

SESSION THREE

District Formation: Considerations, Strategies, and Process

Core Documents Needed for Formation

1. Boundary map
2. Rate and method of apportionment of special tax (RMA)
3. Eligible facilities and services
4. Acquisition agreement
5. Joint community facilities agreements



Formation Considerations: CFD Boundaries

- Can be tailored to areas of political support or development phase
- Can be non-contiguous
- Only property within the CFD and subject to the special tax is included within property valuation for value-to-lien calculation
- Size of initial boundaries is evaluated from a credit perspective and from the developer's perspective to provide flexibility and control

Formation Considerations: Structure of District

- **Separate CFDS? Improvement areas? Tax zones?**
 - How similar are phases of the project?
 - What is the likelihood that the development plan or product mix may change?
- **How many landowners are involved in the project?**
 - Cross-collateralization
 - Facility oversizing and reimbursement
- **Are there other properties that may be added to the CFD in the future?**

Improvement Areas (IAs)

- Separate geographic areas within one facilities CFD
- Separate RMA for each improvement area
- Separate bond issues for each improvement area (usually)
- Changes within an IA require vote of electors only within IA
- IAs can be established at CFD formation or added upon annexation into CFD
- Provides for “bite-sized” pieces of a project and flexibility to make changes in future phases

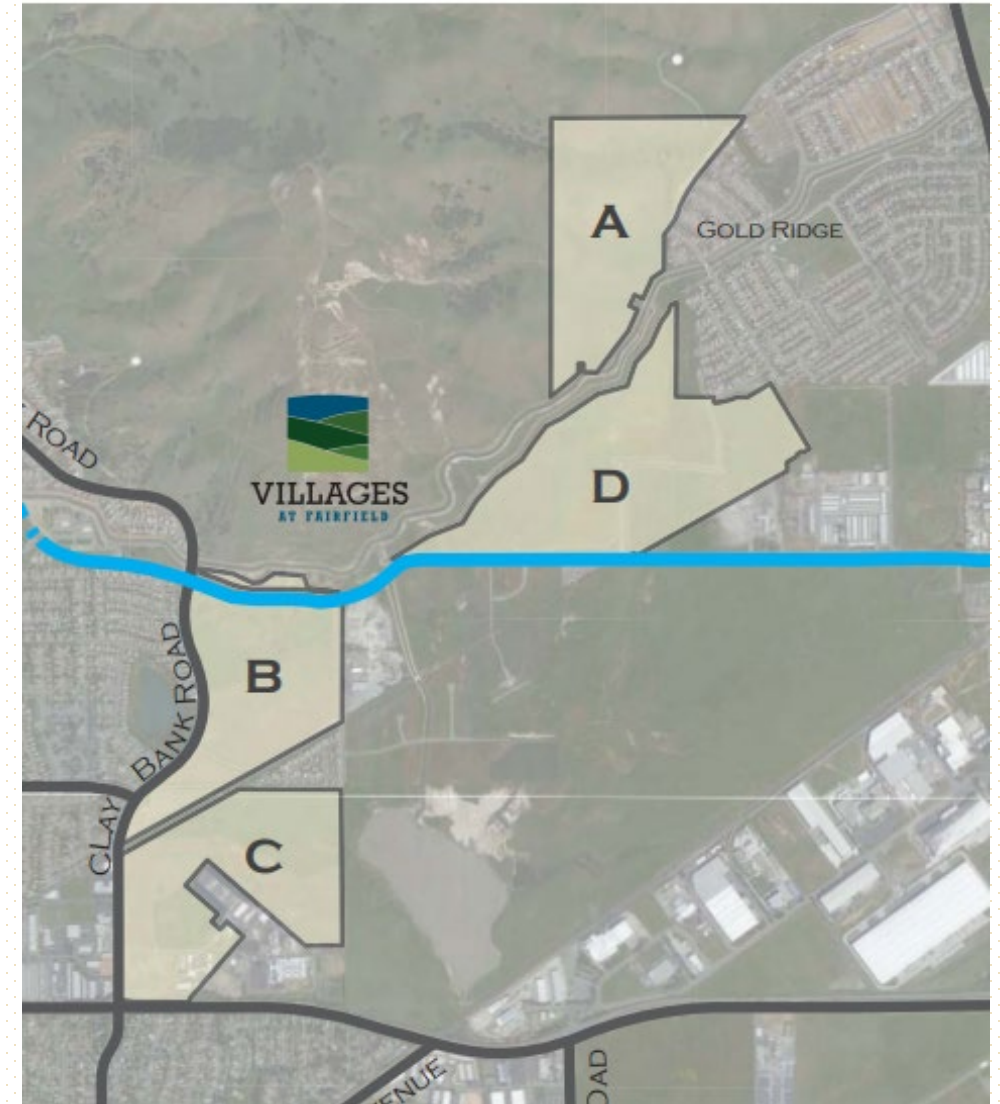
Future Annexation Area

- One or more parcels in initial CFD boundaries
- Any property that might join the CFD in the future is designated as future annexation area in CFD boundary map
- “Election” is a signature on a “unanimous approval form”
 - May include maximum tax rates different than those in other areas of CFD
 - Each annexation could have a different maximum tax rate if warranted
- For services CFDs, no meetings of legislative body are required for annexation
- Low cost, accelerated annexation procedure

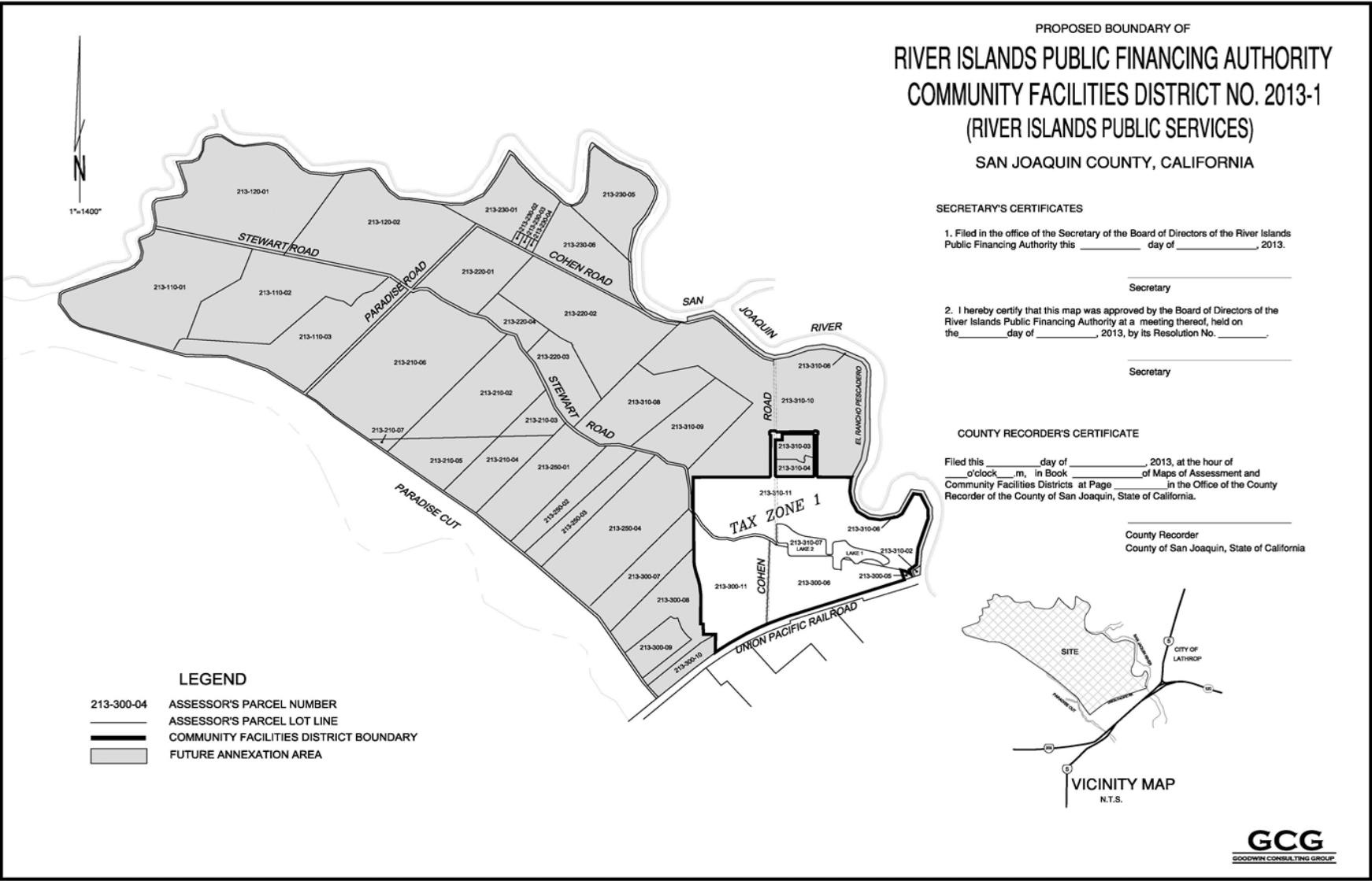
Improvement Areas for Each Project Phase

City of Fairfield CFD No. 2016-1 (Villages of Fairfield)

- One CFD
- Distinct improvement areas (IAs) by project phase
- 3 IAs annexed to date
- 3 separate securities
- One “brand” in market



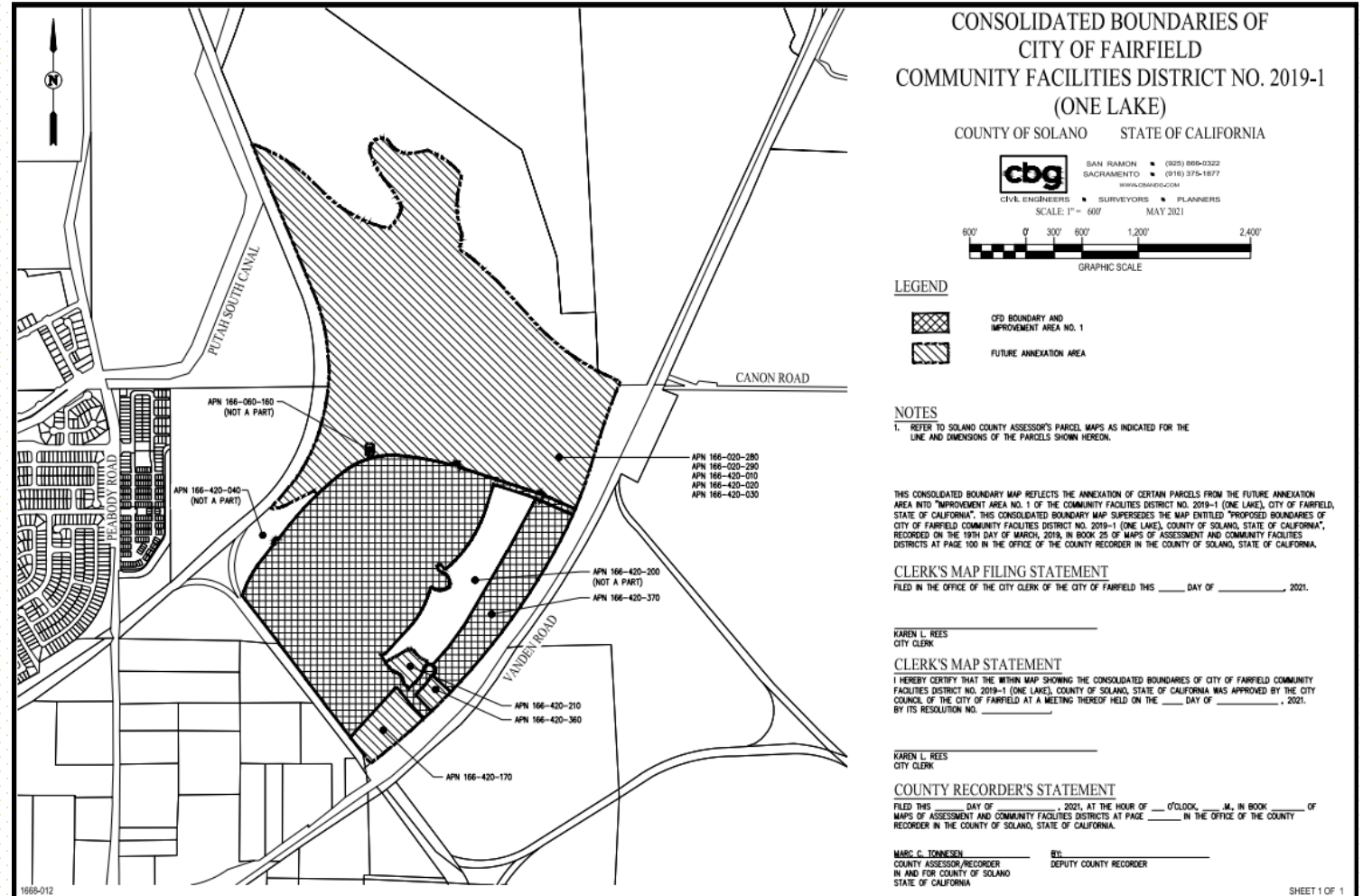
CFD with Future Annexation Area



Flexibility to Annex - or Not

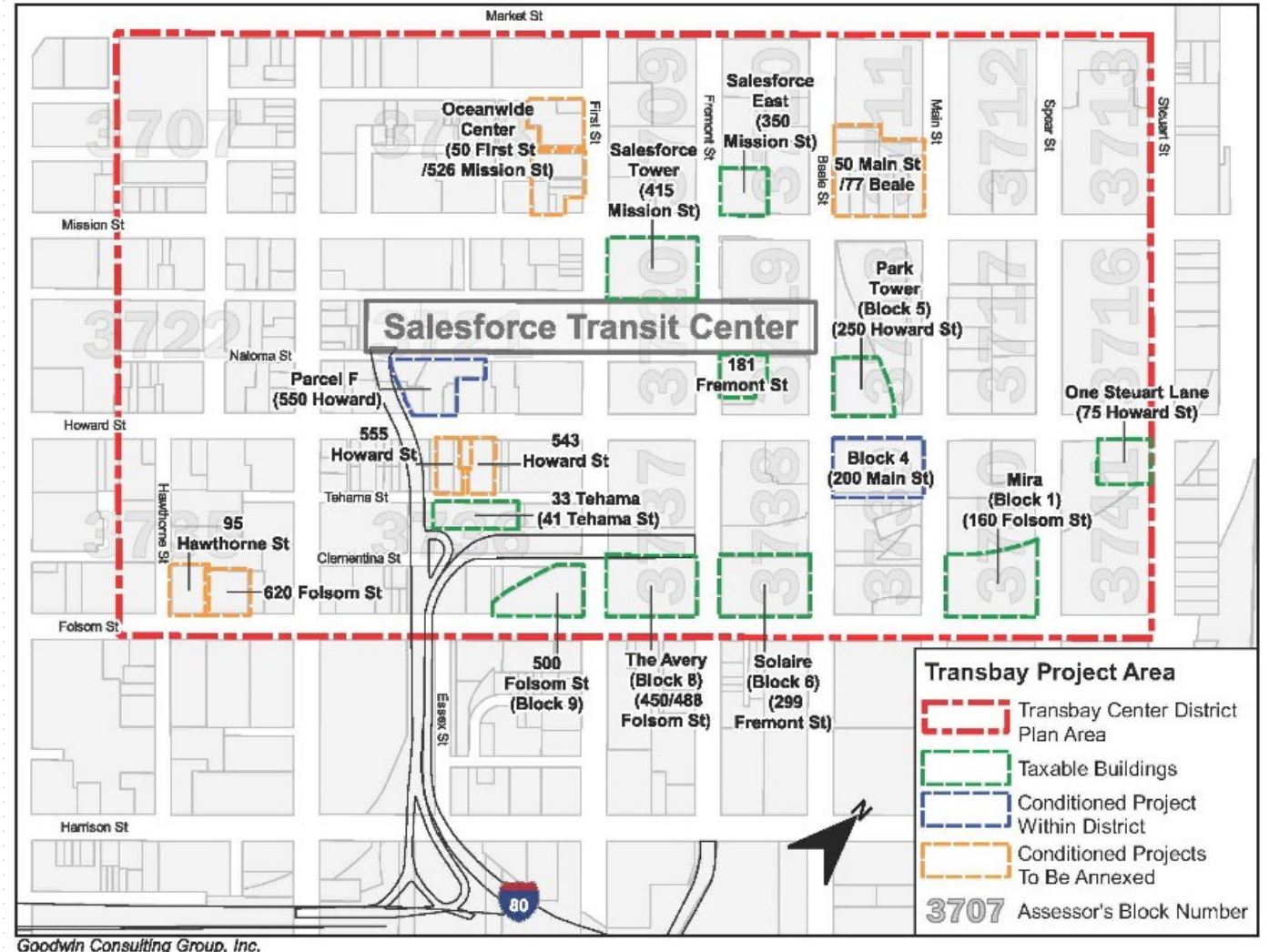
City of Fairfield CFD No. 2019-1 (One Lake)

- Phase 1 in IA No. 1
- Phase 2 In future annexation area
- Subsequent decision to create a separate CFD for phase 2



Non-Contiguous CFD and Future Annexation Area

- Non-contiguous parcels
- Future annexation area overlaps up-zoned land use planning area
- Additional annexations from into the CFD on a *parcel* basis



Mix of Separate Districts and Improvement Areas

Irvine's Great Park

- Former Marine Corps Air Station closed in 1999

Development plans

- 10,500+ residential units
- 4.8 million sq. ft. of commercial, retail, industrial, and R&D space

Two large CFDs

- 18 improvement areas formed to date
- Future annexation area

Community Facilities District No. 2013-3(B)

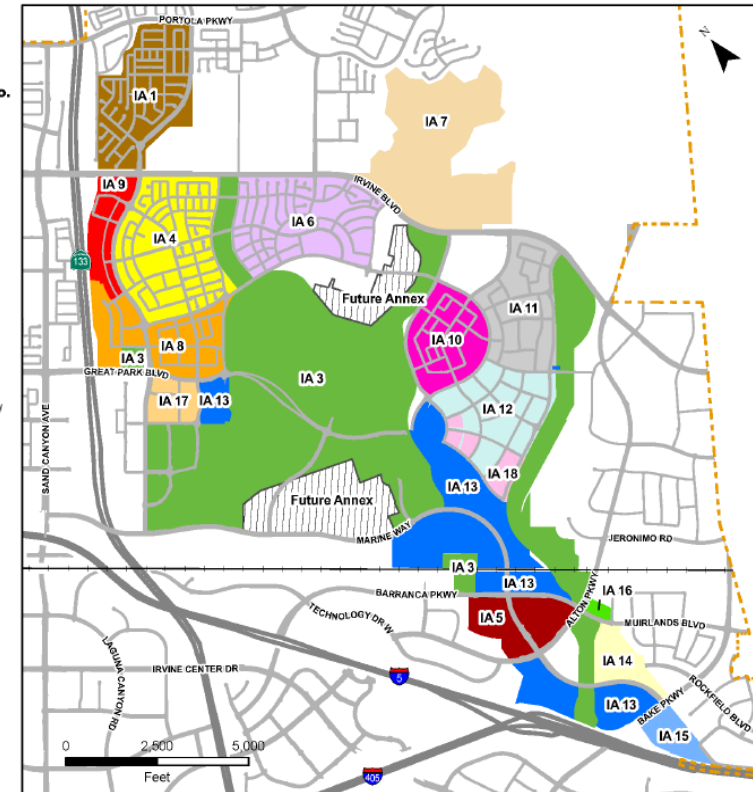
CFD 2013-3(B) includes Improvement Areas Nos. 12, 13 and 14 and proposed Improvement Areas Nos. 15, 16, 17 and 18

CITY of IRVINE Community Facilities District No. 2013-3 (Great Park) Improvement Areas 1-11 2013-3B (Great Park) Improvement Areas 12-18 & Future Annexation

- City Boundary
- Future Annex
- Improvement Area 1 (Pavilion Park) Dist 8
- Improvement Area 3 (GP)
- Improvement Area 4 (Beacon Park) Dist 1
- Improvement Area 5 (Broadcom) Dist 3
- Improvement Area 6 (Cadence Park) Dist 4
- Improvement Area 7 (Allair) Dist 7
- Improvement Area 8 (Parasol Park) Dist 1 S
- Improvement Area 9 (Novel Park) Dist 1 NW
- Improvement Area 10 (Rise Park)
- Improvement Area 11 (Solis Park)
- Improvement Area 12
- Improvement Area 13
- Improvement Area 14
- Improvement Area 15
- Improvement Area 16
- Improvement Area 17
- Improvement Area 18
- Railroad
- Streets
- Freeways



Updated: 02/24/2023
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Formation Considerations: Special Tax Structure

- **Categories and maximum tax rates**
 - Market rate vs. affordable units
 - Square footage of lots vs. square footage of units
- **Term, transition, escalators**
- **PayGo**
- **Backup special tax mechanism**
- **Prepayment options**

Services Special Tax

- Annual stream of revenues to fund public services
- Usually levied in perpetuity
- No legal limit on annual escalation
- Often implemented to mitigate fiscal deficits projected in a fiscal impact analysis
- Include component for CFD administration costs
- Reduces capacity to fund public infrastructure

Allocating Tax Capacity

- Services special tax vs. facilities special tax
- Sharing tax capacity among multiple public agencies
- Timing of funding needs
 - Facility, services, maintenance needs, now and in the future
 - Timing of funding needs for each public agency
- All-in Tax Burden
 - Up to 2% of estimated home value for residential property
 - “Reasonable” rates for commercial uses
 - Includes 1% base property tax rate, plus any GO overrides, services tax, other special taxes, and assessments

Developers' Objectives for Financing

- Maximize net construction proceeds for infrastructure
 - Two percent (2%) special tax escalator
 - Limit special tax for services
 - PayGo, extended term
- Minimize burden on undeveloped property
 - Capitalized interest
 - Phasing of bond sales
 - Maximum levy on developed property
- Limit future discretionary actions that affect funding capacity
- Flexibility for changes in land use, infrastructure plans, and maximum special tax rates

Illustrative All-In Tax Burden

Estimated Home Price

Homeowners Exemption

Estimated Assessed Value

\$ 600,000

\$ 1,200,000

(7,000)

(7,000)

\$ 593,000

\$ 1,193,000

Ad Valorem Property Taxes

Base 1% Property Tax

\$ 5,930

\$ 11,930

City GO

120

240

Local School District GO

180

360

Regional Community College District GO

90

180

\$ 6,320

\$ 12,710

Direct Charges

Proposed CFD Facilities Tax

\$ 3,000

\$ 6,000

Proposed CFD Services Tax

600

1,200

Local School District CFD

500

1,000

Lighting & Landscaping District

90

180

Library Service Tax

50

50

\$ 4,240

\$ 8,430

Total Ad Valorem and Direct Charges

\$ 10,560

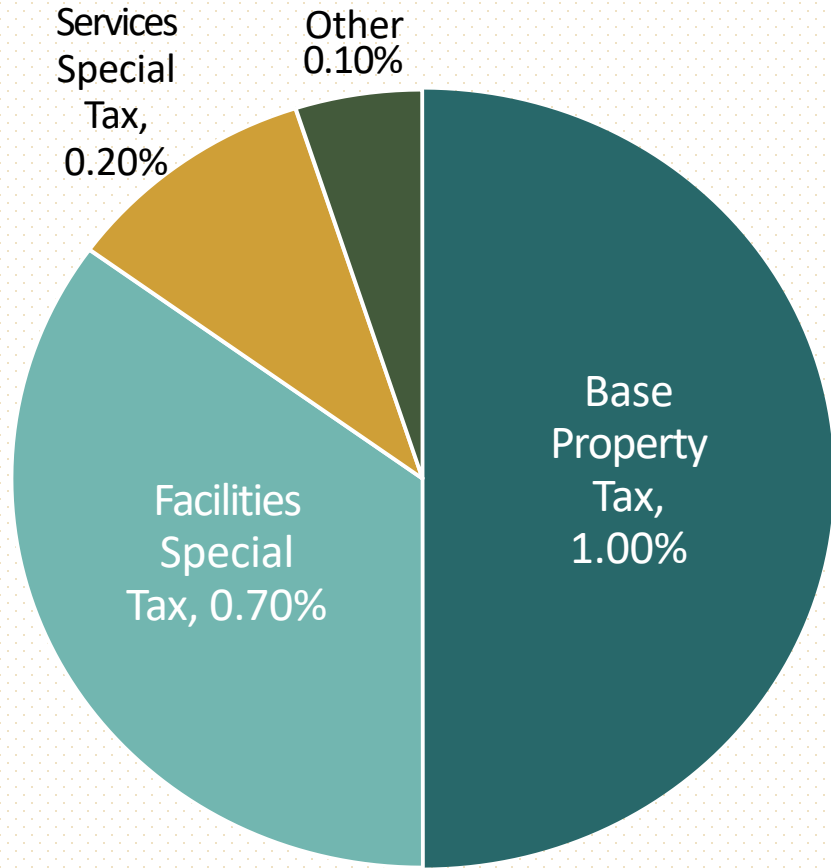
\$ 21,140

Overall Tax Burden

1.76%

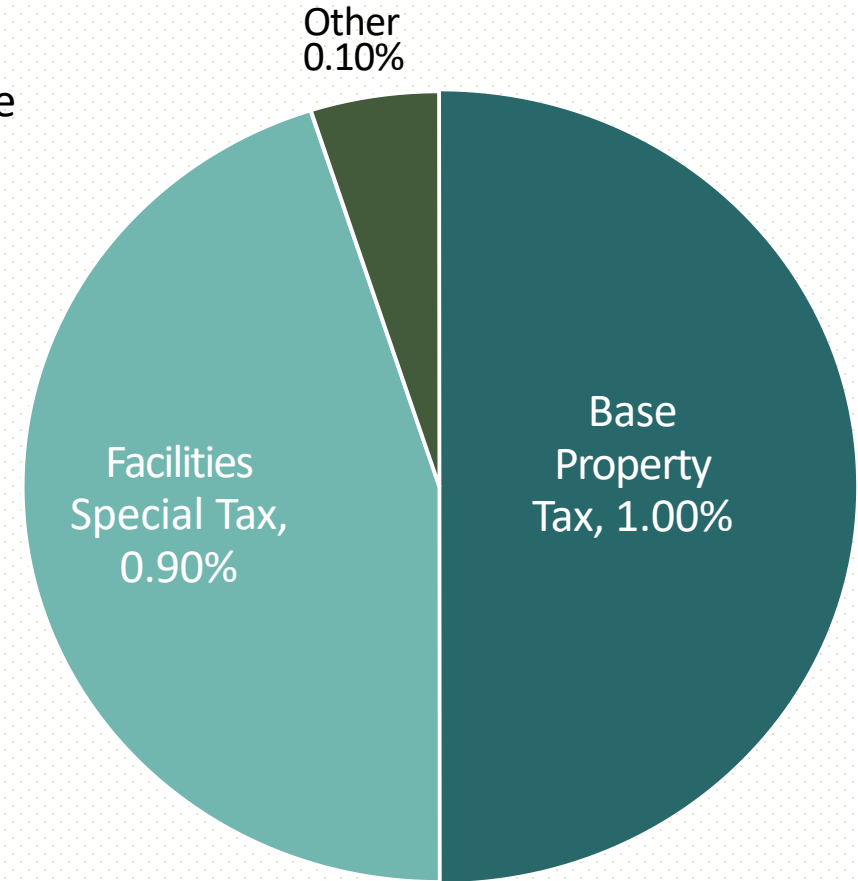
1.76%

Allocating Capacity: Services vs. Facilities



Annual Services Costs Funded = \$200,000
Net Construction Proceeds = \$10.5 million

200-unit Project
\$500,000 Home Price
2% Total Tax Rate



Annual Services Costs Funded = \$0
Net Construction Proceeds = \$13 million

Bond Capacity Considerations

How much in project funds can a CFD support?

- **CFD Parameters**

Determined at district formation

- Maximum bond authorization
- Eligible projects
- Maximum annual tax rates and annual escalator (if any)

- **Value of land supporting debt**

Determined at bond issuance

- Standard minimum aggregate value to debt ratio of 3-to-1
- **Maximum tax capacity and debt service coverage**
 - Based on maximum annual special tax revenues projected at build-out
 - Minimum coverage typically 110% annual debt service
 - Administrative expenses may be paid before or after debt service
- **Bond market conditions**
 - Lower interest rates = more bond proceeds within same revenues

District Formation: CFD Legislative Approvals

- **Resolution of Intention (ROI)**

- Council/Board declares its intent to establish district
 - Identifies proposed boundary, tax formula, eligible facilities, maximum bond amount

- **Public hearing**

- At least 30 days but not more than 60 days later

Often occur at one Council/Board meeting

- **Election**

- 2/3 approval required
- Vote by electorate if 12+ registered voters in the district, otherwise by landowners, weighted by acreage

- **Resolution of Formation (ROF)**

- Approves final tax formula, boundary map, and eligible facilities, and max bond authorization