

# SESSION TWO

---

## Pre-formation Considerations

# Local Goals & Policies

- Legal requirement for CFDs
- Good idea for ADs
- Important to provide guidance, consistency, and assurances
- Not the place to cover all deal points



# Key Issues to Cover in the Policies

- Priority & eligibility of facilities and services
- Disclosure to:
  - Homebuyers
  - Bond investors
  - Financial markets
- Total effective tax rate
- Escalation of special tax
- Appraisal criteria
- Application process
- Credit quality requirements

# Preparing for District Formation

- **Internal Organization**

- Which departments will be involved?
- Who is the primary contact person?
- How will policy issues be vetted?
- Is the team aware of all existing agreements and entitlements?
- Are there any political issues related to the developer or the development?
- Does the issuer already have established goals and policies for land-secured districts?

# City Staff Team Members

- Who will be responsible at city for CFD formation and bond issuance?
  - City manager's office
  - Finance
  - Public works
  - Community development
- CFDs involve some aspect from all of the departments above
- Important to decide early on who will be lead and be on the internal team

# Selecting the Consultant Team

- Public agency should choose a team
- Municipal advisor can assist
- RFP process/consultant pool
- Community facilities district or assessment district experience is key

# Roles of Consultants

## **Bond counsel**

- Legal guidance and opinion; formation documents

## **Municipal advisor**

- Guidance & market knowledge
- Fiduciary obligation to public agency

## **Special tax consultant**

- Cash flow analysis, tax formula, boundary map, CFD report

## **Assessment engineer**

- Benefit finding & engineer's report

## **Underwriter**

- Although not needed until bond issuance, usually part of formation team

# Consultant Roles (cont.)

## **Market consultant**

- Price point analysis
- Absorption study
- Mortgage study/report

## **Appraiser**

- Determines value of properties to be assessed/taxed

## **Developer and its counsel and consultants**

- Provide the required information about the developer, the project, and the financing proposal



# Important Considerations in Assembling a Team

- Good communication among team members
- How to best facilitate meetings and calls
- Involve legal counsel to protect agency
- Understand structure and associated workload

# Documentation of Deal Points

- Development agreement or disposition and development agreement
- Financing plan/implementation document
- Term sheet negotiated between parties to inform:
  - Acquisition agreement
  - Rate and method of apportionment (RMA)
  - Bond indenture/fiscal agent agreement

# Comprehensive Funding Strategy

- Is there an adopted financing plan?
- Is the CFD/AD to act in conjunction with other mechanisms?
  - Infrastructure financing district (IFD)
  - Impact fee program
- How does funding of public services fit in?
- What is the timing of required infrastructure and services?

# Coordination with Affected Agencies

- Factor in existing or proposed financing districts
- Consider approved but unissued general obligation bonds
- Joint community facilities agreements (JCFA)
- Joint powers agencies

# Developer vs. Issuer Initiated Process

## Developer initiated process

- Most common circumstance
- Property owners may file petition to initiate CFD
- Developer provides a deposit for non-contingent costs

## Issuer initiated process

- Sometimes used for large, broad districts for a tax spread not tied to ad valorem
  - i.e. Santa Cruz countywide CFD for libraries, Altadena Library District CFD

# Choice of Issuer

**Typically, city, county, school district or special district**

- At least 51% of bond-funded projects must be owned by sponsoring public agency

**Alternatively, may be a financing authority**

- Local agency (i.e. River Islands or Tejon Ranch)
- Conduit issuer (i.e. CSCDA, CMFA)

⇒ *Governance and marketing effectiveness vary for each*

# Understanding Developer's Plan

- **Application from Developer(s)**
  - Project information: land uses, timing, and values
  - Land ownership information
  - Financial information
  - Deposit
- **Financing District Proposal**
  - Special tax categories and rates
  - Improvement areas/future annexation areas
  - PayGo, extended term, and transition
  - Facilities and services to be funded
  - Number and timing of bond issues