

The California State Auditor released the following report today:

City of Indio

Although the City Complied With the Mello-Roos Act in Forming and Managing Community Facilities District No. 2004-3, It Should Do More to Address Inequities

BACKGROUND

To develop areas to provide more housing and services to its approximately 82,000 residents, in July 2005 the city of Indio (city) formed a community facilities district, commonly known as Terra Lago, which consists of two improvement areas (Area 1 and Area 2). In order to finance development projects in Terra Lago, Area 1 issued \$26.3 million in bonds allowing the property developer to begin development. In 2008, after building only 83 percent of the planned houses in Area 1 and none in Area 2, the original property developer went bankrupt and the development halted. Area 1 property owners are subject to a special tax to repay the annual principal and interest payment on the bonds. Recently, a new developer began development in Area 2—as of October 2014, it has built 3.6 percent (or 31) of the 824 planned houses.

KEY FINDINGS

During our review of the city's use of these bond proceeds for Terra Lago, we noted the following:

- In forming Terra Lago, the city complied with state requirements—the Mello-Roos Community Facilities Act—that allow local governments to form community facilities districts to finance development by issuing a form of property tax-based bonds. It properly assigned and paid the district's development costs and responded to a residents' petition for tax relief.
- The city spent about \$3.7 million of Area 1 bond proceeds on water and sewer infrastructure that will primarily or solely benefit Area 2, which not only created an inequity but also violated a policy in Terra Lago's formation document that says special taxes will be based on the direct or indirect benefit each property will receive from district facilities.
- Although the city recently agreed to reduce Area 1 bond debt by about \$2 million, we estimate that about \$1.2 million remains that Area 2 should pay—the city currently has no mechanism in place to address this remaining inequity.

KEY RECOMMENDATIONS

We recommended that the city shift a share of the water facilities cost borne by Area 1 to Area 2 residents in proportion to the benefits Area 2 residents receive from the facilities. To do so, it should impose through its water authority a water fee on Area 2 residents and use the related revenues to reduce the bond debt of Area 1.