

Advantages and Disadvantages of Community Facilities Districts for Issuer, Developer, and Ultimate Property Owner

Issuer Perspective

ADVANTAGES to Issuer

- ◆ Infrastructure is provided without the use of general tax revenues.
- ◆ CFDs may provide more infrastructure or better infrastructure sooner or cheaper than otherwise.
- ◆ CFDs may be used to fund certain eligible services (including police and fire protection, and street maintenance).

DISADVANTAGES to Issuer

- ◆ Potential adverse property owner reaction to special tax.
- ◆ Risk of bond default through no fault of issuer.
- ◆ Issuer covenants to institute foreclosure for non-payment of special taxes with timing and conditions more stringent than delinquent ad valorem taxes.
- ◆ Staff time during formation and bond issuance.
- ◆ Staff time for administration during CFD lifetime and continuing disclosure reporting for term of bonds
- ◆ Though not an obligation of the issuer's general fund special tax debt is typically included in per capita debt calculations by municipal rating agencies, and thus could impact the general debt rating of the issuer.

Developer/Merchant Builder Perspective

ADVANTAGES to Developer /Merchant Builder

- ◆ Tax exempt interest rates provide lower borrowing costs than typically available through other lenders.
- ◆ Debt imposed is off-balance sheet financing; not shown on developer's or builder's books.
- ◆ Debt imposed is non-recourse to developer or builder.
- ◆ CFDs allow a builder to transfer obligation to pay for infrastructure in a way other than sales price.
- ◆ CFDs may enhance cash flow and profit.

DISADVANTAGES to Developer /Merchant Builder

- ◆ To market CFD bonds a developer or builder will most likely have to disclose financial information about itself and the project that otherwise might not be public.
- ◆ Having a CFD special tax lien in place may cause an adverse marketing reaction from potential home buyers.
- ◆ The costs of forming a CFD are high and typically developer/builders are required to front formation costs. Also, formation and bond issuance steps can be time intensive and developer and/or builder staff time must be allocated.
- ◆ As part of a CFD financing a developer or “obligated party” will have an obligation to provide continuing information about the project until all or most sales occur.

Ultimate Property Owner Perspective

ADVANTAGES to Ultimate Property Owner

- ◆ More or better infrastructure may be in place sooner or cheaper than otherwise.
- ◆ Since cost of financed infrastructure is repaid through the CFD bond, the sales price of the home may be lower and a lower down payment may result.

DISADVANTAGES to Ultimate Property Owner

- ◆ CFDs impose higher overall tax levels, resulting in higher property tax bills. Special Taxes may increase total annual taxes paid from approximately 1.0% of original house sales price to 1.8%-2.0%.
- ◆ Special taxes may escalate automatically regardless of current property value and can not be appealed.
- ◆ CFD lien could impact future value or ability to resell.
- ◆ Non-payment of special taxes may cause abbreviated foreclosure process.