

CMFA BOLD Program Information

Municipal Bond Financing for New Infrastructure

The Bond Opportunities for Land Development ("BOLD") program (sometimes referred to herein as the "Program") is offered by the California Municipal Finance Authority ("CMFA") and designed to help municipalities and schools throughout the State work together with land developers to cost-effectively finance public infrastructure projects and development fees through bonds issued by a community facilities district ("CFD") formed by the CMFA under the Mello-Roos Community Facilities Act of 1982 (California Government Code Section 53311 et seq.). Administration of the Program, bond offerings, and related CFD formation and ongoing administrative responsibilities are managed by the CMFA, without cost or burden upon the municipality or developer.

The BOLD Program has been developed to provide economic development financing opportunities to CMFA members throughout California. The program facilitates a solution to what local agencies understand – the availability of bond proceeds to finance public infrastructure is a key part of providing the much needed new housing development in California.

California Municipal Financing Authority (CMFA)

Who is CMFA? The CMFA is a State-wide joint powers authority ("JPA") whose members are numerous public entities throughout California. The CMFA has the authority to issue bonds to meet its mission of supporting economic development, job creation and social programs throughout the State of California while giving back to California communities. By supporting member communities and their local charities with a portion of the revenue generated through the issuance of taxable and tax-exempt bonds for public, private and non-profit entities, the CMFA is able to directly contribute to the health and welfare of the residents of California. The CMFA offers a means to finance new or continuing construction of infrastructure and public facilities through bonds it issues as an alternative to issuance of bonds directly by a public entity.

Facilitating Development. The CMFA recognizes that new residential development often challenges the mission of municipalities to provide infrastructure and schools, since new development triggers the need to construct, acquire, or otherwise provide additional public facilities to accommodate that growth. By working directly with developers, the BOLD program facilitates financing for infrastructure and fee obligations of developers, particularly obligations related to impact fees imposed under California law, and including fees related to schools and mitigation agreements.

Giving Back to Communities. The CMFA strives to maintain a fee structure that is lower than other JPA conduit issuers. In addition to lower borrowing and administration costs, the CMFA shares a portion of all issuance fees directly with its member communities. In addition, a grant from a portion of the issuance fee is made to the California Foundation for Stronger Communities ("CFSC") to fund charities designated by the member communities. A portion of the annual fees received by the CMFA will also be directed to charitable activities within California communities. This unique commitment to "give back" directly to the communities in which we operate sets CMFA apart from other JPA conduit issuers operating in the State.

Program Overview

Community Facilities District Financing. The Program utilizes the Mello-Roos Community Facilities Act of 1982 (California Government Code Section 53311 et seq.) to raise revenues for the capital improvement needs of participating local agencies. The Act offers financing flexibility commonly used by cities, schools and other local agencies throughout the State to generate funds for the payment of public facilities, including development fees for facilities.

Benefitting Local Public Entities. Little involvement of the local agency is required and these entities will quickly recognize the convenience of joining the CMFA to facilitate use of the Program. Once that simple step is taken, the rest is left up to the participating developer and the CMFA BOLD Program's financing team – the CMFA forms the CFD, issues the bonds and takes care of ongoing CFD administration – leaving time for the staff of the participating public entity to focus on their core public services. Bond proceeds are immediately available to the participating local agencies for facilities, in most cases far in advance of the due date of fees and obligations otherwise payable as development progresses; the municipality has the opportunity to sooner access those revenues quickly and eliminate the risk of nonpayment by the developer. An additional highlight for the local agencies involved is that the program utilizes the services of special tax administrators to create the special tax formula and levy and collect the special taxes, without interfering with, or limiting, a local agency's general obligation bond (GO Bond) debt program.

Developer Benefits. The Program offers developers the opportunity to finance public infrastructure and related impact fees for municipalities and school districts through the favorable interest rates associated with tax-exempt bonds. Repayment of the bonds is in the form of special taxes payable by home buyers or other end users, levied under the special taxing authority provided by a CFD, a typical financing method for new home developments in California.

Financing flexibility is key to developers, both as to timing, fees and facilities financed, costs of financing infrastructure and ease of moving forward. The Program offers unique advantages targeted to meeting those needs, including the following:

- CFD Now, Bonds Later the ability to form a CFD well in advance of the time actual bond proceeds are needed, allowing the financing mechanism and known tax rates to be in place early in the planning of development
- Changes to Development Plans a legal process is available to alter tax formulas and amounts after CFD formation upon consent of the developer/owner
- No Restrictive Benefit Analysis with a CFD structure, strict benefit findings are not required, special tax rates are customized to meet local and industry norms
- Fees and Facilities of Multiple Jurisdictions- using Joint Community Facilities
 Agreements, fees and facilities of cities, school districts and other local entities can be
 financed by a single CFD
- Flexibility The program is supported by an experienced financing team with broad CFD experience and financings are structured to allow maximum flexibility and up to date acceptance standards of the investor community.
- No Restrictive Deadlines Formation of the CFD and attachment of the tax lien can occur on a rolling basis at any time, no need to wait for pool participants or meet application deadlines
- Work With Local Jurisdictions The CMFA's BOLD Program will consult with the local jurisdiction to accommodate concerns and provide cooperative relationships
- Post-Issuance Ease CFD Administration and Continuing Disclosure are handled by the CMFA BOLD Program.
- Cost-Effectiveness Program volume allows lower formation and issuance costs, with costs advanced reimbursed by bond proceeds

Financing Team. The Program is facilitated through bond industry professionals highly specialized expertise in CFD bond issuance and sales and consistently ranked among the top municipal bond firms in California. Any local agency that desires to use its own financial advisor to review the BOLD Program application and/or other program documents may do so, with all related costs payable from bond proceeds.

Developer Application. The first step in the process of issuing bonds through the Program is for the developer to submit an application describing the project to be financed and particulars about the property to be subject to the special tax securing the bonds. The form of developer application can be accessed here: <u>Developer Application</u>.

Public Entity Joining CMFA. Joining the CMFA is easy and comes with absolutely no monetary obligation or potential legal liability. The local agency can join the CMFA by simply adopting a resolution approving the Joint Powers Agreement. The CMFA can provide the form of resolution to the local agency.

Bond Issuance. Bonds are issued through the CMFA, with no involvement of the local agency needed, other than becoming a member of CMFA, approve the project and financing thereof and entering into a simple agreement to receive the bond proceeds and meet the general requirements

to maintain the tax exemption of interest on the bonds. The CMFA adopts the resolutions needed to authorize and issue the special tax bonds and awards their sale to the bond underwriter. The CMFA fully researches the project and the financing team drafts the bond documentation and the marketing materials associated with the bond offering.

Bond Pooling. The CMFA has the ability to create bond issuances representing a single pool of various CFD bonds secured by property in various areas throughout the State. This facilitates small development projects needing an amount of bonds not large enough to attract public bond investors, providing cost-effective bond financing to a segment of the development community often without access to bonds. Alternatively, larger projects with larger bond needs may participate in bond financing on a stand-alone or pooled basis.

Administration of the Bonds and the CFD. The BOLD Program is offered and managed by the CMFA by utilizing the services of independent experienced industry professionals for CFD and bond documentation, credit review and ongoing administration, so participating local agencies have minimal commitments.

Developer Reimbursement. Upon issuance of the bonds, with the approval of the benefiting local agency, proceeds are a funding source for direct payment of impact or mitigation fees or to otherwise reimburse developer costs for public facilities associated with new development. The Program has the flexibility to accommodate the timing and needs of developers related to most financial obligations to cities and school districts which are typically a part of a new home development and likewise it has the flexibility to involve the local agency to its level of desire to be involved.

Developer Responsibilities

Developer Application. The first step in the process of issuing bonds through the Program is for the developer to submit a brief application describing the project to be financed and particulars about the property to be subject to the special tax securing the bonds. The financing team will contact the developer for more detailed credit information as needed as part of the project due diligence process and will work with the local agency where the project is located as well as the developer to determine the timing and applicability of CFD bonds for the development project.

Determining Special Tax Rate. Formation of the CFD requires the establishment of the annual special tax rates. The formula for computing the special tax should be realistically determined as early as possible to provide enough money to pay bond debt service and the recurring administrative costs of the bonds each year. The formula will be included in the formation resolutions to be adopted as part of the proceedings. Typical considerations for the formula are provisions for a basic, undeveloped land tax with an increase and shifting of the tax to developed lands (usually at building permit stage). The total amount of total taxes on developed land generally will not exceed 2% of its market value in its completed state. The developer will work with Program consultants to formulate an appropriate special tax formula.

Information for Bond Marketing. Tax-exempt municipal bonds are sold through an offering document known as an Official Statement, which describes to potential purchasers of the bonds

the terms, security and repayment of the bonds and details about the property securing the bonds. Since prior to home sales the land is owned by the developer entity, relevant information for the Official Statement needs to describe the developer and the development plan, as provided by the developer. The financing team will work with the developer to provide the required information and approve the final language and information to be provided to prospective bond buyers.

Disclosure of Special Tax to Home Buyers. California law requires developers to disclose to home buyers the lien of any CFD special tax which will be present on the purchased property. The form of disclosure is simple and becomes part of the various sale documents presented to buyers for signature prior to a home sale.

Use of Bond Proceeds. Once the bond issuance occurs, bond proceeds are available to be disbursed. The proceeds are held by a bond trustee and are not directly paid to the developer but are available as directed by the developer, to be used to meet obligations to local government agencies according to the structure and timing required for development approvals.

Underwriting for Bond Issuance

The CFD may be formed early in the development process, with the issuance of bonds at a later time and/or in multiple series. When it's time for bonds, the BOLD program is user-friendly and in conforming to credit conditions which are generally acceptable to the municipal bond market at the time of each bond issuance. The following are the typical basic criteria for bond issuance.

- Minimum 4:1 value-to-debt ratio overlapping (assessed or appraised)
- No discretionary approvals required for build-out of the portion of the CFD directly relating to the bond security.
- Entitlements received that are necessary for phase to be bonded
- Financing plan for backbone infrastructure complete or imminent and/or performance bond in place

Credit criteria will need to be reviewed by the underwriting team on a case by case basis to assure reasonable interest rates and municipal bond market acceptance at the time of issuance. Similar credits can be pooled together into a single bond issue with pooling flexibility assuring the most cost-effective bond issuance for each project.

As part of the bond issuance process, the BOLD program will ask each project to provide certain due diligence information that will elaborate on, update or confirm some of the information provided in the initial Program application, allowing the Program managers to fully evaluate the credit of the proposed project. Continuing disclosure per SEC requirements can be handled by the CFD administrator in consultation with developers, as needed.

Program Costs

Cost of participation in the Program is typical of industry standards. No deposit is required at the time of application. Upon approval of the application, a deposit will be required to cover costs of

formation, primarily fees of the special tax consultant and legal counsel. The deposit will typically be sufficient for completion of CFD formation, subject to the local jurisdiction requesting fees for consultants it may wish to utilize to approve participation in the Program. Costs for the issuance and sale of municipal bond issuances typically include legal, underwriting, trustee and issuer fees, with those and advanced costs of CFD formation paid from bond proceeds, so the public entity and the developer are not responsible for payment of Program costs to the extent bond proceeds are available.

Costs to issue bonds through the Program are competitive and are typically payable at the time of closing of the bonds, although in some cases the developer may need to provide initial funding of certain costs, which will be reimbursed at the time bonds are issued. Bond-financed costs can include fees of the developer's own legal and development consultants related to the CFD, offering another benefit for cash flow associated with a development project. As is typical with CFD bonds, a bond reserve fund will be necessary, which can also be funded from bond proceeds.

Developer Application

To get started, the first step in the process for issuing bonds for the program is for the developer to <u>submit an application</u> describing the project to be financed and particulars about the property to be subject to the special tax securing the bonds.

For More Information, contact:

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