

# *BONDS*

**Community Facilities District (CFD) Bond Liens**

**Presented by**

**Jim Glickman, MAI**

**To**

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# BONDS

- *TYPES OF ASSESSMENT AND SPECIAL TAX DISTRICTS.*
- *RELATIONSHIP BETWEEN BONDS, FEES & PRIVATELY FUNDED INFRASTRUCTURE IMPROVEMENTS IN THE FACILITIES FINANCING PLANNING PROCESS.*

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## **USPAP – Standards Rule 1-2**

- **Identify property characteristics, including encumbrances, special assessments...**

## **USPAP – Standards Rule 1-4(f)**

- **Analyze anticipated public or private improvements to the extent they are reflected in market actions.**

# BONDS

- Public Improvements & Facilities
- 1911 and 1915 Act Bonds finance the construction and/or acquisition of “Public Improvements”. A wider range of improvements and facilities can be financed by a Community Facilities District (CFD), such as school, police, fire and other capital improvements not permitted under assessment financing. CFD’s can also finance on-going services.

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- Project Development Options
- Private/Developer Funded Infrastructure
- All major backbone infrastructure (sewer, water, drainage, streets, etc.) constructed and funded by master developer. Typically involves high upfront off-site costs, followed by phased development. Not typically done on large-scale projects – only smaller ones. Benefit from Development Impact Fee credits.

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## **Pay-As-You-Go Facilities Financing Fees**

- Typically combined with privately funded infrastructure improvements.
- Master developer may encounter high upfront costs.
- Costs may be offset with credits against “pay-as-you-go” development impact fees, or future reimbursements from subsequent developers (if and when?).

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- **Assessment Districts**
- Assessment District bonds are based upon a parcel-specific amortization schedule, which can be retired (paid off) at any time.
- Credits against the development impact fees may apply for some of the privately funded and constructed site improvements. Per-unit bonds, impact fees, and required off-site improvements may differ from project site (owner) to project site (owner) within a District.

# BONDS

- **Mello-Roos Community Facilities District (CFD)**
- The method of taxation does not require apportionment (spread) on the basis of benefit to any given property. As opposed to A.D.'s, there is not necessarily a schedule of principal balances or bond debt liens for specific properties (APN's) within a CFD.
- The special tax rates and the method of taxation for a CFD are those outlined in the Rate and Method of Apportionment for that specific District.

# BONDS

- Where do you find the Rate and Method of Apportionment (RMA) for a CFD?
  - Official Statement (OS) for bond issue
  - Contact Finance Dept. of Issuer - City, County or District (school, flood agency)
  - Contact Bond Underwriter for that issuance
  - Websites (MuniOS.com; eMuni.com, etc.)

# BONDS

- What can the Rate and Method of Apportionment (RMA) tell you?
  - Maximum Special Taxes for each type or classification of property in the CFD
  - Method of Levy of the Special Tax
  - Annual Escalations
  - Exemptions
  - Prepayment (Payoff) Formula
  - Foreclosure Provisions

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- What the Official Statement (OS) tells you?
  - Description of District Properties / Owners
  - Description of Funded Facilities
  - Overlapping Debt (Other CFD's / AD's)
  - Executive Summary of Appraisal for CFD
  - Maturity Schedule – Principal & Interest
  - Debt Service Schedule (District-wide)

# BONDS

## Appraisals For CFD's (Bond Issues)

- California Debt and Investment Advisory Commission (CDIAC) – CA Treasurer's Office
- Appraisal Standards For Land-Secured Financing (CDIAC 04-07) – Revised July '04
- Recommended Practices in the Appraisal of Real Estate for Land Secured Financings (CDIAC 04-06) – July 2004
  - *[www.treasurer.ca.gov/cdiac/publications](http://www.treasurer.ca.gov/cdiac/publications)*

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## Real Estate Tax Bills – Title Reports

- Check Breakdown / Listing Direct Levies
- Is Property within a CFD Boundary (formed)
- Not taxed today? What about tomorrow?  
(See Tip #3) What triggers the tax? Recordation of map? Building Permit?
- Understand what Special Taxes paying for?
- Does the tax bill show the Maximum Tax, or just the amount budgeted for that tax period?
- Is there a Back-Up Tax?
- Is there a 2% annual escalation?

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## Affect on Property Rights Appraised

- *“Fee Simple Estate - Subject To Special Tax and Special Assessment Liens”* (CDIAC)
- Net of Bond / Assessment Lien
- Report the “Fee Simple Estate – Subject To” opinion, along with a footnote disclosing that the property is subject to a CFD or AD lien.

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## Important Points to Understand

- Bonds are in effect an “assumed mortgage” that runs with the land.
- CFD lien is senior to the first mortgage lender – See Tip #2 on Foreclosure.
- Taxes/assessments impact the ability of a homebuyer to qualify for a loan by reducing funds to service the debt (mortgage).
- Reduces Net Income on Investment Property

# BONDS

- Affect on Loan-To-Value on Land Loan

	<u>Fee Simple</u>	<u>Subject To</u>
100 Lots @ \$10K	\$1,000,000	\$1,000,000
Bond Debt @ \$25K	<u>\$2,500,000</u>	Ignored
Total “Value”	\$3,500,000	\$1,000,000
Proposed Loan (50%)	\$500,000	\$500,000
Total Loan (Lien)	\$3,000,000	\$500,000
Resulting LTV	86%	50%

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- For developers, bonds hopefully fund and provide the necessary infrastructure to facilitate development and construction, but also serve as a holding cost (burden) until build / sold-out.
- Appraiser must understand what is funded, the direct burden on the appraised or data property, and the direct or indirect benefits to the respective properties.

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## AD (Principal) vs. CFD (Present Value)

- Assessment District Bonds - Contact sponsoring agency or firm such as Muni-Financial to determine if debt can be repaid and/or remaining principal balance.
- Pay-off amounts and remaining principle balance can differ greatly. An alternative method would involve discounting the remaining annual assessments to a present value.

# BONDS

## Methods of Estimating Debt/Lien

- Analyze original issue (OS and RMA)
- Maximum Tax for SFR = \$1,500/Annum
- Total Max Tax – District = \$3,947,500 (1.10 DC)
- Bonds Issued = \$67,670,000 (sold '07)
- Mortgage Constant (Rm) or a Reciprocal Factor of 17.14 divided by 1.10 (DC) = 15.6 “Factor”
- Special Tax Times Factor = Lien
- $\$1,500 \times 15.6 = \mathbf{\$23,400}$  (Bond Lien)
- Same method could be applied with Debt Service

# BONDS

- SFR - Discount AD Assessment or CFD Tax over the term of a residential mortgage (30 years at prevailing rate) – Measure of impact on homebuyer's ability to qualify for loan.
- Current Mortgage Rates of 5.25%
- \$1,500/Yr (\$125/Mo) would amortize a principal loan amount of **\$22,637**.

# BONDS

- Discount over remaining term of bond issue at blended rate (for original issue)
- Blended Rate was 5.17% ('07)
- Original Bond Term was 30 years
- Discount PV at 5.17% over remaining 28 years of bond issue.
- $\$1,500 \times 13.8084 \text{ (PW1/P)} = \mathbf{\$21,940}$
- **May be understated since tax increase of 2% per year has not been factored in.**

# BONDS

- Analysis of original issue = \$23,400 (in '07)
- Impact on Borrower (loan)= \$22,237
- Discount over at Bond Rate = \$21,940
- Reconcile a Bond Lien at say **\$23,000**, which suggests a Factor or Multiplier of 15.33 (23,000/1,500).
- *Consistency in the analysis of bond liens on the subject property and comparable data is more important than the method. Always defer to what the market is telling you. This is only an example.*

# BONDS

- Income Property – Apply Overall Cap Rate
- Say Cap Rate is 7.00%
- $\$1,500 / .07 = \$21,430$  (impact on value) as if an operating expense.

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## Test #1: Value-To-Lien Ratio (At Issuance)

- 3 to 1 (that means there are 4 parts)
- 3 Parts “Value” to 1 Part “Bond Lien”
- So, if average Paper Lot Value is \$75,000, then Maximum Bonding Capacity would be \$25,000 per paper lot.
- Laguna Ridge met this basic test at time of issuance (June 2007)

# BONDS

## Test #1: Cap Taxes at 2% of Value

- Say Home Value was \$400,000 (2007)
- Ad Valorem Tax is about \$4,000 (1%)
- CFD 2005 Facilities Tax is \$1,500
- Other Assessments of \$1,440
- Total Taxes / Assessment = \$6,940
- $\$6,940 / \$400,000 = 0.01735$  (1.735%)
- Met test as of 2007

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- **Today – a Bank REO Property just sold for about \$5,000 per paper lot – Carrying costs of CFD Bonds cited as a factor.**
- **Taking the Bond Lien estimate of \$23,000 indicates the following:**
  - **\$5,000 (Price/Value) to \$23,000 (Lien)**
  - **0.22 to 1 (Value to Lien)**
  - **Now Upside-Down**
  - **Fee Simple Price (Price + Lien) = \$28,000**

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- **Today – a Home might be worth \$250,000**
- **Total Taxes/Assessments of \$5,440 today**
- **$\$5,440 / \$250,000 = 2.176\%$**
- **Exceeds Maximum Tax Cap Test**