

**BROOKTRAILS TOWNSHIP COMMUNITY SERVICES DISTRICT
BOARD OF DIRECTORS
Tuesday, October 23, 2007**

The Board of Directors of Brooktrails Township Community Services District met in regular session on October 23, 2007 at 7:00 p.m. at the Brooktrails Community Center.

A. PLEDGE OF ALLEGIANCE

B. ROLL CALL

Roll call showed the following directors present: Williams, Ziady, Orth, Horrick and Skezas. Also present were General Manager Chapman and District Counsel Neary.

REPORT ON CLOSED SESSION

District Counsel Neary reported that the Board agreed to extend their contract with him for one year for legal representation, with an increase in rates, and completed his annual review.

C. ADDITIONS/ADJUSTMENTS TO THE AGENDA

D. MINUTES OF PREVIOUS MEETINGS

1. October 9, 2007. Director Orth moved to approve the minutes; Director Horrick seconded and the motion carried unanimously.

E. SPECIAL PRESENTATION

2. Westhoff, Cone & Homstedt – Mello-Roos funding, Ada Rose dam project. Mr. Chapman welcomed Mark Homstedt, David Fama from the attorney firm of Jones-Hall, as well as Supervisor John Pinches and Phil Dow from MCOG. Mr. Chapman said Mello-Roos was a potential financing mechanism for the Ada Rose and related projects. In parallel, we will have to discuss the second access road as part of the mitigation for the reservoir. Mr. Chapman had sent the firm a letter outlining our financial needs for all anticipated projects, including the Ada Rose project, second access road, sewer system, pipe infrastructure, and a potential buyout of lots beyond 4,000. President Skezas emphasized this was an informational meeting only, with no decisions being made tonight.

Mark Homstedt said his firm was a banking firm specializing in financing public infrastructure. He said, Mello-Roos financing might work, either in conjunction with General Fund financing which we already do, or in concert with loans or grants. Mello-Roos has been around about 25 years and has some unique aspects. Mello-Roos was specifically designed in the 1980s for public infrastructure due to the passage of Prop. 13 which eliminated avenues of funding for most communities. With a new development where people will benefit differently, it's much more difficult to work with assessment district financing. Mello-Roos was created for these situations, to give the ability to set up a "designer tax." It is not an assessment – there is not a lien directly on your property, but it goes on your property tax bill as an annual tax. Then when you go to finance your property, the lender does not see a \$20,000 lien like they would for an assessment district. Also, you can choose a tax structure that differs from one person to the next. Here, new people will benefit differently from water improvements than old people. Everybody will benefit to a certain level, but some greater than others. It is a voted tax. Most new Mello-Roos districts are set up by a developer, who sets up the system and improvements and then when people move in, they start paying the tax.

Mr. Homstedt said from his perspective of underwriting, after you get through the process, he was most interested in the creation of the tax and making sure that it is enough to support the improvements, and how much the tax is as a proportion of the total value of the home. Right now most of us have taxes in the 1% of assessed value range. With Mello-Roos, you look at not creating a total tax (including ad valorem and other taxes) greater than 2%. When taxes get higher than this, people start to have problems. Another issue to look at here is absorption. It's secure financing if there are people presently in their homes, willing to pay the tax, and the tax is a lot less than their property value. On the other hand, here we're looking at doing improvements to benefit people who have not yet been able to develop. The concern is what the value is of the lots. He felt once this financing was in place the moratorium should be lifted in a reasonable period of time, but the concern was how quickly the development does occur. If you have a lot of absentee people whom you expect to pay a lot of taxes, they may decide not to keep their property. He said everyone will get to vote on it.

Mr. Homstedt said Mr. Chapman's letter described a number of projects. The second access road was estimated at \$10-\$15 million; the County might pay half and Brooktrails might pay half. He noted that for \$10 million, you would have a \$12 million bond. The extra \$2 million represents about half for bond surety; you have to put the tax on the rolls; often by the time the tax gets on the rolls it can take up to a year before you get your cash flow, so they capitalize interest for a year to take care of that. This financing assumes you set aside one year's interest to take care of the first year. There's about 3% in there

to take care of costs: himself, the lawyers, engineers, etc. He assumed that the interest rate over 30 years was 6%; the average for financing like this today is 5-1/4 to 5-1/2, but this will not be done immediately. To pay back \$10 million over 30 years, it costs \$866,000.00 year (8.6% roughly of the amount raised). There are administrative fees on top of that, but they almost offset the carrying cost. That is what the tax would be per \$10 million. If you spread this evenly over 1,500 parcels, that would be a tax of \$580.00/year if you had improvements which only benefited the current 1,500 units. If 2,000 units could pay, and would pay evenly, it goes to \$534.00; on 4,000 parcels it's \$217.00. They looked up the assessed value within Brooktrails, about \$278 million with 1,500 homes. Per \$100,000.00 in assessed value, the tax is about \$300.00, so it's roughly 31 cents per \$100,000.00.

David Fama added that the vote requirement was by registered voters; the people voting would be those registered within the area boundary. It's a two-thirds majority, but it's two-thirds of ballots cast. Enforcement was through a property tax lien and payable in annual installments. It would take six months to prepare an election; there is a minimum 90-day requirement between calling and holding an election during which nothing basically happens. Mr. Chapman asked for more preciseness about the definition of the word "resident" for voting. Mr. Fama said it's not residents, it's registered voters. He wasn't sure how state law works if you have two homes. Mr. Chapman said the issue was reining in the 4,000 plus vacant lot owners. They will be the ones who will derive the main benefit of the dam by having water in which to further develop their lot, and will therefore pay for the lion's share of the tax. Mr. Fama said the law says it's by registered voters; it would be more motivation for the existing homeowners to vote yes if the vacant lots pay more. He mentioned a protest procedure which probably wouldn't apply. You have a public hearing before you call the election, and if there's a 50% written protest, you can't hold the election.

Director Williams asked what the matchup was between Prop. 218 and Mello-Ross, and did we still have to go through a Prop. 218 process or does the Mello-Ross eliminate this. Mr. Fama said, the latter, because you are getting voter approval, and Prop. 218 is meant to prevent creating taxes without voter approval.

Mrs. Chang, a lot owner living in Oakland, said they vote in Oakland. She said if this passed the empty lot owners would be paying more than the resident homeowners. Another lot owner voiced how was she supposed to protect her assets up here because the Board could vote something in and she would have to pay for it; she protested the idea of paying more. An audience member said he was concerned with the lot owners who are not represented because of the registration aspect. He asked how registered voters who are not landowners would be handled (renters); he didn't want someone voting this in for him to pay when they don't own property here. He said if we are looking to maintain and improve our community for those who are here, he was on board; if there's an aspect that we want to develop more, he wasn't. Mr. Naikang Chang asked about the priority of the projects, and said he might have to pay taxes but not have a voice. He voiced he did not trust the Board.

Third District Supervisor John Pinches said registration for voting has to be for your primary residence and the counties determine that. He said, you can actually not pay your property tax for five years and it goes to lien sale. Here, if you do not pay that Mello-Ross part on your tax bill, it's like a mortgage that can be foreclosed on in 90 days, and that's a big difference that he wanted to emphasize. Mr. Fama said it's not automatic; when bonds are issued this is specified.

Wallace Stahle said in the example of 1,500 homes spreading the tax evenly, he missed the multiple of how many millions would be involved here, just a ballpark. Mr. Chapman said the dam is estimated at \$25-30 million; the second access road between \$10 and \$16 million. Realistically we would do these projects in tandem for about \$40 million. He confirmed the estimates are looking at prices in five years. President Skezas said no engineering on the second access had been done and we won't know those numbers for some time.

Bob Whitney said he believed that in Prop. 218 elections the voters are property owners, and also it is a majority vote and not two-thirds. Director Orth said it is based on the dollar benefit to each lot as determined by an engineer; the more you benefit, the more your dollar share is. Director Williams voiced Prop. 218 is not a funding mechanism; it allows a process for doing it, but then you have to then figure out what your financing will be.

Mr. Neary asked if Prop. 218 and Mello-Ross could be combined because of the two projects being discussed, one would benefit vacant lot owners and the other, current residents. Mr. Fama confirmed that Prop. 218 does not fund but Mello-Ross creates a funding stream. Prop. 218 would allow selling of a revenue bond to fund a project. Revenue bonds have different characteristics than Mello-Ross. Yes, you can definitely combine the two, he said; you look at where the better credit is. Mello-Ross bonds sometimes are not rated; they are considered somewhat riskier than General Fund bonds, and they might be at 6% whereas an A-rated bond might be at 4%. You could take the pledge created by the Mello-Ross tax and add it to your revenue bond and sell it, or, as he has done more often, you sell a Mello-Ross bond, take a contribution of revenues from another source, like 218 revenues, and you can do it that way.

Mr. Whitney asked how government would fund a second access road when the majority of the road is outside the district. Mr. Chapman said that the County was the lead agency and once you go beyond district boundaries you have a LAFCO issue. Mr. Fama said Mello-Ross provides that you can

finance improvements that will be owned by other entities; 50% of what you raise must go toward district-owned facilities; the other 50% can go to outside entities provided there is an agreement.

Mr. Neary said there was yet another mechanism for financing and that was setting up a boulevard district. Mr. Fama said he really wasn't familiar with a boulevard district.

Director Williams said he was confused; after all this time of looking at a second access road, was the issue of who was going to pay what share still unresolved? Others responded yes. He responded to a previous speaker to say he would oppose any project here that led to a substantial expansion of residents in Brooktrails without the second access being done at the same time, and he would not agree to go from 3,000 to 5,000 residents without a second access road as it was already too dangerous. Director Orth said the state was working on blueprint planning and the expectation was that you would have to combine these projects to have sustainable community development. He felt Brooktrails would probably be one of the first to do this and our Specific Plan has already started that process.

Mrs. Chang asked how many residents now live in Brooktrails and have a house. President Skezas responded with 1,500 homes. Ms. Pohlson asked how many houses can be built. Director Orth said the Specific Plan downsized the expected development to about 4,000 of the 6,000 lots because many were undevelopable within current regulations. We can combine lots in the future and make them more developable. Mrs. Chang asked why she couldn't merge lots now and get a water connection that way. Mr. Chapman said Department of Health Services won't allow us to give out a connection until we find further water capacity beyond the 1,500 homes. Director Orth said we need both the Ada Rose and second access road projects to get out of the moratorium.

An audience member asked over what period of time these 2,500 extra lots would be developed. Mr. Chapman said whatever the market will bear. If you had the reservoir and road in place, it's not for the government to set how many units could be built in a year.

Bob Whitney asked what it would cost to merge the lots from 6,000 down to 4,000. Mr. Chapman said about \$18 million. This aspect would be approached at a future when the buildout approximated 4,000. For those beyond 4,000 you would want to consider a greenbelt lot buyout plan at that time. Mr. Whitney said the list included the buyout and he felt the cost for the lots that would not be served would have to be part of the overall project. Director Williams responded that there will have to be some mechanism where people will have a choice of building or selling, and the Mello-Roos mechanism could be used to finance that—if we're going to build capacity for 4,000 but we've got 5,600 or however many lots, can Mello-Roos be used for that. Mr. Fama said the Act does not specifically talk about buying out someone's lot; you'd most likely be talking about developing open space, parks, things like that, so it could be used that way. Director Orth said through the Specific Plan process we were merging lots and we are taking lots donated to the district; we have ways to set up a mechanism where, currently, if you have a District-owned lot beside your property you can buy that from the District at 50% of assessed value and merge it into your lot. So there were ways over this 60-year period so that the number of unbuilt lots at the end of this process is reduced to a minimum.

Director Williams asked how many lots that do have meters haven't been built on yet. Mr. Chapman said he would get back to him but it's probably less than ten. Ginger Pohlson, speaking to another audience member, said we have already paid for one dam. If you (vacant lot owner) receive more benefit for the new dam than I do, she said, you need to pony up for yours. She said it has been proven every single project that the first cost numbers you get doubled and tripled. She said no matter what kind of bond it is, if you're paying \$500.00 for each \$100,000.00 assessment, then your house is worth \$400,000 and that means that your tax or your bond obligation is \$2,000.00 a year until that is paid off. She asked if that was correct and Mr. Homstedt confirmed so.

Bob Whitney said the political reality, regardless of who votes, is that clearly there is more than a third that would vote against it. President Skezas and Mr. Chapman thanked the presenters and audience for coming.

Supervisor John Pinches took the podium and thanked the presenters. He concurred that the road issue had to be addressed as part of the project. He said it was a priority for the County. Now that the Willits Bypass final design was in place we could move forward with that, and he said he would do everything he can with his job to make sure there's a second access road. He announced a meeting Monday, November 5th, at MCOG relating to this. He complimented the District because we have a project and all we need is the money. He felt something would come forward from the state for financing. Director Orth said we have already put in for \$5 million of a bond available now. Mr. Chapman said we made a preapplication through Department of Health Services but \$5 million was the limit we can receive under Prop. 84, if we are lucky enough to get that.

Ginger Pohlson reviewed her experience as District Board member and Specific Plan Committee member. She said the Specific Plan from 1994 tells you what will happen at each growth-inducing step for SFRs. The Specific Plan says that after 3,400 SFRs degradation takes place, and it costs you just as much to expand as it does not to. So she asked how many SFRs is the new dam expansion going to serve? Mr. Chapman voiced approximately 2,500 more homes beyond the 1,500. So we're up to buildout, Ms. Pohlson said; Director Orth confirmed.

F. PUBLIC HEARINGS

None.

G. PUBLIC COMMENTS

None.

H. CONSENT CALENDAR

3. Review of Accounts Payable report and authorization to issue checks. Director Orth moved to approve payment of the outstanding invoices; Director Horrick seconded. Director Williams asked what a SCADA pack was; Mr. Chapman explained that is our radio telemetrics, which we are expanding on all our tanks. The motion carried unanimously.

I. ACTION AGENDA

4. Consideration of DOT Agreement No. 070056, Preparation of Feasibility Study, Brooktrails Second Access Road. Mr. Chapman thanked Phil Dow of MCOG for attending the meeting. We contributed \$15,000.00 last May to get this study going. Phil Dow reviewed the status of the process, which was to look at a feasibility study; the County advertised for a consultant but nothing was mentioned about price; now they are looking for additional money. MCOG agreed to move money from a lesser project over to this one in addition to their \$27,000.00. He said it was important to keep this project moving. He said about a year ago he put a traffic counter on Sherwood Road in the week of December 18–22, and got 8,261 vehicles per day. He said with a road that looks like that, he would be comfortable with 2,000–2,500 vehicles per day. He said by September 2008 we should have results to look at and a preferred alternative. Director Orth reviewed the activity since 1985. About 1992 we set aside \$15,000.00 for this road and waited for the opportunity to send it to the County, which we just did. Mr. Chapman requested a motion approving an additional funding of \$16,000.00 from the Mendocino County Dept. of Transportation to continue the second access road study under DOT Agreement No. 07056. Director Williams asked to add, "for a total of \$31,000." President Skezas said he would like to add, "contingent upon MCOG and the County coming up with their portion." Director Orth so moved; Director Williams seconded. Supervisor Pinches commented on the gap in this project for some years but said there is no reason to stop it now. He agreed that the County has built no new roads in 30 years. Roll call vote was as follows:

AYES: Directors: Williams, Ziady, Orth, Horrick, Skezas
NOES: Directors: None
ABSENT: Directors: None

5. Review of rate increase proposal, Solid Waste of Willits, and setting of public hearing. Mr. Chapman reviewed the proposed rate increase based on increased tipping charges and a COLA, a total of 2.63%, a typical increase of \$8.16 for a year. Jerry Ward, President of SWOW, said they wanted this increase to be effective January 1, not February 1, and thus were getting started on the process earlier this year. He said there have been no complaints; he wanted the Board to be aware of the recovery facility they are planning next to their current facility. They are doing a bond issue; he said they are working on this with Cone, Homstedt & Westhoff, the presenters at this meeting, and he recommended their work. Director Orth moved to set a public hearing for December 11, 2007 to consider a draft resolution approving rate increases for garbage collection effective January 1, 2008. Roll call vote was as follows:

AYES: Directors: Williams, Ziady, Orth, Horrick, Skezas
NOES: Directors: None
ABSENT: Directors: None

J. ADDITIONS TO FUTURE AGENDAS

Director Orth said he would present to the Board a proposal he has been working on, on getting a County Community Energy Authority formed that could, for example, let bonds to build our solar field and re-sell energy back to residents. Director Williams asked when the Ohl Grove rates would be considered. Mr. Chapman said he would try to have that at the next meeting.

K. SPECIAL REPORTS

From Directors: None.

From District Counsel: None.

From General Manager: Mr. Chapman reported he had sat down with State Senator Pat Wiggins at a recent seminar, along with Ross Walker, City Manager of Willits.

L. PUBLIC COMMENTS

Bob Houtz asked why Brooktrails doesn't have a mandatory solid waste contract for each household and said we should work on that.

M. ADJOURNMENT

Director Horrick moved to adjourn; President Skezas declared the meeting of October 23, 2007 closed at 8:50 p.m.

GEORGE SKEZAS, President

ATTEST:

MICHAEL V. CHAPMAN