COUNTY OF SANTA BARBARA
DEBT MANAGEMENT POLICY

The Board of Supervisors of the County of Santa Barbara has endorsed the following Debt Management Policy as a guideline for planning and management of municipal debt originated through the Santa Barbara County Treasurer. This policy statement provides general guidelines for the decision making process with regard to the issuance of municipal debt. It should be emphasized that this policy statement is intended to be a flexible administrative guideline for use by local government entities in originating municipal debt through the Treasurer. It is recognized that in many respects there are no absolute rules or easy formulas for debt financing which can substitute for a thorough review of all available information and a detailed consideration of the facts on a case-by-case basis.

A debt finance committee is hereby established to carry out this policy and to insure that prudent practices are followed and public expense minimized in the issuance of municipal debt. Ex-officio members of the debt policy committee have been identified on the basis of their statutory roles in advising, managing, and assisting local government entities with their finances. Members of the committee also have personal expertise with regard to debt issuance and will use this expertise in the furtherance of the public interest.

Adopted 1/22/1991

GOAL OF THE DEBT MANAGEMENT POLICY

The overriding goal of the debt management policy is to properly utilize debt as a major financing tool for the County of Santa Barbara. The use of debt, among other financing options, must provide general or specific benefits to its citizens in relation to the cost of repayment levied upon those citizens.

IMPLEMENTING OBJECTIVES OF THE DEBT MANAGEMENT POLICIES

To Provide Benefits to the Public: Identify the benefits, cost savings and contribution to prudent use of debt financing. Invest cash to use municipal assets most effectively and to finance or refinance to maintain the lowest practicable cost.

Debt Repayment: Establish debt payment schedules that accommodate the ability to pay and synchronize the cost with the enjoyment of the benefits or useful life.

Capital Outlay: Identify the level of debt which the responsible agency is able to carry to use debt most effectively as one among several available financial tools. Closely coordinate with the responsible agency's capital and operating budget processes. Conduct a "soft-sell" campaign year-in and year-out, for advanced planning approaches.

Debt Overview: Take into account on a continuing basis the impact of debt on the county's credit rating and total debt burden.

DEBT FINANCE COMMITIEE

A Santa Barbara County Debt Finance Committee is established to review proposed and existing debt issues where the Board of Supervisors of the County of Santa Barbara has complete or limited obligation for debt repayment. The committee will advise the Board of Supervisors and departments of its recommendations. The committee will provide attention and general guidance from concept to closing.

FINANCING SUBJECT TO COMMITTEE REVIEW

All types of financing <u>which have a payback schedule greater than one year</u> are subject to committee review. These types of financing include, but are not limited to the following types:

1. General obligation bond issues ("G.O. Bonds")
2. Revenue bond issues
3. Lease-purchase agreements (not lease-rental) where title to an asset is to be obtained
4. Housing bond issues - "mortgage bonds"

5. Conduit financing of any type
6. Redevelopment agency debt financing - tax allocation bonds
7. Mello-Roos district debt financing
8. Assessment bonds
9. Marks-Roos bonds for debt-pooling among agencies
10. Certificates of Participation ("COP's")

COMMITTEE COMPOSITION

For issuing agencies other than departments or special districts subject to the Board of Supervisors of the County of Santa Barbara:

Treasurer-Tax Collector
County Counsel
Auditor-Controller

For debt issued under the authority of the Board of Supervisors of the County of Santa Barbara or for special districts for which the Board of Supervisors serves as the Board of Directors:

Chief Administrative Officer
Treasurer-Tax Collector
County Counsel
Auditor-Controller

Operational Responsibilities:

The Treasurer's Office will assume the lead role in staffing the committee. Each of the ex-officio members will nominate one lead person in his/her department as a committee working member.

Other staff assistance may be sought as appropriate by applicant entities which may assist them with more difficult problems for which the combined expertise may be useful.

The committee is expected to maintain a high level of ethics and proficiency and will utilize Financial Advisors, Underwriters, Bond Counsel and other specialized services as deemed appropriate to the special circumstances.

APPLICANT COORDINATION WITH OTHER DEPARTMENTS

County Administrative Officer: When the proposed issue involves entities governed by the Board of Supervisors the Administrative Officer will assign a lead person in his/her department to work with the regular committee and the designated representative of the applicant/department. The purpose is to assist in the justification of the asset or program and to closely coordinate the with the County's capital and operating budget process.

Design and Construction: When applicable to a proposed issue, representatives of Public Works and the proposing department will work with the regular committee. The purpose is to assist in the preparation of design/ project descriptions and cost estimates.

Finance/Accounting: When applicable, representatives from the proposing department or agency will work with the committee to assist in estimating and managing revenue sources, cash flows, establishing appropriate separation of funds and account records, and other finance/accounting matters.

REVIEW AND ANALYSIS OF DEBT PROPOSALS

All proposed borrowing (including lease purchase obligations in which the County is a party) shall be submitted to the finance committee for their review and recommendations. It is anticipated that long term planning will prevail and any debt incurred will be well planned in advance. Although the committee is responsible for advising the Board of Supervisors regarding all financing, it is the responsibility of the department making the request to justify the asset or program to the Board.

The review analysis will include the following:

1) The types of financing alternatives available including paying "cash" versus incurring "debt".

2) The financial costs/benefits/risks of the recommended borrowing with a focus on the associated interest cost.

3) Debt service cash flow preparation. It is the applicant entity/department responsibility to clearly identify to the committee the revenue sources for repayment.

4) The ability of the applicant entity/department/county to generate debt service and the financial stability of the entities.

5) Determination of the required public review process including an analysis of legal considerations and necessary voter approvals.

6) Legal liabilities of the County/Board of Supervisors and adequacy of coverage in case of default.

7) Impact on time and effort required by County staff.

8) Identification of the responsibility for monitoring compliance reporting requirements of the proposed borrowing.

The committee will summarize its r view analysis of the proposed borrowing. These reports will first be reviewed by the proposing department. The Committee will then submit its final report to the Board in coordination with the department.

PROPOSAL PROCEDURES

Application: The department or entity proposing a debt issue should begin working with the Debt Committee early in the planning stages of any financing proposal. The committee will assist in the planning, organization, and structure of the debt financing. Scheduling of debt issues is a policy matter for the Committee.

A simple debt proposal must be prepared and submitted for the committee to begin its review, analysis and recommendations. The department, project coordinator, project name, project description (purpose and public benefit), estimated project cost, suggested repayment period and an appropriate revenue stream for debt service repayment is required. (See Exhibit A)

After an initial review the committee will work closely with the department to sort out project alternatives, estimate additional ongoing operational costs, identify savings, etc.

Financial Services: Many financial services will be provided by the debt committee or county staff. However, because of the specialized nature of deb t issues the county will contract with outside sources as determined by the committee or conditions of the issue. The Committee will maintain a selection of qualified firms to provide financial services to the County on a continuing basis. This list will be available through the Treasurer. After initial review of the proposed borrowing the committee will determine the required services and request the Treasurer to negotiate for retention of such services where appropriate.

These services may include the following:

Bond Counsel - attorneys retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed bonds, the issuer has met all legal requirements necessary for issuance, and interest on the proposed bonds will be exempt from federal income taxation and, where applicable, from state and local taxation. Typically, bond counsel will prepare, or review and advise regarding, authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

Underwriter - a dealer which purchases the bond issue for resale. The underwriter may acquire the bonds either by negotiation with the issuer of by award on the basis of competitive bidding.

Underwriter's Counsel - attorneys retained to represent the interest of the underwriters in connection with the purchase of a bond issue.

Trustee, Paying Agent, Registrar - a financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract. The entity responsible for the payment of interest and principal on behalf of the issuer to the bond holders. The entity responsible for maintaining records on behalf of the issuer for the purpose of registering the bond owners.

Financial Advisor or Analyst - a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. They may also be hired to advise on cash flow and investment matters. (In general whey will only be used on more complex issues).

Assessment Engineer - a consultant hired to calculate special assessment charges against properties based on the value of benefits received.

Auditors - a certified public accountant hired to prepare opinions on financial statements, calculate arbitrage rebate or provide opinions on arbitrage calculations, or hired as a consultant to provide financial advice.

DEBT ISSUE STRUCTURE

The structure and type of financing shall be dependent upon various factors, including the nature of the project to be financed, available revenue sources and revenue streams, budget impact, and the financial market environment.

Competitive or negotiated issue: Determination of whether to sell bonds under a competitive bid or negotiated sale will depend on many factors, including the market environment, timing considerations, structure of the financing, and type of bond or other financing instrument. The recommended issuance of debt will always be based primarily on judgments of which available options will most likely result in the overall lowest net cost to the issuer.

Bond Structure: The type of issue will be dependent upon the project and other relevant factors including: the reason for the issue; revenue source for repayment; legal authorities; and where required, voter approval.

The financing techniques available include: general obligation, limited obligation, limited tax, special tax, special assessment, certificates of participation, revenue bonds, mortgage revenue, industrial development, current and advance refundings, bond or grant anticipation notes, tax and revenue anticipation notes, among others.

COUNTY OF SANTA BARBARA
INTERNAL DEBT AND BUDGET POLICIES

The County of Santa Barbara will incur debt only within prudent debt ratio guidelines, in order to improve county cash flow and to take best advantage of related interest-earning capabilities. Debt scheduling is a policy matter subject to the Committee. Scheduling of debt issues will be in accordance with over-all county priorities.

All debt including lease-purchase agreements shall be budgeted in appropriate capital project funds and debt service funds. Estimated current capital outlays and the proposed revenues and "other financing sources" required to finance the capital outlay must be set forth in the annual operating budgets. The overall County budget will provide legal authorization in the form of clearly-specified appropriations for capital expenditures and debt service payments.

The Capital project and Debt service funds will be formally integrated with individual department budgets in a clearly defined manner. The individual department will appropriate funds as operating transfers to make payments such as annual rental payments, down payments, etc...

Committee members, whether regular or advisory, will minimize the cost of borrowing by not charging support costs to the debt projects.

Centralizing and integrating individual projects is intended to insure sufficient resources are available to defray expenses, to protect against project cost overruns, and to assist in proper planning, facilitate accounting and provide for improved information management and public disclosure.

SPECIFIC CRITERIA/PROVISIONS:

Benefits to the Public: Debt should be utilized when it is in the best interest of the County. The use of debt must provide general or specific benefits to the public. The principle of taxpayer equity (who pays versus who benefits) should be a primary consideration in determining the type of projects as well as the type of financing to utilize. To the extent feasible, debt issued shall be tied to revenues from those taxpayers who will directly or indirectly receive the benefits of ti1e debt. The term of the debt must not exceed the economic life of the financed asset and ideally it should match the useful life of the asset.

Debt Uses: The use of debt for long-term financing is limited to those uses authorized by law and allowed by the provisions of a particular debt issue. <u>No financing will be undertaken to finance an operating deficit</u>. Short-term financing to fund cash flow deficits in anticipation of tax and revenue receipts are authorized. All proposals to use debt must be evaluated by the debt committee to determine the impact on the county financial condition and the ultimate cost of the debt.

Use of Debt Proceeds: The provisions of the law and those of particular debt issues generally limit the use of proceeds as follows: To pay the costs of planning, design, land, construction or acquisition of buildings, permanent structures, attached fixtures and/or equipment, movable furniture and equipment, and also the costs of planning and issuing debt. Bond proceeds shall only be expended on costs directly related to the project unless otherwise provided for in the particular debt issue and when it is in the best interest of the County to use such funds for other allowed spending.

Sizing the Debt Issue: The amount of any financing should generally be held to a minimum, taking into consideration any available funds to partially finance project costs. Reserve funds and capitalized interest should be minimized if possible to reduce borrowing size unless it is in the county's best interest to do otherwise. Generally, debt on capital projects will only be issued upon receipt of acceptable and reliable construction bids. In certain situations, reliable estimates may be the basis for debt issuance.

Non-Taxable Status: Municipal debt is generally non-taxable. It is the county's policy to avoid actions which eliminate the non-taxable status of county borrm11ing unless it is determined that taxable status would be in the best interest of the county. The County will comply with applicable Internal Revenue Services (IRS) regulations including arbitrage rebate calculations, rebate of arbitrage profits, and any necessary tax filing.

Debt Credit Rating: The County seeks to maintain the highest possible long-term COP debt rating in order to enhance the county's reputation within the financial community and to minimize borrowing costs by offering high evidence of the ability and commitment of the County to repay debt.

The County's objectives in furtherance of this goal will be as follows:

1. To enhance the county's financial condition, to establish and maintain long-term capital, operating and debt planning policies;

2. To maintain a debt overview of the entire county including all overlapping municipal debt; and,

3. To and maintain good communication with the bond rating agencies, keeping them apprised about the county's financial condition through provision of relevant reports and documents.

Debt Analysis: When proposing a specific borrowing, county departments will work with the committee to provide an analysis showing how the borrowing conforms with all applicable criteria, including these debt policies. The analysis must include adequate consideration of alternative methods of financing.

Compliance Monitoring: After completion of a financing, it is the responsibility of the department to assure that compliance requirements of the debt agreements are monitored or completed. The department needs to be aware of the many complex requirements that must be monitored or funded. Many items may be routinely handled by other agencies but the burden of compliance is with the department.

Santa Barbara County Finance Corporation: The County Board of Supervisors has created this Corporation, a non-profit entity, to assist in the financing of public projects. The County and Debt Committee will assist the Corporation to ensure the health and quality of all of its outstanding debt.

Debt Management: Current financing and outstanding debt issues must be managed as a whole, as well as individually, in such a fashion as to minimize the cost of capital, to maintain a high level of credit worthiness, and to preserve flexibility with regard to future debt and revenues. Refundings, prepayment and call provisions are among the many important debt management tools. As the municipal debt market changes, all outstanding debt must be monitored to take advantage of changing opportunities.

Trustee/Treasurer's Continuing Oversight: Ongoing relations, responsibility after project completed for life of the debt.

ATTACHMENT A

COUNTY OF SANTA BARBARA
LOCAL GOALS AND POLICIES
MELLO-ROOS COMMUNITY FACILITIES ACT OF 1982

1. PURPOSE

The purpose of this statement of Local Goals and Policies (the "Goals and Policies") is to provide the residents and the owners and developers of property located within the County of Santa Barbara (the "County") with guidance in application for and consideration of the establishment of Community Facilities Districts ("CFDs") for the purpose of financing or assisting in financing public infrastructure to benefit and serve either existing or new development. The underlying principles behind the Goals and Policies are the protection of the public interest, assuring fairness in the application of CFD special taxes ("Special Taxes") to current and future property owners, assuring full disclosure of the existence of any Special Tax liens, protection of the County and its dependent districts' financial positions and ensuring that each applicant for CFD proceedings, other than proceedings initiated by the County Board of Supervisors (the "Board of Supervisors"), pay all costs associated with the formation of any such CFD.

2. INTRODUCTION

These Goals and Policies have been adopted by the County pursuant to Section 53312.7 of the Mello-Roos Community Facilities Act of 1982 (the "Act"). The Goals and Policies have been adopted to govern the formation of CFDs, the sale of CFD bonds and the subsequent administration of Special Taxes levied by CFDs within the unincorporated area of the County.

The County's policy is that the use of CFD financings will be limited to narrow circumstances where such use is appropriate and all Goals and Policies have been met. Pursuant to the Act, landowners owning the requisite portion of the area of a proposed CFD, or the requisite number of registered voters, as specified in the Act, may petition the Board of Supervisors to institute proceedings for formation of a CFD. The decision as to whether or not to utilize the County's authority to form any such CFD rests solely with the County, and the County will exercise such discretion in furtherance of such policy.

3. ELIGIBLE SERVICES AND FACILITIES

The County establishes the following priority for financing through the use of the Act:

(a) Services authorized by the Act;

(b) Backbone infrastructure required to serve proposed development; priority will be given to facilities that benefit not only the particular development, but also the County at large;

(c) Other facilities authorized by the Act for which there is clearly demonstrated public benefit;

(d) Other facilities authorized by the Act; and

(e) Payments necessary to eliminate any fixed special assessment liens or to pay, repay or defease any obligation to pay or any indebtedness secured by any tax, fee, charge or assessment levied within the area of the CFD or to pay debt service on that indebtedness.

The acquisition of rights-of-way, lands and easements to be dedicated by a subdivider may not be financed through a CFD. Land to be transferred to a public agency for use as, or in connection with, a regional facility may not be financed through a CFD, unless such land was acquired offsite by the transferor specifically for such purpose. Facilities regulated by a public utility are not eligible for financing through a CFD.

Public facilities to be owned and operated by a public entity other than the County (including a school district) will be considered on a case-by-case basis, and will only be financed under a joint community facilities agreement or joint exercise of powers agreement entered into pursuant to the Act.

4. ELIGIBLE SUBDIVISION PROJECTS

It is the strong preference of the County that subdivision project entitlements have progressed to the approved tentative map stage prior to formation of a CFD. In extraordinary circumstances, formation of a CFD may be considered prior to tentative map approval when such an early formation is justified to the County's satisfaction. However, in no event will CFD bonds be issued prior to approved tentative maps being obtained for all land providing security for such bonds.

5. APPLICATION AND DEPOSIT PROCESS

The application form for a proposed CFD can be obtained from the Office of the Treasurer-Tax Collector. A completed application will be forwarded to the County Debt Advisory Committee (the "DAC") for review. Each application must be accompanied by the required deposit of funds, as described below. The DAC will review each application for compliance with and promotion of the Goals and Policies, and the DAC will be responsible for making a recommendation to the Board of Supervisors regarding each proposed CFD.

The costs of processing an application and, if approved, the proceedings for a CFD financing will be borne by the applicant. No action will be taken on any application unless and until a deposit of funds is made by the applicant with the County. The deposit must be sufficient to cover the expense of County staff time, the costs of non-contingent outside consultants retained for the financing and the costs of recordings, filings, duplication, mailings and deliveries. In general, the deposit will not be less than $25,000, and may be more, as required by the County. The deposit must be increased upon demand of the County if at any time the County determines that the remaining amount is not sufficient to cover anticipated remaining expenses and costs. If the additional amount is not paid within ten business days of the mailing of a written demand by the County to the applicant, the County will cease all activities with respect to the CFD financing until the additional amount is paid. The initial deposit and any additional amounts will be held by the County in a trust account, separate from all other funds of the County, and used only for the expenses and costs incurred in connection with the CFD proceedings. Any balance remaining in the trust account upon completion of the CFD proceedings, or the abandonment thereof, and not needed to pay expenses and costs relating thereto will be returned to the applicant. The use of the deposit and establishment of the trust account shall in no way be construed as requiring the County to issue CFD bonds or to provide reimbursement from the proceeds thereof for portions of the deposit that are expended.

After formation of a CFD and issuance of CFD bonds, an applicant may be reimbursed from bond proceeds for consultant costs paid by the applicant, however, reimbursement will be limited to the costs of CFD related consultants approved by the County. No such reimbursement will be made for the costs of developer's counsel.

Each applicant must submit a current (not older than three months) CLTA or ALTA lender's title insurance policy or preliminary title evidence showing the vesting of title to the property that will secure the CFD bonds and showing the interests of any lenders, creditors or others, as well as any easements, rights of way or other encumbrances that may impact the value of such property. Such title evidence will also be used to verify ownership for any owner's petition for the CFD financing. The applicant will be required to provide copies of any documents relating to such title evidence, as requested by the County.

6. USE OF CONSULTANTS

The County will select all consultants to be retained by the County for a CFD financing, including, but not limited to, the financial advisor, special tax consultant, underwriter, market absorption analyst, engineer, appraiser, bond counsel, trustee and disclosure counsel. Providers of letters of credit, bond insurance policies, surety bonds or other credit enhancements are also subject to County approval. Consultants, including legal counsel, to the applicant or any financing team member other than the County will be selected, retained and paid by the applicant or such member; such consultants will not be paid from the proceeds of the financing.

7. CREDIT QUALITY REQUIREMENTS FOR CFD BOND ISSUES

The County will require that the credit quality of any CFD bond issue be such that the requirements of Section 53345.8 of the Act will be met; provided, however, that the County will require that the value of the real property that would be subject to the Special Tax to pay debt service on the bonds be at least 3.3 (rather than 3) times the principal amount of the bonds to be sold and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act on property within the CFD or a special assessment levied on property within the CFD.

In the event that the development of the property within a CFD is downsized at the request of the applicant or the applicant's successor in interest so that the value-to-lien ratio required hereby cannot be met, the applicant or such successor in interest will be required to prepay such portion of the Special Tax obligation as may be necessary to cause such requirement to be met.

In order to enhance the credit quality of CFD bond issues, the County will require that each bond issue be secured by a reserve fund funded in an amount no less than the least of (a) 10% of the original proceeds of the bond issue, (b) maximum annual debt service on the bonds of such issue, and (c) 125% of the average annual debt service on the bonds of such issue.

The County may require additional measures to increase the credit quality of a CFD bond issue, including, without limitation, measures such as a higher value-to-lien ratio or credit enhancement for the CFD bonds.

8. DISCLOSURE TO PROSPECTIVE PROPERTY PURCHASERS

In order to ensure that prospective purchasers of property within a CFD are fully informed about their taxpaying obligations imposed under the Act, the County will require that the requirements of disclosure to prospective property purchasers contained in the Act, including, but not limited to, Sections 53328.3, 53328.5 (including the referenced sections of the California Streets and Highways Code), 55340.2 and 53341.5, be met. In addition, each developer of property within a CFD will be contractually obligated to give or cause to be given to each prospective home buyer, at the time a purchase contract is entered into, any additional information determined by the County to be appropriate regarding the Special Tax lien on the property to be purchased and the facilities financed by the CFD.

9. EQUITY OF SPECIAL TAX FORMULAS AND MAXIMUM SPECIAL TAXES

The County's criteria for evaluating the equity of Special Tax allocation formulas, and the desirable and maximum amounts of Special Taxes to be levied against any parcel pursuant to the Act, are set forth in this section.

Special taxes must be allocated and apportioned on a reasonable and equitable basis to all categories and classes of property (other than exempt property) receiving general or special benefit from the public facilities financed through the CFD. Exemptions from the special tax may be considered for parcels which are publicly-owned, are held by property owners' associations, are used for a public purpose such as open space or wetlands, or are affected by public utility easements making impractical their utilization for other than the purposes set forth in the easement.

The CFD special tax allocation formula must be structured so as to annually produce special tax revenues sufficient to pay (a) annual debt service on all CFD bonds, and (b) reasonable and necessary annual administrative expenses of the CFD. Additionally, the special tax formula may be structured so as to produce amounts sufficient to fund (a) any amounts required to establish or replenish any reserve fund established for a CFD bond issue, (b) the accumulation of funds reasonably required for future debt service on a CFD bond issue, (c) amounts equal to projected delinquencies in special tax payment, (d) remarketing, credit enhancement or liquidity fees, and (e) any other costs or payments permitted by law. The special tax allocation formula must be structured such that the projected maximum special tax that could be levied in any year would produce special tax revenues at least equal to (a) 110% of projected annual debt service on all CFD bonds for such year, plus (b) projected reasonable and necessary administrative expenses of the CFD for such year.

The Special Tax formula will be structured in a manner which treats landowners in the CFD equitably. In a residential CFD, the County will seek to ensure that the ultimate homeowner's interest is protected. Accordingly, the following components will be built in to the Special Tax formula, as appropriate:

(a) when available, interest earnings on funds held for the CFD or CFD bonds will benefit all taxpayers;

(b) absent countervailing circumstances found to be determinative by the Board of Supervisors, debt service will be structured to be level; and

(c) undeveloped land and all property not otherwise exempted will bear a fair share of the annual Special Tax burden.

The maximum annual Special Tax, together with ad valorem property taxes, county service area charges, special assessments or special taxes for an overlapping CFD, or any other charges, taxes or fees payable from and secured by the property, in relation to the expected assessed value of each parcel upon completion of the private improvements to the parcel is of great importance to the County in evaluating a proposed CFD financing. The policy of the County is to limit the "overlapping" debt burden on any residential parcel in a CFD to an amount not in excess of 1.7% (the basic property tax of 1% plus .7%) of the expected assessed value of such parcel upon completion of the public and private improvements relating thereto. In evaluating whether this objective can be met, the County will consider the aggregate public service needs for the proposed project. It will consider what public improvements the applicant is proposing be financed in relation to such aggregate needs and decide what is an appropriate amount to extend in public financing to the identified public improvements. This evaluation will be based, in part, on information obtained from other affected taxing entities that have jurisdiction to impose a levy on the proposed project.

10. APPRAISALS

The definitions, standards and assumptions to be used in appraisals required in connection with the County's use of the Act are as set forth in the Appraisal Standards for Land Secured Financings published by the California Debt Advisory Commission and dated May 1994, with the following modifications:

(a) the independent review appraiser is an option, and not a requirement;

(b) the comparable sales method may be used whenever there is sufficient data available;

(c) the appraiser should assume the presence of the public infrastructure to be financed with the CFD bonds; and

(d) the special tax lien need not be computed as the present value of the future tax payments if there is a pre-payment mechanism or other more appropriate measure.

11. ACQUISITION OF FACILITIES

If a CFD financing will include public improvements to be acquired, operated or maintained by the County, after review and approval of a CFD application, the applicant will be required to negotiate with the appropriate County department regarding the financing and acquisition by the CFD of any improvement that will be operated or maintained by that department. A funding and acquisition agreement must be negotiated with the appropriate County department for such improvements and must be executed and delivered prior to or at the time CFD bonds are issued. Such an agreement will require the CFD to acquire only improvements (or components thereof that are functional) that are complete.

Performance and completion bonds will be required for each improvement that is not to be constructed by the County and that is to be acquired, operated or maintained by the County.

12. MARKET ABSORPTION STUDY

For all new residential development, and in such other cases as may be appropriate, the County will select and employ an independent consultant/economist who will perform a market absorption analysis of the applicant's proposed project. Such analysis will be used to verify the applicant's projections regarding the timing and marketability of the proposed project. The County may require the consultant/economist providing market absorption projections to assume a cyclical, rather than straight-line, economic growth projection in order to more accurately predict an economic downturn and protect County homeowners.

13. CREDIT EVALUATION

Any applicant and any other owner of property within a proposed CFD that will be responsible for 10% or more of annual debt service on the CFD bonds will be required to submit financial statements (preferably audited) for the current and two prior fiscal years, together with other financial information requested by the County or its consultants as part of the due diligence for the CFD financing. Updated financial information will be required as part of CFD bond sale activities.

All information reasonably requested by the County and its consultants will be furnished by the applicant. Such information may be made available by the underwriters of the CFD bonds to all interested prospective bond buyers. An official statement for all CFD bond offerings will be prepared and distributed in accordance with all applicable State and Federal laws and regulations.

14. CONTINUING DISCLOSURE

Each applicant and each other owner of property within a proposed CFD that will be responsible for 10% or more of annual debt service on the CFD bonds will be required to cooperate and to provide such information, initially and on an ongoing basis, as may be required for the underwriter of CFD bonds to satisfy the requirements imposed on it pursuant to Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, and for the County to comply with, satisfy any requirements of, or avoid any liability under, any applicable federal or state securities laws.

15. CAPITALIZED INTEREST

The preference of the County is to limit the amount of capitalized interest funded for CFD bonds to the amount necessary to pay debt service on the bonds until special tax receipts from special taxes levied through the tax roll are sufficient for such purpose. However, the County will determine on a case by case basis whether to allow to be funded up to the two year's of capitalized interest authorized by the Act.

16. MINIMUM STANDARDS; WAIVERS AND AMENDMENT

The Goals and Policies reflect the minimum standards under which the County will assist in the development of property through the use of the Act. The County may, in its discretion, require additional measures and procedures, enhanced security and higher standards in particular cases.

The County may, upon the recommendation of the DAC and the approval of the Board of Supervisors, in limited and exceptional circumstances and to the extent permitted by law, in its discretion, waive any of the requirements, procedures and standards provided in the Goals and Policies in particular cases.

The Goals and Policies may be amended at any time and from time to time by the County.

17. EXISTING POLICIES

The Goals and Policies supplement the County's existing policies for debt issuance.

ATTACHMENT B

Post-Issuance Bond Compliance and Record Retention Policy

June 2010
Revised August 2011

The following is to ensure due diligence of the County for its debt issuances.

1. Project proceeds are to be used only for capital expenditures:

    a. A concise line item budget detail by project will be updated and submitted to the County Treasurer prior to finalizing the amount of proceeds to be issued.
    b. Whenever possible bids are to be received prior to final sizing and pricing of the issuance.
    c. When financing requests come to the Debt Advisory Committee (DAC), General Services or the involved department will provide to the Committee a concise line item detail budget for each proposed project.
    d. A form "Request of the County for Disbursement" must be submitted to the County Treasurer when requesting payment for project costs. Substantiating documentation must be submitted with each claim.

2. Arbitrage yield restriction and rebate: A provider such as Bond Logistix will prepare the analysis, computation of rebate, and reports to be filed with the IRS.

3. Proper determination of interest payable on each interest date: The Trustee will prepare an invoice indicating principal and interest due and submit it to the Treasurer – Tax Collector for review and payment.

4. Timely filing of form 8038-CP return for Credit Payments to Issuers of Qualified Bonds (only for direct subsidy bonds): The Treasurer-Tax Collector will prepare the 8038-CP IRS form. The form will be submitted at the earliest IRS allowed date.

5. The refundable direct payment credit is to be made to the County Treasurer – Tax Collector, (only for direct subsidy bonds).

6. General Services and the Treasurer – Tax Collector will report certain information to the DAC at each regularly scheduled meeting. The report will be detailed by project and will include the following information:

    a. Cash contributed
    b. Proceeds issued for the project
    c. Interest Earned on the Proceeds
    d. Proceeds drawn-down to date
    e. A forecast of the date unspent proceeds will be completely drawn down

7. On or about the one year anniversary of the date of issuance of each issue of tax credit bonds (eg, QECBs, New CREBs, etc.), the County Treasurer-Tax Collector's office will determine the amount of unspent proceeds of that issue. To the extent that any proceeds remain unspent on the three-year anniversary of the date of issuance of an issue of tax credit bonds, the County Treasurer-Tax Collector's office will consult with bond counsel and take the actions necessary to cause the bonds to continue to qualify as tax credit bonds. Such actions may include the redemption of all "nonqualified bonds" within 90 days.

8. Upon knowledge of an actual or suspected violation of any Federal tax requirement, the Treasurer's Office is to be immediately notified. The Treasurer will convene an emergency meeting of the DAC if she/he determines it is necessary.

9. Information provided regarding an actual or suspected violation should be documented in writing and should include the following:

    a. A clear statement of the specific federal tax requirement which is the subject of the violation;
    b. A description of the violation, including its nature, when it occurred, and the facts and circumstances surrounding it; and
    c. A statement as to when and how the violation was discovered

10. Resolution of any identified violation will be documented.

11. If possible, identified violations will be resolved via a remedial action pursuant to Section 1.141-12 of the Treasury Regulations.

12. If a remedial action is not available, resolution via the IRS Voluntary Closing Agreement Program will be sought.

13. The DAC will consider and update as necessary the County's debt policies and procedures to implement changes that would prevent the violation from recurring in any of the County's debt issuances.

14. Examples of a violation may include, but are not limited to, the following:
    a. Use of 10% of the project by a private business;
    b. Use of proceeds for a non-qualified expenditure;
    c. Inadvertent investment of escrow at materially higher yield

Contemporaneously with issuance of bonds, the underwriter must execute an issue price certificate in a form approved by bond counsel. Within 30 days of closing, the underwriter is required to file a Post Issuance Report with the County Treasurer. The report will also be presented to the County Debt Advisory Committee by the underwriter. The report must include:

- **Pricing:** Interest Rates/Yield/Premiums/Discounts. For direct pay bonds, provide data to document that no maturity is in excess of the de minimis amount of premium, as required by section 54AA(d)(2)(C).

- **Comparable Sales Data:** Minimum Information to include: Issuer, Credit Ratings, Type of Bond (Revenue/COP, etc), Taxable or Exempt, Par Amount, Coupon Rate and Yield By Maturity, All in TIC

- **Orders:** Total Orders broken down by allotment (retail, institutional, underwriter) and actual allotments, (both by dollar and percentage)

- **Secondary Market Trading:** For each transaction provide a detail of its date, volume, and price. Clearly identify those that are underwriter transactions.

- **Costs of Issuance:** A detail of each individual item and an aggregate total should be included. The aggregate total percentage of issuance should be indicated.