

CITY OF CORONA

DEBT POLICY AND PROCEDURES



~~Eugene Montanez~~ Jim Steiner, Mayor
~~Jason Scott~~ Jacque Casillas, Vice Mayor
~~Richard O. Haley~~ Yolanda Carrillo, Council Member
~~Randy Fox~~ Jason Scott, Council Member
~~Karen Spiegel~~ Wes Speake, Council Member

~~Aaron Hake~~ Chad Willardson, Treasurer

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GENERAL POLICY GUIDELINES

INTRODUCTION

The following policies and procedures are enacted in an effort to standardize the issuance and management of debt by the City of Corona and its component units. The primary objective is to establish conditions for the use of debt, to minimize the City's Debt Service requirements and cost of issuance, to retain the highest practical credit rating, to maintain full and complete financial disclosure and reporting, and to maintain financial flexibility for the City. The policies apply to all debt issued by the City and its component units.

Regularly updated debt policies and procedures are an important tool to ensure the use of the City's resources to meet its commitments, to meet the needs of the citizens of Corona and to maintain sound financial management practices. These guidelines are for general use and allow for exceptions in extraordinary conditions.

These policies and procedures have been recommended by the Finance, Legislation & Economic Development (FLED) Committee and adopted by resolution of the City Council. They will be updated and resubmitted to the City Council periodically. The policies can be adjusted at any time by resolution of the City Council. [The policies are intended to comply with Government Code Section 8855, as amended by Senate Bill 1029, which became effective January 1, 2017.](#)

LONG RANGE FINANCIAL PLANNING [AND INTEGRATION WITH CAPITAL IMPROVEMENT PROGRAM](#)

The City shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays and competing projects. Long term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. For all capital projects under consideration, the City shall set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal. The issuance of debt to fund operating deficits is not permitted. The issuance of short-term cash-flow instruments is excluded from this limitation.

The City's Capital Improvement Program is a multi-year financial planning and management tool that identifies public facility and equipment requirements. It identifies a full range of capital needs, provides for the ranking of the importance of such needs, and identifies the funding sources that are available to cover the costs of the projects. When the CIP identifies project funding through the use of debt financing, financial analyses and projections will have already been completed which demonstrate the

feasibility of issuing the debt. The City Manager will evaluate capital project requests and recommend the CIP to the City Council for approval.

The City may consider financing the capital needs of its revenue-producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing such debt, the City will develop financial plans and projections showing the feasibility of the financing, including an analysis of the required rates and charges needed to support the financing and the impact on ratepayers, property owners and other affected parties.

The City will use the following criteria to evaluate pay-as-you-go financing:

1. Current revenues and adequate fund balances are available so project phasing can be accomplished.
2. Existing debt levels adversely affect the City's credit rating.
3. Market conditions are unstable or present difficulties in marketing debt instruments.

The City will use the following criteria to evaluate long-term financing:

1. Revenues designated as security for Debt Service are deemed to be sufficient and reliable so that long-term financing can be marketed with investment grade credit ratings.
2. The project securing the financing is of the type that will support an investment grade credit rating, except Conduit Financing and Land Based Financing which have unique minimum credit criteria described in their respective sections.
3. Market conditions present favorable interest rates and demand for City financing.
4. The project is mandated by State and/or Federal requirements and current resources are insufficient or unavailable.
5. The project is immediately required to meet or relieve capacity needs and current resources are insufficient or unavailable.
6. The life of the project or asset to be financed will exceed the term of the debt.

DEBT LIMITS

The City will keep outstanding debt within the limits prescribed by State of California statutes and at levels consistent with credit objectives. There is no statutory restriction on the amount of revenue bonds that can be outstanding at any given time. However, each proposed financing will be individually assessed by the ~~Assistant City Manager~~ Administrative Services Director and subject to the approval of the City Council.

DEBT STRUCTURE

The City will normally issue debt with an average term of 25-30 years or less. The structure should approximate level debt service for the term where it is practical. Debt will be structured in such a way as to avoid increasing debt service payments in subsequent years, with the exception of the first and second year of a debt payoff schedule. Variable rate debt may be considered for utility debt when determined to be in

the best interest of the City. There will always be at least interest paid in the first fiscal year after debt issuance and principal starting no later than the second fiscal year. Capitalized Interest will not be for a period of more than one year except for a City initiated project where the construction period exceeds one year.

CREDIT OBJECTIVES

The City of Corona seeks to maintain the highest possible credit ratings for all categories of long-term debt that can be achieved without compromising delivery of basic City services and achievement of City policy objectives. Accordingly, the City seeks to achieve a rating no lower than investment grade and, for obligations of the City or its component units, the target optimal rating is A from a Nationally Recognized Statistical Ratings Organizations (NRSRO).

The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the City is committed to ensuring that actions within its control are prudent and well planned.

The City may seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when it proves cost-effective or provides additional security for the payment of debt service. Generally when practical, selection of credit enhancement providers will be subject to a competitive process developed by the ~~Assistant City Manager/~~ Administrative Services Director. Credit enhancement may be used to improve or establish a credit rating on a City debt or to provide supplemental security for debt service on non-City debt as long as the use of such credit enhancement meets the City's debt financing goals and objectives.

REFUNDING DEBT

Periodic reviews of all outstanding debt will be undertaken by the ~~Assistant City Manager/~~ Administrative Services Director and the City's Financial Advisor to determine refunding (refinancing) opportunities.

The purpose of the refinancing may be to:

1. Achieve or monetize Debt Service savings.
2. Update or revise covenants on an outstanding debt issue.
3. Restructure Debt Service associated with an issue.
4. Alter debt characteristics such as call provisions or payment dates.

Generally, the City will strive to achieve a minimum of three percent (3%) net present value savings of the refunded Bonds, net of issuance costs and any cash contributions in the case where the primary objective of the refinancing is to achieve debt service savings. A higher minimum threshold for savings may be considered in the case of advance refunding.

COSTS AND FEES

All costs and fees related to the issuance of debt will be paid out of debt proceeds. An amount will be determined at the time of the issuance to reimburse the City for costs incurred based on the time factors and complexity of the issue. Where applicable, the annual, recurring costs to the City of administering the debt are charged to the appropriate Debt Service, Enterprise or Agency fund.

METHOD OF DEBT OFFERING

The City shall evaluate the best method of sale for each proposed bond issue.

1. Competitive sale. In a competitive sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter whose confirming bid represents the lowest true interest cost to the City.
2. Negotiated sale. When a negotiated sale is deemed advantageous in consultation with the City's Financial Advisor, the ~~Assistant City Manager~~/Administrative Services Director shall negotiate the most competitive pricing on debt issues and underwriter discounts in order to ensure the best value to the City. Generally, in a negotiated sale, the underwriter will be selected based on a formal RFP process. The City, with the assistance of its Financial Advisor, shall evaluate the RFP on prices, interest rates, fees, and discounts. Criteria for selection will be determined on a case by case basis. No debt issue will be sold on a negotiated basis without an independent financial advisor.
3. Private placement. In certain instances, the City may determine to utilize private placements or offerings to specially defined or otherwise limited investor types, but will only do so in the absence of other avenues for acquiring the required capital in a more cost effective manner or in instances where the purpose is determined to be of significant strategic importance to the City. Any and all private placement offerings which do not include a private placement memorandum (executed by the City) in compliance with Securities and Exchange Commission Rule 15c2-12 prepared by counsel delivery, a 10b5 Opinion, shall require the purchaser(s) to each deliver a "Sophisticated Investor Letter" prepared in a form acceptable to the City's bond counsel where the buyer(s) represent they have completed their own due diligence regarding the investment, have not relied on information provided by the City except as explicitly stipulated therein, and are able and qualified to purchase without an official statement or disclosure document prepared in compliance with federal and/or state securities laws.

TYPES OF DEBT FINANCING

GENERAL OBLIGATION BONDS

The City may issue general obligation bonds for essential projects where there is no other funding source available to meet project costs. The following criteria will be used to evaluate the financing:

1. The likelihood of obtaining voter approval of the debt has been researched and determined to be optimistic.
2. The project is essential to meet or relieve capacity needs and no other resources are available to finance it.
3. The project has been presented to City Council either through the CIP or through regular council reports. The useful life of the project or asset to be financed is at least equal to the term of the Bonds to be issued.

When issuing debt, the City shall strive to use special assessment, revenue, or other self-supporting bonds in lieu of general obligation bonds.

MUNICIPAL NOTES

The City Council may authorize the issuance of municipal notes as an interim financing mechanism in anticipation of future revenues at the recommendation of the ~~Assistant City Manager~~/Administrative Services Director. Types of such notes could include, but are not limited to, Tax Anticipation Notes, Revenue Anticipation Notes, Bond Anticipation Notes, or Grant Anticipation Notes.

REVENUE BONDS

The City Council may authorize the issuance of Revenue Bonds as a means of financing capital facilities. The following criteria will be used to evaluate the financing:

1. Revenues available for Debt Service are deemed to be sufficient and reliable so that the bonds can be marketed with investment grade credit ratings. Where appropriate, revenues for the term of the bonds shall be projected or confirmed by an independent revenue consultant selected in the sole discretion of the City.
2. The project securing the financing is of the type that will support an investment grade credit rating.
3. Market conditions present favorable interest rates and demand for City financing.
4. The project has been presented to City Council either through the CIP or through regular council reports.
5. The project is essential to meet or relieve capacity needs and current resources are insufficient or unavailable.
6. The useful life of the project or asset to be financed is at least equal to the term of the Bonds to be issued.

These types of obligations are often structured as Lease Revenue Bonds or Certificates of Participation (COP's). If so structured, debt service shall not exceed the fair rental value of the leased asset for the term of the lease.

REDEVELOPMENT AGENCY DEBT

The former Redevelopment Agency (RDA) may have authorized the issuance of bonds that are secured by tax increment revenue of the RDA. Beginning February 1, 2012, the City's Successor Agency may seek to restructure the former RDA debt to achieve savings for the City and affected taxing agencies. Criteria considered when issuing such debt are as follows:

1. A fiscal analysis of the tax increment projections for the project area, generally prepared by an independent redevelopment consultant, which demonstrates sufficient revenue to meet debt service requirements and the ability to support an investment grade credit rating.
2. Market conditions present favorable interest rates and demand for such financing.

INTERFUND LOANS

From time to time, interfund borrowings may be necessary from one fund to another fund that is experiencing a temporary cash shortage. Under generally accepted accounting principles (GAAP), funds that are not included in the non-spendable, restricted, or committed fund balance may make temporary loans to other funds.

Interfund loans are categorized into two types:

1. Cash advances at the end of the fiscal year to remove negative cash balance for special revenue funds. Many special revenue funds that account for grant funded projects experience negative cash balance at the end of the fiscal year due to the timing on grant funding. The negative cash situation will be resolved when grant reimbursement is received. The ~~Assistant City Manager~~/Administrative Services Director is authorized to approve cash advances from the General Fund to the special revenue funds under this circumstance.
2. Interfund loans that provide for advance spending for a capital project or debt repayment. Such loans must be approved by the City Council.

Interest will be paid by the borrowing fund to the lending fund, during the time the loan is outstanding. The rate is determined by the ~~Assistant City Manager~~/Administrative Services Director on a case by case basis.

These interfund loans typically have an approved repayment schedule; however, earlier repayment of the debt may occur based on available monies in the borrowing fund and approval of the ~~Assistant City Manager~~/Administrative Services Director.

Interfund loans shall not hinder the accomplishment of any function or project for which the lending fund was established.

LAND-SECURED BONDS

Land-secured bonds may be issued under the provisions of the Mello Roos Community Facilities Districts Act of 1982 (Commencing with Section 53311 of the Government Code), the Improvement Act of 1911, the Municipal Improvement Act of 1913 for special assessment districts and the Improvement Bond Act of 1915 Act for the issuance of bonds. These bonds become an obligation of the special district and are not an obligation of the City or any of its component units. See LAND BASED FINANCING for additional information.

CONDUIT FINANCING

The City may sponsor conduit financing for the activities that have a general public purpose and are consistent with the City's overall service and policy objectives, including economic development, housing, and public health. All conduit financing must insulate the City completely from any credit risk or exposure. The City will determine if it is interested in considering a request for conduit financing and establish the ground rules for evaluating the request on a case by case basis with the following criteria and procedures:

1. There is a clearly articulated public purpose in providing the conduit financing.
2. The applicant is capable of achieving this public purpose.
3. The proposed financing meets the City's minimum credit standards for conduit financings.
4. The ~~Assistant City Manager~~/Administrative Services Director in consultation with the City's financial advisor reviews the proposed terms of the financing to determine if the project is appropriate for City sponsorship and that the proposed financing structure will adequately insulate the City from any and all financial risks.
5. The City's bond counsel will review the terms of the financing, and render an opinion that there will be no liability to the City in issuing the bonds on behalf of the applicant.
6. Present the evaluation results and recommendation to the City Council for the approval of the conduit financing request.

The City's minimum credit standards for conduit financing are as follows:

1. Borrower shall be an entity with a stand-alone credit rating of not less than A by Standard and Poor's Corporation or A2 by Moody's Investors Service, or can secure credit enhancement for the full amount of the borrowing in the form of a letter of credit from a commercial bank with a credit rating of not less than A by Standard and Poor's Corporation or A2 by Moody's Investors Service.
2. By arranging for the private placement of the bonds to a single buyer that is a "Qualified Institutional Buyer" under federal securities law. Such a purchaser will sign a "sophisticated investor letter" prepared by the City's bond counsel which will represent that they are one of the above, are able and qualified to purchase without

an official statement, and that they can transfer the placement only in whole, and only to a purchaser willing and able to sign a similar sophisticated investor letter. This requirement would “travel” throughout the life of the placement.

The City may, at its sole discretion, require additional protections including but not limited to asset appraisals, financial audits of the non-City participants, and additional security.

An initial deposit and issuer fee will be required. The minimum deposit is set at \$15,000, and may be increased if additional costs are anticipated to adequately evaluate the request. The annual issuer fee is set at one-eighth of one percent (0.125%) of the initial par amount, payable each year to the City in advance for as long as the bonds remain outstanding, or in the case of Housing bonds, the term of the regulatory compliance period, if applicable.

The City Council may elect to participate in other conduit type financings that are administered by County or statewide financing authorities if it is determined to be in the best interest of the City. As stated above, there must be no liability or risk to the City to participate in these programs. Additional deposits or fees shall be determined by the ~~Assistant City Manager~~/Administrative Services Director based on the specifics of the financing.

COMPLIANCE

INVESTMENT OF PROCEEDS

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds as well as restriction on the time period over which the proceeds may be invested.

ARBITRAGE REBATE

Due to the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the City shall contract with an independent consultant for preparation of the arbitrage rebate calculation in accordance with the IRS code and regulations.

The City shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings by each issue with the assistance from its fiscal agent(s).

DISCLOSURE REQUIREMENT

The City established its Disclosure Policy (Appendix [CB](#)) outlining its responsibilities as the issuer to make all reasonable efforts to assist underwriters in their efforts to comply with Security Exchange Commission or SEC Rule 15c2-12 and MSRB Rule G-36. The City will file Continuing Disclosure reports and/or certificates with the Electronic Municipal Market Access (EMMA) system, the official repository for information on all municipal bonds. The City will also provide a copy of its Comprehensive Annual Financial Reports (CAFR) upon request and will disseminate other information that it deems pertinent to the market as required. While initial bond disclosure requirements pertain to bond offering statements, the City will provide financial information and notices of ~~material~~[certain](#) events on an ongoing basis throughout the life of the issue in accordance with [continuing disclosure](#) agreements to do so on a transaction-by-transaction basis. ~~Material events are defined as those events, which are considered likely to reflect on the credit supporting the securities.~~—The [listed](#) events ~~considered material according to the enumerated in SEC Rule 15c2-12 as of February 27, 2019, for which disclosure must be provided~~ [SEC are in a timely manner not in excess of ten business days after the occurrence of the event are:](#)

- Rating changes
- Non-payment related Defaults, [if material](#)
- Adverse tax opinions, [the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue \(IRS Form 5701-TEB\) or other material notices or determinations with respect to the tax status of the security, or other material](#) ~~or~~ events affecting the tax exempt status [of the security](#)
- Unscheduled draws on Debt Service reserves or Credit Enhancements reflecting financial difficulties
- Modifications to the rights of securities holders, [if material](#)
- Defeasances
- ~~Optional, unscheduled or contingent bond calls~~ [Bond calls, if material](#)
- [Tender offers](#)
- Release, substitution, or sale of property securing repayment of the securities, [if material](#)
- Substitution of credit or liquidity providers, or their failure to perform
- Principal and interest payment delinquencies
- Bankruptcy, insolvency, ~~or~~ receivership [or similar event of the obligated person](#)
- [Consummation of a m](#)Merger, [consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the issuer assets of the obligated person, other than in the ordinary course of business, then entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material](#)
- Appointment of [a](#) successor trustee [or additional trustee or the change of name of a trustee, if material](#)
- [Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or similar terms of a financial obligation of the obligated person, any of which affect security holders, if material](#)

- [Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties](#)

With respect to conduit debt, continuing disclosure requirements will be provided by the City only if the City is contractually obligated to do so. The City is to be reimbursed by the borrower for the cost of providing continuing disclosure services.

POST-ISSUANCE COMPLIANCE

Tax-exempt bonds issued by the City retain their tax-exempt status throughout the life of the issue if all applicable federal tax laws are satisfied while the bonds are outstanding. Various requirements apply under the Internal Revenue Code and Income Tax Regulations including information filing and other requirements related to issuance, the proper and timely use of bond-financed property, and arbitrage yield restriction and rebate requirements.

The ~~Assistant City Manager~~/Administrative Services Director is responsible for ensuring that the rules are met at the time the bonds are issued and throughout the term of the bonds. This requires coordination and accountability on the part of other City departments with respect to the expenditure of bond proceeds and the continued proper use and operation of the facilities financed. It also requires proper maintenance of records sufficient to establish compliance with all applicable federal tax requirements until three years after the final maturity of the bonds.

Specific written procedures are on file in the Administrative Services Department for the ongoing administration and maintenance of the City's bond issues. [These written procedures address the internal control procedures used to ensure that debt proceeds are directed for their intended use.](#)

LAND-BASED FINANCING

The City will consider property owner initiated applications requesting the formation of community facilities or assessment districts and the issuance of bonds to finance eligible public facilities necessary to serve new commercial, industrial, and/or residential development projects. Generally, only regional or community serving public facilities such as major streets, highway improvements, flood or drainage improvements, water and water reclamation improvements, libraries and fire stations may be eligible for this financing program. Facilities will be financed in accordance with the provisions of the Municipal Improvement Act of 1913 and the Improvement Bond Act of 1915, or the Mello-Roos Community Facilities Act of 1982 (the "Act").

Section 53312.7(a) of the California Government Code requires that the City consider and adopt local goals and policies concerning the use of the Act prior to the initiation of proceedings on or after January 1, 1994 to establish a new community facilities district under the Act. The policies are applicable to financings under the Act and are intended to comply with Section 53312.7 (a) of the Government Code. In each and every circumstance, the decision as to whether or not the City will make use of the Act is a decision that will be made solely by the City. Nothing contained herein shall be construed as obligating the City to make use of the Act in any circumstance or as granting to any person any right to have the City make use of the Act in any circumstance. The City may confer with its Financial Advisor, other consultants, and the applicant to learn of any unique district requirements such as regional serving facilities or long-term development phasing, prior to making any final determination.

Although Land-based financings are not fiscal obligations of the City, the City is required to provide extensive on-going annual disclosure with respect to each special district financing in conformance with federal securities laws, and must also perform extraordinary on-going administrative work.

APPLICATION PROCESS

Early communication with the City is encouraged to assist applicants in evaluating the feasibility of available financing programs and to discuss program procedures. The following represents a typical district application review and approval process:

1. Pre-application Conference

Applicant provides the proposed financing plan to the City and meets with key City staff to initially discuss the proposed project. The proposed financing plan should include at least the following items:

- Final development plan on properties to be subject to the financing program;
- Relative value of the property in its developed state;
- All public facilities proposed to be eligible to be financed;

- Expected burden to be imposed on the developed property (e.g., the expected effective tax rate for residential property, and estimated value-to-lien for non-residential property; and
- Anticipated build out period.

Applicant may be required to provide additional information to assist the City in understanding and evaluating the proposed project and financing plan.

2. Project Review

City staff and/or consultants will meet to discuss and determine if further information or clarification is required. If necessary, the applicant will submit additional information. If the proposed financing is denied, a letter will be sent advising the applicant of the denial and the reasons therefore. If the proposed financing is to be considered, the applicant must provide a minimum processing deposit in an amount of \$7065,000 in advance. Additional amounts may be required based on the size of the development and complexity of the financing.

3. Committee Consideration

The Administrative Services Department staff will prepare a report for presentation to the Finance, Legislation & Economic Development (FLED) Committee summarizing the proposed project and application for financing. At any point in the process if the City determines that the proposed project does not meet the community's needs, the application and/or processing deposits, less expenses incurred, will be refunded to the applicant.

4. Application Processing

Upon the FLED Committee recommendation, the City Manager, or designee, will engage additional consultants to perform the analysis required for the formation of a special district and the issuance of related debt. Such consultants may include an appraiser, financial advisor, underwriter, bond counsel, fiscal agent, special tax consultant, and assessment engineer. This includes negotiation of necessary contracts and the collection of additional developer deposits, as necessary.

5. Project Initiation

City staff will submit contracts, reimbursement agreements, bond documents, and other pertinent items for consideration to City Council for approval of the formation of the special district.

6. Project Implementation

Applicant, City staff, and consultants meet to determine preliminary project schedule and begin the work necessary to complete the district formation and financing.

GENERAL REQUIREMENTS

District Formation Costs, Developer Deposits and Reimbursements

All City and consultant costs incurred in the evaluation of the applications and the establishment of districts will be paid by the applicant. In case the advance processing deposit is insufficient to cover the formation costs, the applicant shall deposit additional funding in an amount determined by City staff to cover such costs. Expenses not chargeable to the district shall be directly borne by the applicant.

The advance processing deposits will be used by the City to pay costs and expenses incurred by the City incident to the evaluation proceedings such as legal, engineering, appraisal, special tax consulting and financial advisory, administrative, notifications, printing and publication of legal matters. The City may also require the applicant to pay the fees and other expenses of the City's bond counsel directly to the City's bond counsel.

At any point in the process, including after the City has hired consultants, if the City determines that the project does not meet the community's needs, the advance processing deposit, less expenses incurred, will be refunded to the applicant, if any. The City may refund any unexpended portion of the deposits upon the following conditions:

1. The district is not formed;
2. The proceedings for formation of the district or issuance of bonds is disapproved by the City; or
3. The proceedings for formation of the district or issuance of bonds are abandoned in writing by the applicant.

Pursuant to Council approval of a funding agreement, the applicant may be entitled to reimbursement from bond proceeds for all reasonable costs and expenses incident to the proceedings and construction and acquisition of the public facilities as provided by law. All such invoices will be verified by the City as a condition of reimbursement. The applicant or property owner will not be entitled to reimbursement from bond proceeds for any of the expenses specified as follows:

1. In-house administrative, legal and overhead expenses incurred by the applicant;
2. Interest expense or "carrying costs" incurred by the applicant on moneys advanced or expended during the proceedings and construction of public facilities; and
3. Any other costs and expenses incurred by the applicant, which are not otherwise authorized for reimbursement under the Act.

Neither the City nor the district will be required to reimburse the applicant or property owner from any funds other than the proceeds of bonds issued by the district.

Use of Consultants

The City, in its sole discretion, will select all consultants necessary for the formation of the district and the issuance of bonds, including the underwriter(s), bond counsel, financial advisor, assessment engineer, appraiser, market absorption study consultant,

and the special tax consultant. The need for consultants and the scope of their services will be determined by the City on a case-by-case basis with consideration given to market conditions and the nature of the district and financing(s).

Eligible Public Facilities

The public facilities eligible to be financed by a district must be:

1. Owned by a public agency or public utility;
2. Have a useful life of at least five years;
3. Eligible to be financed under the Act as it may be amended from time to time; and
4. Approved by the City to be financed in its sole discretion.

Furthermore, the development or redevelopment proposed within a district must be consistent with the City's general plan and must have received all required legislative approvals, such as zoning or specific plan approvals prior to the issuance of public debt. A district shall not vest any rights to future land use on any properties, including those that are responsible for paying special taxes.

Eligible Public Services

The public services eligible to be financed by a district must be:

1. Maintenance and operation of any real property or other tangible property with an estimated useful life of five or more years that is owned and operated by the City;
2. Otherwise eligible to be financed under the Act as it may be amended from time to time; and
3. Approved by the City in its sole discretion.

A public services tax approved by vote of the landowners of the district may only finance services authorized herein to the extent that they are in addition to the existing services provided within the territory of the district before the formation of the proposed district. Bonds shall not be issued to fund services.

In cases where the HOA funds drainage, park maintenance, trails or open space maintenance, the City would evaluate and consider the imposition of contingent special tax services in the event the HOA abandons or does not adequately maintain such facilities.

Eligible Private Facilities

Financed improvements may be privately owned in specific circumstances, subject to approval by the City in its sole discretion and conditions set forth in State law, except that in the event that tax-exempt bonds are issued to finance the facilities for a given project, no more than five percent of the proceeds of an issue may be used for privately owned or operated facilities.

Eligible Prior Debt

A district may also be formed for the purpose of refinancing any fixed special assessment or other existing governmental liens on the property, to the extent permitted under the Act, as applicable.

Priorities for Financing

Generally, the priority for financing eligible costs established by the City shall be as follows:

1. City services related to the proposed project.
2. Backbone infrastructure to be owned and/or operated by the City that is required to serve proposed development and that is identified in an infrastructure master plan, specific plan or other appropriate document as a major backbone infrastructure element.
3. Other public facilities to be owned and/or operated by the City for which there is a clearly demonstrated public benefit.
4. Development impact fee obligations imposed by the City, approved to be financed by the City in its sole discretion, and subject to limitations that may be imposed by the district's tax counsel related to the issuance of bonds. The City will not, generally, consider an application to finance fee obligations, but may consider such financing on a case-by-case basis if it is determined that certain public benefits can be achieved.

Reference Criteria for Financing.

5. Public facilities to be owned and/or operated by a government agency other than the City, including such public facilities financed *in lieu* of the payment of development fees imposed by such public agency. The City shall consider entering into a joint financing agreement or joint powers authority in order to finance these facilities. A joint agreement with the public agency that will own and operate any such facility must be entered into at the time specified under State law.
6. Fee obligations imposed by other government agencies, approved to be financed by the City in its sole discretion, and subject to limitations that may be imposed by the City's tax counsel related to the issuance of bonds.
7. Privately owned facilities (that is, facilities not owned by a local agency) will, generally, not be financed through the City's use of the Act; provided, however, that the City may consider the financing of such facilities on a case-by-case basis if it is determined that certain public benefits can be achieved.

In-tract infrastructure generally will not be financed through the City's use of the Act.
Reference Criteria for Financing.

Criteria for Financing

The City generally will not finance development impact fee obligations or in-tract infrastructure unless such financing approach meets one of the following criteria:

1. The City may achieve a financial or community enhancement objective not otherwise achievable through the development entitlement process or without such CFD financing mechanism.
2. As may be negotiated under a Development Agreement whereby the City receives a negotiated benefit.

Bond Issue Credit Quality Requirements

1. Structuring Requirements

Generally, the City will have the following structuring requirements. Under extraordinary real estate or bond market conditions, the District may, at its own discretion, require more restrictive criteria or additional credit enhancement to improve credit quality. The City's general requirements include:

- a) *District size.* The district (or an improvement area within the district) shall include:
 - No less than 100 expected residential units, or
 - \$3.0 million of eligible facilities acceptable by the City to be financed, and a project with sufficient bond capacity to finance such facilities in accordance with the City's policy.
- b) *Value-to-lien ratio.* Generally, bond issues should have at least a four-to-one property value to public lien ratio after calculating the value of the financed public improvements to be installed. Property value may be based on either an appraisal or on assessed values as indicated on the county assessor's tax roll, in the sole discretion of the City. The public lien amount shall include the bond issue currently being sold plus the portion of any existing public indebtedness secured by a lien on the properties to be taxed.
- c) *Level debt service for residential projects.* For a developer-petitioned owner-occupied residential project, bonds for such district will be structured such that, once principal amortization thereof has commenced, debt service thereon shall be substantially level.
- d) *Special tax coverage.* Refer to "Equity of Special Tax Formulas and Maximum Special Taxes" section of this policy.
- e) *Reserve fund.* In order to enhance the credit quality of bond issues, the City generally will require that each such bond issue be secured by a reserve fund. Generally, each such reserve fund will be required to be funded with cash in an amount no less than the least of:

- 10% of the initial principal amount of the bonds of such issue;
- Maximum annual debt service on the bonds of such issue; or
- 125% of the average annual debt service on the bonds of such issue.

A smaller reserve fund may be considered, at the sole discretion of the City, in cases where debt service on the CFD bonds are paid from developed properties which are not currently delinquent in the payment of CFD special taxes.

- f) *Letter of Credit.* Generally for a developer-petitioned owner-occupied residential project, the City will require that the developer of property within the district provide credit enhancement to increase the credit quality of bonds issued by such district. For purposes of this section, a developer is one or more builders or developers who are owners of property within the district for which construction has not yet been completed. Such credit enhancement will usually be in the form of an irrevocable letter of credit, will be required to be in an amount not less than two times the amount of maximum annual special taxes levied on property owned attributable to such developer for which a certificate of occupancy has not been issued and will be required to remain in effect until no more than 15% of the maximum annual aggregate special tax levy attributable to property owned by such developer. Such letter of credit will generally be required to be issued or guaranteed by an entity, the long term unsecured obligations of which are rated at least "A" by Moody's Investors Service or Standard & Poor's Ratings Service. Notwithstanding the above, the City may waive this letter of credit requirement in the event the District concludes, in a manner of its sole discretion, which the letter of credit requirement would no longer apply within six months of bonds proposed to be issued.
- g) *Capitalized interest.* Generally, the City intends to minimize the use of capitalized interest. To that end, the amount of capitalized interest funded for a bond issue will be limited to:
- The amount necessary to pay debt service on the bonds until the first interest payment date occurring after the levy of the special taxes may be included in the real property tax roll as relates to developed property (as defined by the special tax rate and method of apportionment), or
 - Through the end of the then-current "bond year" (as defined in the indenture or fiscal agent agreement) in which bonds are issued.
- h) *Escrow bonds.* As an alternative to providing other security, and subject to federal tax law, the applicant may request that a portion of the bond proceeds be placed in escrow with a trustee or fiscal agent in an amount sufficient to assure the financing will meet the applicable credit criteria established by the City in its sole discretion. The escrowed proceeds shall be released at such times and in such amounts as may be necessary to assure the applicable credit criteria has been met. Generally, in the event escrow bonds are issued, all interest during the escrow period shall be gross funded. An escrow bond structure will not be

employed unless such a structure advances an extraordinary City public policy objective.

2. Foreclosure Covenant

Generally, the indenture or fiscal agent agreement which specifies the covenant of the City to initiate foreclosure proceedings for a specified property that is delinquent in the payment of the special taxes shall balance protection of bondholder security with the cost effectiveness of initiating such foreclosure proceedings.

3. Failure to Meet Credit Criteria

Less than a four-to-one property value to public lien ratio, excessive tax delinquencies, or projects of uncertain economic viability may cause the City to disallow the sale of bonds, or require additional credit enhancement prior to bond sale. The City may consider exceptions to the above policies for bond issues that do not represent an unusual credit risk, either due to additional credit enhancement or other reasons specified by the City, and/or which otherwise provide extraordinary public benefits, to the extent permitted by and subject to any applicable requirements of State law.

If the City requires letters of credit or other security, the credit enhancement shall be issued by an institution, in a form and upon terms and conditions satisfactory to the District. Any security required to be provided by the applicant may be discharged by the City upon satisfaction of the applicable credit criteria specified by the City.

4. Suitable Investors

The City will require that bond financings be structured so that bonds are purchased and owned by suitable investors. For example, the City may require placement of bonds with a limited number of sophisticated investors, large bond denominations and/or transfer restrictions in situations where there is an insufficient value-to-lien ratio, where a substantial amount of the property within a district is undeveloped, where tax delinquencies are present in parcels within the district, and in any other situation identified by the City.

5. No Impact on City credit

All terms and conditions of any bonds shall be established by the City. The City will control, manage and invest all district issued bond proceeds. Each bond issue shall be structured to adequately protect bond owners and to not negatively impact the bonding capacity or credit rating of the City through the special taxes, credit enhancements, foreclosure covenant, and reserve funds.

All statements and material related to the sale of bonds shall emphasize and state that neither the faith, credit nor the taxing power of the City is pledged to security or repayment of the bonds. The sole source of pledged revenues to repay district bonds are special taxes, bond proceeds and reserve funds held under the bond document, and the proceeds of foreclosure proceedings and additional security instruments provided at the time of bond issuance.

Equity of Special Tax Formulas and Maximum Special Taxes

1. Minimum Special Tax Levels

Special tax formulas shall provide for minimum special tax levels which satisfy the following payment obligations of a district:

- 110 percent gross debt service coverage for all district bonded indebtedness; and
- The administrative expenses of the district.

Generally, the rate and method of apportionment for special taxes will be required to include a back-up tax so that changes in development within the district would not result in the inability to levy special taxes that would produce special tax revenues in such amounts. Administrative costs of the district shall be prioritized ahead of all district bonded indebtedness and excluded from the minimum debt service coverage ratio.

In addition, the special tax formula may provide for the following to be included in the special tax levels:

- Any amounts required to establish or replenish any reserve fund established in association with the indebtedness of the district;
- The accumulation of funds reasonably required for future debt service;
- An amount equal to projected delinquencies of special tax payments;
- The costs of remarketing, credit enhancement and liquidity facility fees;
- The cost of acquisition, construction, furnishing or equipping of authorized facilities;
- Lease payments for existing or future facilities;
- The costs associated with the release of funds from an escrow account;
- The costs incurred to resolve or foreclose on delinquent parcels; and
- Any other costs or payments permitted by law.

In structuring the special tax, projected annual interest earnings on bond reserve funds may not be included as revenue for purposes of the calculation.

Generally, the special tax rate and method of apportionment for a district will be structured so as to allow the prepayment by property owners of special taxes levied to finance facilities.

2. Reasonable Basis of Apportionment

The special tax formula shall be reasonable in allocating the district's payment obligations to parcels within the district. 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 public utility easements making impractical their utilization for other than the purposes set forth in the easements, or have insufficient value to support bonded indebtedness.

3. Aggregated Tax Burden

For Non-residential Property, the total projected non-residential property tax levels for any district (including ad valorem taxes, any maintenance, landscaping or other impositions on the land in the district and other similar annual government charges levied on parcels in the district, but excluding property owners' association annual levies and as to any special tax levies, based on the expected special tax rates and not any "back-up" special taxes) must be reasonable, and will be considered by the City on a case-by-case basis.

For Residential Property, the total projected residential property tax levels (including ad valorem taxes, any maintenance, landscaping or other impositions on the land in the district and other similar annual government charges levied on parcels in the district, ~~but excluding homeowners' association annual levies and as to~~ any special tax levies, based on the expected special tax rates and not any "back-up" special taxes) for any district (or, if a district has multiple improvement areas, for each improvement area and not the entire district) shall not exceed, at the time of formation and prior to the issuance of the first series of bonds within a given CFD or Improvement Area, the lesser of:

- Maximum Effective Tax Rate Limit #1: 1.795% ~~(or up to 1.95% if it is determined by the Assistant City Manager/ Administrative Services Director and the City Manager to be in the beneficial interest of the City)~~ of the estimated sales prices of the respective homes to be constructed in the district, ~~of the estimated sales prices of the respective homes to be constructed in the district~~ (with such prices to be determined by reference to an a price point study, absorption study or appraisal prepared for the district or such other information as the City shall determine) ("the Maximum Effective Tax Rate"). Such calculation shall exclude HOA annual fees;
- Maximum Effective Tax Rate Limit #2: 2.15% inclusive of HOA annual fees (except HOA annual fees for private security services, pool, clubhouses or specialized amenities as may be deemed as such by the City in its sole discretion are excluded from such calculation) of the estimated sales prices of the respective homes to be constructed in the district (with such prices to be determined by reference to a price point study, absorption study or appraisal prepared for the district or such other information as the City shall determine) ("the Maximum Effective Tax Rate");
- Any maximum specified in State law; or
- The lesser amount as may be determined by the City on a case-by-case basis.

Generally, the Maximum Effective Tax Rate must be confirmed by the City (in a manner determined solely by the City and in compliance with any limitations of State law or the special tax formula) within 90 days of the initial issuance of bonds within a given district. The annual increase, if any, in the maximum special tax for any parcel shall not exceed any maximum specified in State law. The increase in the special tax levied on any residential parcel as a consequence of delinquency or default by the

owner of any other parcel shall not exceed any maximum specified in State law.

4. Levy on Entire Parcels

Special taxes will only be levied on an entire county assessor's parcel, and any allocation of special tax liability of a county assessor's parcel to leasehold or possessory interest in the fee ownership of such county assessor's parcel shall be the responsibility of the fee owner of such parcel and the City shall have no responsibility therefor and has no interest therein. Failure of the owner of any county assessor's parcel to pay or cause to be paid any special taxes in full when due, shall subject the entire parcel to foreclosure in accordance with State law.

5. Feasibility Analysis

The City may retain a special tax consultant and/or real estate market consultant to prepare a report or other analysis which:

- Recommends a special tax for the proposed district, and
- Evaluates the special tax proposed to determine its ability to adequately fund identified public facilities, district administrative costs, services (if applicable), and other related expenditures.

Such analysis shall also address the resulting aggregate tax burden of all proposed special taxes plus existing special taxes, ad valorem taxes and assessments on the properties within the district.

Disclosure Requirements

1. Disclosure Requirement for Purchasers of Property

As a minimum, any disclosures mandated by applicable State law to inform prospective purchasers of their obligations under the district shall apply to each district. In addition, there may be other requirements mandated by the City for particular types of financings on a case-by-case basis. The district may prescribe specific forms to be used to disclose the existence and extent of obligations imposed by district.

2. Disclosure Requirements for the Resale of Lots

The City shall provide a notice of special taxes to sellers of property (other than developers) which will enable them to comply with their notice requirements under State law. This notice shall be provided by the City within five working days of receiving a written request for the notice. A reasonable fee may be charged for providing the notice, not to exceed any maximum fee specified in State law.

3. Continuing Bond Disclosure

Generally, landowners in a CFD that are responsible for ten percent (10%) or more of the annual special taxes must agree to provide:

- Initial disclosure at the time of issuance of any bonds; and

- Annual disclosure as required under Rule 15c2-12 of the Securities Exchange Commission until the special tax obligation of the property owned by such owner drops below 10%.

Any exceptions to this provision are subject to review with the City's disclosure counsel.

APPRAISALS

The definitions, standards and assumptions to be used for appraisals shall be determined by City staff on a case-by-case basis, with input from City consultants, and by reference to relevant materials and information promulgated by the State of California, (including, but not limited to, the California Debt and Investment and Advisory Commission). The appraiser shall be selected by or otherwise acceptable to the District, and the appraisal shall be coordinated by and under the direction of, or otherwise as acceptable to, the District. No appraiser or review appraiser will have any interest, direct or indirect, in the real property being appraised for the City that would in any way conflict with the preparation or review of the appraisal. Compensation for making an appraisal will not be based on the amount of the valuation.

The appraisal must be dated within three months of the date the bonds are priced, unless the City determines a longer time is appropriate.

All costs associated with the preparation of the appraisal report shall be paid by the entity requesting the establishment of the CFD, if applicable, through the advance deposit mechanism.

CHURCHES, SCHOOLS AND OTHER NON-PROFIT ORGANIZATIONS

It is the intent of the City to promote a well-balanced community and as such it encourages developers to provide for that balance in proposed special districts. Provisions should be made in designs to accommodate adequate acreage for churches, schools and other non-profit organizations along with residential, commercial, or industrial property recognizing that these categories are subject to inclusion in the Rate and Method of Apportionment of Special Tax. Additionally, if such uses occur after formation of the CFD and after bonds are sold, such uses may be subject to the Special Tax.

EXISTING RESOLUTIONS AND/OR ORDINANCES

Any existing City resolutions and/or ordinances, which may be in conflict with procedures or policies contained in this document, will be given higher priority until such time that either the ordinance or this document can be amended to provide greater consistency.

APPENDIX A

GLOSSARY OF TERMS

ADVANCE REFUNDING

A procedure whereby outstanding Bonds are refinanced by the proceeds of a new Bond issue prior to the date on which outstanding Bonds become due or are callable. Generally, either the entire outstanding issue is refunded (full Refunding) or only the callable Bonds are refunded (partial Refunding). Typically an Advance Refunding is performed to take advantage of interest rates that are significantly lower than those associated with the original Bond issue. At times, however, an Advance Refunding is performed to remove restrictive language or Debt Service reserve requirements required by the original issue. In an Advance Refunding, the refunded Bonds are called or mature 90 days after the issuance of the Refunding Bonds. (See also Current Refunding).

ARBITRAGE

The gain which may be obtained by borrowing funds at a lower (often tax- exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn Arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

BOND

A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

BOND ANTICIPATION NOTE

Short-term interest-bearing security issued in anticipation of a long-term Bond issue. The investors typically rely upon the sale of a subsequent issue of securities at maturity.

BOND COUNSEL

An attorney (or firm of attorneys) retained by the issuer to give a legal opinion concerning the validity of the securities. The Bond Counsel's opinion usually addresses the subject of tax exemption. Bond Counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, Official Statements, validation proceedings and litigation.

BOND INSURANCE

Bond Insurance is a type of Credit Enhancement whereby an insurance company indemnifies an investor against a Default by the issuer. In the event of a failure by the issuer to pay principal and interest in-full and on-time, investors may call upon the insurance company to do so. Once assigned, the municipal Bond Insurance policy generally is irrevocable. The insurance company receives an up-front fee, or Premium, when the policy is issued.

CAPITAL LEASE

The acquisition of a capital asset over time rather than merely paying a rental fee for temporary use. A Lease-purchase agreement, in which provision is made for transfer of ownership of the property for a nominal price at the scheduled termination of the Lease, is referred to as a Capital Lease.

CAPITALIZED INTEREST

Bond proceeds which are reserved to pay interest on a Bond issue for a period of time early in the term of the issue; also called funded interest. This also refers to the interest to be so paid.

CERTIFICATE OF PARTICIPATION

A financial instrument representing a proportionate interest in payments such as Lease payments by one party (such as a City acting as a Lessee) to another party (often a trustee).

COMPETITIVE SALE

A sale of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost.

CONDUIT FINANCING

The issuance of securities by a governmental entity to finance a project that will primarily benefit a third party, typically a private corporation. The security for this type of financing is usually the credit of the private entity, rather than the governmental unit. Usually such securities do not constitute an obligation of the issuer since the private entity is liable for generating the pledged revenues for repayment. Industrial development, mortgage revenue, hospital development, assessment districts, and community facilities districts are common types of Conduit Financing.

CONTINUING DISCLOSURE

The requirement by the Securities and Exchange Commission for most issuers of municipal debt to provide current financial information to the informational repositories for access by the general marketplace.

CREDIT ENHANCEMENT

A guarantee by a third party in a debt financing that strengthens the credit quality behind the obligation.

CURRENT REFUNDING

A Refunding in which the refunded Bonds are called or mature within 90 days of the issuance of the Refunding Bonds. (See also Advance Refunding).

DEBT SERVICE

The amount necessary to pay principal and interest requirements on outstanding Bonds for a given year or series of years.

DEFAULT

The failure to pay principal or interest in full or on time. An actual Default should be distinguished from technical Default. The latter refers to a failure by an issuer to abide by certain covenants but does not necessarily result in a failure to pay principal or interest when due.

DEFEASANCE

Providing for payment of principal, interest, and Premium, if any, on debt through the first call date or scheduled principal maturity in accordance with the terms and requirements of the instrument pursuant to which the debt was issued. A legal Defeasance usually involves establishing an irrevocable escrow funded with only cash and US. government obligations.

DISCOUNT

The difference between a Bond's Par Value and the price for which it is sold when the latter is less than par.

FINANCIAL ADVISOR

A consultant who advises an issuer on matters pertinent to a debt issue, such as structure, sizing, timing, marketing, pricing, terms, and Bond ratings.

GENERAL OBLIGATION DEBT

Debt that is secured by a pledge of the ad valorem taxing power of the issuer. Also known as a full faith and credit obligation.

GRANT ANTICIPATION NOTE

An interim financing mechanism issued in anticipation of award of a federal or state grant.

ISSUANCE COSTS

The costs incurred by the Bond issuer during the planning and sale of securities. These costs include but are not limited to Financial Advisory and Bond Counsel fees, printing and advertising costs, rating agency fees, and other expenses incurred in the marketing of an issue or the preparation of disclosure documents.

LEASE

An obligation wherein a Lessee agrees to make payments to a Lessor in exchange for the use of certain property. The term may refer to a Capital Lease or to an Operating Lease.

LESSEE

The party to a Lease agreement that obtains use of a facility or piece of equipment on exchange for rental payments.

LESSOR

The owner of the property being Leased.

LETTER OF CREDIT

Bank credit facility whereby a bank will honor the payment of an issuer's debt, in the event that an issuer is unable to do so, thereby providing an additional source of security for bondholders for a predetermined period of time. A Letter of Credit often is referred to as an L/C or an LOC. Letter of Credit can be issued on a "stand-by" or "direct pay" basis.

MATURITY DATE

The date on which a given security is scheduled for redemption.

MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB)

A self-regulating organization established on September 5, 1975 upon the appointment of a 15-member Board by the Securities and Exchange Agreement. The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market. New Board members are selected by the MSRB pursuant to the method set forth in Board rules.

NATIONALLY RECOGNIZED BOND COUNSEL

Firms that have experience providing legal opinions related to the issuance of municipal Bond issues. The market generally considers firms listed in *The Bond Buyer's Municipal Marketplace* to be nationally recognized.

NEGOTIATED SALE

A sale of securities in which the terms of sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding.

NOTE

A written promise to pay a certain amount of money on a specific date, with interest. By convention, the maturity of a Note is one year or less, making it short-term debt. However, financial instruments with a longer stated maturity sometimes are called Notes. For example, a Bond Anticipation Note can have maturities of two years or longer.

OFFICIAL STATEMENT

A document published by the issuer which generally discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities.

OPERATING LEASE

A Lease that enables the Lessee to acquire the use of an asset only, not its ownership as in a Capital Lease. The Lease term typically runs for only a portion of the asset's useful life.

OVERLAPPING DEBT

The legal jurisdictions of local governments often overlap one another. In some cases, one unit of government is located entirely within the boundaries of another. Overlapping Debt represents the proportionate share of debt that must be borne by one unit of government because another government with overlapping or underlying taxing authority issued its own Bonds.

PAR VALUE

The face value or principal amount of a security.

PREMIUM

The excess of the price at which a Bond is sold over its face value.

PRESENT VALUE

The value of a future amount or stream of revenues or expenditures in current dollars.

REFUNDING

A procedure whereby an issuer refinances an outstanding Bond issue by issuing new Bonds.

RESERVE FUND

A fund established by the indenture of a Bond issue into which money is deposited for payment of Debt Service in case of a shortfall in current revenues.

REVENUE ANTICIPATION NOTE

An interim financing mechanism issued to offset the timing issues of revenue collection other than taxes.

REVENUE BOND

A Bond which is payable from a specific source of revenue and to which the full faith and credit of an issuer with taxing power is not pledged. Revenue Bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay Debt Service from any other source. Pledged revenues often are derived from the operation of an enterprise. Generally, no voter approval is required prior to issuance of such obligations.

RULE 10b-5 OPINION

Material misstatements or omissions in the annual or event reports may be the basis for claims of securities fraud under Rule 10b-5, actionable by the Securities and Exchange Commission or private plaintiffs (bondholders or other investors), with potential liability for issuers or other obligated persons. A 10b-5 Opinion may be issued by the City's disclosure counsel or by underwriter's counsel concerning compliance with disclosure requirements of federal law.

RULE 15C2-12

A rule promulgated by the Securities and Exchange Commission that requires underwriters of municipal obligations to obtain and review certain disclosure materials prior to making a commitment to purchase securities.

SECONDARY MARKET

The market in which Bonds are sold after their initial sale in the new issue market.

SURETY

A Surety policy is a form of insurance provided by a Bond insurer to satisfy a Reserve Fund requirement for a Bond issue. Under this arrangement, instead of depositing cash in a Reserve Fund, the issuer buys a Surety policy by paying a one-time Premium equal to some percentage of the face amount of the policy. If the Reserve Fund is needed to make a Debt Service payment, the trustee notifies the Surety provider and the provider makes the payment, up to the face amount of the policy. The issuer then has an obligation to reimburse the provider for the payment, plus interest.

TAX ANTICIPATION NOTE (TAN)

An interim financing mechanism issued to offset the timing issues of receipt of tax revenues.

UNDERWRITER

The Underwriter serving as head of the syndicate. The lead Manager generally handles negotiations in a negotiated underwriting of a new issue of municipal securities or directs the process by which a bid is determined for a competitive underwriting. The lead Manager also is charged with allocating securities among the members of the syndicate in accordance with the terms of the syndicate agreement or agreement among Underwriters.

APPENDIX B

CITY OF CORONA APPLICATION FOR COMMUNITY FACILITY DISTRICT FINANCING

The City of Corona requires the following information from developers requesting the City to form a Mello-Roos Community Facilities District (CFD) for the purpose of financing public infrastructure and/or community facilities through the issuance of special tax bonds. The City will consider such requests in the context of its Debt Policy and Procedure (the Debt Policy) which has been adopted by the City Council.

The application should include the following information:

1. Property Description

- Number of gross acres;
- Legal description;
- Current assessor parcel numbers; and
- Locational map of all the properties to be included in the CFD.

2. Property Ownership

Name of the fee simple property owner(s) of all property to be included in the CFD (including affiliated ownership interests). If the applicant is a different entity than the property owner, include a description of the relationship between applicant and property owner. If the applicant has not purchased the property, describe conditions and timing of purchase. [Note: The Applicant may be required to provide a title guaranty at its sole cost prior to CFD formation.]

3. Description and Estimated Cost of the Facilities Requested to be Financed

Provide a detailed list of facilities and costs of facilities proposed to be financed from the CFD. Indicate if there are facilities requested to be financed for public agencies other than the City of Corona.

4. Description of the Proposed Development Plan

- Current zoning (and proposed zoning if different than current zoning);
- 8½x11 pdf maps which depict:
 - (i) the property to be included in the CFD;
 - (ii) the current Assessor Parcel Maps of parcels to be included in the CFD; and
 - (iii) a map which depicts all of the parcels in the CFD upon development.
- Narrative of the expected timing and phasing of the development. If the Applicant does not intend to construct the project, indicate expected condition of improvements, entitlements and timing to sell the property and whether the property is currently under sales contract with a summary of the conditions to close (i.e., as relates to the condition of the property).

- Indicate if the proposed development plan is or expected to be subject to a development agreement with the City. If yes, describe status, and include a copy of the latest draft or executed agreement; and
- Indicate if the proposed development is subject to a funding agreement with a public agency other than the City for facilities requested to be financed. If yes, include a copy of the latest draft or executed agreement. If available, provide a map that depicts the project layout.

5. Product Mix and Absorption of the Proposed Development

For residential development, provide a summary table of the expected/proposed number of final lots, the expected net lot sizes, expected home sizes, and expected prices of homes in the current market (with high and low sales prices for each residential product type).

For non-residential property, provide the number of final parcels; and for each parcel, the estimated square footage of leasable building area, estimated value for leasable building area, and parking acreage —(provide a site plan for non-residential development).

For all project types, also include estimated acreage for property to be dedicated to, as part of the proposed development plan as follows: public agencies, property owners' associations, all rights-of-way, and properties to be encumbered with utility easements which make impractical their use for any purpose other than as set forth in their easements.

Provide a projection of absorption based on building permit issuance as of January 1 of each calendar year for each product type for all development within the proposed CFD.

6. Existing and Proposed Taxes, Assessments and Liens, and Homeowners' Association Fees

Describe all overlapping proposed and existing taxes, assessments, liens, other secured interests, fees, charges and other tax bill items. Describe homeowners' association fees on the property within the proposed CFD, including a description of the type costs to be paid from the homeowners' association.

7. Developer Proposed Estimate of CFD Bond Proceeds and Special Tax Rates

Based on the Applicant's proposal, what is an estimated bond amount and taxes to be imposed upon development (provide by phase or complete development as appropriate). If the Applicant is uncertain of estimate or how to estimate, please indicate.

8. Land Development Experience

Provide a narrative description of the developer firm, its affiliates and/or controlling interests and their experience in land development.

9. Experience with land-secured financing

Provide a narrative summary of experience with land-secured financing in California. Include a table of all CFD's the firm has been engaged in formation within the last five years including public agency, proposed or final bond issue amount, date or expected date of bond issuance. Has the firm or its affiliates or predecessor firms ever failed to pay special taxes or assessments related to a land-secured financing? If yes, explain why.

10. Initial Deposit

An initial deposit in the amount of \$~~740~~0,000 is required when the City agrees to consider the developer's request for CFD financing. The initial deposit and any additional amounts will be held by the City and used only for the expenses and costs incurred in connection with the CFD proceedings. Any balance of such deposit remaining upon completion of the CFD proceedings, or the abandonment thereof, and not needed to pay expenses and costs relating will be returned to the applicant. The use of the deposit shall in no way be construed as requiring the City to issue CFD bonds or to provide reimbursement from the proceeds thereof for portions of the deposit that are expended.

The City will select all consultants to be retained by the City for a CFD financing, including, but not limited to, bond counsel, disclosure counsel, financial advisor, special tax consultant, underwriter, market absorption consultant, appraiser and trustee. The City may require the applicant to pay the fees and other expenses of the City's bond counsel directly to the City's bond counsel. Providers of letters of credit, bond insurance policies, surety bonds or other credit enhancements are also subject to City approval. Consultants, including legal counsel, to the applicant or other property owner within the CFD will be selected, retained and paid by the applicant or such property owner; such consultants will not be paid from the proceeds of the financing.

APPENDIX C

CITY OF CORONA DISCLOSURE POLICY

This Disclosure Policy (the “Disclosure Policy”) establishes a framework for compliance by the City/Related Entity (the “Issuer”) with its disclosure and/or contractual obligations with respect to debt issued by the Issuer, pursuant to the requirements of the Securities Exchange Act of 1934, as amended, and the Securities Act of 1933, as amended, including, in particular, Rule 15c2-12, as amended, promulgated under the 1934 Act, and other applicable rules, regulations, and orders.

The purposes of this Disclosure Policy are to formally confirm and enhance existing policies and procedures regarding compliance with federal securities laws relating to disclosure in order to: (1) comply with law and contract; (2) reduce liability; (3) reduce borrowing costs; and (4) protect the public. It is the policy of the Issuer to fully comply with applicable securities law regarding disclosure in connection with the issuance of debt and with the terms of its continuing disclosure obligations.

The following procedures shall be implemented in preparing, checking and finalizing the following disclosure documents:

I. INITIAL DISCLOSURE REQUIREMENTS:

- A. City Manager’s Office assembles ~~City/Related Entity~~Issuer finance team and designates City departments which are responsible for information to be contained in Official Statement.
- B. Preliminary Official Statement will be reviewed prior to approval by City Council by representative of:
 - 1. City Manager’s Office;
 - 2. Administrative Services Department;
 - 3. Benefitting Department(s), such as Public Works, Community Development, Department of Water and Power, etc.; and
 - 4. City Attorney’s office.

This group shall be called the “Disclosure Review Team.”

- C. The Disclosure Review Team may meet in person or by teleconference to discuss the Preliminary Official Statement.
- D. Disclosure Review Team shall provide comments to the financing team.

- E. Official Statement and financing documents must be approved as discussion items on the agenda and may not be placed on the consent calendar.
- F. For financings which are to be privately placed, the Disclosure Review Team shall review all information assembled by the ~~City (or related entity)~~ Issuer to be delivered to the proposed purchaser for its evaluation of the credit of the ~~City (or related entity)~~ Issuer for the particular financing.
- G. Audited Financial Statements will be included documentation as a part of the review process, where necessary.

II. CONTINUING DISCLOSURE ~~– ANNUAL REPORTS:~~

- A. ~~City Manager's Office~~ The Administrative Services Department will designate a Continuing Disclosure Agent (currently City staff for revenue bonds and tax allocation bonds and an outside consultant for assessment district and community facilities district bonds) to regularly monitor compliance ~~according to 15c2-12~~ under the Issuer's continuing disclosure obligation (the "Continuing Disclosure Agent").
- B. Continuing Disclosure Agent will assemble all continuing disclosure agreements and certificates and prepare a calendar of due dates for annual disclosure and preparation dates ahead of annual disclosure dates. The City may hire outside professionals to provide such services and report directly to ~~City Manager's Office~~ the Administrative Services Department.

B. III. CONTINUING DISCLOSURE – ~~EVENT NOTICES~~ EVENT NOTICES:

- A. Identification of Reportable Events. Continuing Disclosure Agent shall maintain a list of events of which the Issuer is required to provide notice to the MSRB pursuant to continuing disclosure agreements and certificates. The Continuing Disclosure Agent shall (a) identify the officers and employees of the Issuer who are most likely to first obtain knowledge of the occurrence of such events and (b) request in writing that they notify the Continuing Disclosure Agent immediately after learning of any such event, regardless of materiality. The Continuing Disclosure Agent shall assess the materiality of any reported event with the assistance of the City Attorney and outside legal counsel, if necessary.
- ~~C.~~ B. Rating Changes. Continuing Disclosure Agent shall monitor, on a regular

basis, all City transactions which are rated by a nationally recognized rating agency, and shall report any rating changes within 10 days to EMMA “Electronic Municipal Market Access”.

C. Two New Events. Rule 15c2-12 was amended to add the following two events (the “Rule Amendments”) to continuing disclosure undertakings executed on or after February 27, 2019¹:

¹ See SEC Rel. No. 34-83885 (August 20, 2018), 83 Fed. Reg. 44700 (August 31, 2018) (the “Adopting Release”)

(15) Incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and

(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of either (i) or (ii) but excludes municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule Amendments.

For interpretative guidance relating to the Rule Amendments, the City shall reference the Adopting Release.

The Continuing Disclosure Agent shall identify, assemble and inventory Financial Obligations of the City/Related Entities and create a spreadsheet or build a database of existing Financial Obligations and agreements related thereto determined to be material and update such database as new Financial Obligations or material agreements related thereto are incurred. The Continuing Disclosure Agent, in consultation with the City Attorney and Administrative Services Director shall determine whether a default or other event identified in (16) reflects (or was caused by) financial difficulties. When making this determination, the Continuing Disclosure Agent need not determine whether the Financial Obligation at issue is material.

D. Event Notices. The Continuing Disclosure Agent shall prepare an event notice giving notice of the event and, except for notices of a rating change, bond call, or defeasance, forward a draft of the event notice to the City Attorney and Administrative Services Director for their review and approval. The City Attorney and Administrative Services Director shall promptly review and approve or comment on the event notice. The Continuing Disclosure Agent shall file the event notice with the MSRB through EMMA no later than 10 business days after the occurrence of the event requiring disclosure. Continuing Disclosure Agent shall monitor compliance of transactions with covenant compliance on a semi-annual basis and report any “event disclosure,” pursuant to any continuing disclosure obligation, within 10 days of such event to EMMA.

~~D. IV. CONTINUING DISCLOSURE~~CONTINUING DISCLOSURE – PERIODIC REVIEW—
PERIODIC REVIEW

~~E.~~ A. Continuing Disclosure Agent shall annually meet with representative of City Manager’s Office, Administrative Services Department and City Attorney’s Office

to discuss compliance with disclosure requirements.

- F. B. Continuing Disclosure Agent shall identify any incidents of non-compliance and prepare a report to the City Manager, ~~Assistant City Manager~~/Administrative Services Director and City Attorney. Such report shall include recommendations to cure any non-compliance issue.

APPENDIX D

RESOLUTION NO. 20~~2015-099~~

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CORONA, CALIFORNIA, APPROVING THE CITY OF CORONA DEBT POLICY AND PROCEDURES AND REPEALING RESOLUTION NO. 2015-071

WHEREAS, the City Council of the City of Corona has considered a document entitled “City of Corona Debt Policy and Procedures” which outlines the policy and procedures enacted to standardize the issuance and management of debt of the City, the Corona Public Financing Authority, the Corona Housing Authority and the Corona Utility Authority; and

WHEREAS, the “City of Corona Debt Policy and Procedures” has also been administratively assigned City Administrative Policy No. 01200.801; and

WHEREAS, the ~~Assistant City Manager~~/Administrative Services Director has recommended to the City Council that the “City of Corona Debt Policy and Procedures” be approved and established as the policy of the City, the Corona Public Financing Authority, the Corona Housing Authority and the Corona Utility Authority and such other entities as may be established for the issuance and management of debt; and

WHEREAS, the City Council has determined that the “City of Corona Debt Policy and Procedures” be approved and established as recommended by the ~~Assistant City Manager~~/Administrative Services Director; and;

WHEREAS, the City Council previously adopted the “City of Corona Debt Policy and Procedures” on September 16, 2015 and now desires to repeal Resolution No. 2015-071 with the adoption of Resolution No. 2020-099 and the updated “City of Corona Debt Policy and Procedures;” and

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CORONA, CALIFORNIA, ~~by the City Council of the City of Corona, California,~~ that the “City of Corona Debt Policy and Procedures,” as presented to the City Council at the meeting in which this Resolution is adopted, is hereby approved and established as the policy of the City with respect to issuance and management of debt.

PASSED, APPROVED AND ADOPTED this ~~16th~~ day of ~~September~~August, ~~2015~~2020.

Mayor of the City of Corona, California

ATTEST:

City Clerk of the City of Corona, California

CERTIFICATION

I, ~~LISA MOBLEY~~ Sylvia Edwards, City Clerk of the City of Corona, California, do hereby certify that the foregoing Resolution was regularly introduced and adopted by the City Council of the City of Corona, California, at a regular meeting thereof held on the ~~16~~5th day of ~~September 2015~~ August 2020 by the following vote of the Council:

AYES:

NOES:

ABSENT:

ABSTAINED:

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Corona, California, this ~~16~~5th day of ~~September, 2015~~ August, 2020.

City Clerk of the City of Corona, California

(SEAL)

