

FUNDAMENTALS OF LAND-SECURED FINANCING



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Session V

Bond Issuance



Bond or Debt Issuance

- Financing Team
- Overview of Process
- Upfront Considerations/Timing
- Disclosure



Expansion of Financing Team

Existing Financing Team & Staff, plus...

- Appraiser
 - Estimates value of liened property
- Underwriter
 - Structures and markets the bonds
 - (if negotiated sale)
- Disclosure / Underwriter's Counsel
 - Prepares bond sale financing documents
(Official Statement, bond purchase agreement, etc.)



Expansion of Financing Team (cont.)

- **Trustee / Fiscal Agent**
 - Holds, invests and disburses funds at direction of issuer
 - Has trust obligation to bond owners
- **District Administrator**
 - Assists Issuer in administering AD/CFD
(good practice to retain earlier in process)
- **Developer/Developer's Counsel/Developer's Consultant**
 - Provides the required information about the Project, the Developer, and the financing for the Project



Bond or Debt Issuance Process

Overview: How is it done?

1. Financing team drafts legal and financing documents
2. Bond Counsel prepares bond resolution
3. Issuer approves financing documents
4. Issuer sells bonds to underwriter
5. Underwriter sells bonds to investors



Bond or Debt Issuance Process (Cont.)

Overview: How is it done?

6. Issuer receives \$s in exchange for bonds
7. Issuer disburses net proceeds used for:
 - a. Capital projects
 - b. Interest
 - c. Bond reserve, cost of issuance, other
8. Annual special taxes / assessment installments levied and collected
9. Bond owners paid (typically semiannually)



Bond or Debt Issuance Process (Cont.)

Issuer approves Resolution of Issuance

- Parameters
- Approval of Documents
- Authorized Officers

Typical final legal documents

- Official Statement (preliminary)
- Continuing Disclosure Agreement(s)
- Bond Purchase Agreement or Notice of Sale
- Bond Indenture or Fiscal Agent Agreement



Upfront Considerations / Timing

Bond Sizing / Financial Feasibility

- How much is needed now?
- How many bonds can be supported?
 - Special tax revenue coverage
 - Impact on undeveloped property owners
 - Value-to-lien ratios



Upfront Considerations / Timing (cont.)

- Status and progress of development
- Placing annual levy on Property Tax Bills
 - Capitalized interest for initial period (“stub period”) or longer
- Status of infrastructure funded by CFD/AD
 - Need for funds to pay for or reimburse for facility costs – 3-year window
- Market Conditions – can the bonds be sold?
 - Credit Quality
 - Investor suitability



Upfront Considerations / Timing (cont.)

Credit Quality / Market Issues

- Market's perception of credit quality of CFD/AD
- Developer's financial strength & ability to perform
- Diversification of ownership / amount already developed
- Land use type(s)
- Value-to-lien ratios
- Prevailing overall market conditions and market interest rates
- Demand for land-secured debt
- Overall perception of the real estate market



Initial Bond Disclosure

Preliminary Official Statement

- No misstatement of a material fact
- No omission of a material fact
- Material = important to investor when making an informed investment decision

Disclosing Information to Investors

Official Statement includes:

- Description of the Bonds
 - Authority for issuance
 - Redemption provisions
 - Debt service schedule
 - Sources and uses, etc.
- Project Information (what is being financed)
- Security for the Bonds
 - Special taxes / assessments
 - Reserve fund
 - Land value estimates
 - ability to issue additional debt
 - Foreclosure provisions, etc.
- The CFD/AD Development Plan and Status
 - Project pro-forma
 - Developer information

(Typically, a Developer Questionnaire is sent from Disclosure Counsel to the Developer to get a complete package of information about the Project)



Disclosing Info to Investors (cont.)

Official Statement also includes:

- Bondholder Risks
- Special Tax Formula (RMA) /
Assessment Spread (portions of Engineer's Report)
- Appraisal
- Market Absorption Report
- Summary of key legal documents
- Continuing disclosure agreements



Securities Law Considerations

- SEC Rule 10b5 “anti-fraud” rule requiring all material information to be disclosed applies to all public municipal bond issues, continuing disclosure statements to the marketplace, and any other circumstance where the bond issuer is “speaking to the market”
- Negligence standard applies (facts known or should have known)
- Disclosures made through the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) website at <https://emma.msrb.org/>



Securities Law Considerations (cont.)

- Official Statement is the Issuer's offering document to investors
- Policies and Procedures should be in place to ensure proper staff in all departments are empowered to gather all material information and ask the right questions and raise material issues
- Due diligence meeting/call before distribution of the Preliminary Official Statement
- Failure to adequately disclose all material facts has led to fines against bond issuers, charges against individual officials along with the issuer, fines against individuals and barring officials from involvement in municipal finance