

**COUNTY OF SANTA BARBARA
DEBT MANAGEMENT POLICY**

APPENDIX A: MELLO-ROOS LOCAL GOALS AND POLICIES

1. PURPOSE

The purpose of the Mello-Roos Local Goals and Policies (Goals and Policies) is to provide the residents and the owners and developers of property located within the County of Santa Barbara (County) with guidance in the application for and consideration of the establishment of Community Facilities Districts (CFD) for the purpose of financing or assisting in financing public capital facilities and services.

The underlying principles behind the Goals and Policies are as follows:

- (a) The protection of the public interest.
- (b) Assuring fairness in the application of CFD special taxes (Special Taxes) to current and future property owners.
- (c) Assuring full disclosure of the existence of any Special Tax liens.
- (d) Protection of the County and its dependent special districts' financial positions.
- (e) Ensuring that each applicant for CFD proceedings, other than proceedings initiated by the County Board of Supervisors (Board), pay all costs associated with the formation of any such CFD.

2. INTRODUCTION

The Goals and Policies have been adopted by the County and its dependent special districts pursuant to Section 53312.7 of the Mello-Roos Community Facilities Act of 1982 (Act). They 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 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 to institute proceedings for formation of a CFD. The decision as to whether 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 the proposed development; priority will be given to facilities that benefit not only the particular development, but also the County at large. For purposes of this Section 3, backbone infrastructure includes: i) Streets and roads (thoroughfares, arterials, major streets, highway and freeway improvements and

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- major collector streets), trails; ii) utilities and drainage facilities, including, but not limited to sewer and water; iii) other County owned facilities including public safety facilities; vi) local park, recreation, parkway and open-space facilities and vii) other public facilities including those to be owned and operated by other public agencies as permitted by law.
- (c) Other facilities and improvements authorized by the Act for which there is clearly demonstrated public benefit, as determined by the County.
 - (d) 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 also not eligible for financing through a CFD.

Public facilities to be owned and operated by a public agency other than the County (including a school district), and services to be provided by a public agency other than the County 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

The County requires that subdivision project entitlements have progressed to at least the approved tentative map stage prior to formation of a CFD. See section 7, “Credit Quality Requirements for CFD Bond Issues” for requirements for project entitlements and development activity prior to the issuance of 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 (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 regarding each proposed CFD. The County reserves the right to request additional reports, information and/or studies reasonably necessary to evaluate an application. The failure of an applicant to provide complete and accurate information and/or the failure to notify the County of material changes may result in the County’s cessation of CFD evaluation, formation and/or bond issuance.

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

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including, but not limited to, 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 \$100,000, 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 Treasurer 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. No interest shall accrue on the deposit to the benefit of the applicant.

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.

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 through a deposit, however, reimbursement will be limited to the costs of CFD related consultants approved by the County. 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.

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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 value of the real property that would be subject to the Special Tax, be at least 5 times (rather than 3 times, the minimum required by the Act absent 4/5ths approval from the Board, credit enhancement, or an escrow structure whereby funds are released only after achieving a 3:1 ratio) 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 and overlapping general obligation debt (collectively known as tax and assessment debt). The minimum value-to-lien ratio for each parcel or land use category shall be determined by the County on a case-by-case basis.

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, and/or the bond size will be reduced as may be necessary to cause such requirement to be met. As an alternative and/or in addition to the forgoing remedies, the County may accept a back-up provision recommended by the special tax consultant and contained in the Rate and Method of Apportionment of Special Taxes.

The County requires that subdivision project entitlements and development activity have progressed to include at least the following:

- (a) Property has all entitlements, recorded final maps and substantially all governmental permits necessary to develop the property.
- (b) Property is in a flood zone that does not require flood insurance for future property owners.
- (c) Backbone infrastructure, which includes priority infrastructure receiving CFD funding in addition to other required infrastructure needs, and in-tract improvements needed to serve the property are complete or substantially complete.
- (d) Property is completely, or significantly, owned by merchant builders and/or homeowners.
- (e) At least 25 – 50% of the property has building permits.
- (f) Models are complete and some production homes are under construction with some completed, preferably in each neighborhood.
- (g) Developer, if still a landowner at time of bond sale, will have substantial equity after factoring in the proceeds of the acquisition of improvements by the County using bond proceeds.

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At the sole discretion of the County, the above requirements may be applied to the portion of the property in a community facilities district (or an improvement area within a CFD), securing a specific bond issue and/or producing the special tax revenue to cover debt service and related requirements.

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. Reserve funds for refundings where the property is built out may have a lower requirement, at the sole discretion of the County after consultation with the financial advisor and underwriter, if applicable.

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. In addition, market and underwriting standards for land secured bonds may change from time-to-time. To the extent market/underwriting standards at the time of a bond sale are more stringent than the County's requirements, such market/underwriting standards may control.

8. DISCLOSURE TO PROSPECTIVE PROPERTY PURCHASERS

In order to seek 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), 53340.2 and 53341.5, be met. In addition, each developer of property within a CFD will be 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 ALLOCATION 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, including undeveloped land, receiving benefit from the public facilities and services 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.

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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. Absent countervailing circumstances, facilities special tax rates and debt service will be structured to be substantially level. Services special taxes may include an inflator.

Additionally, the Special Tax formula must 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 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” tax burden on any residential parcel in a CFD. At the time of adoption of the Special Tax and/or at the time of bond issuance, the amount may not exceed 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 and revised July 2004, 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.
- (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.

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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 County 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 County 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.

Pay-as-you-go (PAYGO)

Pay-as-you-go (PAYGO) expenditures are project expenditures made directly from the proceeds of annual CFD special tax levies (as opposed to the proceeds of bonds). The levy for PAYGO (as well as bond debt service and administrative costs) is limited to the provisions of the Rate and Method of Apportionment of Special Taxes (RMA), which is approved in conjunction with the CFD formation process. RMAs include maximum tax rates for each property classification, among other rules that govern each tax levy. CFD RMAs may provide that a PAYGO tax may be levied prior to the issuance of bonds (or prior to the last series of bonds, if multiple bond sales are expected) on property that has at least a building permit. This is primarily designed to avoid the first CFD tax levy appearing on the tax bills after homeowners are in place and/or to avoid significant tax increases after the final bond issuance. PAYGO levies typically result in tax levies at the maximum tax rates rather than the amount necessary for debt service and administration, which, by themselves, typically do not require levies at the maximum rates. RMAs may also allow for PAYGO levies after the last bond issuance, however, implementation of any PAYGO levy after the last bond issuance is subject to County approval.

The County may consider on a case-by-case basis a request by a developer to continue levying at the maximum rates after the final bond issuance in order to reimburse the developer for eligible expenditures not paid from bond proceeds and/or PAYGO levies prior to the final bond issuance, as long as the PAYGO period is equal to the expected build-out period of the CFD or improvement area or ten (10) years, whichever is shorter. The amount of PAYGO included in a tax levy shall not be increased as a result of a refinancing of CFD bonds that reduces annual debt service, with the intent that homeowners, rather than the developer, receive the benefit of savings from a bond refinancing. Any agreement by the County for PAYGO levies after the final series of bonds must be memorialized in the funding and acquisition agreement referred to above.

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12. MARKET ABSORPTION AND/OR PRICE POINT STUDY

For all new residential development, and in such other cases as may be appropriate, the County may 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.

The County may also select an independent consultant to prepare a study used as basis to verify proposed base pricing of the finished properties (lots or completed buildings or dwelling units) subject to the levy of the special tax for purposes of determining the overall effective tax burdens on the CFD property (see section 9). A price point study may be completed prior to formation and may be updated prior to bond issuance.

13. LANDOWNER CREDIT DISCLOSURE AND ENHANCEMENT

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 may 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.

The County may, at its discretion, require additional credit enhancement or lower the threshold at which a letter of credit must be provided in order to increase the credit quality of any bond issue. Credit enhancements may be required in additional situations where there is an insufficient value to-lien ratio, a substantial amount of property in the CFD is undeveloped; tax delinquencies are present on parcels within the CFD; and in any other situation as required by the County. As a practical matter, such additional requirements will generally be the result of recommendations made by the County's bond counsel, financial advisor, bond underwriter, or other members of the County's financing team. The form of credit enhancement is subject to the approval of the County and the County shall impose specific requirements (including but not limited to an absorption study) with respect to such credit enhancement on a case-by-case basis.

Significant Property Owners. Owners of the property in a CFD who are deemed responsible for 33% or more of the debt service obligation of a given bond issue (Significant Property Owner) secured by the CFD are required to provide a letter of credit or cash deposit in an amount equal to two year's special taxes on their property based on current assessed value (Credit Enhancement). The letter of credit may be drawn on if and to the extent that the landowner is delinquent in paying its special taxes.

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A Significant Property Owner may submit a request to reduce or terminate the Credit Enhancement provided pursuant to these Goals and Policies. This request shall be accompanied by documentation in support of such request. The County will review such request to determine (a) the percentage of annual special tax payment obligation applicable to property owned by the Significant Property Owner submitting the request and (b) the annual amount of special taxes applicable to such property. These requests shall not be submitted more frequently than such Significant Property Owner is providing reports pursuant to a continuing disclosure undertaking under Securities and Exchange Commission Rule 15c2-12.

If the County determines, based on its review of the information submitted, that the percentage of debt service the Significant Property Owner is responsible for has fallen below 33% and the Significant Property Owner is current on special taxes to date, the County shall notify the Significant Property Owner and release the Credit Enhancement. If the County determines that such percentage remains at 33% or above, but that the amount of two year's special tax payment obligation has decreased, the County shall notify the Significant Property Owner and cooperate with the Significant Property Owner in obtaining a reduced amount of Credit Enhancement.

14. CONTINUING DISCLOSURE

Any applicant and any other owner of property within a proposed CFD that will be responsible for 20% or more of annual facilities special taxes 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. The County, following consultation with its financing team for a particular transaction may increase the threshold for continuing disclosure based on then current industry practices and standards.

15. CAPITALIZED INTEREST

The County will determine on a case-by-case basis whether to allow up to the two years of capitalized interest authorized by the Act. 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.

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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, in limited and exceptional circumstances and to the extent permitted by law, waive any of the requirements, procedures and standards provided in the Goals and Policies.

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

17. EXISTING POLICIES

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