

Top Ten Matters Every Mello-Roos Issuer Must Know About The Appraisal

California Government Code Section 53345.8 requires that as a precedent to Community Facility District (CFD) bond issuance, the legislative body determines the value of property subject to the special tax providing debt service to pay debt service on the bonds, will be at least three times the principal amount of bonds to be sold, and the principal of all other CFD bonds revised on property within the CFD. The determination of value can only be based on the ad valorem assessment roll or on an appraisal consistent with applicable state law and the local jurisdiction's adopted CFD goals and policies. For a variety of reasons, most CFD's utilize appraisals to comply with these provisions.

The following list is intended to provide some insights into appraisals prepared for CFD bond issues.

1

Retain a qualified appraiser familiar with the requirements of the Recommended Practices in the Appraisal of Real Estate for Land-Secured Financings published May 1994 and revised July 2004 by the California Debt and Investment Advisory Commission (CDIAC), the debt policies of the public agency, the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.

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An appraisal that values the fee simple estate subject to special tax and special assessment liens takes into account the added tax burden of land secured financing.

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Special care should be taken to review the contingencies, assumptions and limiting conditions to determine if they impact the overall credibility of the appraisal.

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Make sure the appraisal date of value occurs within a reasonable period of time of the sale of bonds (30-90 days).

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For master planned development projects in the early stages of development a discounted cash flow analysis (DCF) is normally used to determine value.

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The four factors in each DCF appraisal are:

- 1) Merchant builder land values
 - 2) The estimated period of absorption
 - 3) The direct and indirect costs
 - 4) The before tax discount rates, including profits
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Since the discount rate has a significant impact on values, appraisers should be asked to document and justify the basis of their discount assumptions.

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The two major factors normally impacting housing prices are mortgage rates and employment growth.

Important Definitions:

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Finished Lot	Land that is improved so that it is ready to be used for a specific purpose.
Bluetop Pads	A lot or a pad which has been graded and certified and is ready for construction. Only final grading is required. Streets and utilities not completed.
Mass-Graded or Superpad Parcels	Mass-graded parcel with utilities stubbed to the site and perimeter streets in.
In-tract Improvements	In-tract improvements include all roads, storm drains, sewer, water and utilities necessary to service the tract within the boundaries of the land being subdivided.
Off-tract Improvements	Off-tract improvements include all improvements outside the boundaries of the parcel being subdivided. For example, off-tract street or sewer extensions may be required to service the property.

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When a real estate cycle occurs that results in declining prices, the majority of the decline will be attributable to the value of the land.

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