

FUNDAMENTALS OF LAND-SECURED FINANCING



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Session I

Basic Structures of Assessment and Community Facilities Districts



History of Each in a Nutshell

Special Assessment Districts

- Municipal Improvement Act of 1913
- Used with the Improvement Bond Act of 1915
- Other Acts normally used for maintenance

Mello-Roos Community Facilities Districts

- In 1978, Proposition 13 was approved by California voters
- In response to Prop. 13 revenue constraints, the Mello-Roos Community Facilities Act of 1982 was adopted



California Statutes & Constitution

Assessment District (AD)

- Primarily 1913 & 1915 Acts for capital projects
- Primarily 1972 & 1982 Acts for maintenance and public services
- Article XIID of California Constitution
- Section 53753 of the Government Code

Community Facilities District (CFD)

- Mello-Roos Community Facilities Act of 1982
- Articles XIII A & XIII C of CA Constitution
- Charter cities can use legislative powers



Eligible Capital Facilities to Finance

Assessment District

- Authorized public improvements
- Must provide local, special benefits to property

Community Facilities District

- Public improvements with useful life of 5 years or longer
- Can finance facilities:
 - Owned/controlled by issuer and/or
 - Owned, operated and maintained by other public entities
 - JCFA's with other public agencies



AD vs. CFD

Assessment District

- Sets a fixed lien for every parcel
- Annual payment reduces lien
- Term of payments = term of bonds

Community Facilities District

- Sets a maximum annual special tax rate
- Maximum tax rate may escalate
- Term of tax may outlive term of bonds



Special Benefits vs. Reasonableness

Special Benefits - ADs

- Assessment based on the direct and special benefit each property receives from improvements

Reasonableness - CFDs

- Special tax is not a special assessment
- May be allocated on any “reasonable” basis, as determined by the legislative body
- Cannot be an ad valorem tax



Usual Sequence of Events - ADs

1. Local agency/property owner petition initiated
2. Legislative body commences assessment proceedings
3. Notices of hearing and assessment ballots mailed
4. Public hearing
5. Ballot tabulation and “majority protest”
6. Final actions taken by legislative body
7. End of cash collection / statute of limitations
8. Bonds issued
9. Project costs funded / reimbursed
10. Annual assessment installments levied



Usual Sequence of Events - CFDs

1. Local agency/property owner petition initiated
2. Local goals & policies adopted
3. Legislative body commences CFD proceedings
4. Public hearing
5. Election
6. Final actions taken by legislative body
7. Bonds issued
8. Project costs funded / reimbursed
9. Annual special taxes levied
10. Annual continuing disclosure reports prepared

AD vs. CFD Comparison - Similarities

Issue	ADs	CFDs
Pay-as-you-go finance	1913 Act - Not common but possible 1972 Act – Permitted and fairly common	Permitted and fairly common
Pay-off or Prepayment of Lien	Automatically allowed by State statute	Allowed if included in RMA
Debt Service Structure	Almost universally level debt service	Usually level or escalating debt service
Maximum Residential Property Tax Burden as % of Sales Price	No State statutory limit. Standard is not to exceed 2%	No State statutory limit. Standard is not to exceed 2%

AD vs. CFD Comparison - Differences

Issue	ADs	CFDs
District Boundaries	1913 Act - Boundaries are generally fixed once assessment confirmed 1972 Act – Annexation permitted	May be expanded through future annexations
Land Use Changes	1913 Act - Lien apportionments cannot easily be modified 1972 Act – Annual assessment can adapt	Special taxes generally adapt to changes in land use
Assessment of Undeveloped Property	1913 Act - Assessments on undeveloped land is based on potential development 1972 Act – Annual assessments generally differ between undeveloped and developed parcels	Special taxes between undeveloped and developed land can differ



Major Factors Favoring an AD

- ADs are appropriate for:
 - Small, local infrastructure projects with little “General Benefit”
 - Projects with multiple property owners
 - Large variable rate financing programs that anticipate multiple conversion of bonds to a fixed rate of interest over several years
 - Some maintenance programs and services



Major Factors Favoring a CFD

- CFDs are appropriate for:
 - General benefit “community facilities”
 - Projects with few property owners, or broad support
 - Projects requiring flexibility
 - Phased land development projects
 - Uncertainties about eventual land use
 - Projects needing targeted economic burden
 - Exempting publicly-owned parcels
 - Reducing burden on select categories of parcels/uses
 - Projects requiring funding for eligible services and maintenance & operation activities