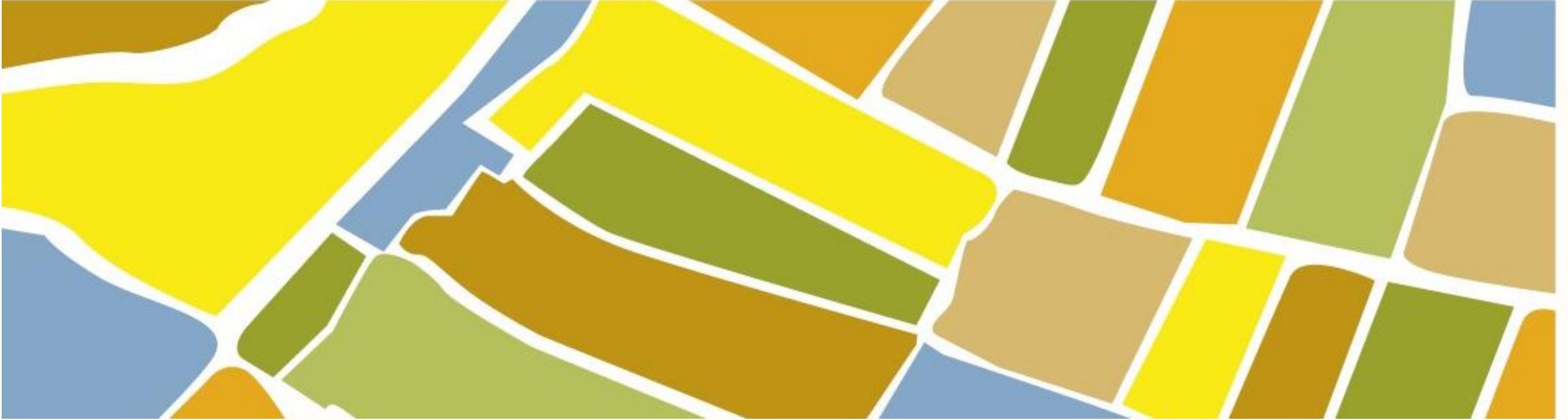


MELLO-ROOS COMMUNITY FACILITIES DISTRICTS FUNDAMENTALS



SESSION 1: THE MELLO-ROOS COMMUNITY FACILITIES ACT OF 1982 AND THE CFD FORMATION PROCESS

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SLIDES

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TERMINOLOGY

COMMUNITY FACILITIES DISTRICT (CFD)

SPECIAL TAX

TAX EXEMPT BONDS

LAND-SECURED

VALUE-TO-LIEN RATIO

2/3-VOTE (SUPER MAJORITY)

RATE AND METHOD OF APPORTIONMENT (“RMA”)

WHAT IS MELLO-ROOS?

MECHANISM TO FUND PUBLIC INFRASTRUCTURE

- ▶ Approved by legislature in 1982 to fill Prop. 13 funding gaps
- ▶ Sponsored by Senator Henry Mello and Assemblyman Mike Roos
- ▶ Thousands of CFDs formed in California to fund billions in public infrastructure

MECHANISM TO AMORTIZE COSTS TO REDUCE UPFRONT BURDENS

MECHANISM TO FUND PUBLIC SERVICES THAT PUBLIC AGENCY BUDGETS CAN NO LONGER SUSTAIN

WHY USE MELLO-ROOS?

VIRTUALLY NO FEDERAL, STATE OR LOCAL FUNDING AVAILABLE FOR PUBLIC INFRASTRUCTURE

AGENCIES CAN SECURE FUNDING FOR IMPROVEMENTS IN A MORE TIMELY MANNER THAN “PAY-AS-YOU-GO” FUNDING

MORE FLEXIBLE THAN TRADITIONAL ASSESSMENT DISTRICTS

- ▶ More authorized improvements and services
- ▶ No benefit finding required
- ▶ Boundaries and tax formula can accommodate varied objectives

WHY USE MELLO-ROOS?

CONTINUED

TAX-EXEMPT INTEREST RATES RESULT IN LOWER INFRASTRUCTURE FINANCING COSTS

- ▶ Interest rates driven by: mix of development; status of development; value-to-lien ratio; total tax rate; developer experience and delinquency status

REPAYMENT IS SECURED BY SPECIAL TAX ON PROPERTY TAX BILL

COST OF FINANCING IS TAKEN INTO ACCOUNT IN HOME-BUYING DECISION

AUTHORIZED FACILITIES & SERVICES

FACILITIES

PUBLIC IMPROVEMENTS WITH A USEFUL LIFE OF FIVE YEARS OR LONGER

- Includes vehicles, equipment, land acquisition
- Some private improvements but bonds will not be tax-exempt

SERVICES

TO THE EXTENT THE SERVICE FUNDED IS PROVIDED AT A LEVEL GREATER THAN PROVIDED BEFORE CFD:

- Police and fire, including ambulance and paramedic
- Flood and storm drainage services
- Maintenance and operation of parks, open space, roads, street lighting, and any real property or other tangible property with an estimated useful life of five years or longer
- Rec programs and library services with a registered-voter vote

PRE-FORMATION ITEMS

ADOPTION OF LOCAL GOALS AND POLICIES

REQUIRED BY THE MELLO-ROOS ACT (GOV'T CODE §53312.7)

PROVIDES GUIDELINES AND CONSISTENCY

POLICIES MUST ADDRESS ALL OF THE FOLLOWING:

- Priority And Eligibility Of Facilities And Services
- Disclosure To:
 - Homebuyers
 - Bond Investors
 - Financial Markets
- Appraisal Criteria
- Application Process
- Credit quality requirements and criteria

PRE-FORMATION ITEMS, CONTINUED

SELECTING THE FINANCING TEAM

PUBLIC AGENCY SHOULD CHOOSE TEAM

FINANCIAL ADVISOR CAN ASSIST

RFP PROCESS / CONSULTANT POOL

MELLO-ROOS EXPERIENCE IS KEY

ROLE OF FINANCING TEAM MEMBERS

BOND COUNSEL

Legal guidance and opinion; formation documents

FINANCIAL ADVISOR

Guidance and market knowledge; fiduciary obligation to public agency

SPECIAL TAX CONSULTANT

Cash flow analysis, tax formula, boundary map, CFD report

UNDERWRITER

Although not needed until bond issuance, often part of formation team

PRE-FORMATION ITEMS, CONTINUED

COORDINATION WITH OTHER PUBLIC AGENCIES

JURISDICTIONAL OVERLAP

OWNERSHIP OF FACILITIES FUNDED BY CFD

JOINT COMMUNITY FACILITIES AGREEMENTS

CONSENT OF LEGISLATIVE BODIES

PRE-FORMATION ITEMS, CONTINUED

KEY DOCUMENTS FOR FORMATION



CFD BOUNDARY MAP



RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX (RMA)



LIST OF AUTHORIZED FACILITIES AND SERVICES



ACQUISITION AGREEMENT

THE CFD BOUNDARY

MELLO-ROOS LAW IS VERY FLEXIBLE

- Boundaries need not be contiguous
- Small parcels may be carved out
- Funded improvements do not have to be located within CFD boundaries

INITIAL BOUNDARIES MAY BE EXPANDED

- Property may annex into CFD
- Two options available for annexations

THE CFD BOUNDARY, CONTINUED DESIGNATION OF FUTURE ANNEXATION AREA

INITIAL CFD BOUNDARY INCLUDES ONE PARCEL, ONE SUBDIVISION, OR ONE PROJECT

ADDITIONAL PROPERTY DESIGNATED AS “FUTURE ANNEXATION AREA”

- No tax lien recorded on parcels in Future Annexation Area
- Property may or may not ultimately be annexed
- No vote needed from owners in Future Annexation Area to form CFD and designate Future Annexation Area

FOR INFRASTRUCTURE CFDs

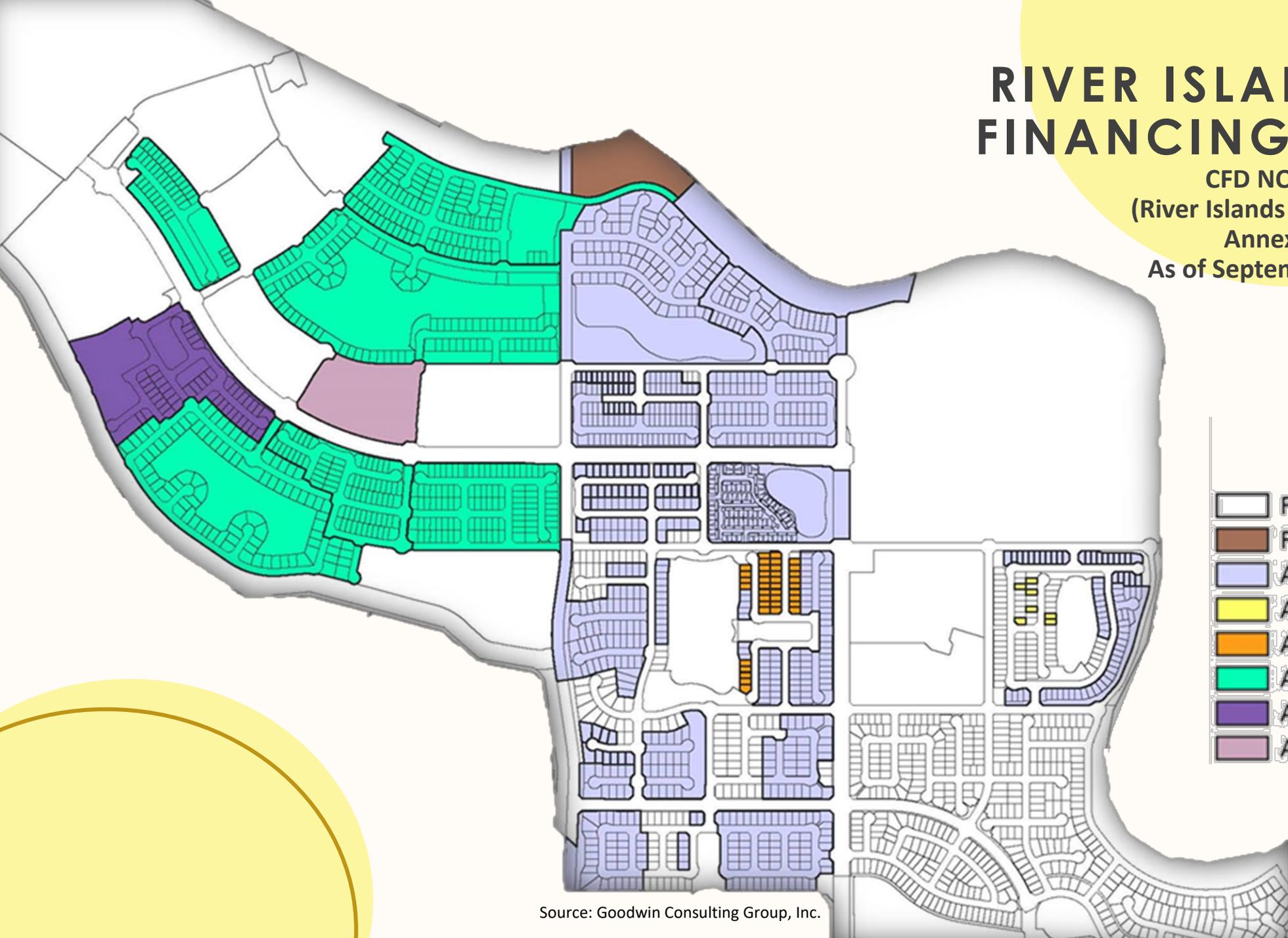
Property can annex in as separate improvement area and have separate bond issue

FOR SERVICES CFDs

Property can annex in as separate tax zone with a different maximum tax rate if services costs are different for area being annexed

RIVER ISLANDS PUBLIC FINANCING AUTHORITY

CFD NO. 2016-1
(River Islands Supplemental)
Annexations
As of September 16, 2020



Legend

- Future Annexation Area
- Formation Boundary
- Annexation #1
- Annexation #2
- Annexation #3
- Annexation #4
- Annexation #5
- Annexation #6

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX (RMA)

SPECIAL TAX CANNOT BE *AD VALOREM*

NOT REQUIRED TO ALLOCATE TAXES BASED ON BENEFIT

TAX FORMULA MUST GENERATE SUFFICIENT REVENUES TO PAY “SPECIAL TAX REQUIREMENT” REGARDLESS OF CHANGES IN LAND USE, UNIT COUNT, OR HOME SIZES

SPECIAL TAX REQUIREMENT INCLUDES:

- Debt service on bonds
- Pay-as-you-go facilities costs
- Service costs to be funded in upcoming fiscal year
- CFD administration costs

USUALLY “DEVELOPED” AND “UNDEVELOPED” SPECIAL TAX CATEGORIES

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX (RMA)

DEVELOPED PROPERTY SPECIAL TAX

- Bond market expects 110% debt service coverage at buildout
- “Developed” trigger can be final map, building permit, certificate of occupancy, or other defined event as of a specified date
- Categories can be based on land use, home size, parcel lot size, other “reasonable” categories
- Public agency policy relative to maximum tax rate
- Avoid variability in special taxes levied on Developed Property

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX (RMA), CONTINUED

UNDEVELOPED PROPERTY SPECIAL TAX

- Typically charged on a per-acre basis
- Provides 110% coverage prior to buildout
- Should absorb all variability in special tax levy prior to buildout

ACQUISITION AGREEMENT

IDENTIFIES FACILITIES AND SERVICES TO BE FINANCED BY THE CFD

SETS FORTH TERMS AND CONDITIONS FOR FACILITY FINANCING AND DEVELOPER REIMBURSEMENT

- Payment for discrete components vs. completed facility
- Payment of actual cost of programmed cost
- Reimbursement for facility oversizing or only fair-share of facility based on fee obligation

MAY INCLUDE MINIMUM CREDIT CRITERIA

- Minimum value-to-lien in order to issue bonds
- Maximum effective tax rate at the time of bond sale
- Provision of a letter of credit by the developer until project is substantially built out

OTHER SPECIFICATIONS AND REQUIREMENTS

- Competitive bidding
- Prevailing wage
- Inspection/review of plans and specs
- Insurance

CFD FORMATION PROCESS (LANDOWNER ELECTION)

▼ LANDOWNER PETITIONS FOR CFD FORMATION

▼ FIRST SET OF ACTIONS BY LEGISLATIVE BODY:

- ▶ Approve Resolutions of Intention (ROI) to form CFD and incur bonded indebtedness
- ▶ ROI includes final RMA, CFD boundary map, and list of authorized facilities and services
- ▶ Sets date for public hearing

▼ CFD BOUNDARY MAP RECORDED WITHIN 15 DAYS OF ROI

▼ SECOND SET OF ACTIONS BY LEGISLATIVE BODY:

- ▶ File CFD report with clerk or secretary of legislative body
- ▶ Conduct public hearing
- ▶ Approve Resolution of Formation and Resolution of Necessity to Incur Bonded Indebtedness
- ▶ Approve Acquisition & Funding Agreement (if applicable)

CFD FORMATION PROCESS (LANDOWNER ELECTION), CONTINUED

ELECTION – REQUIRES 2/3 APPROVAL OF “QUALIFIED ELECTORS”

- ▶ If 12 or more registered voters in CFD, registered voter election
- ▶ If less than 12 registered voters, landowner election (one vote per acre or portion of acre)

SPECIAL TAX ORDINANCE

Introduce at 2nd meeting → Adopt at subsequent meeting → Effective 30 days later

LOCAL AGENCY RECORDS NOTICE OF SPECIAL TAX LIEN

(Within 15 days of election)

Q&A



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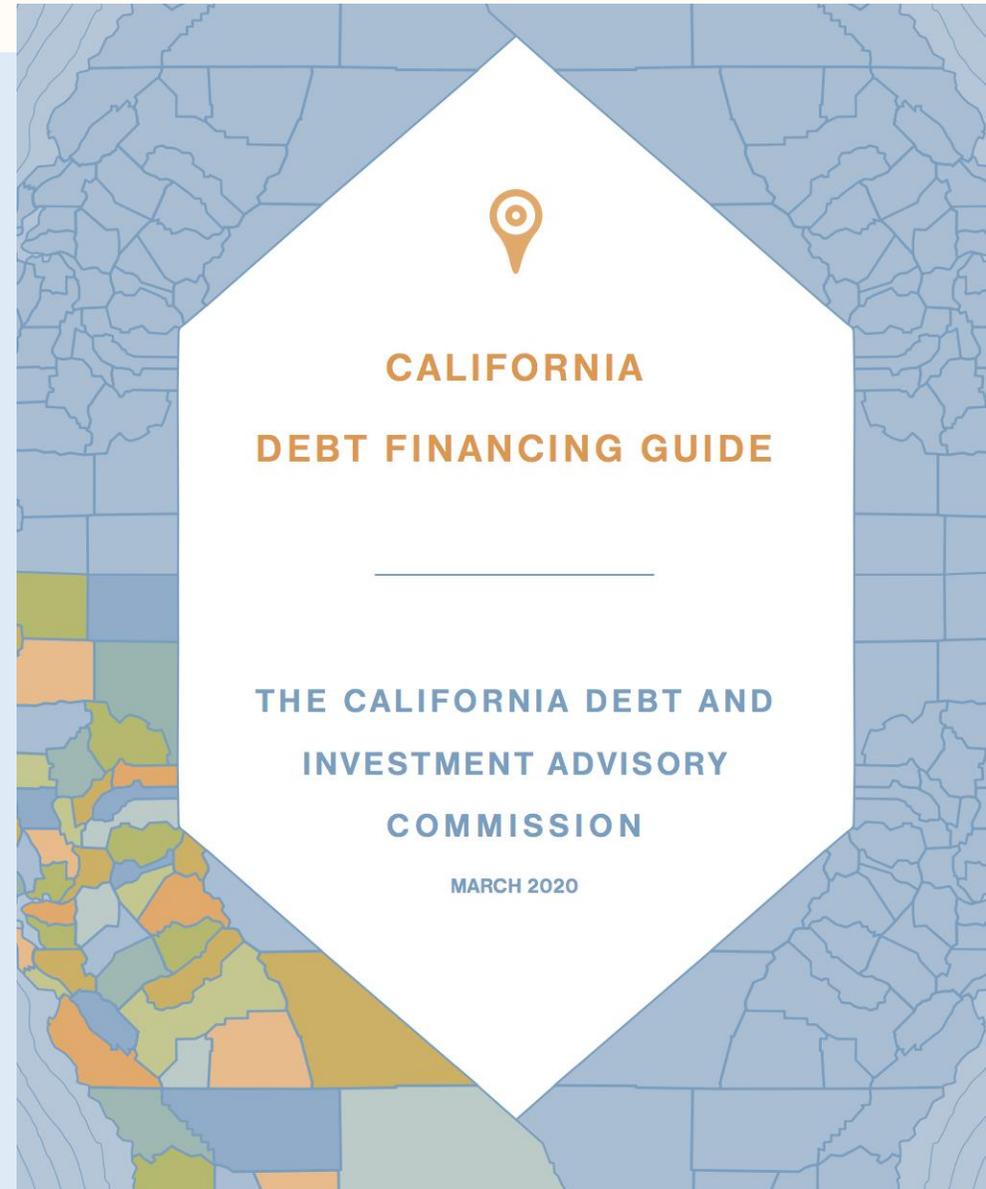
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Use the **Question Box** to submit questions for the panelists.

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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Registration is Separate for Session 2:
*Community Facilities District Bond
Issuance and CFD Administration*
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