

MINUTES OF MEETING
DEER RUN
COMMUNITY DEVELOPMENT DISTRICT

The regular meeting of the Board of Supervisors of the Deer Run Community Development District was held Thursday, August 24, 2017 at 3:00 p.m. in the Government Services Building, 1769 E. Moody Boulevard, Bunnell, Florida.

Present and constituting a quorum were:

Robert Porter	Chairman (by phone)
Mark Dearing	Vice Chairman
Duane Owen	Assistant Secretary
James Teagle	Assistant Secretary
Jan Doan	Assistant Secretary (by phone)

Also present were:

Darrin Mossing	District Manager
Jason Showe	District Manager (by phone)
Sarah Warren	District Counsel
Rey Malave	District Engineer
Alan Scheerer	Field Operations
Camille Evans	Bond Counsel (by phone)
John Shultheis	Dewberry (by phone)
Brett Sealy	MBS Capital Markets
Darrin Mossing, Jr.	GMS

FIRST ORDER OF BUSINESS

Roll Call

Mr. Mossing called the meeting to order.

SECOND ORDER OF BUSINESS

Public Comment Period

There being none, the next item followed.

THIRD ORDER OF BUSINESS

Approval of the Minutes of the May 25, 2017 Meeting

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the minutes of the May 25, 2017 meeting were approved as presented.

FOURTH ORDER OF BUSINESS Public Hearing

A. Consideration of Resolution 2017-07 Adopting the Fiscal Year 2018 Budget and Relating to the Annual Appropriations

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the public hearing was opened.

Mr. Mossing stated item A is consideration of Resolution 2017-07 adopting the Fiscal Year 2018 budget and relating to the annual appropriations. That budget was included in your agenda package and is basically the same budget we utilized in the prior year.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor Resolution 2017-07 was approved.

B. Consideration of Resolution 2017-08 Imposing Special Assessments and Certifying an Assessment Roll

Mr. Mossing stated next is consideration of Resolution 2017-08 imposing special assessments and certifying an assessment roll. We have a mix of developed platted lots and undeveloped property and our recommendation is that platted lots be certified to the Flagler County tax collector for collection on the November 1, property tax bill. The balance of the property will be directly invoiced by the District with quarterly due dates of October 1, January 1, April 1 and July 1.

Ms. Warren stated any difference in the budget from what is collected by assessments will be deficit funded by the developer under a deficit funding agreement.

On MOTION by Mr. Teagle seconded by Mr. Dearing with all in favor Resolution 2017-08 was approved.

On MOTION by Mr. Teagle seconded by Mr. Dearing with all in favor the public hearing was closed.

FIFTH ORDER OF BUSINESS

Consideration of Deficit Funding Agreement

Mr. Mossing stated the next item is consideration of the deficit funding agreement and any expenditures above the budgeted expenditures or assessments collected would fall under this deficit funding agreement between the District and D.R. Horton.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the deficit funding agreement with D.R. Horton was approved in substantial form.

SIXTH ORDER OF BUSINESS

Ratification of Construction and Access Agreement

Ms. Warren stated this is an easement agreement between the District and the City. It allows the City to work within the easement area to install reuse water lines and other utilities.

On MOTION by Mr. Teagle seconded by Mr. Dearing with all in favor the construction and access agreement between the District and the City was ratified.

SEVENTH ORDER OF BUSINESS

**Review and Acceptance of Fiscal Year 2016 Audit Report
Presentation of JLAC Letter**

Mr. Mossing stated next is review and acceptance of the Fiscal Year 2016 audit report. The audit has been completed and as everyone knows there have been a lot of financial difficulties in the past and there are a couple of continuing negative comments in the audit towards the financial condition of the District. Management has responded to those and hopefully, by the end of this year all negative financial matters related to the District will be resolved and these comments will be removed from future annual audit reports and the District will be in good standing.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the Fiscal Year 2016 audit report was accepted.

Mr. Mossing stated the other part is the letter from the Joint Legislative Audit Committee letter that was enclosed in the agenda package for informational purposes. They are requiring responses to the financial condition of the District, which management provided.

EIGHTH ORDER OF BUSINESS

Financing Matters

A. Consideration of Engineer's Report

Mr. Malave stated we have a draft of the supplemental engineer's report and the reason for the report is for options we are trying to provide for in the development of the rest of the property. This report was done at the direction of the Board updating the status of the previous completed infrastructure, describing the additional cost of the new infrastructure that will be placed in future phases and describing the District's capital improvement program, which consists of the amenity center, updating of the costs, permitting status and describing the Series 2017 Project that will be funded with proceeds of the District's Series 2017 special assessment revenue and refunding bonds. We provide a description of the District, which is basically the same as it was previously. We did note there are 157 lots currently done and a golf course and related facilities that were previously approved. We describe the proposed rezoning of the property to obtain a higher density. We explained the current approvals with the City relating to the zoning. D.R. Horton is now the developer and their proposed program and Table 1B breaks down the number of lots existing and proposed for a total number of lots of 843. There is also a four-acre parcel of commercial to be located approximately at the intersection of Grand Reserve Parkway and S.R. 100 and the remainder will be golf course, clubhouse and about 60% of that property will be conservation area. There is a cost associated with the proposed improvements shown on Table 2A, the first column is Unit 1, which references everything that was done previously noting that almost \$7 million was used out of the bond series in 2008 for the previous infrastructure and the remainder was done by the developer at that time with new improvements in the approximate amount of \$21,870,000.

Ms. Warren asked in your professional experience the cost estimates in the report are reasonable and proper?

Mr. Malave responded yes.

Ms. Warren stated you are not aware of any reason that the District can't undertake that project?

Mr. Malave stated I do not see any.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the Engineer's Report was accepted.

B. Consideration of Assessment Methodology

Mr. Mossing stated next is consideration of the Assessment Methodology. GMS has prepared this report and we have taken the engineer's cost estimates and allocated those to the revised plan of development based upon the new development units that are going to be in place. We have allocated those on an ERU basis. The way the methodology and bonds are being structured is that under the 2039 term bonds those will be utilized to refund the existing 2008 bonds, those assessments that secure the 2008 bonds will be reallocated to secure the 2017 term bonds through 2039 and the District is issuing term bonds that mature in 2046 and those will be secured by new assessments that the District is levying to secure those 2046 bonds.

I will briefly go over some of the tables included in the methodology. Table 1 has the proposed development plan that shows the various product types. We separated the seven lots that have been sold, there are six 50-foot lots and one 75-foot lot that has been sold and we separated those out of the development plan along with the commercial and the golf course for a total of 859 planned units. Table 2 shows the two term bonds separated with the refunding bonds and new money bonds for a total of \$12,720,000 in assessment bonds that would be issued in order to refund the Series 2008 Bonds and also issue new money for the construction of the amenity center. Table 3 is the allocation of the benefit. We took the full \$33 million of the engineer's report and allocated it to the various product types. The refunding bonds were based on the ERU values that were in the original 2008 methodology. We separated the new assessments for the amenity center and basically determined that all the residential units would benefit equally from the amenities program. We basically combined the refunding with the new money to come up with a comparison of the total improvement costs for the planned issuance per unit. It is important to show the benefits that are allocated to the property are greater than the actual assessments that are issued and levied on those properties. Table 5 breaks down the annual per unit for the refunding bonds and for the new money bonds and we establish this for targeted assessment levels so that the existing seven lots that have already been built and assessments allocated, their annual assessments will remain the same as what they are currently

paying. The increases for them will be that they are going to have an additional seven years of assessments. If these bonds weren't issued their assessments would end in 2039 since we are issuing additional term bonds to construct a new facility their assessments are proposed to be extended for another seven years to 2046. Their annual amounts are planned to stay the same. There will be an increase in their par debt levels primarily for the issuance of those new bonds. The last item is the actual assessment roll that shows the allocation to all the properties, the ones that are developed and undeveloped properties.

Ms. Warren asked in your professional opinion it is correct that the special assessments are reasonably apportioned among the lands that will be subject to special assessments?

Mr. Mossing responded yes.

Ms. Warren asked I believe you confirmed that the special benefits that the lands will receive exceed the amount of the special assessments that would be levied on that property?

Mr. Mossing responded yes.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the Assessment Methodology was approved in substantial form.

C. Consideration of Resolution 2017-09 Declaring Special Assessments and Approval of Assessment Methodology

Mr. Mossing stated Resolution 2017-09 is in your agenda package and this resolution is the start of our assessment process to actually levy the assessments on the properties and ultimately issue the refunding and revenue bonds.

On MOTION by Mr. Teagle seconded by Mr. Dearing with all in favor Resolution 2017-09 was approved.

D. Consideration of Resolution 2017-10 Setting Public Hearing for Special Assessments

Mr. Mossing stated next is Resolution 2017-10, which sets the public hearing for levying the assessments. The District Manager is recommending the date for the public hearing to be October 12th at 3:00 p.m. in this location. There is a 30-day mailed notice requirement for the public hearing and the notice to the individual property owners for these issuances that are going

to be somewhat more complicated than our typical 30-day notice. We are looking for a little more time to prepare that notice and get that in the mail.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor Resolution 2017-10 was approved.

E. Consideration of Resolution 2017-11 Bond Delegation

Ms. Evans stated Resolution 2017-11 authorizes the issuance of not to exceed \$13 million special assessment revenue and refunding bonds. The purpose of these bonds will be to refund the outstanding special assessment series 2008 bonds and to provide funding for some additional capital projects that were described in the engineer’s report, which this resolution refers to as the Series 2017 Project. These bonds will be issued under a second supplemental trust indenture, which is a supplemental indenture to the master indenture initially entered into by the District with the trustee. These bonds will be issued for the purpose of refunding the 2008 bonds and provide funding for the Series 2017 Project and would be secured by a Series 2017 Assessment, which are the assessments described in the supplemental assessment methodology you just reviewed and approved. In section 7 (ii) of the resolution you find the parameters for the Series 2017 bonds, in an amount not to exceed \$13 million, issue price of not less than 98% and the final maturity of the bonds shall be no later than May 1, 2048. Attached as Exhibit A to the resolution is the form of the second supplemental trust indenture, which is a document that is between the District and the trustee and will provide all the details of the bonds and maturities and Exhibit B is the form of the purchase contract, which is the agreement between the District and MBS Capital Markets to purchase and sell the bonds to MBS then subsequently to the open market. A form of the preliminary limited offering memorandum, which is the offering document that describes the District, the development, the project and all the details of the security for the bonds then the continuing disclosure agreement, which is an agreement by the District to provide annual updates of financial information as well as pertinent events. The authority provided in this resolution allows the District to work with MBS and the other professionals and Hopping Green & Sams to go forward and finalize the preliminary limited offering memorandum and present that to the market for purpose of getting to a sale and subsequently once that pricing is done, the final details of the amount of the assessments will then be tied to the debt service on the bonds authorized under this resolution.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor Resolution 2017-11 was approved.

G. Consideration of Settlement Agreement

Ms. Warren stated this is an agreement between the District, the trustee and D.R. Horton and this agreement provides for the trustee at the direction of the owners of the Series 2008 Bonds to tender those bonds and to cancel the Series 2008 assessments for the purpose of refunding all the series 2008 bonds and provides for the issuance of the Series 2017 special assessment revenue and refunding bonds. We would ask that the Board approve this agreement in substantial form at this point as it is still under review by the various parties to the agreement.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the settlement agreement was approved in substantial form.

F. Consideration of Acquisition Agreement

Ms. Warren stated there will actually be two forms of acquisition agreements that are substantially the same in terms but the first will relate to acquisition of the Series 2017 Project specifically it provides for the District to acquire the infrastructure and to reimburse the developer for the cost of that infrastructure. It also provides when that is done the developer will provide documentation of costs paid and certain warranties and releases. We would first ask the Board to approve that agreement in substantial form and then the second acquisition agreement will be related to the entire capital improvement plans. There may be some infrastructure that is completed not using proceeds from the Series 2017 bonds but that still needs to be conveyed to the District for ultimate ownership and maintenance responsibilities and that agreement will provide for the same process and documentation, warranties and things of that nature. We ask that the Board approve both of those agreements in substantial form.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the acquisition agreement relating to the Series 2017 Project and the acquisition agreement relating to the entire Capital Improvement Plan were approved in substantial form.

H. Consideration of Completion Agreement

Ms. Warren stated next is the completion agreement. This agreement basically provides that to the extent there is infrastructure remaining in the series 2017 project that cannot be paid for from the proceeds from the series 2017 bonds that the developer agrees to complete those infrastructure improvements. This is another agreement that we would ask that you approve in substantial form.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the completion agreement was approved in substantial form.

I. Consideration of Collateral Assignment Agreement

Ms. Warren stated next is the collateral assignment agreement and this provides that in the event there was a default in the payment of the assessments for the Series 2017 bonds and the District needed to foreclose on the property owned by the developer that the developer agrees to assign all of the related development rights to the District so that the District could then complete the project. Again, we ask the Board to approve that in substantial form.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the collateral assignment agreement was approved in substantial form.

J. Consideration of True-Up Agreement

Ms. Warren stated the last agreement is the true-up agreement. There is a maximum assessment amount that can be allocated to each parcel and in the event the property is re-platted and there is a change in the unit count that would cause the assessments to exceed that maximum amount on the parcel the developer would be required to make a true-up payment to the District in order to keep the assessment levels at the appropriate place. We would ask the Board to approve that in substantial form.

On MOTION by Mr. Teagle seconded by Mr. Dearing with all in favor the true-up agreement was approved in substantial form.

NINTH ORDER OF BUSINESS

Staff Reports

A. Attorney

There being none, the next item followed.

B. Engineer

There being none, the next item followed.

C. Manager

1. Approval of Check Register

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the check register was approved.

2. Balance Sheet and Income Statement

A copy of the balance sheet and income statement was included in the agenda package.

3. Field Manager's Report

i. Discussion of Landscape Proposal

Mr. Scheerer stated included in your agenda package is an exhibit from Yellowstone Landscape Co. As you know for the past several years the District has been operating under a minimal maintenance schedule, basically seven cuts a year on Bahia and 13 cuts a year on St. Augustine as well as six irrigation inspections and one or two applications of fungicides, herbicides and fertilization. Due to the increased development of the community and D.R. Horton's commitment to improving the entryways and the community itself it was requested that we go back to Yellowstone and ask them to provide us with an addendum to their contract, which would definitely increase the level of service we are currently getting in the community. As you can see we went from seven Bahia mowing's to 24, 13 St. Augustine to 32, 24 detailings, which is really good we had six before and monthly irrigation inspections.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the landscape proposal from Yellowstone for the increased level of service in the amount of \$68,888.60 was approved.

Mr. Scheerer stated also we handed out a proposal from Applied Aquatic. The District owns many stormwater ponds throughout the community and in the budget, we currently have \$17,000 allocated for lake and pond maintenance. The only pond currently being maintained by Applied Aquatic is the pond on U.S. 1 where the water feature is. There is a cost share agreement that was approved by both the golf course and the CDD a while back also included in there is the breakdown of the pond numbers and the shared cost based on the monthly spray from Applied Aquatic and there is also an initial cleanup cost because as you know the ponds are in bad shape there are a lot of cattails, torpedo grass and other invasives that need to be sprayed. Understand this is not a spray and grub out the biomass, this would just to be to start the process of getting these ponds and lakes cleaned up. If this is something you want to review and come back at the next meeting we can discuss or if you want a la carte, the contractor is willing to pick and choose if there are certain ponds you don't want to do but we recommend doing all the ponds. This doesn't include cleaning up the lake banks this is just the water itself and getting the stormwater system back in shape. We are working with Yellowstone to try to get some proposals to clean up some of the bank slopes and I know there was some discussion about the golf course doing their side, the CDD doing our side or maybe the developer as they are cleaning up lots cleaning up the lake banks behind some of the homes. We can do it either way and at the next meeting I will have some follow-up discussion items on the pond slope cleanup for the CDD portion for all the lakes the CDD maintains. The total cost is \$15,450 annually but as you can see by the breakdown some of that would be recouped from the golf course under the cost share agreement.

Mr. Teagle stated the ponds need to be taken care of.

Mr. Scheerer stated we will change the effective date on this because this is effective October 1 to go with the new fiscal year but I will have the aquatics vendor change it to this month.

Ms. Warren stated we will put it in the standard form agreement.

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the proposal from Applied Aquatic to commence September 1, 2017 was approved and District Counsel was authorized to prepare the District's standard form agreement.

Mr. Scheerer stated we have had some emails on the pump station and I sent Mr. Malave’s team all the information we had on the repairs that we made year to date. I do have a little bad news, I did meet with Yellowstone today there is a pressure loss issue, Barney’s is scheduled to be there tomorrow they think it is just a pressure switch, it is not keeping the system energized at all times so we hope to have that looked at first thing tomorrow. I did get with Yellowstone on any capacity information, we know there are two 50 hp pumps, 5 hp submersible but they don’t have any of the technical information because when they started the installation of all the irrigation system here they were on a potable meter. At some point down the road someone came in and put two pump stations in and switched it over but Yellowstone has no information on that to date.

Mr. Malave stated we are going through our historic files to see if they can pull those things out and find the documents on the pump station.

4. Approval of Fiscal Year 2018 Meeting Schedule

Mr. Mossing stated the proposed meeting schedule was enclosed in the agenda package. The date on the notice is 1:00 p.m. but that will be changed to 3:00 p.m.

On MOTION by Mr. Teagle seconded by Mr. Dearing with all in favor the Fiscal Year 2018 meeting was approved as amended as follows: meetings to be held at 3:00 p.m. in the same location on November 16, 2017, January 25, 2018, May 24, 2018 and August 23, 2018.

TENTH ORDER OF BUSINESS

Other Business

Ms. Warren stated in order to keep the process with the refunding moving we would ask if the Board will authorize the District Engineer and District Manager to prepare supplemental reports as necessary.


On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the Engineer and District Manager were authorized to prepare supplemental reports as necessary for the issuance of bonds.

ELEVENTH ORDER OF BUSINESS

Supervisor’s Requests

There being none,

On MOTION by Mr. Dearing seconded by Mr. Teagle with all in favor the meeting adjourned at 3:42 p.m.


Secretary/Assistant Secretary


Chairman/Vice Chairman