

MELLO ROOS DISTRICTS

The Governing Board acknowledges its fiduciary responsibility to ensure that community facilities districts are properly implemented and maintained. In this regard the Board shall be advised periodically on the status of each community facilities district within its control including tax collections, demographics, bond financing, construction progress, and other significant information.

The Board acknowledges the need to ensure that school facilities are provided to accommodate students generated from new development. It is the Board's intent to utilize the Mello-Roos Community Facilities District Act of 1982 as an integral part of mitigating the financial impact of providing school facilities in the growing areas of the district. The Board hereby establishes the following priorities and goals to be followed in implementing this Act.

1. The first priority for funding facilities utilizing Community Facilities District (CFD) financing shall encompass all school facilities needed to ensure that students living within the boundaries of the CFD will receive educational services comparable to the services being provided other students in the school district.
2. The second priority for funding facilities utilizing CFD financing shall be for non-school facilities to be owned, operated, and maintained by other public agencies and which are necessary to serve the properties within the CFD. The Board of Education may, in its sole discretion and on a case-by-case basis, decide to include the funding of non-school facilities in a CFD to be formed by the district if the Board determines that the funding of such non-school facilities will also be of benefit to the district. An example of how funding of non-school facilities funding through a CFD would benefit the district would be the funding of roads or other public utilities which are necessary to provide access to or to serve school sites of the district.
3. All facilities to be provided shall be located within the boundaries of the Poway Unified School District.
4. The Board desires to maintain reasonable equity between the special taxes being assessed among the various CFDs recognizing the variables of changing facility costs, time, availability of state funding, etc.
5. The Board desires to maintain the financial stability of all CFDs for which the Board is responsible. To ensure that future financings are not at a risk of defaulting the following guidelines will be followed:
 - a. Bond issues shall require at least a three-to-one property value to public lien ratio.

MELLO ROOS DISTRICTS (continued)

- b. The value of the property within the CFD shall be determined by using values as indicated on the county assessor's tax roll or by a qualified appraiser selected by the district and performed within six months of any bond sale.
 - c. The public lien amount shall be based on the size of the pending bond issue plus any public indebtedness currently against the properties to be assessed.
 - d. A minimum reserve fund equal to (i) ten percent of the original proceeds of the bond issue, (ii) the maximum annual debt service on all outstanding bonds, or (iii) 125 percent of the average annual debt service on all outstanding bonds shall be required for all bond issues in CFDs where less than 95 percent of the buildable acreage has been developed. A smaller reserve fund may be required by the district for bond issues where over 95 percent of the buildable acreage has been developed.
 - e. Property tax delinquency rates on parcels included in a CFD must be no greater than 10 percent on the date on which bonds are issued for the CFD.
 - f. An inadequate property value to public lien ratio, tax delinquencies in excess of 10 percent, or projects of questionable economic viability, may cause the district to disallow the sale of bond issues or require additional credit enhancement prior to bond sale.
6. The Board desires that prospective property purchasers within CFDs be fully informed about special taxes imposed on property within any CFD. In this regard, the district will assist builders and developers selling homes or lots within CFDs in preparing disclosure notices. The Board recognizes that it is the responsibility of the builders and developers selling these properties to provide disclosure notices specifically as prescribed in Section 53341.5 of the Government Code and the Board assumes no liability for noncompliance by developers or builders in this regard.
 7. The Board recognizes the requirement for the district to provide a notice of special taxes to sellers of property (other than builders or developers) which will enable them to comply with their notice requirements under Section 1102.6 of the Civil Code. This notice shall be provided by the district's Planning Department to the requester within five (5) working days of receiving a request for the notice.
 8. Special tax formulae to be utilized in CFDs shall be reasonable and equitable in allocating public facilities costs to parcels within the CFD. Exemptions from the special tax may be given to parcels which are publicly owned, are held by a property owners association, are used for a public purpose such as open space or wetlands, are affected by easements making

MELLO ROOS DISTRICTS (continued)

impractical their utilization for other than the purposes set forth in the easements, or have insufficient value to support bonded indebtedness.

9. The total projected property tax levels for any residential parcel within a CFD shall not exceed two percent of the projected initial sales price of a fully developed parcel (i.e., with a completed structure). The total projected property tax level shall include *ad valorem* property taxes, special taxes, special assessments, and other direct and overlapping debt supported by property taxes. Commercial properties, which provide economic benefits to the public agency, may exceed the two percent property tax level if approved by the public agency.
10. The maximum special tax for any developed residential parcel shall not increase at a rate greater than two percent annually. The special tax formula should be structured such that special taxes levied on developed property are consistent year to year. Changes in the special tax needs from year to year should, to the degree possible, be borne by undeveloped property within the CFD. Under no circumstances shall the special tax levied on any parcel of developed property be increased by more than ten percent as a consequence of delinquency or default by the owner of any other parcel.
11. Preparation of the issuance of bonds in a CFD may require that an appraisal be completed of all properties within the CFD. If such an appraisal is required, the appraiser shall be selected and appraisal performed pursuant to the procedures outlined in this policy.
12. Students residing in any CFD formed after January 1, 1994, in the Poway Unified School District shall be given priority for attending those facilities, which are being fully or partially funded by the CFD in which they reside.
13. The degree of attendance priority for a given school facility that is to be assigned to a student residing within a CFD shall, except as provided below, be based on the proportion of that school facility which is being funded by that CFD. For example, if CFD "X" is funding forty (40) percent of a school facility, while CFD "Y" is funding twenty (20) percent of that same school facility, the students residing in CFD "X" would be given first priority to approximately forty (40) percent of the seats at such school facility, while the students residing in CFD "Y" would be given first priority to approximately twenty (20) percent of the seats at such school facility.

In order to create the most efficient financing structure possible for the construction of school facilities, the district may opt to fund the construction of multiple school facilities with funding from multiple CFDs. In cases where multiple CFDs have funded all or a portion of the cost of construction of multiple school facilities, the district may exercise discretion in the apportionment of priority attendance at each such school facility, so long as the total seats to

MELLO ROOS DISTRICTS (continued)

which the students residing within each participating CFD are given priority is proportionate to the total amount of funding which each such CFD has contributed to such school facilities.

In applying the foregoing attendance priority, the Board of Education may also consider other criteria for student assignment such as goals to achieve ethnic, racial, or socioeconomic diversity; federal, state, or court mandates; transportation needs; safe pedestrian routes; grade levels for which facilities were designed; and ensuring students continuity of schooling within any single school year.

The Planning Director and the Associate Superintendent, Business Support Services, shall represent the School District in meetings with landowners in administering community facilities districts.

The Planning Director shall monitor collections of special tax payments and shall pursue delinquencies on behalf of the district to meet the requirements of CFD bond holders.

The Associate Superintendent, BSS, shall periodically report on the status of new construction, enrollment growth, and updates on financing new facilities utilizing community facilities district funds.

Appraisal Standards For Community Facilities District Bond Financing

General

A detailed appraisal shall be prepared for all CFD bond issues by an appraiser selected by the district. The appraisal must reflect the value of the CFD properties as of a date no earlier than six months prior to the date on which the bonds are issued.

Appraisers shall not have any direct or indirect interest in real property being appraised for the Issuer that would in any way conflict with the preparation or review of the appraisal. Compensation for making an appraisal shall not be based on the amount of the valuation. The appraiser undertaking the assignment shall be a Member of the Appraisal Institute (MAI) or an appraiser having similar training, experience, and qualifications. Appraisers shall be independent contractors and shall provide a representation that they are well qualified to prepare the appraisal. Appraisers shall certify that they are thoroughly familiar with the recognized and acceptable appraisal methods, techniques, and the Standard of Professional Practice and Code of Ethics as set forth by the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation.

In the preparation of the appraisal, the appraiser shall follow professional appraisal practices utilizing such methods and approaches to value as are appropriate for the specific property being appraised. Should certain approaches to value, or requirements covered in these specifications, not

MELLO ROOS DISTRICTS (continued)

be applicable to an assignment, the appraiser should identify that approach or requirement and provide a brief explanation of its omission.

Generalizations and unsupported assumptions by an appraiser relating to the existence of infrastructure, utilities, improvements, grading, access, soil conditions, topography, etc., and the estimated highest and best use which differs from the present or permitted use and zoning are unsatisfactory in reports to be submitted relating to the formation of a Community Facilities District. Appraisers should use precise definitions of terms.

The appraisal shall contain the following major elements:

1. Statement of limiting conditions and standard assumptions.
2. Certification of appraiser and permission to reproduce and use the report as required for bond issuance.
3. Purpose of appraisal: This shall include the reason for the appraisal, a definition of all values required, and property rights appraised.
4. Primary assumptions: Any assumptions used in an appraisal that affect value and are not otherwise included in one of the sections required by these policies should be set forth in a separate section and brought to the reader's attention.
5. Legal description: This description shall be complete so as to properly identify the property appraised.
6. Area, city, and neighborhood data: These data shall include such information as directly affects the appraised property, together with the appraiser's conclusions as to significant trends.
7. Property data: This shall include a detailed physical description of the property, its size, shape, soil conditions, topography, improvements, and other physical characteristics which affect the property being appraised. The availability, capacity of, and proximity to utilities and other infrastructure must also be discussed.
 - a. Parcels which have been developed with residences and subsequently sold should at a minimum indicate parcel size, number of lots, density, number of plans, square footage's, room counts, year construction was initiated, year of completion, and when sales were initiated.

MELLO ROOS DISTRICTS (continued)

- b. Parcels with residential product under construction or with standing inventory should be described as in the previous paragraph and a summary of the stage of development should be included; for example, number of units completed, number of models, status of units under construction, and whether lots are finished, mass-graded, or not graded at all. In addition, comments should be included on the marketability of the units (e.g., architecture).
- c. Parcels which have been developed with income-producing commercial, industrial, apartments, or offices should be described as follows:
 - (1) Retail: Parcel size, basic construction type, typical tenant improvements (and who is responsible for their construction), leasable area, when construction was initiated, and date of completion.
 - (2) Industrial: Parcel size, basic construction type, whether single or multi-tenant, typical office build-out as percentage of total area, when construction was initiated, and date of completion.
 - (3) Apartments: Parcel size, basic construction type, number of stories, number of units, unit mix, size, total rentable area, when construction was initiated, and date of completion.
 - (4) Office: Parcel size, basic construction type, typical tenant improvements or allowances, net rentable area, when construction was initiated, and date of completion.
- 8. Zoning: Zoning for the subject and comparable properties shall be described, and if rezoning is imminent, discussed further under Item 14 below.
- 9. Title information: The condition of title for the property shall be discussed in the appraisal based upon examination of a title report to be furnished by the property owner, a copy of which shall be included in the report addenda. In those instances where numerous homes, units or lots are being appraised (within a single tract or planned unit development), a title report of a sample property should be reviewed as opposed to a title report for each parcel. The appraiser shall analyze and discuss those title issues which are concluded to impact the value of the property being appraised (e.g., property within flood zone).
- 10. Analysis of highest and best use: The report shall state and support the highest and best use of the property. If the highest and best use is based on a "land use" study provided by the developer, the appraiser's investigation and study supporting the conclusions that said land use is reasonable must be included in the report.

MELLO ROOS DISTRICTS (continued)

11. Proposed construction: The report shall describe the construction proposed by the developer, based on the appraiser's study of construction drawings and interviews with engineers and architects responsible for project design.
12. Sales comparison approach to value:
 - a. Direct comparison: The appraiser's opinion of the value of the property shall be supported by confirmed sales prices of comparable, or nearly comparable, properties having similar highest and best uses. The report shall support all adjustments including other-than-market financing, and the report shall set forth the analysis that resulted in the value of the land being appraised. Detailed data sheets shall be included either in the body or the addenda of the report. Any discounts for a delay to timely development should be incorporated into discounted cash flows, taking into consideration absorption of all similar land in the CFD.
 - (1) Attached and detached residential: When valuing residential complexes with completed and sold units, standing inventory, or newly-completed units, the appraiser must identify the source of the data (in-tract or outside projects), base selling price for dwelling units, premiums, concessions or incentives, unit sizes, costs to complete (carpets, appliances, etc.), and support adjustments to the data.
 - (2) Income properties: The appraisers should identify the sources of data, sales prices, terms, etc., comparability to subject property, and support adjustments to the data.
 - b. Discounted cash flow (or bulk-sale) approach: Any product (merchant builder sites, residential units, or an unleased income property) which will have unsold or unleased inventory for one year or longer should be discounted. This should be accomplished by preparation of a discounted cash flow study. If market data of partially completed product is available, this approach to value is also appropriate. If both sales comparison valuation and discounted cash flow are provided, the two values should be reconciled.
 - c. Revenues: Subdivision layouts or the anticipated size of merchant builder land sales shall conform to reasonably anticipated configurations and site yields considering the characteristics of the property appraised. Revenue and project should reflect an adjustment to value based on the CFD special tax. The adjustment should be consistent with costs assumed to be financed by the CFD.

MELLO ROOS DISTRICTS (continued)

Appraisers should receive input regarding pertinent market absorption estimates from the Issuer's absorption consultant. Appraisers should utilize the consultant's absorption schedule in their appraisal. If the consultant's absorption schedule conflicts with other absorption projections available in the market or prepared specifically for the CFD, the appraiser may use an alternate absorption schedule and should so note and provide adequate written rationale and support for the absorption estimates included in the appraisal.

- d. Costs of development:
 - (1) Land improvements: All land improvement costs shall either be estimated by a licensed civil engineer, or if based upon the appraiser's estimates, shall be presented in the report in sufficient detail so that they may be reviewed by a licensed civil engineer. Estimates made by the appraiser or rules of thumb are not acceptable.
 - (2) Costs of structures: Appraiser shall check for reasonableness the developer's costs of constructing structures for work in progress or percentage of projects completed and cite sources of cost data.
 - (3) Indirect costs: Appraiser shall include reasonable estimates for indirect costs such as marketing, overhead, taxes (including CFD special taxes), financing, architect, and engineering and entrepreneurial profit (financing and entrepreneurial profit may be built into the discount rate or shown as line items).
 - e. Discount rates: Appraisals should provide an adequate discussion and support or reasoning for derivation of the discount rate.
13. Cost approach to value: This estimate shall be in the form of data arranged in sequence beginning with reproduction of replacement cost, shall state the name of the source of all cost estimates (i.e., engineering firm, contractor, cost estimating service, etc.) and shall provide unit costs and the number of units so that the reader can determine how the costs were calculated.
- The dollar amounts of physical depreciation and functional and economic obsolescence, or its omission, shall be explained in a narrative form. This procedure may be omitted on improvements for which only a salvage or scrap value is estimated.
14. Income approach to value: This approach should include a discussion on the leasing (rental) status of subject property (e.g., percent occupied, rental rates, concessions, terms, rental adjustments).

MELLO ROOS DISTRICTS (continued)

- a. Appraisers shall estimate market rental rates using rental comparisons and include a discussion of market to actual rentals in existence. A summary of the rental data is to be included in the report.
 - b. Allowances for vacancy and collection cost should be market related and not an industry rule of thumb. If a project is partially occupied, the appraisal should indicate the time period to reach stabilized occupancy and the value should reflect the rental loss until such time as stabilized conditions are achieved.
 - c. Estimated operating expenses should consist of an itemized estimate of annual operating expenses, including reserves for replacements. The support for these estimates should be cited.
 - d. The capitalization of net income shall be at the rate prevailing for this property type and location. The capitalization technique, method and rate used shall be explained with sources and reasoning.
15. Mass appraisal techniques: It may be appropriate for projects that have built-out and occupied product to use mass appraisal techniques.
 16. When an entire tract or project has been built and fully absorbed, appraisers may use an aggregate value estimate utilizing conservative per dwelling unit estimates. These estimates may be the actual base selling prices of each plan, provided resales in the tract do not indicate a downward price trend. If price reductions have occurred, these indications must be considered.
 17. Interpretation and correlation of estimates: Appraisers shall interpret the estimates of value and shall state their reasons why one or more of the conclusions reached in Items 16 through 19 are indicative of the market value of the property.
 18. Value allocations: Appraisers should report values by ownerships or assessor parcel numbers. In CFDs where production units have been built and sold, these separate ownerships may be grouped together by logical categories (e.g., tract). Appraisals for projects with numerous tracts owned by one or related property owners should indicate value (which may be general) by phase, planning area, or other logical basis of differentiation.
 19. Exhibits: The appraisal report must contain sufficient exhibits to assist the reader in understanding the appraisal.