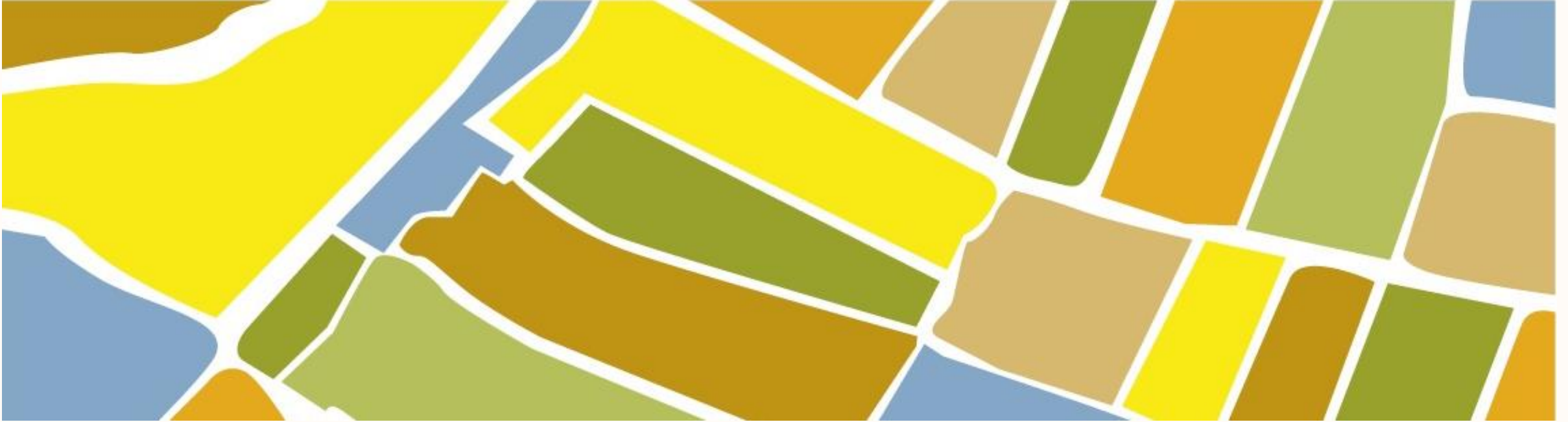


MELLO-ROOS COMMUNITY FACILITIES DISTRICTS FUNDAMENTALS



SESSION 2: Community Facilities District Bond Issuance and CFD Administration

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Produced by the California Debt and Investment Advisory Commission (CDIAC)

NOVEMBER 17, 2020

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SLIDES

Available in *Handouts* section of the menu

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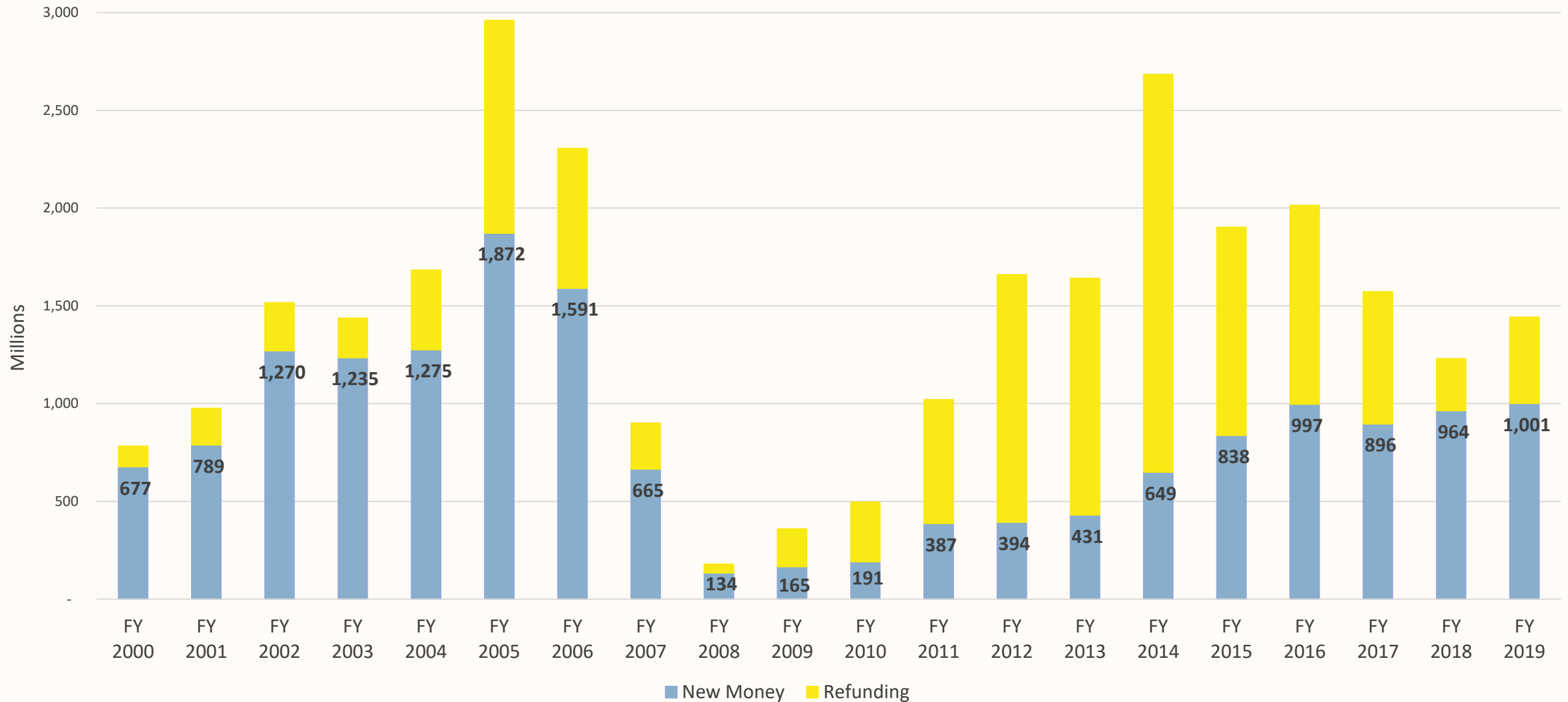
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MELLO-ROOS ISSUANCE FISCAL YEARS 2000-2019



SPEAKERS



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TOPICS TO BE COVERED

EXPANDING THE FINANCING TEAM

PROCESS TO ISSUE BONDS

UPFRONT CONSIDERATIONS AND TIMING

DISCLOSURE TO BOND MARKET

EXPANDING THE FINANCING TEAM

STAFF AND CONSULTANTS FROM CFD FORMATION, PLUS:

APPRAISER

Determines value of parcels in CFD to be used in value-to-lien calculation

UNDERWRITER

Structures and markets the bond issue

DISCLOSURE OR UNDERWRITER'S COUNSEL

Preparation of the initial disclosure to potential CFD bond investors, called an Official Statement

MARKET ABSORPTION CONSULTANT (OPTIONAL)

Evaluates projected buildout period for project, and sometimes confirms projected sales prices for residential units

EXPANDING THE FINANCING TEAM

STAFF AND CONSULTANTS FROM CFD FORMATION, PLUS:

TRUSTEE OR FISCAL AGENT

Holds, invests, and distributes bond proceeds and special tax revenues per Fiscal Agent Agreement or Bond Indenture

SPECIAL TAX CONSULTANT

Produces credit tables in Official Statement

CFD ADMINISTRATOR

Usually is the special tax consultant unless administered by the public agency

DEVELOPER'S COUNSEL/CONSULTANT

Provides required information about developer and project

BOND ISSUANCE PROCESS

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**
6. **ISSUER RECEIVES PROCEEDS IN EXCHANGE FOR BONDS**
7. **ISSUER DISBURSES NET PROCEEDS FOR:**
 - Capital Projects
 - Bond Reserve Fund
 - Costs of Issuance
8. **ANNUAL SPECIAL TAXES INSTALLMENTS LEVIED AND COLLECTED**
9. **BOND OWNERS PAID SEMIANNUALLY**



BOND ISSUANCE PROCESS, CONTINUED

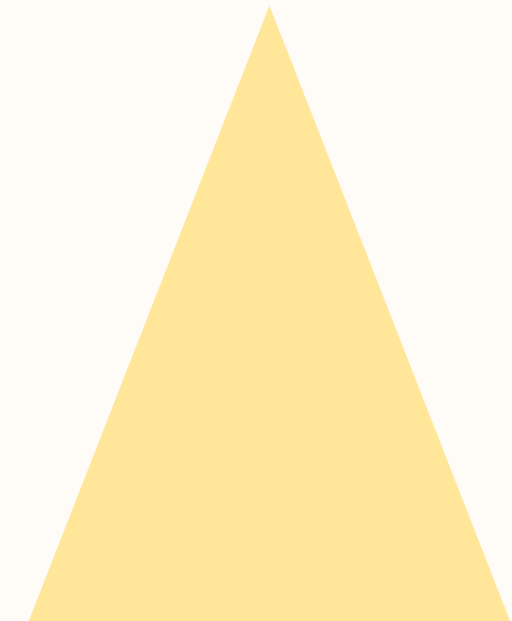


ISSUER APPROVES RESOLUTION OF ISSUANCE

- Parameters
- Approval of Documents
- Authorized Officers



LEGAL AND DISCLOSURE DOCUMENTS

- Official Statement
 - Continuing Disclosure Agreements
 - Bond Purchase Agreement
 - Bond Indenture or Fiscal Agent Agreement
- 

UPFRONT CONSIDERATIONS

BOND SIZING

HOW MUCH IS NEEDED NOW?

- ▶ Phasing of infrastructure and phasing of development
- ▶ 3-year expectation to spend proceeds
- ▶ Expected tax burden on undeveloped property

HOW MUCH CAN BE SUPPORTED?

- ▶ Projected special tax revenues
- ▶ Required debt service coverage

TIMING OF BOND ISSUE RELATIVE TO FIRST TAX LEVY

- ▶ Capitalized interest?

UPFRONT CONSIDERATIONS

CREDIT QUALITY/MARKET ACCEPTANCE

- DEVELOPER'S FINANCIAL STRENGTH AND ABILITY TO PERFORM
- DIVERSIFICATION OF OWNERSHIP
- STATUS OF DEVELOPMENT WITHIN PROJECT
- LAND USE TYPE(S)
- VALUE-TO-LIEN RATIOS
- PREVAILING MARKET CONDITIONS AND INTEREST RATES
- DEMAND FOR LAND-SECURED DEBT
- OVERALL PERCEPTION OF THE REAL ESTATE MARKET

DISCLOSURE TO BOND MARKET

PRELIMINARY OFFICIAL STATEMENT (“POS”)

PRIMARY BOND OFFERING DOCUMENT PROVIDING INFORMATION TO POTENTIAL INVESTORS

NO OMISSION OR MISSTATEMENT OF A “MATERIAL” FACT

“MATERIAL” = IMPORTANT TO AN INVESTOR WHEN MAKING AN INFORMED INVESTMENT DECISION

DISCLOSURE TO BOND MARKET, CONTINUED

OFFICIAL STATEMENT INCLUDES:

DESCRIPTION OF THE BONDS

- Authority for issuance
- Redemption provisions
- Debt service schedule
- Sources and uses

SUMMARY OF INFRASTRUCTURE TO BE FINANCED

SECURITY FOR THE BONDS

- Special taxes
- Reserve fund
- Value-to-lien ratios
- Foreclosure provisions
- Additional bonds test

DISCLOSURE TO BOND MARKET, CONTINUED

OFFICIAL STATEMENT INCLUDES:

DEVELOPMENT PLAN AND STATUS

- Project pro-forma
- Developer experience

UNIQUE MARKET AND PROJECT RISKS

- COVID-19
- Wildfires
- Seismic risk

APPRAISAL

MARKET ABSORPTION STUDY

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

CONTINUING DISCLOSURE AGREEMENTS

SUMMARY OF KEY LEGAL DOCUMENTS

SECURITIES LAW CONSIDERATIONS

SEC RULE 10B5 “ANTI-FRAUD” RULE

- ▶ Requires all material information to be disclosed
- ▶ Applies to:
 - All public municipal bond issues
 - Continuing disclosure statements to the marketplace
 - Any time issuer is “speaking” to the market

NEGLIGENCE STANDARD APPLIES


- ▶ All facts known
- ▶ All facts issuer should have known

DISCLOSURES ARE POSTED ON THE MUNICIPAL SECURITIES RULEMAKING BOARD’S ELECTRONIC MUNICIPAL MARKET ACCESS (EMMA) WEBSITE AT EMMA.MSRB.ORG

SECURITIES LAW CONSIDERATIONS, CONTINUED




Official statement is issuer's offering document to investors



Policies and procedures should be in place to ensure proper staff in all departments are empowered to gather material information, 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 officials barred from involvement in municipal finance

ONGOING CFD ADMINISTRATION

CALCULATING THE ANNUAL SPECIAL TAX LEVY

▼ UPDATE TAXABLE PARCEL LIST AND ASSIGN EACH PARCEL TO APPROPRIATE SPECIAL TAX CATEGORY

▼ CALCULATE “SPECIAL TAX REQUIREMENT”

- Debt Service
- Administrative Expenses
- Pay-as-you-go Facilities Costs
- Funding for Services

▼ APPLY RMA TO DETERMINE AMOUNT OF SPECIAL TAX FOR EACH TAXABLE PARCEL

ONGOING CFD ADMINISTRATION, CONTINUED

LEVYING THE SPECIAL TAX

USUALLY PURSUANT TO ONE-TIME ORDINANCE AND WITHOUT FURTHER ACTION OF LEGISLATIVE BODY

NEED TO KNOW REQUIREMENTS OF COUNTY AUDITOR, INCLUDING FORMAT, DEADLINE FOR SUBMISSION, AND FEE

SUBMIT PARCEL-BY-PARCEL LEVY TO AUDITOR'S OFFICE AND REVIEW PRINTOUT FOR ACCURACY

ONGOING CFD ADMINISTRATION, CONTINUED

DELINQUENCY MANAGEMENT

- Accelerated judicial foreclosure
- Monitor delinquencies, even in Teeter Plan counties
 - Delinquency Thresholds
 - Notice to Delinquent Owners
 - Strip Delinquent Taxes From Tax Roll
 - Involve Foreclosure Counsel

ARBITRAGE REBATE CALCULATIONS

- Positive arbitrage must be rebated to federal gov't every five years
- Annual calculation avoids need to collect large amount in the fifth year



ONGOING CFD ADMINISTRATION, CONTINUED

DISCLOSURE OF SPECIAL TAX TO BUYERS

SELLER OF PROPERTY SUBJECT TO CFD SPECIAL TAX MUST DISCLOSE TO ANY PURCHASER

RESALE OF RESIDENTIAL PROPERTY

- Department of Real Estate form is used for most resales
- Public agency must be able to provide form if requested

ONGOING CFD ADMINISTRATION

ANNUAL REPORTING

SEC RULE 15C2-12 (CONTINUING DISCLOSURE)

- Obligated persons: Issuer and Developer
- What to disclose: annual report and notices of listed events
- EMMA System of the Municipal Securities Rulemaking Board (MSRB)

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

- Yearly Fiscal Status Report: Oct. 30 deadline
- Annual Debt Transparency Report: Jan. 31 deadline
- 10-day significant event reporting: form provided

STATE CONTROLLER'S OFFICE

- AB 2109 Parcel Tax Reporting: included in Financial Transactions Report

LOCAL AGENCY SPECIAL TAX & BOND ACCOUNTABILITY ACT (SB 165)

- Report filed with Clerk each year
- CFD Administration Report will suffice

ASSEMBLY BILL 1483 (NEW IN 2020)

- Requires public agencies to post on its website a current schedule of fees, exactions, and affordability requirements imposed on housing developments
- A special tax counts as an exaction
- Information must be updated within 30 days of any changes (incl. escalation)

OTHER ADMINISTRATION ITEMS

RECONCILE BANK STATEMENTS

PREPAYMENT CALCULATIONS

RECORD RELEASE OF SPECIAL TAX LIEN

DISBURSING/INVESTING BOND PROCEEDS

ACQUISITION OF FACILITIES

**ANSWER QUESTIONS FROM HOMEOWNERS,
APPRAISERS, REALTORS, BOND INVESTORS**

CONSULTANTS OR STAFF?

CONSIDERATIONS

- Staff's Experience
- Existing Workload
- Number of CFD
- Complexity of CFDs
- Combined Approach

Q&A



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Use the **Question Box** to submit questions for the panelists.



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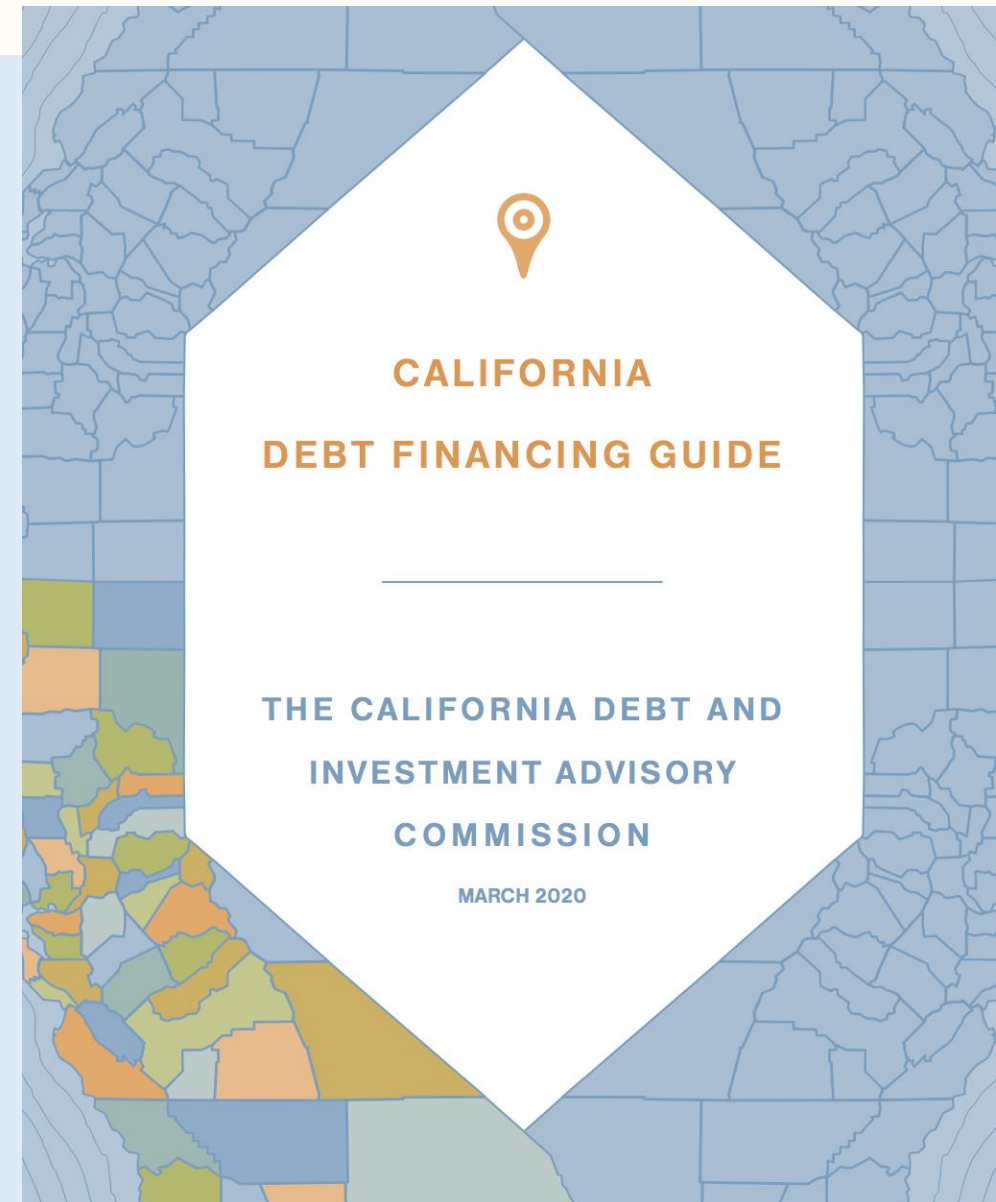
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CDIAC RESOURCES

To learn more about Mello-Roos Bonds (Community Facilities Districts), see **Section 3.3.7.2** of the **California Debt Financing Guide**.
<https://www.treasurer.ca.gov/cdiac/debtproducts/financing-guide.pdf>



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