
Mello-Roos Bonds — A Financing Alternative

by Lori Raineri, Cranston Securities

One of the advantages of Mello-Roos Community Facilities District bond financing over more traditional assessment district financing is the variety of public facilities and services which qualify. School districts are able to use Mello-Roos bond financing for anything that school districts are authorized to construct, own, or operate.

The Mello-Roos Community Facilities Act of 1982 allows local governments, including school districts, to establish a Community Facilities District, which encompasses an area to be served by proposed facilities or services. This Community Facilities District can issue bonds to finance public facilities or services, and repay the bonds by a special tax. The special tax levy must be approved by a vote of 2/3 of the eligible voters. However, if less than 12 registered voters reside within the proposed District, the vote shall be by the landowners, with each vote having one vote per acre.

With Mello Roos bond financing, the cost of new school facilities and services is still passed on to the user of those facilities. However, there is a cost savings created by the amortization of the total cost of new school facilities and services over the life of those facilities, which would correspond to the term of the bond financing. Furthermore, the bonds bring to the financing a below-market cost of funds, because the bonds are tax-exempt. A school district can borrow money at a lower interest rate, with tax-exempt bonds, than a developer can at his local bank. In the Corona-Norco Unified School District in Riverside County, developers were offered a choice between developer fees and participation in the Mello-Roos bond program, according to Bob Crank, Assistant Superintendent. For Corona-Norco, Mello-Roos financing served as an option which eased the relationship with developers.

History of Mello-Roos Bond Financing

Only three school districts in California are active in Mello-Roos bond financing. The Mountain View School District in San Bernardino County was the first local government to complete a Mello-Roos bond issue, in 1983, to finance site acquisition and construction of a K-8 school facility, and also completed an issue in 1985 for improvements to an existing intermediate school, according to Superintendent Edward Peltz. The Corona-Norco Unified School District has completed two Mello-Roos bond issues, one in 1984 for K-12 school facilities, and one in 1986 for a high school. In addition, the Saddleback Valley Unified School District in Orange County is doing one Mello-Roos bond issue on its own, and one in conjunction with Orange County, to finance site acquisition, construction and improvements to existing schools

at the elementary, intermediate and high school levels, according to Ski Harrison, Assistant Superintendent.

Forming A Community Facilities District

A Community Facilities District may be established by either 1) A written request signed by two members of the governing legislative body; 2) A petition signed by not less than 10% of the registered voters residing within the proposed Community Facilities District; or 3) A petition signed by the owners of not less than 10% of the area. Within 40 days after one of these three actions, the legislative body will adopt a resolution of intention to establish a Community Facilities District. A public hearing must be scheduled not less than 30 nor more than 60 days after the adoption of the *resolution of intention*. The legislative body will direct its staff to report on the proposed facilities or services at or before the public hearing.

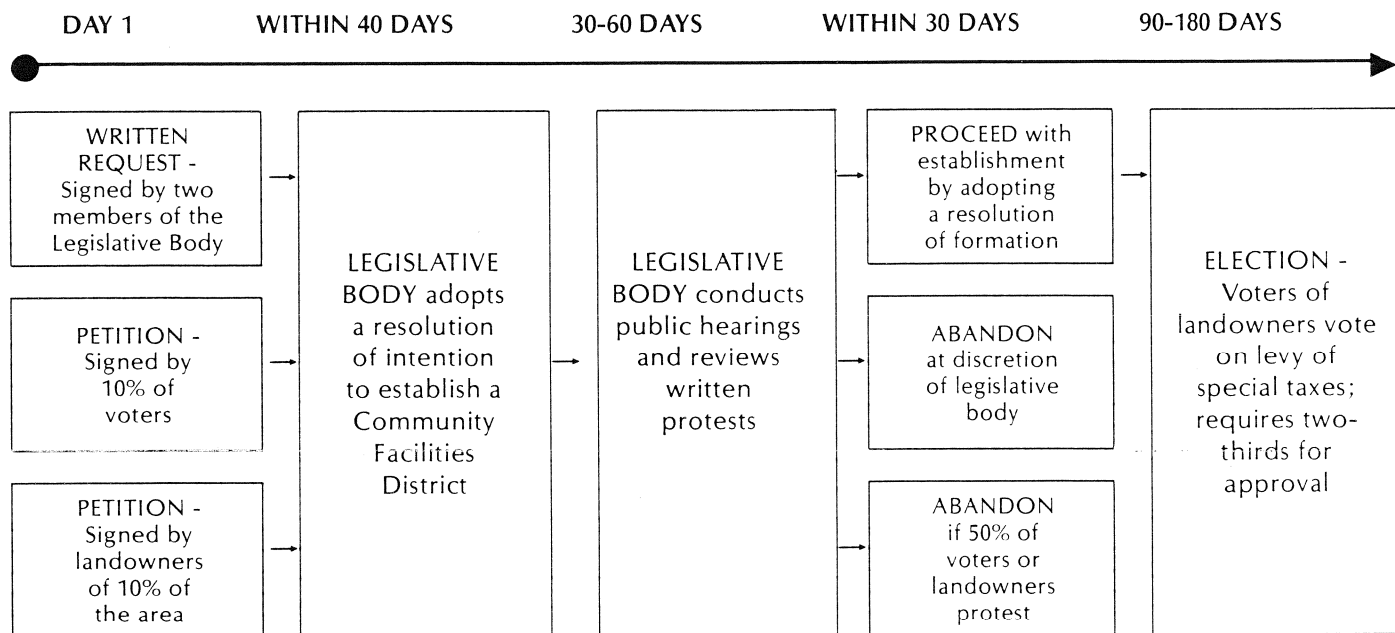
If 50% or more of the registered voters residing within the proposed Community Facilities District file written protests, the proposed establishment will be abandoned. The legislative body may, at its discretion, after passing upon all protests, proceed with establishing the Community Facilities District by adopting a *resolution of formation*. At least 90 days following, but not more than 180 days, the special tax levy will be submitted to the qualified electors of the proposed Community Facilities District.

Structuring A Bond Issue

It is important for school districts to tread carefully once the Community Facilities District is established and ready to issue bonds. The structuring of a bond issue is not a simple task, and involves a large cast of characters, including a bond underwriter, a bond counsel, and occasionally a financial advisor. A poorly structured bond issue could cost the newly formed Community Facilities District over a million dollars during a 25 or 30 year bond term. Conversely, a well structured, flexible bond issue can result in a tremendous savings with options to respond to changes in the Community Facilities tax base such as early repayment of the bonds and refundings. Debt service savings and special tax revenue increases to the Community Facilities District can allow for the financing of future school facilities and services in response to the future, and perhaps unforeseen, growth. It is important that the special tax levy, which is determined prior to the election, fit a bond structure as well as the community. Furthermore, many school districts have never done a bond issue and need to educate themselves about bond financing to avoid a poorly designed bond issue.

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Forming A Community Facilities District



Mello-Roos *(cont'd from page 7)*

Summary

In sum, Mello-Roos bonds provide an effective, if complex, alternative method of financing public facilities and services. Because of the flexibility to have landowners, who are often developers, approve Mello-Roos bond financings in sparsely populated areas, many developing communities will be using Mello-Roos bonds to finance new school facilities and services in tandem with new development, thereby avoiding the all-too-common problem of school capacity being far behind the growth of the school population. In addition, in already

overcrowded school districts, it may be very possible to win a Mello-Roos bond election because the vote is limited to those residing within the Community Facilities District, which can be a subsection of the school district, namely that subsection which is experiencing the growth making increased school facilities necessary. Therefore, the electors are those people who are experiencing the overcrowding, and who will benefit from new school facilities. Furthermore, the special tax levy can be structured to identify local political concerns.

The Mello-Roos Community Facilities Act of 1982 offers school districts the opportunity to control their own funding, and to work with their municipal governments to meet the needs of local development. ■

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