



An Introduction to Community Facilities District Financing

**City of Dixon
City Council Workshop
May 29, 2013**

Item 6.2 Distributed at Council
Meeting 5/29/2013



Terminology

- Community Facilities District (“CFD”)
- Special Tax
- Tax-exempt bonds
- Land-secured
- “Value-to-lien” ratio
- 2/3-vote (super majority)
- Tax formula or Rate and Method of Apportionment (“RMA”)



What is CFD Financing (Mello-Roos)?

- Mechanism to fund public infrastructure and services
 - 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 services that public agency budgets can no longer sustain



Why use Mello-Roos?

- 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



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



Misconceptions about Mello-Roos

1. **Results in risk to City's General Fund**
 - Special taxes paid on property tax bill
 - On parity with (equal to) property taxes, general obligation taxes and assessments on tax bill
 - Senior to first trust deed
 - Bondholders look at land in CFD as security
 - No general fund backstop or obligation
 - Foreclosure is sole remedy in default
 - Accelerated foreclosure compared to property tax
 - Mello-Roos defaults are rare



Misconceptions about Mello-Roos

2. **Staff will be responsible for administration**
 - Most public agencies contract out for CFD administration; costs covered by special taxes
 - Private firms manage almost all administrative tasks
 - Preparation of tax levy
 - Compliance with ongoing disclosure requirements
 - Manage special tax delinquencies
 - Answer taxpayer questions
 - No annual action required by City Council



Misconceptions about Mello-Roos

3. There have been major problems with CFDs
 - Mello-Roos has funded billions of dollars of public infrastructure with very few defaults
 - Mello-Roos is like traditional assessment district financing, with more flexibility
 - The Mello-Roos Act is updated regularly to fix problems and improve the funding mechanism
 - Many agencies that have used Mello-Roos continue to do so on future projects



Misconceptions about Mello-Roos

4. **Homeowners don't receive proper disclosure**
 - Disclosure for Mello-Roos is better than for any other funding mechanism in California
 - The law requires that homeowners sign a disclosure form before placing a deposit down on a home
 - Disclosure is also required on resales; usually provided by a DRE form



Next Steps for the City of Dixon

- City initiates financing team
 - Special Tax Consultant
 - Bond Counsel
 - Financial Advisor
 - Underwriter

- Preparation of items for first council meeting
 - CFD Boundary Map
 - Rate and Method of Apportionment of Special Tax (“RMA”)
 - List of Authorized Improvements and Services



Next Steps for the City of Dixon

- City Council actions
 - Resolution of Intention to Form CFD and issue bonds
 - After 30 days, Resolution of Formation of CFD
 - Election (usually same meeting as Res. of Formation)
 - Adopt Special Tax Ordinance

- Preparation for Bond Sale
 - Determine improvements to be financed / acquired, the amount of bonds to be issued and the timing of the sale
 - Bond documents drafted by financing team
 - Council authorizes bond sale and directs staff to execute bond documents within certain parameters established by the Council
 - Preliminary Official Statement (“POS”) distributed to potential investors
 - Site tours/investor conference calls

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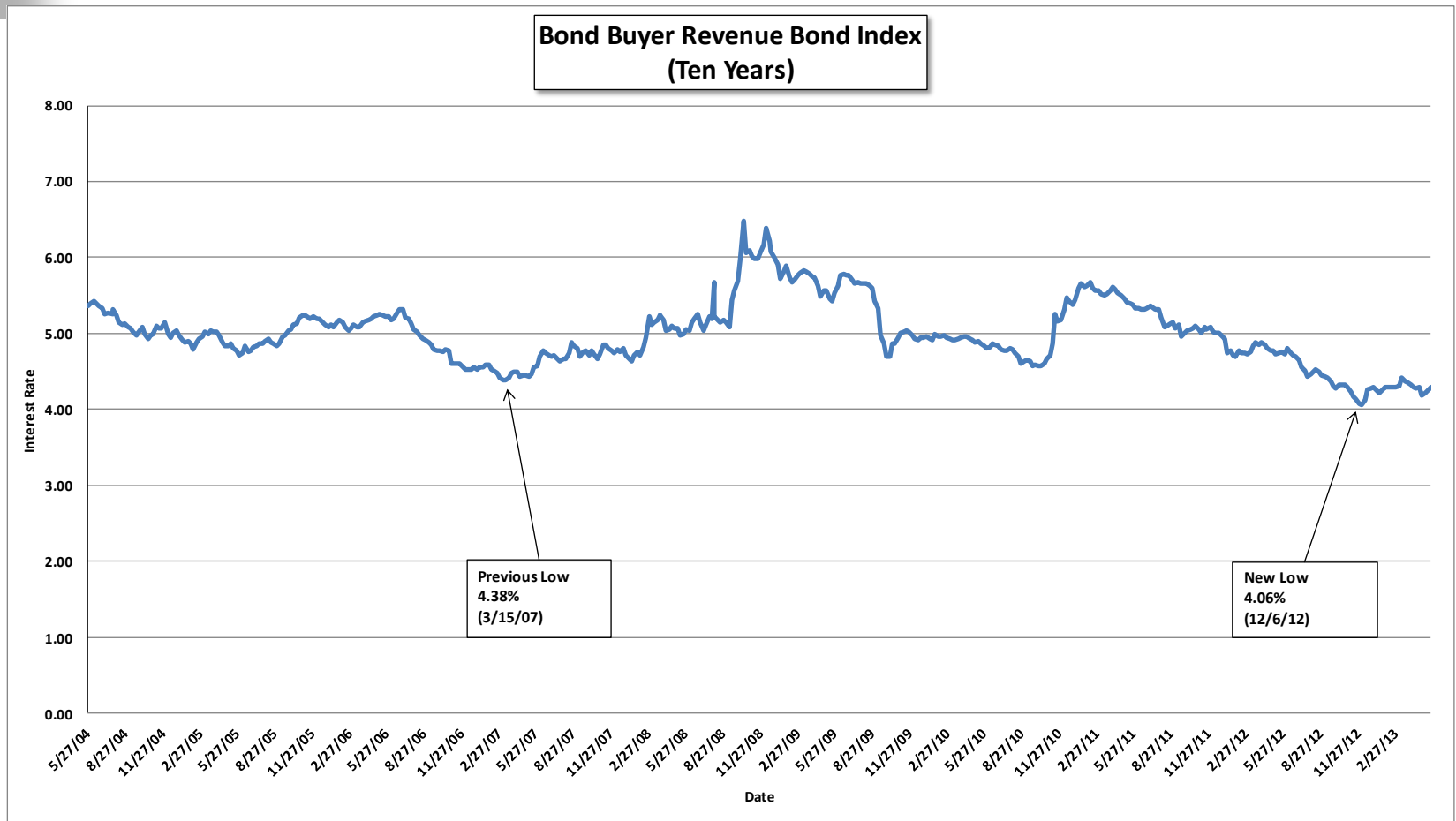
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Next Steps for the City of Dixon

- **Bond Sale**
 - Negotiate the bond sale
 - Final interest rates and yields
 - Fees
 - Print and mail Final Official Statement (“FOS”)
 - Finalize and execute bond documents
 - Bond closing and transfer of funds
- **Ongoing CFD Administration**
 - Special tax levy prepared and placed on tax roll
 - Disclosure reports prepared for federal and state req’ts
 - Arbitrage rebate calculations
 - Delinquency management

Municipal Market Rates



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Notes:

Revenue 25 Bond Index (30 Years, A1, A+)



Land-Secured Market Commentary

- Interest rates at or near “all-time” lows
 - 4.06% on 12/6/12, 4.30% today
- Investors looking out the credit curve to non-rated transactions
 - 100% developed or mostly developed districts
 - Low delinquency history and high “value-to-lien”
- Raw land undeveloped districts
 - Investors seeking market comparables
 - Not only land sales but actual home sales
 - Helps establish appraised “as-developed” value
 - Compensated for development risk with higher interest rates