

SESSION SIX

Bond Issuance Strategies in Current Market Conditions

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**CURRENT TOPICS AND PRACTICES IN
LAND-SECURED AND DEVELOPMENT FINANCE**

**MAY 22, 2024
POMONA, CA**

Bond Issuance Process

May immediately follow formation or occur much later

■ Timing considerations

- Development momentum
- Credit quality
- Bond market conditions
- Bond-funded project reimbursement readiness
- Proceeds used to acquire completed infrastructure

■ Federal tax law constraints

- “Reasonable expectations” of spending proceeds within 3 years

Bond Capacity Considerations

How much in project funds can a CFD support?

■ **CFD Parameters**

- Maximum bond authorization
- Eligible projects
- Maximum annual tax rates and annual escalator (if any)

Determined at district formation

■ **Value of land supporting debt**

- Standard minimum aggregate value to debt ratio of 3-to-1

Determined at bond issuance

■ **Maximum tax capacity and debt service coverage**

- Based on maximum annual special tax revenues projected at build-out
- Minimum coverage typically 110% annual debt service
- Administrative expenses may be paid before or after debt service

■ **Bond market conditions**

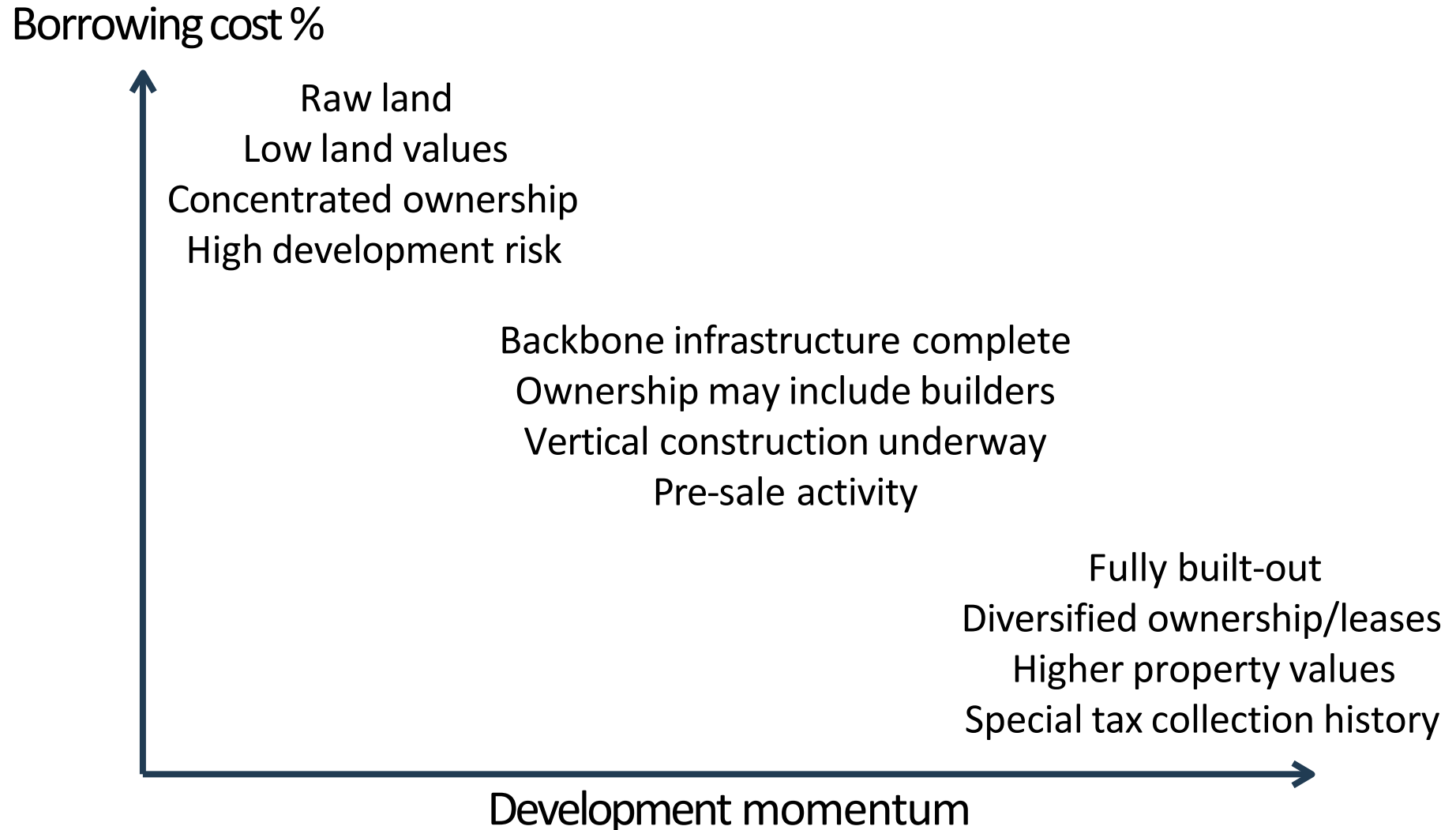
- Lower interest rates = more bond proceeds within same revenues
- Interest rates are driven by broad economic factors and specific credit quality

Key Credit Considerations

Most early stage land-secured bonds are sold as non-rated securities

Issuer:	Reputation and experience
Local Economy:	Employment options, real estate cycle, sales activity
Property:	Location, attractiveness, environmental condition or hazard
Developer(s) Strength:	Experience, financial resources, equity invested, loans
Development Plan:	Entitlements, development schedule, approvals, absorption schedule, product mix
Development Status:	Status of backbone infrastructure, “in tract” infrastructure, property ownership (developer, builder(s), land bank, homeowners), vertical construction, sales or leasing activity
Product Demand:	Demographics of competing projects
Special Tax:	Burden on property, debt service coverage
Property Values:	Value-to-lien
Legal Structure:	Foreclosure provisions, reserve, type of debt

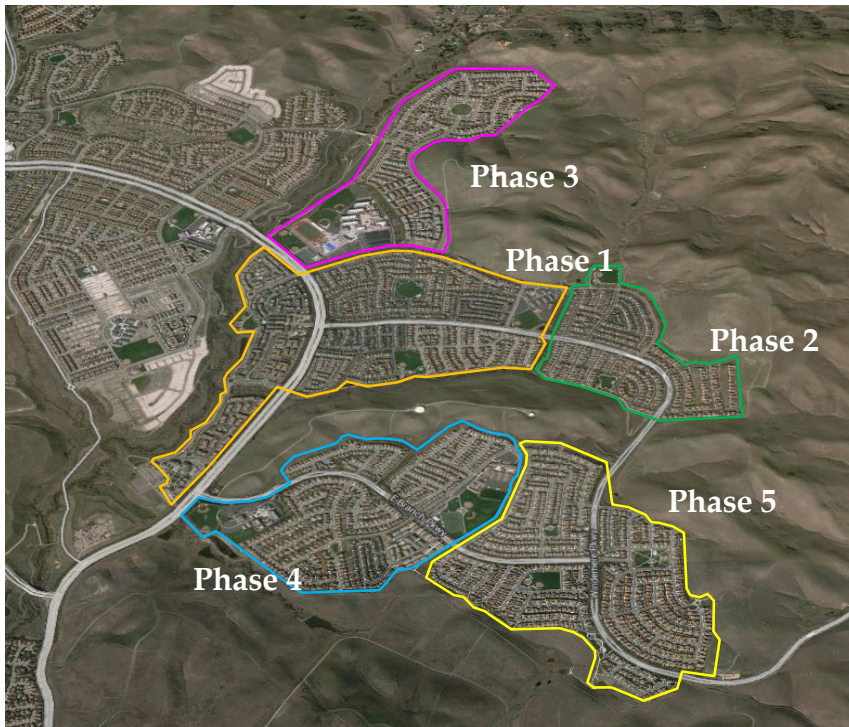
Borrowing Cost and Development Status



Evolution of a CFD: Size, Scale and Land Use

Traditional CFD: Windemere

- Suburban subdivision
- 3,280 single-family homes and 597 condos
- Phased bond sales, *development* risk diminished over time as homes built and sold



Modern CFD: Brooklyn Basin

- Urban in-fill
- 3,700 residential units in four phases
- Bonds secured by special tax levy on *completed* buildings
- No development risk but *concentration* risk

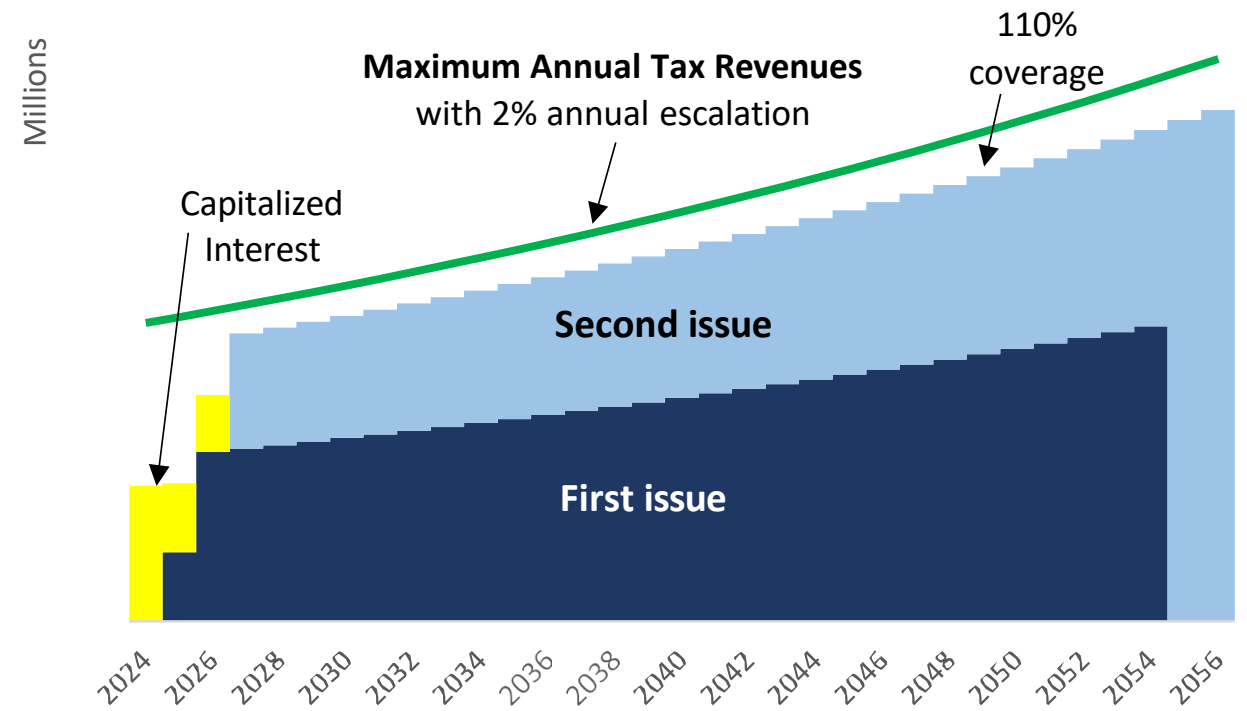
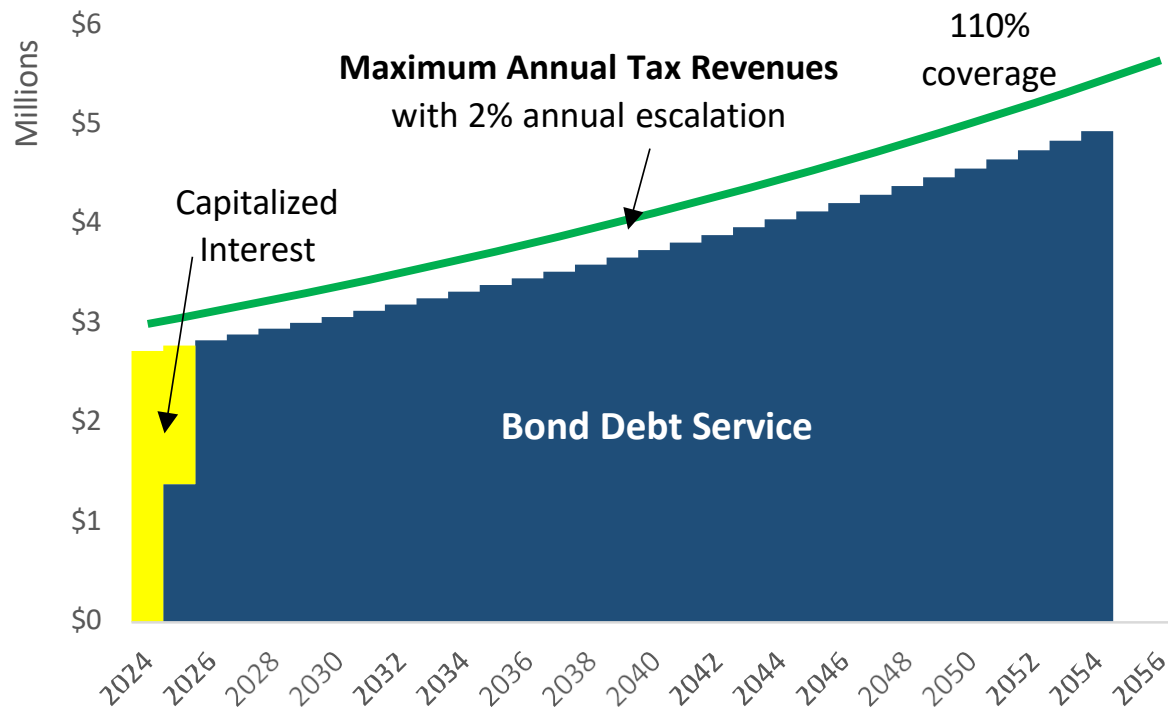


Determining Property Values

- **Issuer promises to pursue accelerated foreclosure if taxes aren't paid**
 - Value of property at a foreclosure sale is key to “land secured” credit quality
- **Assessed value (AV) sometimes used**
 - Completed projects or modest debt
- **Appraisal often used to determine property value**
 - CDIAAC Appraisal standards
 - “Bulk sale” value of property recognizing the bond-funded improvements
 - Comparable sales usually used to establish retail price of end product, discount rate, absorption affect value
 - An absorption report can inform expected timing of build out and sales
- **A “composite value” uses AV and appraised values**

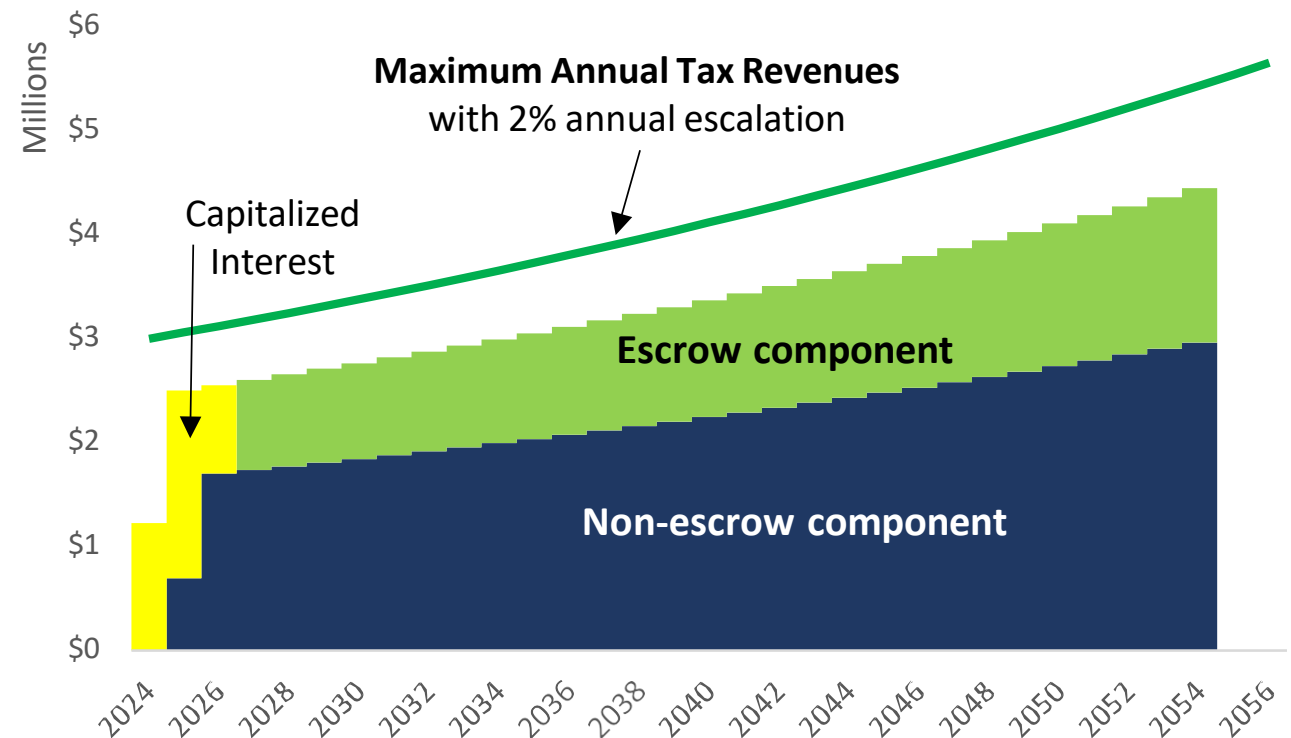
Phased Bond Issuance

- **Bond sales may be phased over time**
 - Based on credit quality and/or readiness for proceeds
 - “Additional bonds test” limits extent of future dilution for parity bonds



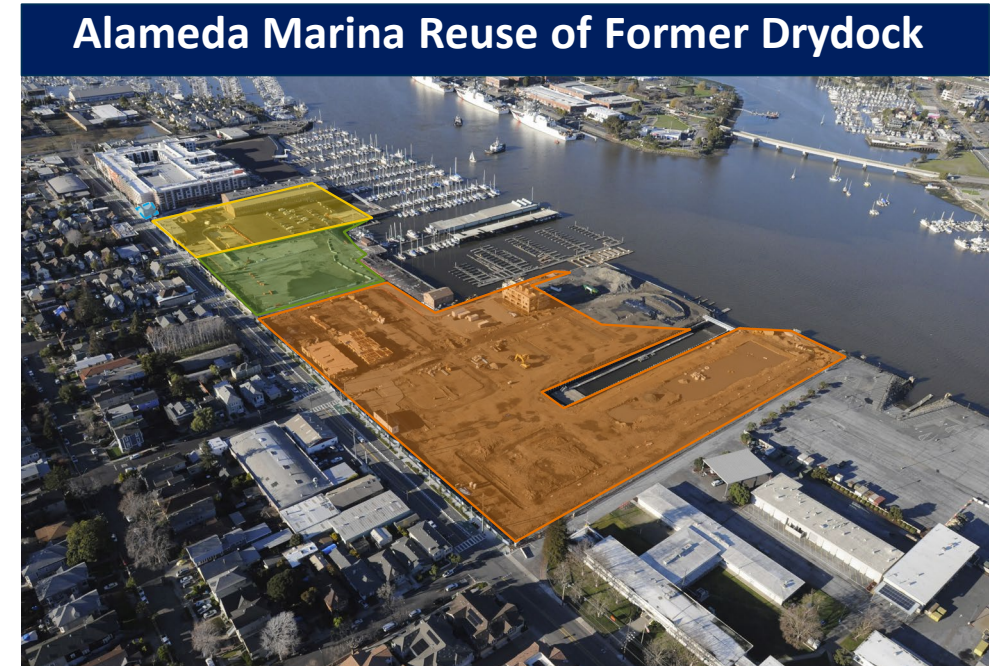
Bolstering Credit Quality - Escrow Bonds

- **Bond proceeds held “in escrow” until release conditions met**
 - Proceeds invested to pay interest on escrowed bonds until release date
 - Can mitigate credit risks while avoiding time and effort of another bond sale
- **Escrow release conditions**
 - Development milestone or other measurable metric
 - i.e. # of building permits pulled
 - “Reasonable expectations” to spend funds within 3 years
 - If condition isn’t timely met, escrowed proceeds pay off escrow bonds



“Green Bonds” and Other Labels

- **Heightened investor interest in “ESG”**
 - Risks and benefits related to environmental, social and governance factors
- **Bond designations highlight uses**
 - i.e. “Green Bonds” or “Social Bonds” for renewable energy, climate change adaptation, affordable housing projects
- **Varying standards for designation**
 - Third-party certification, self-designation, investor assessment
 - Disclosure and regulatory considerations
- **Limited pricing benefit – *so far***



Alameda Marina CFD

- Proceeds used for sea wall construction, protect against sea level rise of up to 7 feet
- \$17.5 million 2023 Special Tax Bonds sold as self-designated “Green Bonds”

Preparing a Land Secured Bond For Sale

- **Due diligence process**
 - Issuer and developer
- **Preliminary Official Statement**
 - Primary marketing document distributed to potential investors
 - May include appraisal, tax formula, and/or tax increment estimates
- **Supplemental marketing tools**
 - Investor site tours, drone videos, “virtual” roadshow



This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or advertisement is prohibited by law or regulation or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED JULY 14, 2016

NEW ISSUE **SENIOR BONDS RATING: S&P: "BBB"**
See "RATING" herein

JUNIOR (SUBORDINATE) BONDS NOT RATED OR INSURED

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Exemption."

**COUNTY OF EL DORADO
COMMUNITIES FACILITIES DISTRICT NO. 2005-1
(Blackstone)**

\$21,000,000*	\$7,000,000*
2016 SERIES A SENIOR LIEN SPECIAL TAX BONDS	2016 SERIES B JUNIOR LIEN SPECIAL TAX BONDS

Dated: Date of Delivery **Due:** September 1, as shown on inside cover

The County of El Dorado Communities Facilities District No. 2005-1 (Blackstone) 2016 Series A Senior Lien Special Tax Bonds (the "Senior Lien Bonds"), the County of El Dorado Communities Facilities District No. 2005-1 (Blackstone) 2016 Series B Junior Lien Special Tax Bonds (the "Junior Lien Bonds"), and together with the Senior Lien Bonds, the "Bonds" are being issued under the Mello-Roos Community Facilities Act of 1982, as amended (the "Act") and as to each series a separate Fiscal Agent Agreement, each dated as of July 1, 2016 (together, the "Fiscal Agent Agreements"), by and between the County of El Dorado (the "County") and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), and are payable from proceeds of Special Taxes (as defined herein) levied on property within the County of El Dorado Communities Facilities District No. 2005-1 (Blackstone) (the "District") according to the rate and method of apportionment of special tax approved by the qualified electors of the District and by the Board of Supervisors of the County, as legislative body of the District.

The Bonds are being issued to (i) refund the District's outstanding County of El Dorado Community Facilities District No. 2005-1 (Blackstone) Special Tax Bonds Series 2005, (ii) purchase a reserve fund insurance policy for the Senior Lien Bonds and establish a cash debt service reserve fund for the Junior Lien Bonds, (iii) finance capital improvements of benefit to property in the District, and (iv) pay the costs of issuing the Bonds. See "FINANCING PLAN."

Interest on the Bonds is payable on March 1, 2017, and semiannually thereafter on each March 1 and September 1. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. The Bonds, when delivered, will be initially registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. See "THE BONDS - General Bond Terms" and "APPENDIX F - DTC and the Book-Entry Only System."

The Bonds are subject to optional redemption, mandatory sinking fund redemption, and special mandatory redemption from prepaid Special Taxes. See "THE BONDS - Redemption."

The Bonds are special limited obligations of the County. The Senior Lien Bonds are payable from Special Tax Revenues (as defined herein), consisting primarily of the proceeds of special taxes levied and collected by the County on properties within the District, as described herein. The Junior Lien Bonds are payable from Special Tax Revenues, subordinate to the lien of the Senior Lien Bonds.

Ownership of the Junior Lien Bonds is subject to a significant degree of risk. The Junior Lien Bonds are not rated by any national rating agency. Accordingly, there may be a limited trading market for the Junior Lien Bonds. Potential investors are advised to read carefully the section entitled "SPECIAL RISK FACTORS."

The District has applied for a municipal bond insurance policy and a Qualified Reserve Account Credit Instrument, and will decide whether to purchase any such municipal bond insurance policy or Qualified Reserve Account Credit Instrument in connection with the pricing of the Bonds, and anticipates using the municipal bond insurance policy for some or all of the Senior Lien Bonds.

MATURITY SCHEDULE
(see inside cover)

The Bonds, the interest thereon, and any premiums payable on the redemption of any of the Bonds, are not an indebtedness of the County, the State of California (the "State") or any of its political subdivisions, and neither the County (except to the limited extent described herein), the State nor any of its political subdivisions is liable on the Bonds. Neither the faith and credit nor the taxing power of the County (except to the limited extent described herein) or the State or any political subdivision thereof is pledged to the payment of the Bonds. Other than the Special Taxes, no taxes are pledged to the payment of the Bonds. The Bonds are not a general obligation of the County, but are limited obligations of the County payable solely from the Special Taxes as more fully described herein.

This cover page contains certain information for quick reference only. Potential investors must read this entire Official Statement to obtain information essential for making an informed investment decision. Investment in the Bonds involves risks that may not be appropriate for some investors. See "SPECIAL RISK FACTORS" for a discussion of special risk factors that should be considered in evaluating the investment quality of the Bonds.

The Bonds are offered when, as and if issued by the County and accepted by the Underwriter, subject to approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, and subject to certain other conditions. Jones Hall has also served as disclosure counsel to the County. Certain matters will be passed upon for the County by the County Counsel. Certain matters will be passed upon for the Underwriter by its counsel, Strading, Yocco, Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the Bonds, in book-entry form, will be available for delivery through the facilities of DTC on or about _____, 2016.

The date of this Official Statement is: _____, 2016.

STIFEL

*Preliminary, subject to change.

Disclosure Obligations

- **SEC regulatory mandate**
 - Market transparency for investors
 - SEC doesn't directly regulate municipal issuers except for anti-fraud statutes.
 - SEC compels municipal reporting by requiring underwriter to secure agreement per SEC Rule 15c2-12(b)(5)
- **Continuing disclosure**
 - Issuer provides annual information
 - Developer often provides semi-annual updates until key milestones are met
 - Notice required for material events

Securities Exchange Act of 1934 Rule 10b-5:

“It shall be unlawful for any person. . .

(a) to employ any device, scheme or artifice to defraud,

(b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. . .”

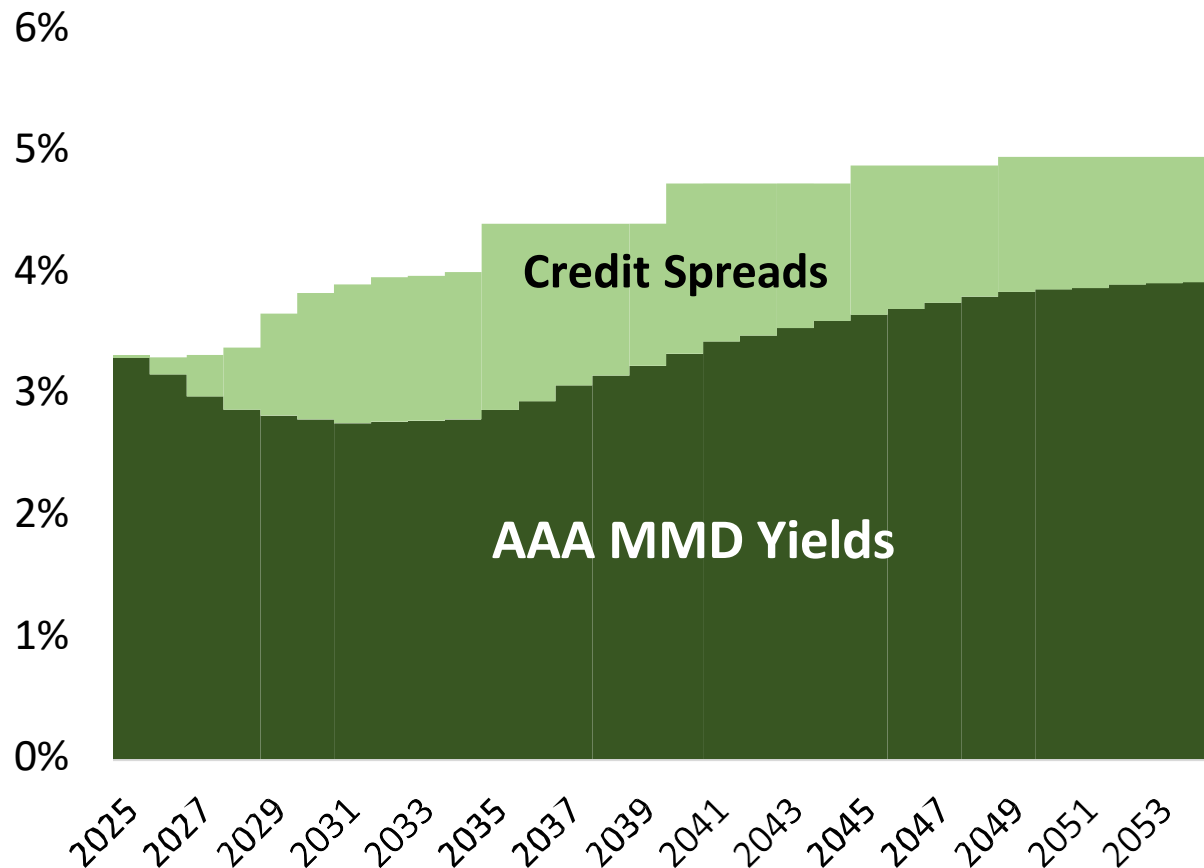
=> Applies to any circumstance where a municipal bond issuer is “*speaking to the market*,” including when filing annual Continuing Disclosure Reports or Event Notices.

Marketing Land Secured Issues

- **Narrower investor base for land-secured credits**
 - Subset of general municipal bond buyers
 - More sensitive to supply/demand trends
- **Institutional Investors**
 - Bond funds, money managers, commercial banks, bank trust departments, insurance companies, hedge funds
 - Generally prefer larger, more liquid bond issues
 - About 25 firms participate in sector, 3-5 are most active
- **Sophisticated “retail” investors**
 - High net-worth individuals, seeking stability, tax-free income and yield
 - Focus on stronger “story” credits, nominal yields

Borrowing Costs for Land Secured Bonds

- Municipal bonds are typically priced in relation to the tax-exempt AAA Municipal Market Data (MMD) index



What affects credit spreads?

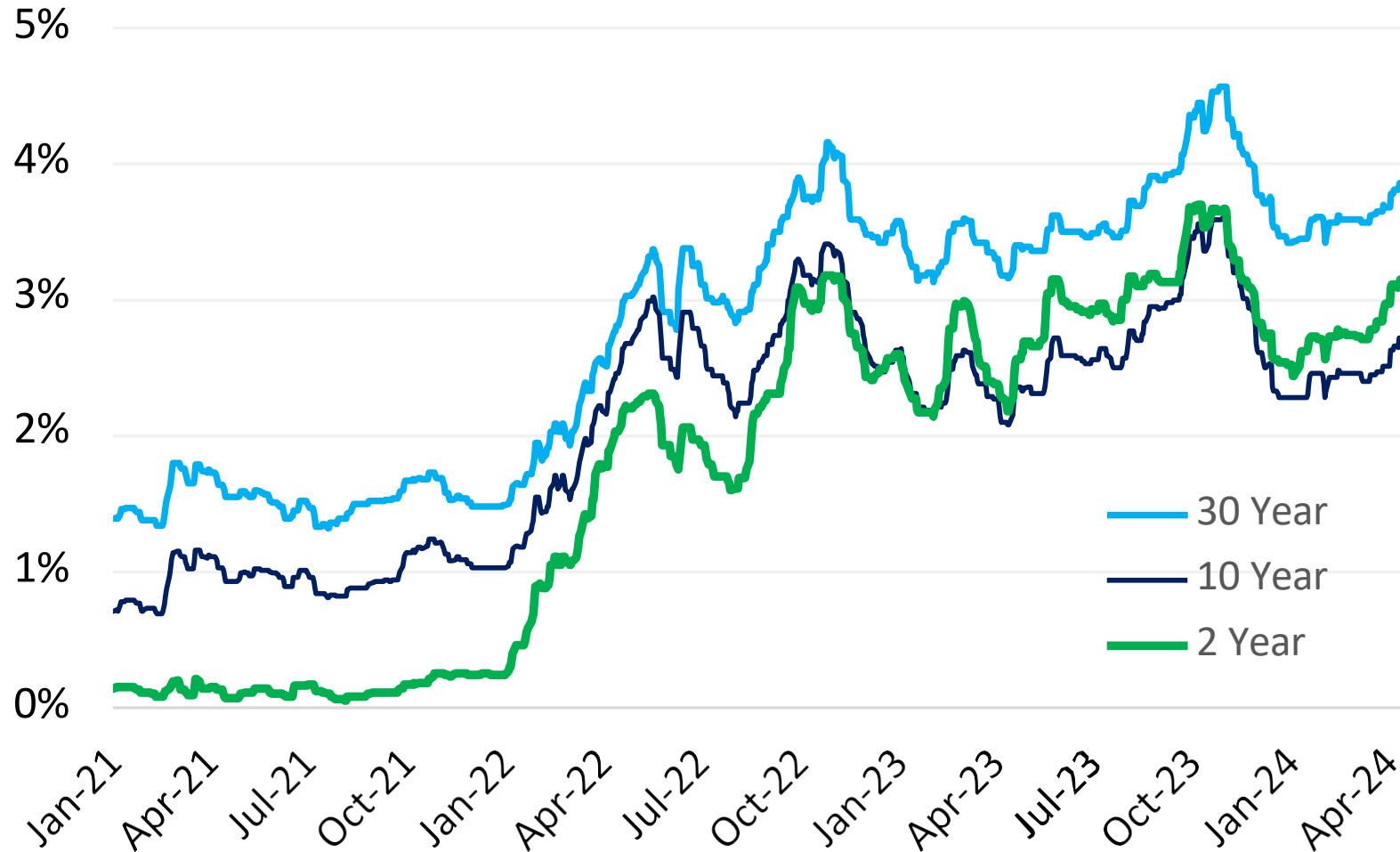
- Overall project appeal
- Development momentum
- Value-to-lien ratio
- Size of borrowing/liquidity
- Nominal rate environment
- High yield supply/demand
- *Ratings (if applicable)*

What affects benchmark yields?

- Level of general interest rates
- Expectations for future inflation
- Supply/demand dynamics

Recent Tax-Exempt Interest Rate Trends

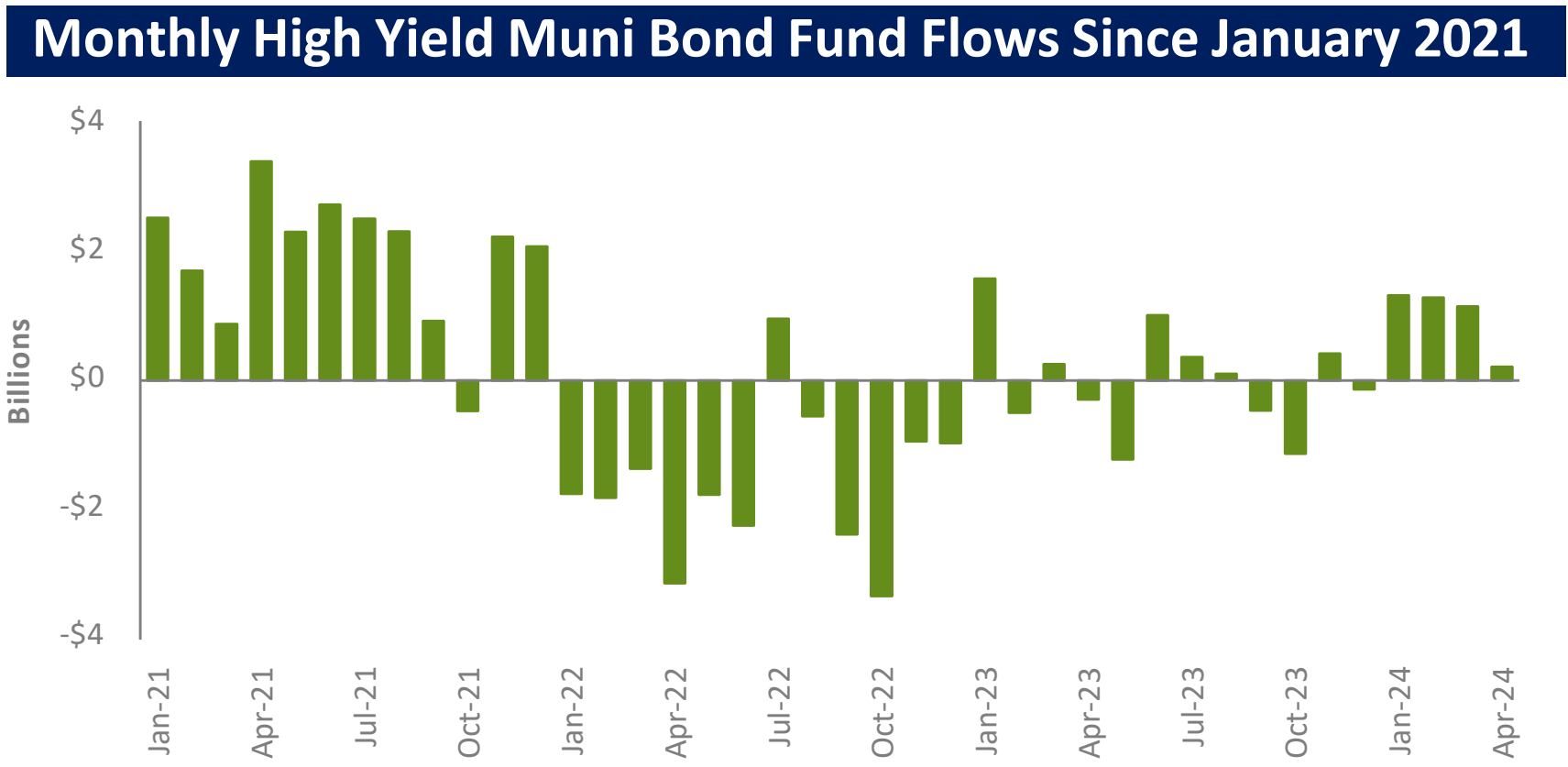
AAA-Rated Municipal Market Data (MMD) Index Since 2021



Sources: Thomson Reuters, As of April 26, 2024.

Investor Demand for Municipal Bonds

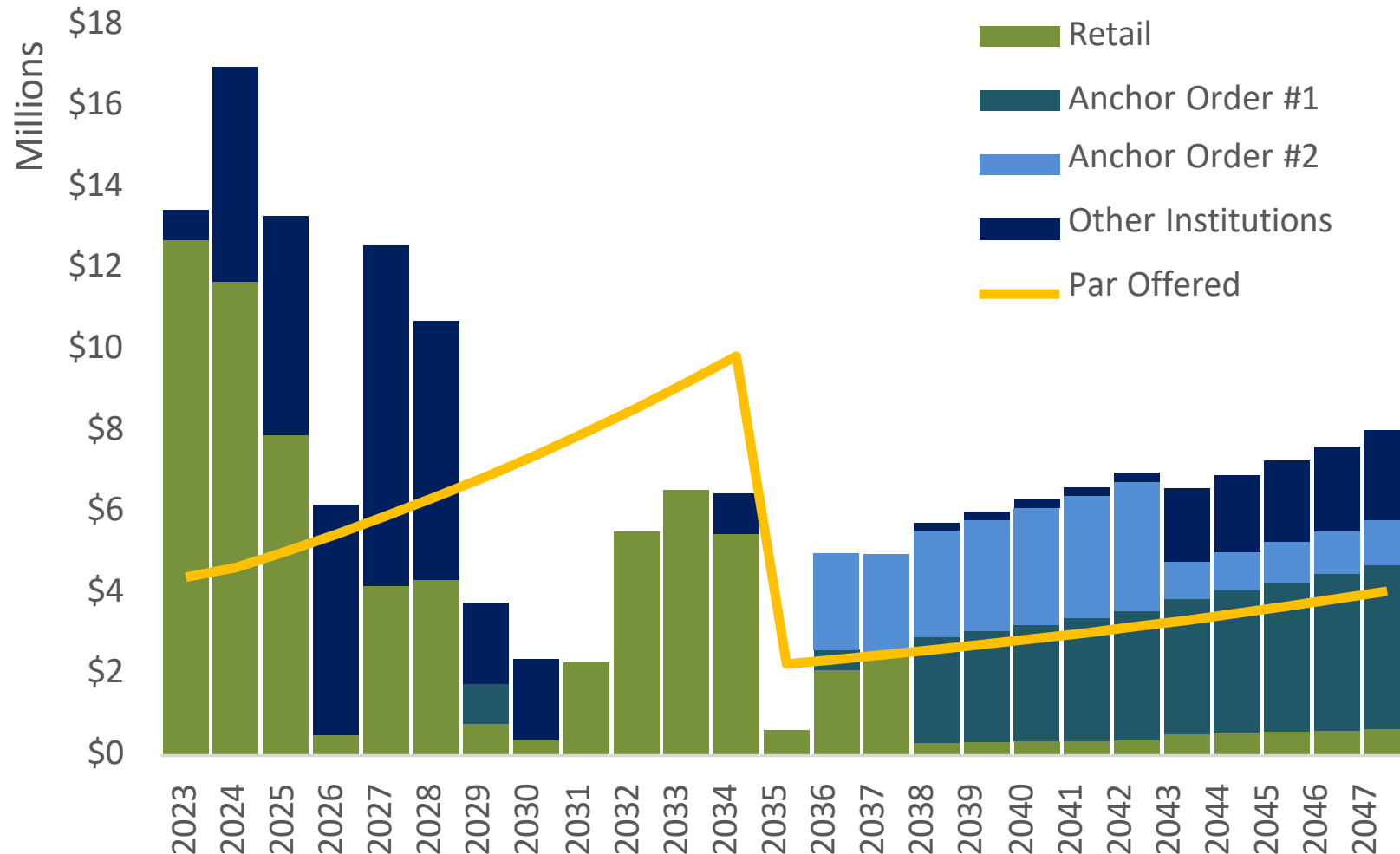
- **Monthly High Yield Municipal Bond Fund Flows evidence demand**
 - Significant inflows in 2021, net outflows in 2022, fluctuating levels in 2023



Sources: Lipper, Thomson Reuters, SIFMA. As of April 26, 2024.

Illustrative Investor Participation

Sacramento County Metro Air Park CFD \$121 Million Special Tax Bonds, Series 2023



Retail Interest

- 220 individual orders, totaling \$72 million
- ⇒ *Increases ability to use serial maturities*
- ⇒ *Provides pricing leverage with institutions*
- ⇒ *Enhances future liquidity*

Institutional Interest

- 8 institutions participated
- 2 “anchor orders”

Private Placement Alternatives

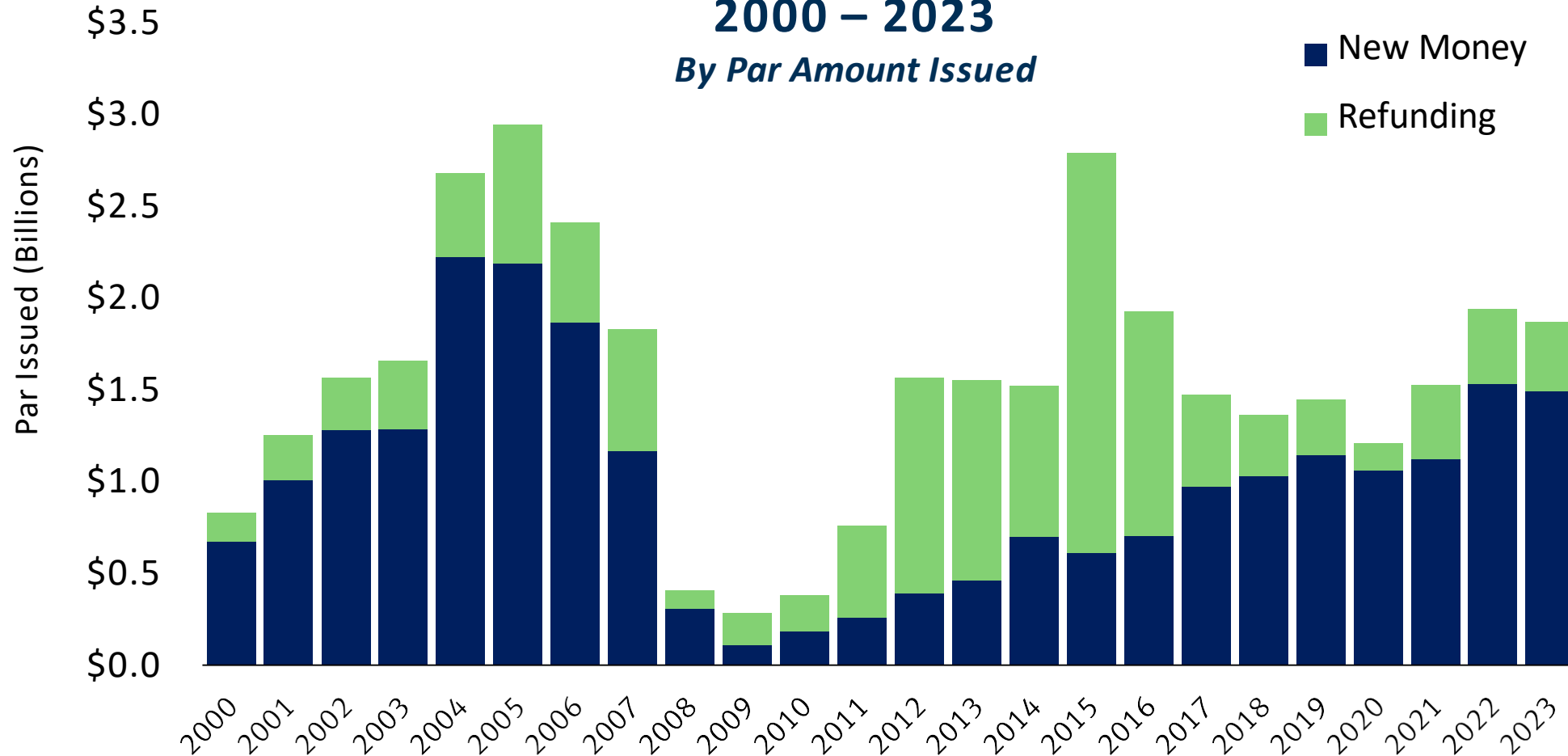
- **Distribution to smaller universe of buyers**
- **To commercial banks for cost, ease and timeliness**
 - Higher credit quality
 - Shorter tenor (generally < 10 years or < 20 years)
 - Smaller to moderate in size
- **To sophisticated institutional or individual investors for “suitability”**
 - Higher risk tolerance
 - Often larger denominations (\$100,000 or \$250,000)
 - Possible “big boy” letter
- **Consequences for interest rate and liquidity**
 - *Regional bank failures in 2023 have limited interest*

California Land Secured Bond Market

California Annual Land-secured Bond Issuance

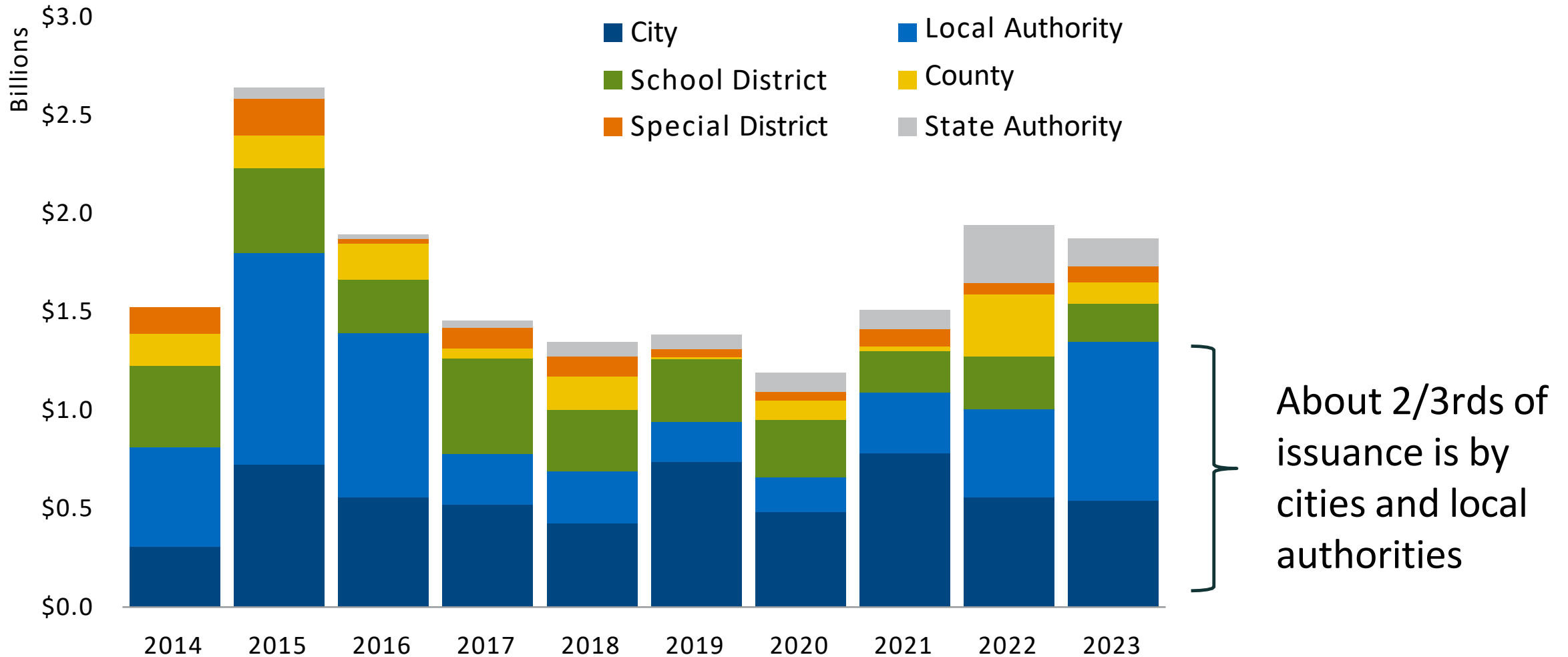
2000 – 2023

By Par Amount Issued



Land-Secured Issuance by Type of Issuer

Total Par Amount by Type of Issuer, 2014-2023

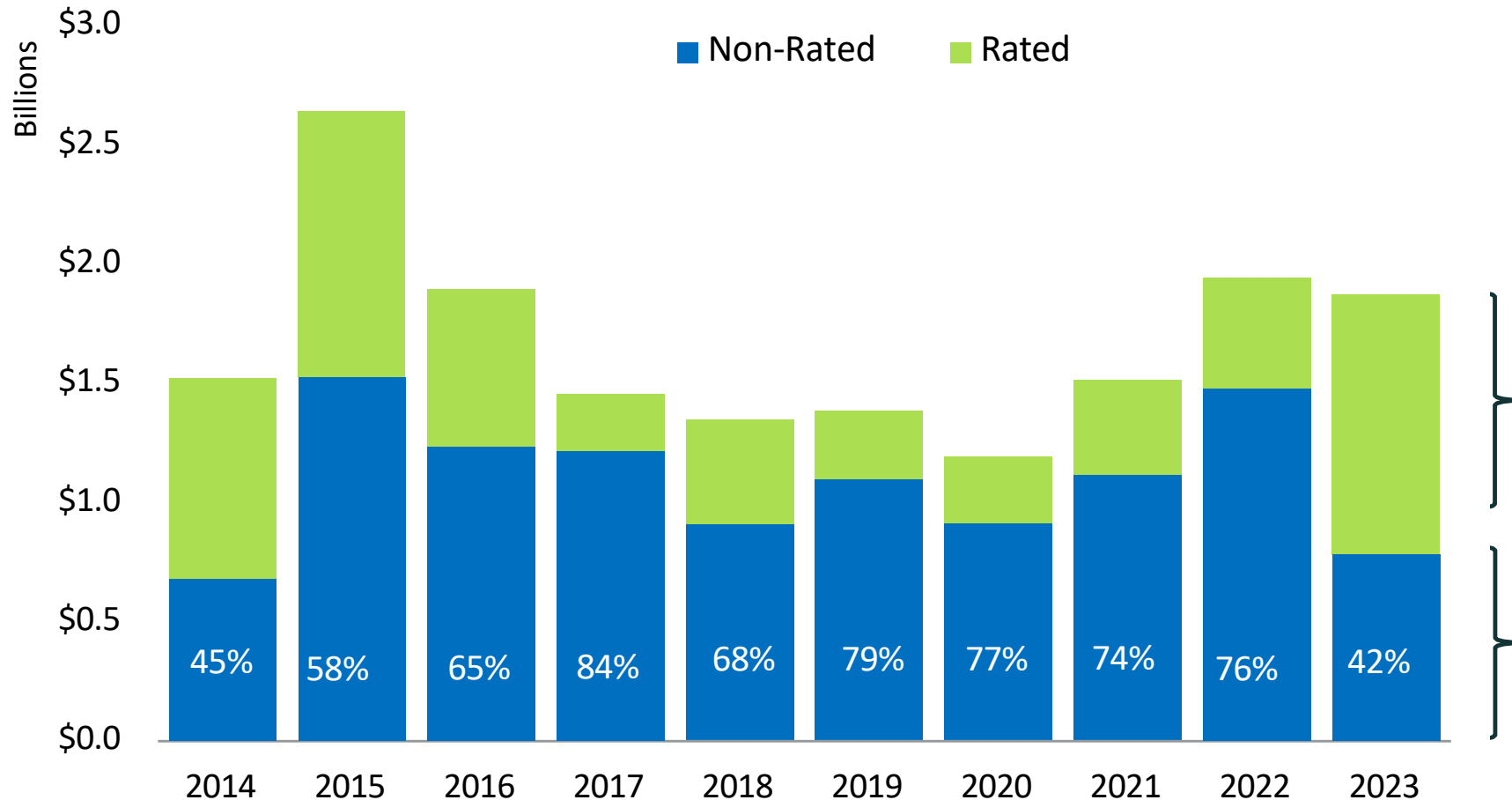


About 2/3rds of issuance is by cities and local authorities

Source: Lipper, Thomson Reuters as 1/8/2024

Land-Secured Bond Sales: Rated or Non-Rated

Total Par Amount Issued With and Without Ratings, 2014-2023

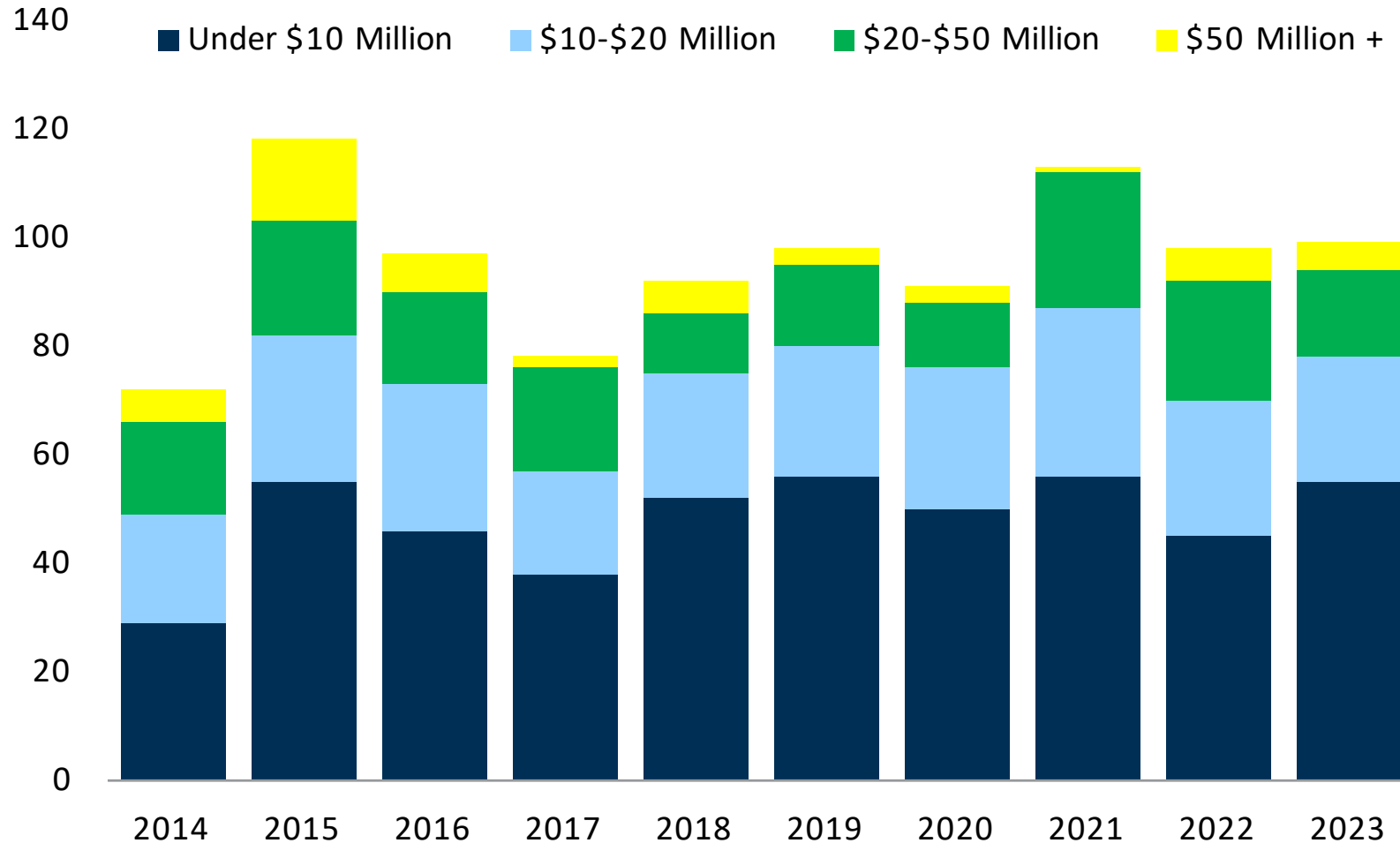


Investment grade credits are typically built-out, diversified residential districts

About 65% of land-secured issuance in last decade was sold without rating

Land-Secured Issuance by Size of Bond Sale

Number of Bond Sales by Size of Issue, 2014-2023



6% of issues and 1/3rd of par > \$50 million

18% of issues and 1/3rd of par between \$20-\$50 million in size

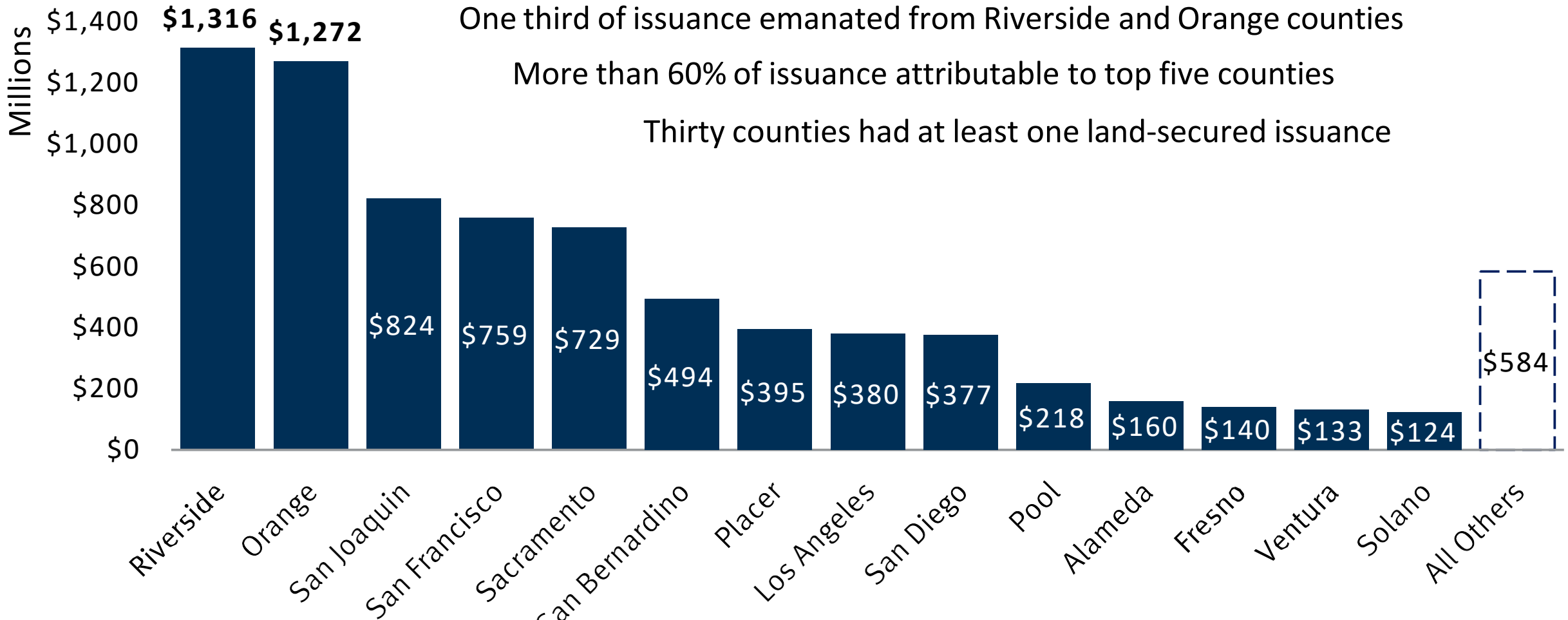
76% of issues and 1/3rd of par less than \$20 million in size

About half of issues less than \$10 million

Source: Lipper, Thomson Reuters as 1/8/2024

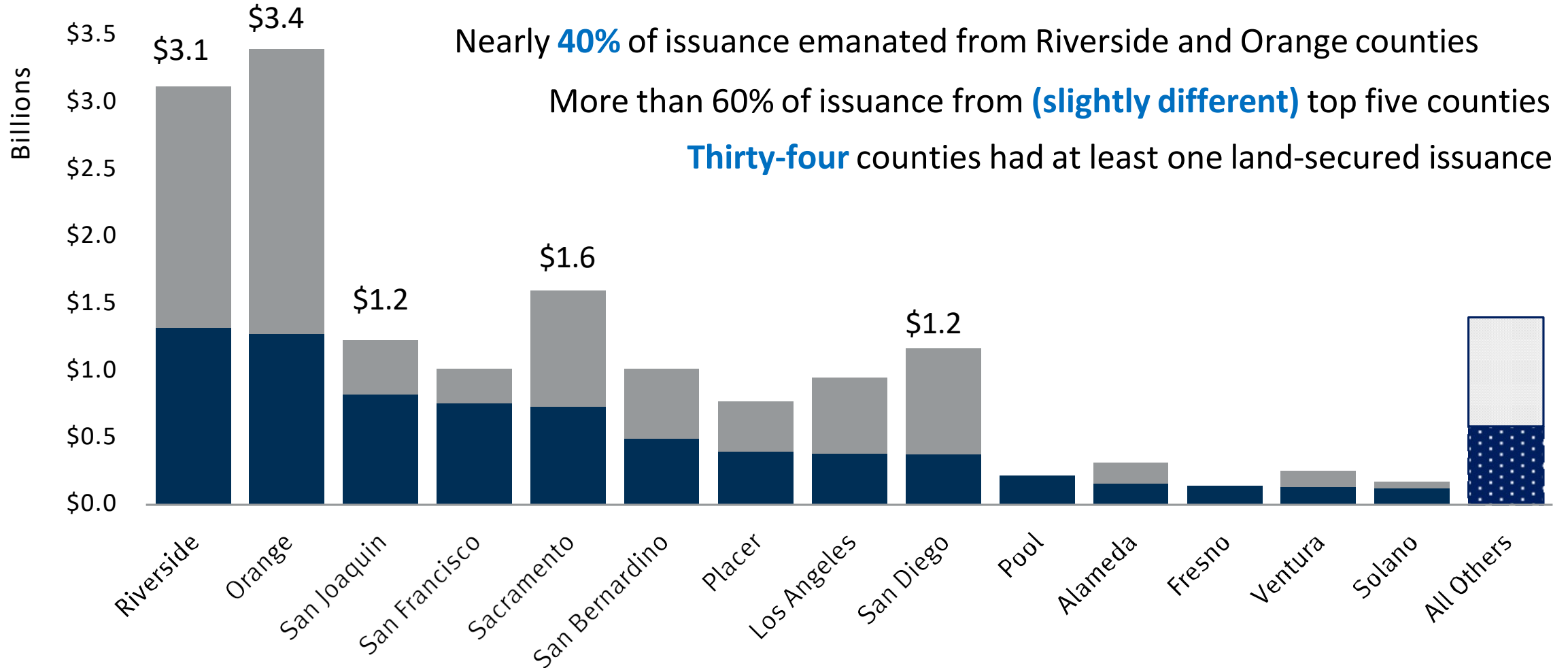
Land-secured Bond Sales by County - Last 5 Years

Total Par Amount Issued Within Each County, 2019-2023



Land-secured Bond Sales by County - Last 10 Years

Total Par Amount Issued Within Each County, 2014-2023



Source: Lipper, Thomson Reuters as 1/8/2024

Summary Statistics for Non-Rated Bond Sales

	Year			
	2020	2021	2022	2023
Average Par Amount	\$8.849M	\$9.984M	\$13.719M	\$10.925M
Total Par Amount	\$734.43M	\$1018.34M	\$1221.02M	\$950.47M
Value to Lien (VTL)	11.49	11.97	12.12	11.26
% Building Permits Issued	70%	68%	69%	66%
% Closed to Individual Homeowners	50%	41%	41%	41%
Average Underwriter Discount	13.16	13.58	13.79	15.33
Public Offerings	66	88	86	74
Direct Placements	17	14	3	13
Number of Transactions	83	102	89	87

Temecula – Heirloom Farms CFD No. 20-01



- **\$12,695,000**
 - Sold on February 28, 2024
 - Funded City infrastructure, school fees and water fees
- **321 Planned Homes**
 - 210 attached and 111 detached
 - Meritage Homes is the Builder
- **Significant momentum**
 - 82% of parcels with building permits
 - 118 homes sold to individuals
- **Value to Lien Ratio of 8.4:1**
- **Effective Tax Rate of 1.78%**
- **True Interest Cost of 4.812%**

Riverside – Kunny Ranch CFD No. 2013-1



- **\$4,140,000 par**
 - Sold March 28, 2024
 - Funded City infrastructure and school fees
- **All building permits pulled**
- **74 Detached Residential Units**
 - Beazer Homes is the builder
- **118 Homes sold to individuals**
- **Value to Lien Ratio of 15.54:1**
- **Effective Tax Rate of 1.55%**
- **True Interest Cost of 4.717%**

Stockton – Westlake Villages II CFD No. 2018-2 IA No. 3



- **\$14,020,000 par**
 - Sold April 3, 2024
 - Funded City Infrastructure, School Fees and Water Fees
- **277 Residential Units**
 - Meritage Homes is the Builder
- **Significant momentum**
 - 77% of parcels had Building permits
 - 95 Homes sold to individuals
- **Value to Lien Ratio of 5.48:1**
- **Effective Tax Rate of 1.85%**
- **True Interest Cost of 5.02%**

Folsom – Folsom Ranch CFD No. 23 IA No.2



- **\$10,690,000 par**
 - Sold April 11, 2024
 - Funded City Infrastructure
- **291 Residential Units**
 - Tri Pointe and Lennar are the Builders
- **57% of parcels had building permits**
- **71 Homes sold to individuals**
- **Value to Lien Ratio of 7.0:1**
- **Effective Tax Rate of 1.84%**
- **True Interest Cost of 4.978%**

Regulatory Fine Print

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Regulatory *Really* Fine Print

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