

Memorandum
Office of Jenine Windeshausen
Treasurer-Tax Collector



To: The Honorable Board of Supervisors

From: Jenine Windeshausen, Treasurer-Tax Collector

Date: May 22, 2007

Subject: Dry Creek Community Facilities District Delinquencies
Placer Corporate Center Assessment District Delinquencies

Action Requested:

Direct staff to remove delinquent Dry Creek-West Placer Community Facilities District (the District) special assessments from the 2005/2006 property tax roll and commence foreclosure proceedings on parcels that have not paid delinquent special assessments by June 30, 2007. Currently, the delinquent parcels are 029-190-006-000, 029-140-006-000, 029-240-018-000, and 029-380-005-000. The property owners have up to the day of foreclosure sale to redeem a delinquent parcel, including special assessments and other fees and costs.

Background:

On December 4, 2001, the County issued \$20 million in community facilities district (Mello-Roos) bonds for the purpose of financing backbone infrastructure in the Morgan Creek subdivision. The infrastructure included roadways, drainage facilities, sewer and reclaimed water system, water main transmission lines, park land, fire protection equipment and costs related to the issuance of the bonds. Repayment of the bonds is dependant upon an annual levy and collection of special taxes on the property tax roll. There are a total of 902 parcels in the District which are subject to the special tax. Depending on lot size, the annual special tax on each parcel is either \$1,850 or \$2,260 which is payable on the property tax bill in two installments.

In approving and executing the bond, the County agreed to certain covenants for the protection of repayment to bond holders. Specifically, the Indenture and the Official Statement require the County "institute foreclosure proceedings (i) against all parcels that are delinquent in the payment of the Special Tax in that fiscal year by \$1,200 or more and (ii) against all parcels that are delinquent in the payment of the Special Tax in that fiscal year, if the County determines that the total amount collected in that fiscal year is less than 95% of the total amount of the Special Tax levied. The County has covenanted to diligently prosecute and pursue all foreclosure proceedings to judgment and sale."

The Tax Collector's Office identified eight parcels falling under the requirement to foreclose on parcels \$1,200 or more delinquent for the 2005/2006 property tax year. The Tax Collector's Office has researched the public record of these properties, made personal site visits and attempted to locate and contact the property owners. Additionally, in early April, the Tax Collector sent letters, via certified mail, to the property owners and the lenders advising them of the foreclosure requirements in the District. This effort has resulted in payment of the special taxes on four of the eight

parcels. The Tax Collector continues to work with the remaining property owners in an attempt to collect the special assessments and avoid foreclosure. The number of parcels delinquent was 50 last year at this time. Therefore, the number of delinquencies for the 2005/2006 property tax year has been reduced by 46, resulting in the remaining four parcels currently subject to foreclosure. We expect the July 1st deadline for additional penalties will induce a number of owners to pay the delinquent amounts prior to June 30th.

The Board should be aware there are currently 161 delinquent parcels for the 2006/2007 year in the District. These delinquencies represent a collection rate of less than 95%. If the District remains at a collection rate of less than 95%, as of December 1, 2007, all parcels that remain unpaid will be subject to foreclosure. Further, all parcels with a delinquency greater than \$1,200 will be subject to foreclosure as of December 1, 2007, regardless of the District's collection rate. Currently, there are 86 parcels with a delinquency amount greater than \$1,200.

Our research on the eight foreclosures anecdotally suggests that the Dry Creek-West Placer CFD parcels were absorbed in a market subject to some level of speculation and overzealous lending practices. For example, one home appears to have been purchased in May 2005 for \$816,000, with \$500 down and a 1st mortgage of \$570,850 and a 2nd mortgage of \$244,650. Another property appears to have been purchased in March 2005 for \$800,500 with \$262 down with a 1st mortgage in the amount of \$640,190 and a 2nd mortgage in the amount of \$200,000. Yet, another property appears to have been purchased in August of 2005 for \$727,000 with \$50 down with a 1st mortgage in the amount of \$581,560 and a 2nd mortgage in the amount of \$145,390. Also, none of the mortgage companies required an impound account for payment of property taxes. Further evidence of the market's characteristics at the time of absorption is indicated by the fact that other CFDs in Placer County have much higher rates of property taxation as a percentage of assessed value, yet they have lower delinquency rates. For your information, I have included as attachments a chart of delinquency rates in other recently formed CFDs within the County, a chart of tax rates as a percentage of assessed value for the same CFDs, and a chart on adjustable rate loan reset schedules nationwide.

The County also has bonds outstanding for the Placer Corporate Center Assessment District. This District has 32 parcels subject to the special assessment for repayment of the bonds. The special assessment amount varies from parcel to parcel depending on parcel size, location and other factors. Currently, this District has a delinquency rate over 18% which triggers the indenture covenant for foreclosure on all delinquent parcels. Nine parcels are subject to foreclosure if the special assessments are not paid by October 1, 2007.

Fiscal Impact:

The Dry Creek-West Placer CFD has a debt service payment of \$1,064,493.75 due in September 2007. There is currently \$1,018,287.82 in the Redemption Fund from which to make the debt service payment. The Reserve Fund balance is \$1,701,234.00, from

which \$46,205.93 would need to be taken if debt service payment had to be made today, given the current delinquencies. After September 2007 the next debt service payment is payable in March 2008, in the amount of \$545,606.25 (after the December 10, 2007 first installment of property taxes).

The Placer Corporate Center Assessment District has a debt service payment of \$149,540.00 due in September 2007. There is currently \$130,713.95 in the Redemption Fund from which to make the debt service payment. The Reserve Fund balance is \$280,524.92, from which \$18,826.05 would need to be taken if the debt service payment had to be made today, given the current delinquencies. After September 2007, the next debt service payment is payable in March 2008, in the amount of \$93,055.00 (after the December 10, 2007, first installment of property taxes).

Each Reserve Fund balance is enough to make one year of debt service payments (two payments). At this time, neither of these districts are threatened with default due to the current delinquencies; nor is there any impact to County finances from these delinquencies.

County Action Required:

As Trustee of the Dry Creek-West Placer Community Facilities District, on behalf of the bondholders, I am obligated to remind the County of its covenants with bondholders regarding foreclosure requirements on delinquent parcels which the County agreed to in the Indenture and which are documented in the Official Statement of the bonds.

Most respectfully submitted,



Jenine Windeshausen
Placer County Treasurer-Tax Collector

Attachments: Chart of CFD Delinquencies
Chart of CFD Tax Rates
Chart of Adjustable Rate Mortgage Resets

2006-07 Delinquent Bond Comparison (% of Dollars Delinquent)

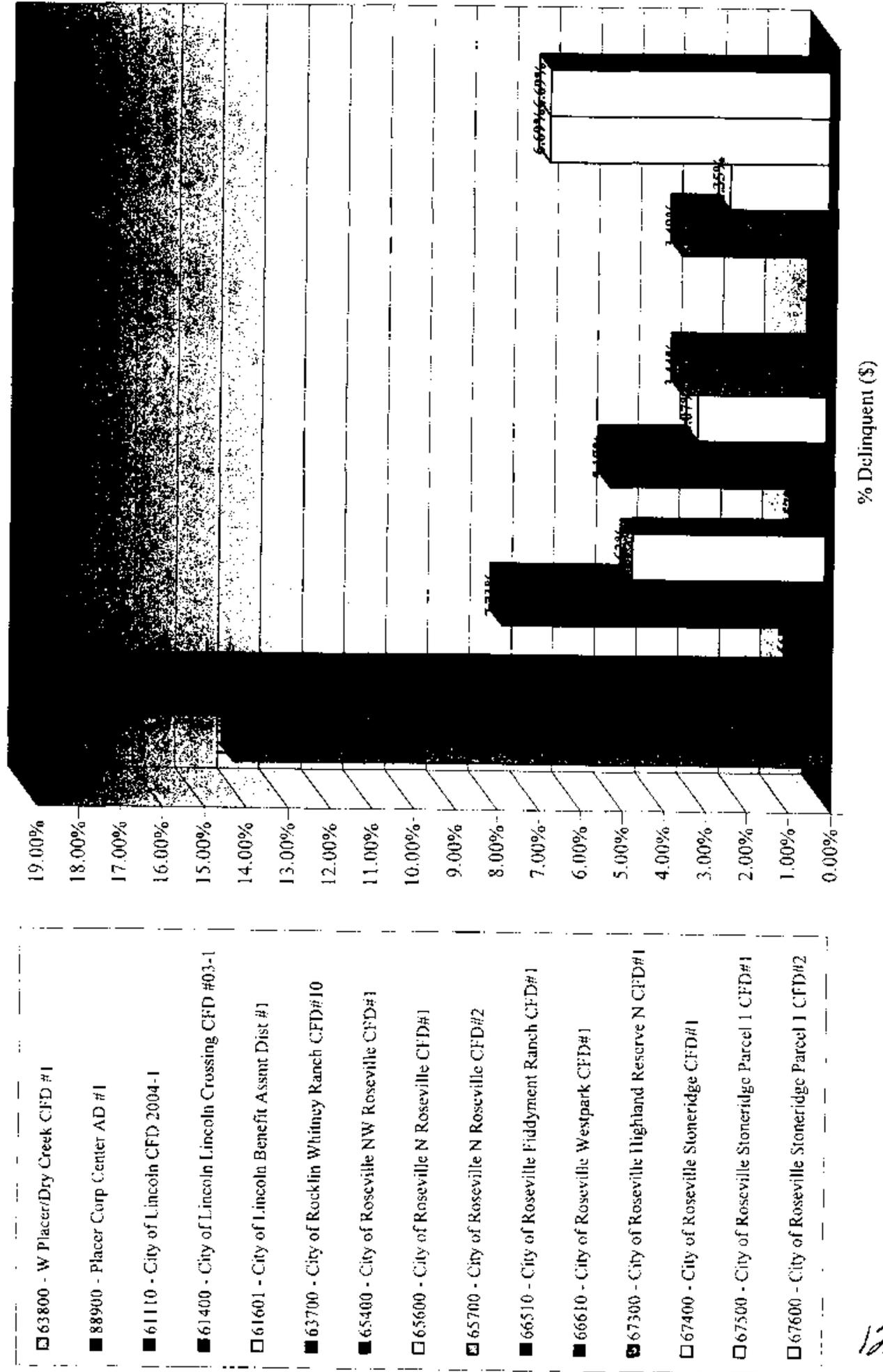
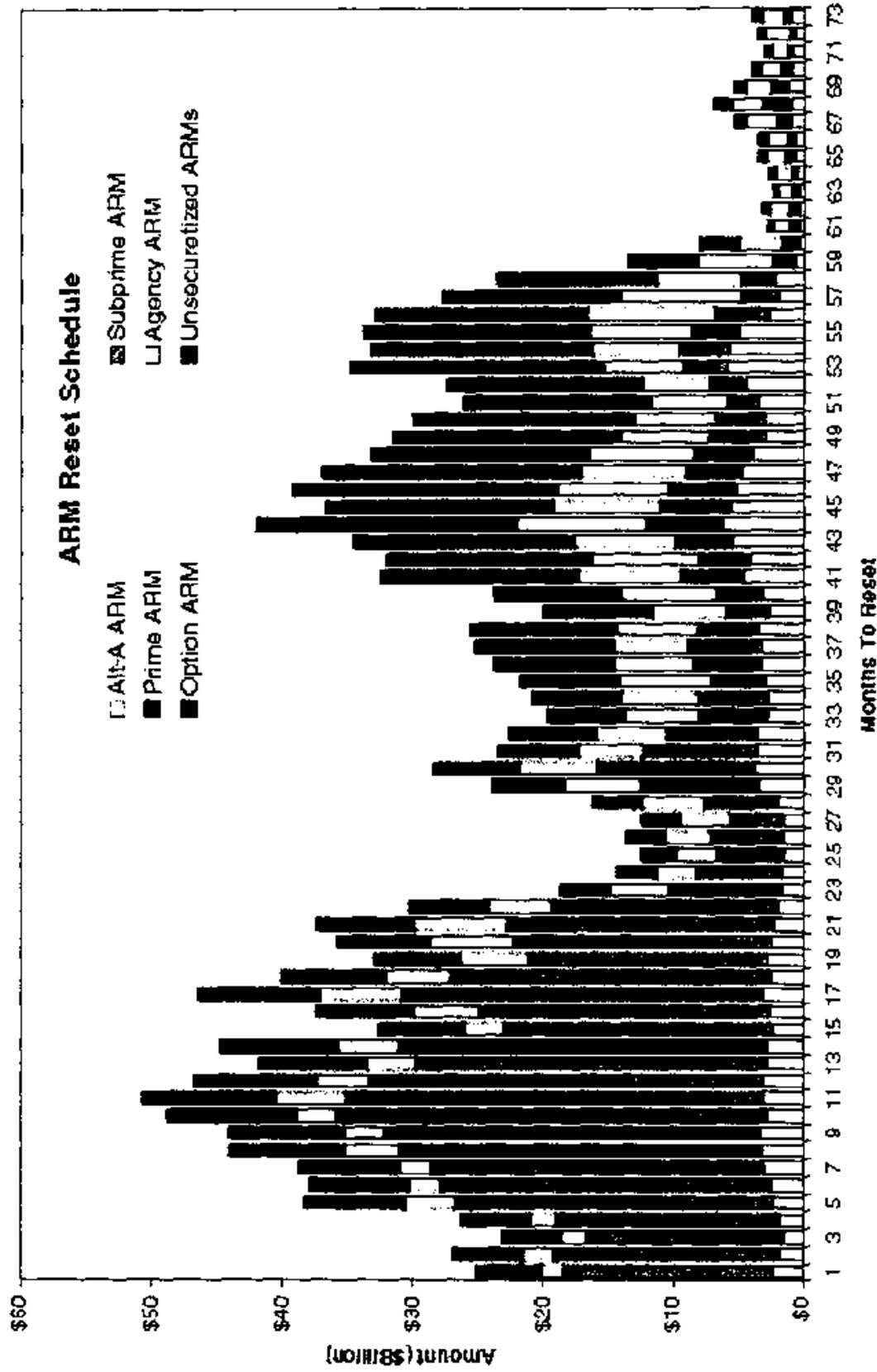


Exhibit 42: Adjustable Rate Mortgage Reset Schedule



Note: Data as of January 2007.