



CDIAC

CALIFORNIA  
DEBT AND  
INVESTMENT  
ADVISORY  
COMMISSION

# CURRENT TOPICS AND PRACTICES IN LAND-SECURED FINANCING

## SESSION THREE:

# Preparing for District Formation and Managing Tax Capacity

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September 6, 2018  
Riverside, California

# 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?

# Preparing for District Formation

## Get Resources in Place

- Dedicated staff time
- Deposit from developer(s)
- Hire consulting team

# Preparing for District Formation

## Documentation of Deal Points

- Development Agreement (or DDA)
- Financing Plan/Implementation Document
- Term Sheet negotiated between parties to inform:
  - Acquisition Agreement
  - RMA
  - Bond Indenture

# Preparing for District Formation

## Comprehensive Funding Strategy

- Is there an adopted Financing Plan?
- Is the CFD/AD to act in conjunction with other mechanisms?
  - Infrastructure Financing Districts (IFDs)
  - Impact Fee Program
- How does funding of public services fit in?
- What is the timing of required infrastructure and services?

# Preparing for District Formation

## Understand Developer's Plan

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

# Developers' Objectives for Financing

- Maximize net construction proceeds for infrastructure
  - 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 on future discretionary actions that could affect funding capacity
- Flexibility for changes in land use and infrastructure plans

# Preparing for District Formation

## Coordination with Affected Agencies

- Factor in existing or proposed financing districts
- Consider approved but unissued G.O. bonds
- Joint Community Facilities Agreements (JCFA)
- Joint Powers Agencies



- Services vs. Facilities Special Tax
- Sharing tax capacity among multiple public agencies
- Timing of funding needs

# Services Special Taxes

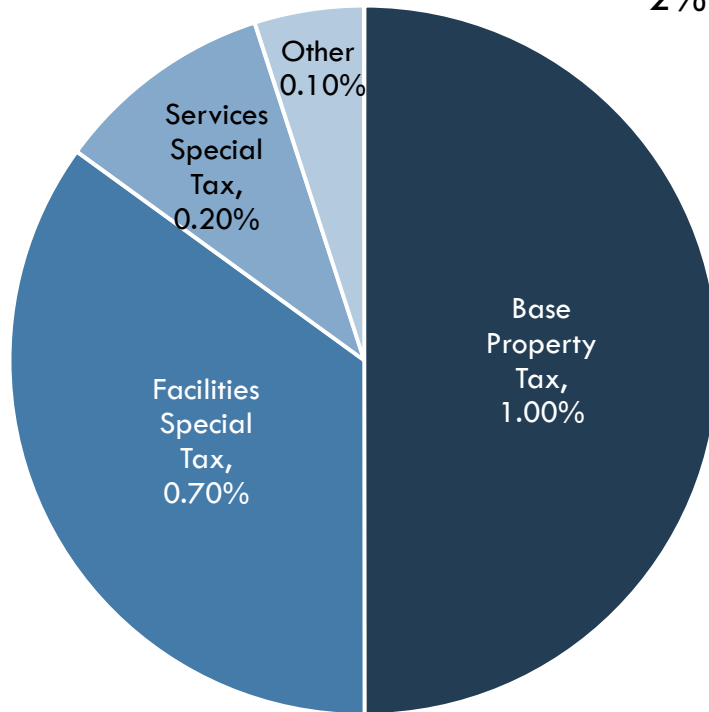
- Annual stream of revenues to fund public services
- Usually levied in perpetuity
- No legal limit on annual escalation
- Often implemented to mitigate projected fiscal deficits determined pursuant to impact analysis
- Be sure to include component for CFD administration costs

# Services Special Taxes

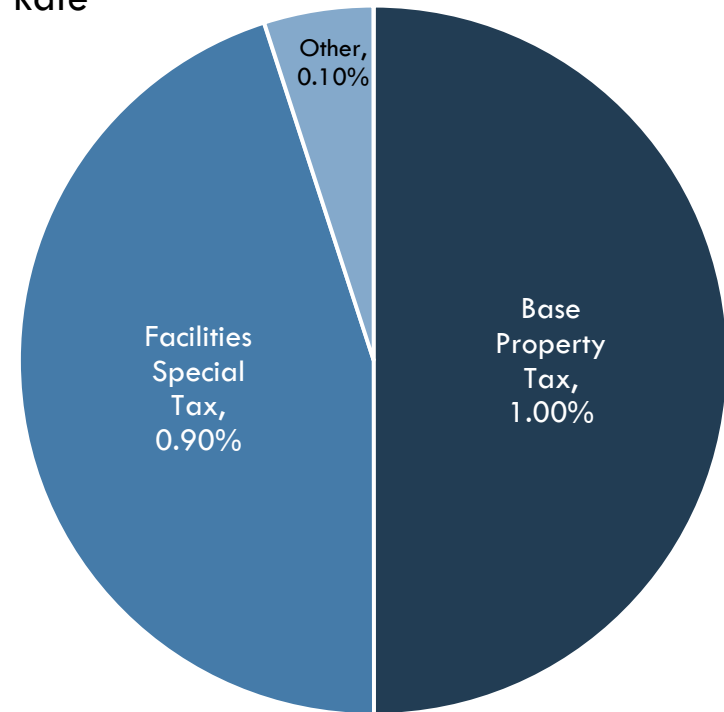
- Tax zones to allow for different rates on property annexed to CFD
- May have multiple components, some of which vary while others stay consistent among zones
  - Project-specific maintenance component
  - Arterial maintenance component
  - Public safety services component

# Services vs. Facilities Special Tax

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



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



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

# Formation Considerations

- **Appropriate issuer**
  - ▣ Use of majority of bond proceeds
- **Size of District**
  - ▣ Tailored to areas of political support
  - ▣ Can include a “future annexation area” as needed
  - ▣ Bigger is better from a credit perspective
  - ▣ Smaller provides more flexibility and control for a developer
- **Large projects are often broken up**
  - ▣ Separate CFDs, or improvement areas or tax zones within a CFD
- **Tax formula considerations**
  - ▣ How similar are distinct phases?
  - ▣ What is the likelihood that the development plan or product mix may change?
  - ▣ Are there multiple developers or builders in the project?

# Bond Capacity Considerations

*How much in project funds can a District support?*

- **District Parameters**

*Determined at formation*

- ▣ Maximum bond authorization
- ▣ Eligible project funds
- ▣ Maximum annual tax rates and annual escalator (if any)

- **Value of land supporting debt**

- ▣ Standard minimum 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

- **Bond market conditions**

- ▣ Lower interest rates = more bond proceeds within same revenues
- ▣ Interest rates are driven by *broad economic factors* and *specific credit quality*

# CFD Boundary: Traditional Annexation

- ▣ Traditional Annexation Procedure
  - Similar to CFD formation process
  - Two meetings of the legislative body
  - Public hearing
  - Election
  - Existing or new RMA
- ▣ 3 to 12-month timeline
- ▣ Deposit needed to cover consultant and staff costs

# CFD Boundary: Traditional Annexation

1. FILED IN THE OFFICE OF THE CITY CLERK OF THE CITY OF DIXON, THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2013.

\_\_\_\_\_  
CITY CLERK

2. I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF CITY OF DIXON, COMMUNITY FACILITIES DISTRICT No. 2013-1, (PARKLANE), WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF DIXON AT A MEETING THEREOF, HELD ON THE \_\_\_\_\_ DAY OF \_\_\_\_\_, 2013, BY ITS RESOLUTION No. \_\_\_\_\_.

\_\_\_\_\_  
CITY CLERK

3. FILED THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 2013 AT THE HOUR OF \_\_\_\_\_ O'CLOCK \_\_.M., IN BOOK \_\_\_\_\_ OF MAPS OF ASSESSMENT AND COMMUNITY FACILITIES DISTRICT, AT PAGE \_\_\_\_\_, IN THE OFFICE OF THE COUNTY RECORDER IN THE COUNTY OF SOLANO, STATE OF CALIFORNIA.

\_\_\_\_\_  
COUNTY RECORDER, COUNTY OF SOLANO

**LEGEND**

PROPOSED CFD BOUNDARY

PROPOSED BOUNDARIES OF  
CITY OF DIXON  
COMMUNITY FACILITIES DISTRICT No. 2013-1  
(PARKLANE)  
CITY OF DIXON, STATE OF CALIFORNIA

**Mackay & Soms**  
ENGINEERS PLANNERS SURVEYORS  
5142B FRANKLIN DR, PLEASANTON, CA 94588 (925)225-0690

SCALE: 1"=400'      DATE: JUNE 17, 2013



# CFD Boundary: Future Annexation Area

- CFD with “Future Annexation Area”
  - One or more parcels in initial CFD boundary
  - Any property that might participate is designated as Future Annexation Area
  - Can be entire project, entire jurisdiction, or something in between
  
- “Election” is signature on Unanimous Approval Form
  - No meetings of legislative body
  - Rate can be identified in attachment to U.A. Form
  - Can be different rate for each annexation
  - Notice of Special Tax Lien recorded upon annexation
  
- Very low cost, accelerated procedure

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# CFD Boundary: Future Annexation Area

Proposed Boundaries of  
City and County of San Francisco  
Community Facilities District No. 2014-1  
(Transbay Transit Center)  
State of California

1. Filed in the office of the Clerk of the Board of Supervisors of the  
City and County of San Francisco this \_\_\_\_\_ day of  
\_\_\_\_\_, 20\_\_\_\_\_.

Clerk of the Board of Supervisors



2. I hereby certify that the within map showing proposed boundaries of  
City and County of San Francisco Community Facilities District No.  
2013-1 (Transbay Transit Center), State of California, was approved by  
the Board of Supervisors of the City and County of San Francisco, at a  
meeting thereof, held on the \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by  
its Resolution No. \_\_\_\_\_.

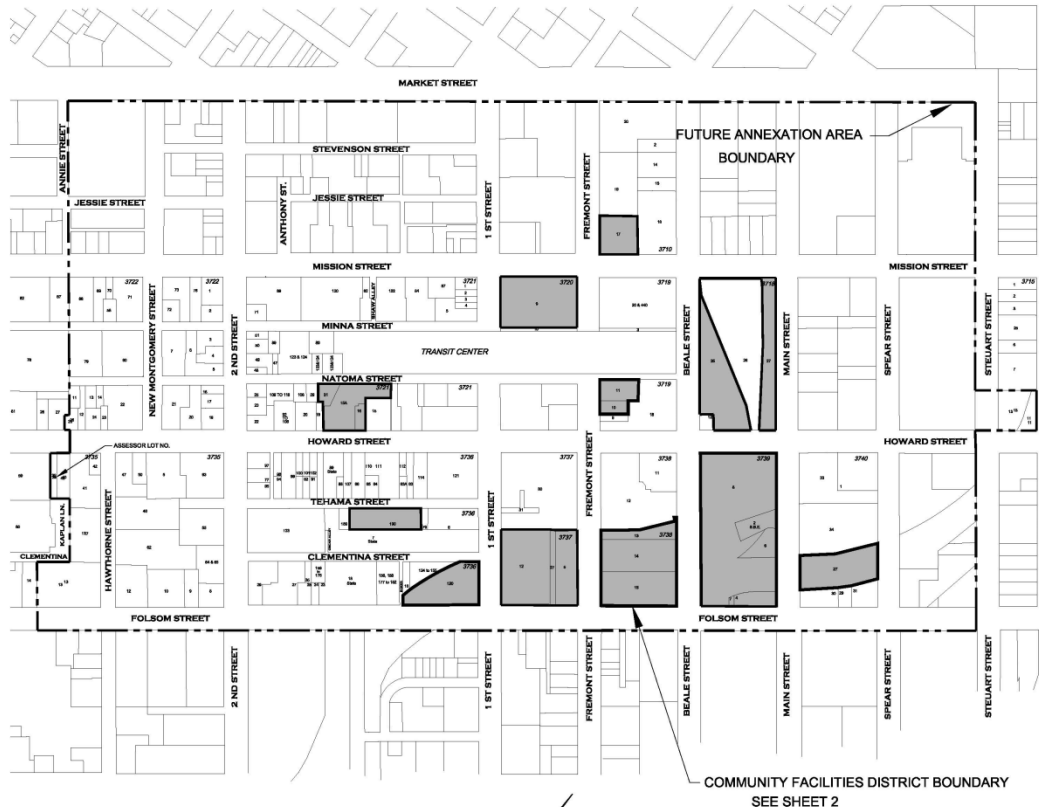
County Clerk

3. Filed this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, at the hour of  
\_\_\_\_\_ o'clock \_\_\_\_\_ m., in Book \_\_\_\_\_ of Maps of Assessment  
and Community Facilities Districts at Page \_\_\_\_\_ in the office of  
the County Assessor-Recorder in the City and County of San Francisco,  
State of California.

County Recorder  
City and County of San Francisco

## LEGEND

-  PROPERTY WITHIN THE CFD BOUNDARY
-  FUTURE ANNEXATION BOUNDARY LINE





# Case Study: Mountain House New Community



# Case Study: Mountain House New Community

- 4,200 acres in San Joaquin County
- 16,000 planned res. units ; over 5,500 building permits issued
- 750 acres of planned non-residential uses; none constructed
- Master Plan includes 12 neighborhoods, each with a K-8 school and park at the center
  - 5 neighborhoods all or partially built
  - 4 K-8 school constructed
  - High school opened in 2014
- Master Plan and first Specific Plan approved in 1994
- First building permits issued in 2003
- Almost all homes had underwater mortgages during recession

# Case Study: Mountain House New Community

- Financing Plan reserved Mello-Roos capacity for schools
  - *Lammersville School District* as issuer
- Water/sewer facilities funded by a PayGo and revenue bond program from a reserved facility component in monthly rates
  - *Mountain House Community Services District* as issuer
- Other facilities funded by impact fees

# Mountain House School Financing Program

- Lammersville School District is sponsoring agency
- All neighborhoods have same maximum special tax rates
- Existing schools funded by a combination of:
  - 3 CFDs formed to date, 2 with future annexation areas
  - 6 new money bond issues and 2 refunding bond issues that generated \$118.3 million in net construction proceeds
  - \$10 million in PayGo revenues
  - State funding
  - General obligation bonds(to cover increased costs not anticipated when CFDs were established)



# Case Study: Mountain House New Community





# Case Study: Mountain House New Community

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# Case Study: Mountain House New Community



# Mountain House High School





# Mountain House High School



# Mountain House High School



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