be used for refinancing (since the majority of SRCFD's legal fees were reimbursed from the bankruptcy distribution and the relatively small amount remaining will be covered in the Town's legal dept budget). In anticipation, RBC has run a number of scenarios. After input from Univest, the prime scenario includes an extension of the bond term to 2030 to lower the interest rate and allow time for additional residents to help cover the costs. [Note: this extension would have no impact on the earlier agreement for the Center to become HOA property in 2026.] RBC has also considered the potential of a private bond placement (rather than public sale) to lower interest rates even further to approximately 4%. The resulting projections suggest that no increase in total tax amounts would be needed from current residents (despite no further standby contributions), and there is the prospect of future reductions in total tax amounts as additional residents move to StoneRidge.

Finally, in response to concerns expressed by residents that additional bonds might be authorized in the future (based on the original vote after formation of SRCFD), the current SRCFD Board members have indicated a willingness to formally indicate at the time of approving any bond refinancing that they would not consider any future bond issues. Bond counsel indicates that the original 2001 election cannot be undone (and future boards cannot be blocked from taking legal actions), but the current Board is willing to make this formal indication at the time of any refinancing.

OPTIONS ANALYSIS: N/A

ACTION OPTION: N/A

RECOMMENDATION: N/A

FISCAL ANALYSIS: **S**uccessful resolution of the SunCor bankruptcy has now made over $4 Million available towards refinancing the current StoneRidge bonds and removing the need for future standby contributions by the developer. It is believed such a refinancing will greatly benefit the StoneRidge project and its property owners by removing the uncertainty of standby contributions and stabilizing SRCFD tax payments by owners (thereby encouraging additional StoneRidge residents and stabilizing property values).

REVIEWED BY:

StoneRidge CFD Treasurer ________________________________

StoneRidge CFD Clerk ___________________________________

StoneRidge CFD Legal Counsel ________________________________

StoneRidge CFD Manager ________________________________

BOARD ACTION:

☐ Approved ☐ Denied ☐ Tabled/Deferred ☐ Assigned to ____________________