PURPOSE
The City of West Sacramento (the “City”), acting though the Department of Administrative Services, executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments, acting with prudence and diligence and with attention to prevailing economic conditions.

This debt management policy primarily addresses debt instruments issued by the City in public or private bond markets. The policy documents the City’s procedure and goals for the use of debt to finance City needs. A regularly updated debt management policy, in conjunction with the City’s Capital Improvement Program, the Investment Policy, and the Budget Policy, serves as an important tool that supports the use of the City’s resources to meet its financial commitment and to maintain sound financial management practices. While the debt management policy serves as a guideline for general use, it allows for exception in certain conditions. In implementing this policy from time to time, interpretations and variations may be made at the discretion of the city manager, assistant city manager – administrative services director, or public finance manager, without approval of the City Council, as determined by such person to be in the best interests of the City or its citizens, and/or for purposes of administrative efficiency or convenience or to comply with new applicable federal, state, or local law.

Purpose of Policy

The City recognizes the foundation of any well-managed debt program is a comprehensive debt policy. The primary objectives of a debt management policy are to:

- Establish guidelines for the use of various categories of debt;
- Create procedures and policies that minimize the City’s debt service and issuance costs;
- Retain the highest practical credit rating; and
- Provide full and complete financial disclosure and reporting.

The City’s debt management policy is also designed to:

- Establish parameters for issuing and managing debt;
- Provide guidance to decision makers related to debt affordability standards;
- Document the pre-and post-issuance objectives to be achieved by staff;
- Promote objectivity in the debt approval decision making process; and
- Facilitate the actual financing process by establishing important policy decisions in advance.

The policies outlined in the debt management policy are not goals or a list of rules applied toward the City’s debt issuance; rather, these policies should be utilized as tools to ensure that adequate financial resources are available to support the City’s long-term capital needs. Adherence to a debt policy helps to ensure that the City maintains a sound debt position and that the City strives,
as it issues future debt, to enhance credit quality and ensure that market access will not be impaired. Advantages of a debt policy are as follows:

- Enhances the quality of decisions by imposing order and discipline, and promoting consistency and continuity in decision making,
- Rationalizes the decision-making process,
- Identifies objectives for staff to implement,
- Demonstrates a commitment to long-term financial planning objectives and
- Is regarded positively by the credit rating agencies in reviewing credit quality.

The City’s Administrative Services Director is responsible for implementation and oversight of the City’s debt policy. An annual review of the Debt Policy will be performed and any changes to the Debt Policy will be brought forward for City Council consideration and approval. Further, in the event there are any deviations or exceptions from the debt policy when a certain bond is structured, those exceptions will be discussed in the staff reports when bond issue is considered by the Council.

POLICY
This debt policy brings together in one document the City Council’s existing rules, regulations, and current practices relating to external and internal debt. Those policies have previously been found in the City’s Budget Policy. This policy summarizes the City’s legal authority, restrictions, and responsibilities relating to external and internal debt, and addresses other areas related to debt management.

This policy has been prepared in accordance with the Government Finance Officers Association (GFOA) Recommended Practices on Debt Management Policies and is consistent with other comparable municipalities, and is intended to conform with Senate Bill 1029.

This policy includes:

I. Purposes for which debt may be issued;
II. Legal debt limitations;
III. Types of debt permitted;
IV. Land secured debt;
V. Structural features preferred
VI. Credit Objectives
VII. Method of sale
VIII. Methods of selecting outside professional
IX. Post- compliance of debt issued

PROCEDURE
I. PURPOSE FOR WHICH DEBT MAY BE ISSUED

The City borrows money primarily to fund long-term capital improvement projects, essential equipment and vehicle needs, and to refinance the existing debt. The City shall not issue debt to fund operating deficits with the exception of short-term financing methods. Debt will be used to finance eligible projects only if it is the most cost-effective means available to the City.

While the “pay-as-you-go” means of using current revenues to pay for capital projects is often considered the preferred means of financing because it avoids interest payments, it may not be entirely equitable. The “pay-go” funding option requires current citizens to pay taxes over long
periods of time in order to accumulate reserves sufficient to pay for capital projects. The City would be able to undertake capital projects under this method only if cash accumulates. Prudent use of debt financing rather than pay-go funding of capital projects can facilitate better allocation of resources and increased financial flexibility.

The three primary borrowing purposes are summarized below:

1. **Long-Term Capital Improvements**

   The City’s Administrative Services Department will prepare a multi-year Capital Improvement Program (CIP) working with various city departments. The CIP will include projections for the upcoming fiscal years and will be updated during each budget process or if there are significant changes to the scope and/or cost of the projects. The Administrative Services Department will work with the various City departments to ensure that accurate and complete budgeting of the CIP is prepared as part of the City’s Biennial Budget process.

   Since the aggregate cost of desired capital projects generally exceeds available funds, the capital planning process prioritizes projects and identifies the funding needs. The City will initially rely on internally-generated funds and/or grants and contributions from other governments to finance its capital needs. Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries and if a secure revenue source is identified to repay the debt. A secure revenue source could include an additional special tax, assessment district, budgeted General Fund revenue, user fees, rate revenue, or other sources of revenue identified to fund the specific capital project.

   The Administrative Services Department, working with other City Departments within the context of the Capital Improvement Program oversees and coordinates the timing, processing, and marketing of the City’s borrowing and capital funding activities. Close coordination of capital planning and debt planning will ensure that the maximum benefit is achieved with limited capital funds. The debt management process will determine the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

2. **Essential Vehicle and Equipment Needs**

   In addition to capital projects, the City regularly finances certain essential equipment and vehicles. These assets range from public safety vehicles and information technology systems. The underlying asset must have a minimum useful life of three years. Short-term financings, including loans and capital lease purchases agreements, are executed to meet such needs.

3. **Refinancing/Refunding of Existing Debt**

   The Administrative Services Director will periodically evaluate its existing debt and execute refinancing when economically beneficial. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to refund other obligations, such as pension obligations.

**Financing Priorities**

The Administrative Services Director shall review all borrowing requests or debt refunding proposals to determine if it is beneficial to the City and complies with the City’s long-term financial planning objective. Borrowing requests include any debt or refunding proposals made to the City.
involving a pledge or other extension of the City’s credit through the sale of securities, execution of loans or leases, or making of guarantees or otherwise involving directly or indirectly the lending or pledging of the City’s credit.

For each financing proposal related to a new capital improvement project, Administrative Services Director will work with the applicable City Department to assess the feasibility and the impact of debt to fund the project based on the following assessments:

A. Nature of Project and Use of Funds

Each Proposal will be evaluated by comparing the nature of project and use of funds with competing proposals on the basis of the benefits derived and how it furthers the City’s policy objectives as laid out in the City’s Strategic Plan, City Biennial Budget, and Capital Improvement Program.

B. Cost-Benefit Analysis of Project

A cost-benefit analysis will be required for each project.

1. The benefits of a proposed project must be defined, and where appropriate, quantified in monetary terms. The funding sources will be identified and estimated. Where revenues are part of the benefits, all assumptions made in deriving the revenues will be documented. The validity of the assumptions and the risk associated with the revenue streams will be assessed.

2. The costs of the project will be estimated, with the basis for the cost estimates documented and the risk associated with the estimates assessed. The uses of funds will be identified and estimated.

3. Identify whether projects will increase or reduce ongoing operation and maintenance expenses.

C. Expenditure Plan

A detail plan for the expenditure of funds will be developed for each project. The underlying assumptions of the project cost expenditure plan will be documented and the risk associated with these projections will be analyzed.

D. Revenue for Debt Service Payment

A detailed plan for the debt repayment will be developed for each project. The underlying assumptions of revenue cash flow estimates will be documented and the risk associated with these revenue streams will be analyzed.

All requests will be prioritized based upon this evaluation. If the Administrative Services Director recommends the financing proposal, the Finance Department will prepare the financing proposal for the City Council’s authorization, as part of the Council’s consideration of debt issuance and/or the project’s budgeting process.
Asset Life
Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good condition and to maximize a capital asset's useful life, the City will make every effort to set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal. Generally, no debt will be issued for a period that exceeds the useful life or average useful lives of projects to be financed.

The City will consider short or long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets, including land. A general rule of thumb is that for short-term financing, the physical asset must have a minimum useful life of three years; for long-term financing, the physical asset must have a minimum useful life of ten years.

II. LEGAL AUTHORIZATIONS AND LIMITATIONS

1. The City
The City Council enacted Title 3 Revenue and Finance, Chapter 3.32 Facility Financing, Section 3.32.010 of the City of West Sacramento Municipal Code, in accordance with, among other powers, Government Code Section 37100.5, which authorizes the legislative body of the city to levy any tax that may be levied by any charter city, subject to voters’ approval pursuant to Article XIII A of the California Constitution. Because the levy of taxes for city purposes is a municipal affair and the subject of financing the acquisition, construction, and maintenance of public infrastructure does not qualify as a matter of statewide concern, charter cities may levy taxes that are identical to those provided for in general state statutes, such as the Mello-Roos Community Facilities Act of 1982 (the “Mello-Roos Act”).

The West Sacramento Financing Authority (the Authority) was formed on August 1, 1991, as a joint powers authority under the Joint Exercise of Powers Agreement, dated January 24, 1961, by and among 54 cities and five counties, and under the provisions of Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code. The West Sacramento Financing Authority is authorized to borrow money for the purpose of financing the acquisition of bonds, notes and other obligations of, or for the purpose making loans to, public entities, including the City, and to provide financing for public capital improvements of public entities, including the City.

The West Sacramento Area Flood Control Agency (WSAFCA, or “the Agency”) was formed on July 20, 1994, as a joint powers agency created by agreement among the City of West Sacramento, Reclamation District No. 900, and Reclamation District No. 537. The boundaries encompass the entire City of West Sacramento. The Agency is authorized to issue debt secured by Agency revenues, including assessments collected under the Benefit Assessment Act of 1982.

2. Debt Limitation
The State of California Government Code (Section 43605) states that a City shall not incur an indebtedness for public improvements which exceeds in the aggregate 15% of the assessed value of all real and personal property of the City. However, this provision was enacted when assessed valuation was based upon 25% of market value. Effective
with the 1981-1982 fiscal year, each parcel is now assessed at 100% of the market value (as of the most recent change in ownership for that parcel).

III. **TYPES OF DEBT PERMITTED**

The City may issue debt to pay down the cost of acquiring, constructing, and improving capital assets or meet its cash flow needs. The City should not finance general operating costs from debt having maturities more than one year. General operating costs include, but not limited to, those normally funded in the City’s operating budget. There are many difference types of financing instruments available to the City; short term financing debt obligations (generally maturity less than a year) and long-term financing debt obligations.

1. **Short Term Financing Obligation:**

The City may issue short-term debt when such instruments allow the City to meet its cash-flow requirements or provide increase flexibility in its financing program. Short term debt includes:

A. **Tax and Revenue Anticipation**

Tax and Revenue Anticipation Notes (TRANs) are short-term notes, proceeds of which allow a municipality to cover the periods of cash shortfalls resulting from a mismatch between timing of revenues and timing of expenditures.

B. **Lines and Letters of Credit**

A Line of Credit is a contract between the issuer and a bank that provides a source of borrowed monies to the issuer in the event into if the need arises or not touched at all and saved for emergencies.

A Letter of Credit is an arrangement from with a bank that provides additional security to the seller that money will be available to pay for goods and services. A Letter of Credit can provide the city with access to credit under terms and conditions as specified in such agreements.

A Line of Credit or Letter of Credit shall be considered by the Director of Administrative Services when to be prudent and advantageous to the City.

C. **Bond Anticipation Notes**

Bond Anticipation Notes (BANs) are short-term interest-bearing bonds issued in the anticipation of long-term future bond issuances. The City may choose to issue BANs as a source of interim financing when it is considered by the Director of Administrative Services to be prudent and advantageous to the City.

D. **Capital Lease**

Capital lease is a fixed-term (and usually non-cancelable) lease that is similar to a loan agreement for purchase of a capital asset on installments. Capital leases are regarded as essentially-equivalent to a sale by the lessor, and a purchase by the lessee (even though the title remains with the lessor). All Capital leases must be approved by the City Council.
2. **Loan Obligations**

A. **State Revolving Fund Loan**

The State Revolving Fund (SRF) loan is a low interest loan program for the construction of water and wastewater infrastructure projects. Loan terms for public agencies are up to 20 years with the first repayment due one year after the first disbursement of loan funds. A public agency may apply for a local match loan. A local match loan is a zero percent loan in return for the public agency paying the State match portion of the SRF funds for the loan. A SRF loan may be considered by the Director of Administrative Services when to be prudent and advantageous to the City.

B. **HUD Section 108 Loan Guarantee Program**

The U. S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program allows cities to use their annual Community Development Block Grant (CDBG) entitlement grants to obtain federally guaranteed funds large enough to stimulate or pay for major community.

The Housing and Community Investment division in the Community Development Department of the City administers the implementation and management of HUD Section 108 Loan Guarantee Program.

3. **Joint Powers Authority (JPA)**

A Joint Powers Authority (JPA) is an entity permitted under Section 6500 of the California Government Code, whereby the City may consider joint arrangement with other governmental agencies when a project serves the public interest beyond the City boundaries. A JPA is authorized to issue bonds on behalf of the public agencies. The City Council may sit as the governing board of the agency or authority. Typically, joint venture debt is repaid through revenues generated by the project and if structured as a JPA, a debt issuance associated with joint venture arrangements does not require voter approval. The City will only be liable for its share of debt service, as specified in a contract executed in connection with the joint venture debt.

4. **Long Term Financing Obligation**

There are many different types of financing instruments available to the City; long term financing debt obligations like General Obligation Bonds, Lease Revenue Bonds and Revenue Bonds would typically constitute direct debt of the City. The City issues conduit financing to finance a project to be used primarily by a third party, usually a for-profit entity engaged in private enterprise where public benefit can be achieved. These are the long-term financing instruments available to the City.

5. **Direct Debt Obligations**

A. **General Obligation (GO) Bonds**

Go bonds are a form of long-term borrowing secured either by a pledge of the full faith and credit of the issuers or a promise to levy property taxes in an unlimited amount as necessary to pay debt services or both. GO bonds have historically provided local agencies with the lowest borrowing costs among the types of long-term bonds they may issue because of their broad security pledge, which yield the highest possible bond rating and widest investor acceptance.
Article XVI, Section 18 of the State Constitution, states that local agencies (i.e., county, city, town, or school district) may not incur indebtedness without two-thirds voter approval. Uses of bond proceeds are limited to the acquisition and improvement of real property.

B. Certificate of Participation/Lease Revenue Bonds
Certificate of Participation (COPs) and Lease Revenue Bonds (LRBs) are lease obligations secured by an installment sales agreement or by a leaseback arrangement with a public entity. The City pledges the general operating revenues to pay the lease payments, which are, in turn, used to pay debt service on the bonds. These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. The City is obligated to annually budget for the rentals that are due and payable during each fiscal year that it has the use of the leased property.

C. Revenue Bonds
Revenue Bonds are obligations payable from revenues generated by an enterprise, such as water or wastewater utilities, or parking facilities. The City may issue revenue bonds without a two-third voter approval in a bond election because revenues are not payable from taxes or the general fund of the City. In accordance, with the agreed upon bond covenants, the revenues generated by the Enterprise Funds must be sufficient to maintain required coverage levels, or the rates of the enterprise have to be raised to maintain the coverage.

6. Conduit Financings

A. Special Districts Financing
The City’s Special Districts primarily consist of Community Facilities Districts (“CFDs”) and 1913/1915 Act Assessment Districts (“AD”). Special Districts are normally formed in undeveloped areas. Special Districts are typically developer initiated, whereby a developer seeks a public financing mechanism to fund public infrastructure required by the City in connection with development permits or agreements, and/or tentative subdivision maps. Special District may also be initiated by an established community. The securities for the bond are provided by the properties with the district. Property owners pay a special tax each year to cover the debt service payments. By law (Proposition 13), the Special Tax cannot be directly based on the value of the property. Special Taxes instead are based on mathematical formulas (special tax formula) that take into account property characteristics such as use of the property, square footage of the structure and lot size. The formula is defined at the time of the formation, and will include a maximum special tax amount and a percentage maximum annual increase.

The issuance of special district or CFD bonds requires two-thirds majority vote or residents living within the proposed boundaries. Or, if there are fewer than 12 residents, the vote is instead conducted of current landowners. In many cases, that may be a single owner or developer. The City is not liable for the repayment of these bonds, but rather act as an agent for the property owners/bondholders in collecting and forwarding the special assessments.
B. Marks-Roos Bonds
In 1985, the Marks-Roos Bond Pooling Act (Government Code § 6584-6599.1) was created to provide a flexible alternative method of financing needed improvements, along with the benefit of reduced borrowing costs thru the use of bond pools. Marks-Roos act permits two or more agencies to form a Joint Powers Authority, which authorizes the JPA to issue Marks-Roos bonds and loan the proceeds to local agencies to finance public capital improvements, working capital or insurance programs. Marks-Roos bonds do not require voter approval.

C. Long-Term Notes Payable
Long-term notes payable are obligations in the form of promissory note. The City may borrow from its bank or other financial institutions in order to provide financing for capital projects. The banks may require the City to pledge collateral for the City’s personal guarantee to the note. The City may choose to issue long-term note as a source of interim financing when it is considered by the City Finance Director to be prudent and advantageous to the City.

D. Advances
Advances are interfund loans involving a transfer of moneys from one city fund to another, usually for working capital purposes with the expectation of repayment. The borrowing fund reports a liability and an increase in cash, and the lending fund reports a receivable and a decrease in cash. If an advance to other funds is recorded, the fund that made the advance must reserve its fund balance account to indicate that the advancement representing the long-term portion of the loan is not currently available for appropriation or expenditure. The borrowing fund shall pay interest to the lending fund annually. Interest payment shall be calculated using a simple interest method and the interest rate shall be based on one-year average LAIF interest rate.

The City may choose to advance moneys from one fund to another upon approval of the Administrative Services Director.

7. Refunding of City Indebtedness
Refunding bonds are used to redeem outstanding bonds. The concept is similar to refinancing a mortgage. The City will consider refunding its existing debt when benefits of the refunding outweigh the costs and risks. The Director of Administrative Services will consider the following issues when analyzing possible refunding opportunities;

A. Debt Service Savings
The City establishes a minimum savings threshold goal of three percent of the refunded bond principal amount or at least $500,000 in present value savings (including foregone interest earnings) unless there are legal reasons for defeasance. The present value savings will be net of all costs related to the refinancing. The decision to taking savings on an upfront or deferred basis must be explicitly approved by the Director of Administrative Services.

B. Restructuring
The City will refund debt when in its best interest to do so. Refunding will include restructuring to meet unanticipated revenue expectations, terminate swaps, achieve cost savings, mitigate irregular debt service payments, release reserve funds, or remove unduly restrictive bond covenants.
C. Term of Refunding Issues
   The City may refund bonds within the term of the originally issued debt. However, the City while a maturity extension may be legally permissible to achieve a desired outcome, extending the term of debt will not be permissible from a policy perspective of the City Council. The City may consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

D. Escrow Structuring
   The City shall utilize the least costly securities available in structuring refunding escrows. The City will examine the viability of an economic versus legal defeasance on a net present value basis. A certificate will be required from a third-party agent who is not a broker-dealer, stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.

E. Arbitrage
   The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

IV. LAND SECURED DEBT
The following policies and procedures for the use of Mello-Roos Community Facilities Districts (CFDs) are established under provisions of Government Code 53312.7. These policies and procedures outline the allowable uses for, and the City requirements in establishing and using a Mello-Roos CFD for any publicly owned facility or the provision of allowable services. For purposes hereof, the committee appointed by the City Council, appointed to review proposed Mello-Roos financing, is referred to as the "Mello-Roos Committee."

In implementing this policy from time to time, interpretations and variations may be made at the discretion of the city manager, assistance city manager – administrative services director, or public finance manager, without approval of the City Council, as determined by such person to be in the best interests of the City or its citizens, and/or for purposes of administrative efficiency or convenience or to comply with new applicable federal, state, or local law.

1. Priority of Facilities to Be Financed
   The Mello-Roos Community Facilities Act (herein, the "Act") may be used for the purchase, construction, expansion, rehabilitation or acquisition of public improvements, or the provision of public services subject to the provisions of this document and any subsequent amendments. It is the City's intent to use Mello-Roos CFDs to provide for the financing of City-owned and operated infrastructure and services. Priority in using Mello-Roos CFD funding shall be given to the funding of capital projects that are regional in nature and have the broadest possible benefit to the land uses included in the CFD. Projects of a regional nature may include facilities to be owned and operated by other public agencies.

2. Credit Quality to Be Required of Bond Issues
A. **Debt Service.** Except for commercial or industrial property financings with no residential components, debt service shall be substantially level throughout the life of the bond issue. Phased bond issuance shall not result in a special tax levy that exceeds the authorized max tax levy to existing residential homeowners. Unless determined to be specifically required, debt service shall generally not exceed thirty (30) years from the date of bond issuance.

B. **Bond Redemptions.** Maximum redemption premiums shall not exceed three percent (3%). No call provisions shall exceed ten (10) years and no provision shall be made to restrict the ability of the City to refund any bond issue, unless otherwise approved by the City Council.

Provision shall be made to allow the City to purchase bonds on the open market at par plus accrued interest, in lieu of redemption of bonds.

C. **Reserve Funds.** A reserve fund shall be required (unless specifically exempted for cause) for every land-secured financing. The reserve fund will be sized by the City with the advice of the financing team, and, for tax-exempt financings, will not exceed maximums prescribed by applicable federal tax law. Reserve fund earnings beyond maximum reserve fund size should be used to credit debt service and may be used to pay applicable rebate obligations under federal tax law.

D. **Capitalized Interest.** The City, with the advice of the financing team, will determine, on a case-by-case basis, the amount of capitalized interest for a particular financing. The amount of such interest will be determined based on factors such as the length of the construction period, the earliest date upon which tax roll collection may commence and the amount such interest will add to the total amount of the financing, taking into account the restrictions on value to lien expressed herein and the ability of the owner(s) to defray the debt service.

E. **Foreclosure Covenants.** Every land-secured financing bond issuance document shall provide for the judicial foreclosure of delinquent payments of assessments or special taxes. Such covenants may vary with the particular financings, but shall at the minimum provide for the institution of foreclosure not more than 150 days from April 10 of a calendar year and shall authorize the City Attorney or delegate thereof to commence foreclosure without further Council action upon notification of a delinquency. Provision may be made to allow deferral of foreclosure in the event the City advances funds to the reserve fund to maintain any specific reserve requirement.

F. **Discounts.** In competitive bond sales, the amount of discount shall be determined by the City with the advice of its financial advisor. In negotiated sales, it shall be the burden on the underwriter to justify its discount as competitive and such justification must take into account any other compensation being paid to the underwriter. Original issue discount will be allowed only if the City determines that it results in a lower true interest cost and will not adversely affect the ability to construct the public improvements.

3. **Information to Property Owners**

A. **Prospective Purchasers.** The Director of Finance shall be responsible for providing notice of special tax to prospective property owners pursuant to Section 53340.2 of
the Act and, upon request of a subdivider, or its agent or representative, information in order for such subdivider, agent or representative to comply with Section 53341.5 of the Act.

B. *Existing Lenders.* The City may require the consent of the existing deed of trust holders in any District to be formed by landowner (rather than registered voter) approval.

4. **Criteria for Evaluating the Equity of The Special Tax Formula**

With regard to CFDs, the proposed rate and method of apportionment shall comply with the following criteria:

A. The rate and method of apportionment generally shall not provide for an annual increase in the maximum special tax for any classification. However, under limited circumstances an increase in the maximum special tax will be permitted, not to exceed two percent (2%) annually. As a general rule, escalation of the maximum annual special tax will be allowed when bonds are to be sold in several series over an extended period of time.

B. The total projected annual special tax revenues, less estimated annual administrative expenses, must exceed the projected annual gross debt service on the bonds by ten percent (10%). In structuring the special tax, projected annual interest earnings at current passbook savings rates on bond reserve funds may also be included as revenue for the purpose of this calculation.

C. The projected annual tax revenues shall include reasonable annual administrative expenses and other direct costs to the CFD.

D. All property not otherwise statutorily exempted or owned (or to be owned) by a public entity and to be benefited shall bear its appropriate share of the special tax liability.

E. The special tax shall be allocated and apportioned on the basis of reasonableness to all categories and classes of taxable property within the CFD.

F. A formula to prepay the special tax shall be considered.

G. The projected *ad valorem* property tax and other direct and overlapping debt for the proposed CFD (including estimated CFD charges, projected benefit assessments, levies for authorized, but unissued debt, and any other anticipated municipal charges which may be included on a property owner's annual tax bill), including the proposed maximum special tax, should not exceed two percent (2%) of the anticipated assessed value of each improved parcel upon completion of the public and private improvements. Any deviations from the foregoing will not be permitted unless specifically recommended by the Mello-Roos Committee and approved by the City Council.

H. The special tax formula shall be structured to produce sufficient annual special tax revenue to pay annual debt service, administrative expenses, and "pay as you go" programs funded by the CFD special tax. To the extent a special tax is to be levied to pay for services, it should be separate from the special tax to pay for facilities.
a. Unless otherwise approved by the City Council, the special tax formula shall be such that once the total special tax need is known, and the status of all properties within the financing district relative to that formula are known, the special tax on each parcel is determined purely by the application of the formula without the exercise of discretion on the part of any person.

5. Criteria for The Sale of Bonds
In order to ensure the long-term security of any bonds sold as the result of the formation of a Mello-Roos CFD, the following policies shall be followed:

A. The ratio of the appraised value of the land to the value of the proposed bond issue, and any other overlapping debt, shall not be lower than 3-to-1 unless authorized by the City Council with specific finding of need.

B. Market absorption studies may be required at the City's discretion to determine if the financing of the infrastructure and public facilities is appropriate given the projected level and pace of development. The study may also be required by the appraiser for use in the appraisal process. The City will employ any market-absorption consultant.

C. All terms and conditions for the sale of bonds shall be established by the City.

6. Appraisal Requirements

A. Value of Land. There must be evidence that the bulk value of the land that will secure the bond issue is at least three times the amount of bonds to be sold and any overlapping special assessment and/or community facilities bonded debt on the property as of the anticipated date of sale of the bonds. The evidence may consist of one or both of the following:

a. Full cash value as shown on the most current ad valorem assessment roll for the property; and/or

b. An appraisal performed by an appraiser retained by the City and consistent with the Bulk Land Value criteria described in Attachment A hereto.

B. Absorption Study. An absorption study may also be required by the City.

7. Mello-Roos CFD Formation Procedures

A. Petitions to the City Council shall be prepared by bond counsel. No petition to initiate the formation of a land-secured financing will be considered valid without the payment of a fee to compensate the City for all costs incurred to perform its analysis of the proposal and to pay for the costs of conducting the proceedings.

The property owners requesting preparation of a petition shall designate a spokesperson for the property owners.

The City shall retain the provision of professional and specialized services of bond counsel, financial advisor, assessment engineer or special tax consultant, appraiser, economist/absorption specialists, etc.)
Property owner's spokesperson shall be responsible for the following:

a. Advising all property owners to contact him or her for answers to their questions concerning CFD matters.

b. Contacting appropriate City representatives to obtain answers to such questions as he or she is unable to answer. The appropriate City representatives are the members of the Mello-Roos Committee and City consultants as specified by the Committee.

c. Informing property owners that any estimated cost figures supplied to them prior to the estimate contained in the engineer's report, as preliminarily approved by the City Council, must not be relied upon as necessarily precise.

B. It is the policy of the City that owners of properties improved through CFD proceedings pay all City and associated costs of such proceedings and other costs incurred in advance of any bonds being sold. Therefore, on all developer-initiated applications, if actual City costs exceed the amounts estimated below, the developer will be required to advance additional money to pay all costs incurred or to be incurred. Any failure to do so within ten (10) days of demand by the City will be grounds for termination of all activities by the City and by the consultants retained for the purpose of the financing.

When bonds are sold, bond proceeds may be used to reimburse those advancing such funds for these expenditures. The form of reimbursement agreement will be prepared by the City or bond counsel.

If bonds are not sold, any balance remaining in this trust account and not encumbered shall be returned to those advancing such funds.

8. Continuing Disclosure
By being allowed to participate for a Mello-Roos proceeding, each owner of land therein must be willing to provide information deemed by the City and its financing team to be needed in order for the City and the underwriter to comply with applicable Federal and State securities laws, including continuing disclosure requirements imposed by SEC. Rule 15c2-12.

V. STRUCTURAL FEATURES PREFERRED

1. Term of Debt
The City's preferred term of financing will be for the shortest period possible, and not exceed the useful life of the project or equipment the City finances. The City issued debt is typically for 15-30 years.

2. Rapidity of Debt Repayment
Debt issued by the City should be structured to provide for either level principal or level debt service. Deferring the repayment of principal should be avoided except in select instances where it will take a period of time before project revenues are sufficient to pay debt service. Ascending debt service should generally be avoided.
3. **Interest Rate Structure**
The City issued debt should be on a fixed interest rate basis only. The fixed rate interest on debt will ensure budget certainty through the life of the debt.

4. **Original Issue Discount**
An original issue discount will be permitted only if the City determines that such discount results in a lower true interest cost and the bonds and that the use of the original issue discount will not adversely affect the project identified by the bond document.

5. **Deep Discount Bonds**
Deep discounts bonds may provide a lower cost of borrowing in certain markets. The City will carefully consider their value and effect on any future refinancing as a result of the lower-than-market coupon.

6. **Credit Enhancement**
The City will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost of each case. Credit enhancement may be used to improve or establish a credit rating on a City debt obligation. Types of credit enhancement include Letters of Credit and bond insurance or surety policy.

   A **Letter of Credit** may be obtained from a financial institution, usually a major bank, for a fee to enhance the credit rating. A letter of credit is an unconditional pledge of the bank’s credit to make principal and interest payments on the City’s debt in the event insufficient funds are available to meet the debt service payments.

   **Bond Insurance/Surety Policy** – is an insurance policy purchased by an issuer or an underwriter for either for an entire issue or specific maturities, which guarantees the payment of principal and interest. This security provides a higher credit rating and thus a lower borrowing cost for an issuer.

   Bond insurance can be purchased directly by the City prior to the bond sale (direct purchase) or at the underwriter’s option and expense (bidder’s option). The decision to purchase insurance directly versus bidder’s option is based on: volatile markets, current investor demand for insured bonds, level of insurance premiums, or ability of the City to purchase bond insurance from bond proceeds.

7. **Debt Service Reserve Fund and Coverage Policy**
A debt service reserve fund is created from the proceeds of a bond issue and/or the excess of applicable revenues to provide a ready reserve to meet current debt service payments in the event the pledge revenues are insufficient to do so. The size of the reserve fund is governed by tax law, which permits the lesser of: 1) 10% of par; 2) 125% of average annual debt service and 3) 100% of maximum annual debt service. Reserve funds are typically equal to approximately one year’s maximum debt service on the bonds.

   For each bond issue, the Director of Administrative Services shall determine the appropriate reserve fund and coverage requirements, if any. This determination will consider arbitrage issues related to reserve levels.

8. **Capitalized Interest**
Certain types of financing such as certificates of participation and lease-secured financings will require the use of capitalized interest from the issuance date until the City
has beneficial use and occupancy of the financed project. Interest shall not be funded (capitalized) beyond a period of three years, or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Interest earnings may, at the City’s discretion, be applied to extend the term of the capitalized interest but in no event beyond the term statutorily authorized.

A call option/redemption provisions gives the City the right to prepay or retire debt prior to the stated maturity. The City would benefit from the options depending on the interest rate environment the bonds were issued under. The holder of the bonds may be entitled to a premium payment (call premium) from the early retirement of the debt.

10. Multiple Series
In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development, and which will generally be subject to the earliest or most senior lien.

11. Arbitrage
The City shall take all necessary steps to optimized escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to the Federal guidelines.

VI. Credit Objectives

1. Credit Rating
The City seeks to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the City’s policy objectives. Creditworthiness, as reflected in the bond ratings, is of great interest to City since it directly affects the cost and ability to borrow money. A favorable credit rating usually allows a city to get lower interest rates when financing projects. To enhance creditworthiness, the City is committed to prudent financial management, systematic capital planning, interdepartmental cooperation and coordination, and long-term financial planning.

Rating agencies consider a number of factors that determine the underlying creditworthiness of governments that issue long-term municipal debt. These factors typically include:

- Fiscal condition of the municipality
- Debt levels and other financial factors
- Economic and demographic characteristics of the local area
- Constraints imposed by or dependence on other governmental units
- The capital improvement project that is being funded
- Covenants and conditions in the government legal documents
- City’s general fund reserves

The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the City’s debt rating on outstanding debt. The major source of risk
considered by the rating services is the stability and reliability of revenue to service the debt. The City will avoid projects with volatile or risky debt repayment revenue streams.

2. Rating Agency Relationships
   The Administrative Services Director is responsible for maintain relationships with the rating agencies that assign rating to the City’s various debt obligations. The City may, from time to time, choose to deal with only one or two of these agencies as circumstances dictate. In addition to general communication, the Director of Administrative Services shall:
   1) meet with credit analyst at least once each fiscal year, and
   2) prior to each competitive or negotiated sale, offer conference calls with agency analyst in connection with the planned sale.

VII. Method of Issuance and Sale

Method of Sale
The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation. The selected method of sale will be that which is the most advantageous to the City in the judgment of the Finance Director, in terms of lower net interest rates; most favorable terms in the financial structure used, and market conditions.

New issues of municipal bonds are sometimes sold through private placements. In private placements, issuers may sell the bonds directly to investors or through a placement agent.

Both types of sales can also be done by a syndicate, that is, a group of underwriters comprising a lead manager and co-managers. Syndicates include underwriters from competing firms who agree to bid together for an issue.

1. Competitive Sale
   In a competitive sale, underwriters submit a sealed bid for purchasing the bonds to the issuer at a specific time on a specific date. In this system, there will normally be more than one bidder. The bidder offering the lowest true interest cost to the issuer (i.e., interest cost that takes into account the time value of money) will be awarded a bid. In such instances where the City deems the bids received unsatisfactorily, it may, at the discretion of the Finance Director, enter into negotiation for sale of the securities or reject all bids.

   In a competitive sale, the City will publish an official notice of sale in the Bond Buyer, the national trade newspaper of the industry and in other national and local publications. Legal requirements for advertising at the local level often pertain to matters such as a specified time frame in which the bonds must be advertised prior to a sale. Notice of Sale is also sent out to potential bidders. The notice of sale includes information such as the amount of debt or bonds issued, the structure of the deal, the type of debts or bonds, the time and place of sale, the name of the counsel and bidding specifications.

   The City shall provide full disclosure requirements through documents such as an official statement on potential risk to investors. Information for City back transactions generally includes: the City government description; description of project being financed, annual financial data and financial statements in appendices, various liabilities; tax base, current tax burden, history of tax collection and bond repayment, future borrowing plans, and the source of funds for the proposed debt repayments, as well as specific bond data and bond holder risk factors.
2. **Negotiated Sale**

The City recognizes that some securities are best sold through negotiation. Negotiated sales may be executed when competitive sales are not suitable or not a viable option. In a negotiated sale, an underwriter is selected to purchase the bonds. The underwriter, in turn, sells the bonds to its investor customers. In consideration of a negotiated sale, the City shall assess the following circumstances:

A. Size of the issue which may limit the number of potential bidders

B. Complex financing structure (i.e., variable rate financings, new derivatives and certain revenue issues, etc.) which provides a desirable benefit to the City

C. Market volatility is such that the City would be better serviced by flexibility in timing its sale in changing interest rate environment

D. Comparatively lesser credit rating

E. Other factors that lead the Director of Finance to conclude that a competitive sale would not be effective

3. **Private Offering**

When determine appropriate by the Finance Director, the City may elect to privately place its debt. Private placement shall only be considered if this method is demonstrated to result in a cost savings to the City relative to other methods of debt issuance.

**Bidding Parameters**

The Notice of Inviting Bids shall be carefully constructed to ensure the best possible bid for the City, in light of existing market conditions and other prevailing factors. The City shall publish the Notice of Inviting Bids in a financial publication generally circulated throughout the state or reasonably expected to be disseminated among all prospective bidders for the proposed bond issuance.

**Initial Disclosure Requirements**

SEC Rule 15c2-12 requires issuers of municipal securities to make contractual promises to provide continuing information to the marketplace during the life of securities issued. The Director of Administrative Services, together with the City Attorney, shall coordinate all the necessary documents for disclosure, with input from various other City departments (as applicable for a particular bond issuance) and outside consultants.

**Conduit Issues**

From time to time, the City will issue bonds on behalf of other public or private entities (“conduit” issues). While the City will make every effort to facilitate the desires of these entities, the Director of Administrative Services will ensure that the highest quality financings are done and that the City is insulated from all risks. The City shall require that all conduit financings achieved a rating at least equal to the City’s ratings or that credit enhancement is obtained.

**Approval Process**

The Director of Administrative Services will look with other city departments, including City Attorney, and outside consultants to compile all bond related documents. The City
Attorney will assess any legal issue that may arise. All proposed debt financing shall be authorized by the City Council.

VIII. **Financing Team- Roles and Selection Process**
A team of professionals is required to obtain municipal financing via the bond process.

The City shall maintain a combination of in-house and contracted professionals to complete all debt issuance transactions. The Director of Administrative Services shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement debt management program with the goal of continuity, quality service and competitive prices.

The City shall select its primary consultant(s) by either an as-needed list, which is assembled via Request for Proposal (RFP) process, or a separate RFP issued for a specific bond issuance.

The City will charge an administrative fee equal to direct costs plus indirect costs to reimburse its administrative costs incurred in issuance of long term bonds from bond proceeds. The ongoing trustee fee, semiannually or annually, for a bond issuance, administration of debt management and other fees associated with the issuance shall be appropriated in respective bond payment accounts.

The compensation for Bond Counsel, Disclosure Counsel, Financial Advisors, and other consultants will be as low as possible, given desired qualification levels, and consistent with industry standards. The compensation is contingent on the issuance of bonds, and is either paid or reimbursed from bond proceeds.

**Financing Team: Outside Consultants**

Contracts with Financial Advisors, Bond Counsel, and Disclosure Counsel will be processed in accordance of the City administrative policy IV-B-1 (Purchasing Policy).

1. **Financial Advisors**
The role of an independent financial advisor is to serve as an advocate for the issuer and provide the issuer with the information necessary to make intelligent, informed decisions. This person should know how to structure the financing to get the best rate for the City. The primary responsibilities of a financial advisor are to advise and assist on bond document negotiations, transaction structuring including advising on call provision options and timing of issuance, running debt service cash flow numbers, obtaining ratings on the proposed issuance, and generally acting as an independent financial consultant and economic market expert.

2. **Bond Counsel**
Bond Counsel's role is that of an independent expert who provides an objective legal opinion on the validity (a state law issue) and tax exemption (usually both a federal and state law issue). The role of bond counsel varies depending on the complexity of the issue. Bond counsel assembles all relevant materials into a Transcript of Proceedings, which is used as a permanent record or reference. The Transcript of Proceeding details all the steps in arrangements.

   In addition, bond counsel carries out the following tasks:
A. Prepares and oversees bond proceedings
B. Gets required government approval;
C. Ensures that the issuer meets all the legal requirements and authorization of the bond offering;
D. Disclosures and analyzes all relevant legal proceeding that may have a bearing on the validity of the offering;
E. Interprets relevant regulations and laws and assists in structuring the issue;
F. Writes key financing documents.

Bonds cannot be sold without the opinion of a recognized bond counsel.

3. Underwriters
An underwriter’s key role is to buy bonds from the issuer and then resell them to investors. In competitive sale, underwriters submit a sealed bid for purchasing the bonds to the issuer at a specific time on a specified date. There would be more than one bidder with this method. The bidder offering the lowest true interest cost to the issuer (i.e., interest cost that takes into account the time value of money) will be awarded the bid.

In negotiated sale, the City will select the underwriter thru Request for Proposals (RFP) process prior to the public sale date, or using a prequalified vendor list. Before an underwriter is selected the Finance Director will consider the firm’s experience with underwriting the type of issued be considered, resumes of key personnel and their time commitment for the proposed issuances, management fees and estimated expenses, list of anticipated services, and preliminary ideas about the structure of the deal.

4. Trustee/Paying or Fiscal Agent
A Trustee/Paying or Fiscal Agent is the institution—usually a commercial bank or trust company—appointed in the indenture or bond resolution to as the agent of the issuer to pay principal and interest to bond holders from the monies provided by or on behalf of the issuer.

Paying Agent duties are typically limited to the payment of principal and interest to bond holders. Fiscal Agent, in addition of paying agent duties, performs certain administrative duties on issuer’s behalf. Administrative duties include but not limited to primary recordkeeping/tracking of bond proceeds, custodian of investments representing bond proceeds, maintenance of reserve, project and debt service funds, and monitor and collect compliance documentation or covenants required under the financing documents. Trustees, in addition to Paying and Fiscal Agent duties, act as fiduciary for bondholders upon event of default.

The Trustee/Paying Agent solicitation and selection is typically coordinated by the Financial Advisor in consultation with the Director of Administrative Services.

5. Other Service Providers
Other professionals may be selected, at the discretion of the Director of Administrative Services, on as-needed basis. These may include the services of credit rating agencies, escrow agents, bond insurance providers, credit and liquidity banks, verification agents, title insurance companies and services related to printing.
IX. **Post-compliance of debt issued**

In connection with the issuance of tax-exempt bonds, City becomes responsible for assuring post-issuance compliance with a range of tax, disclosure and document covenant matters. Post-issuance compliance is a process which provides an organization with a record retention and reporting system, which enables it to identify actions that could potentially render the interest of the bonds taxable. The responsibilities apply over the entire life of the obligations, including any refunding bonds, and failure to achieve compliance, even if inadvertent, can have serious consequences. Ultimate responsibility for all matters relating to City financings and refinancings rests with the City’s Public Finance Manager (the “PFM”).

Typical examples of post-issuance responsibilities include the following:

**Post-Issuance Tax Compliance Requirements**

- **External Advisors / Documentation** - The PFM and other appropriate City personnel shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. Those requirements and procedures shall be documented in a City resolution(s), Tax Certificate(s) and/or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements, restrictions on the use of bond proceeds and bond financed facilities, and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.

The PFM and other appropriate City personnel also shall consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of Bond-financed assets and future contracts with respect to the use of output or throughput of Bond-financed assets.

Whenever necessary or appropriate, the City shall engage expert advisors (each a “Rebate Service Provider”) to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds.

- **Role of the City as Bond Issuer** - Unless otherwise provided by City resolutions, unexpended Bond proceeds shall be held by the City and the investment of Bond proceeds shall be managed by the PFM. The PFM shall maintain records and shall prepare regular, periodic statements to the City regarding the investments and transactions involving Bond proceeds.

If a City resolution provides for Bond proceeds to be administered by a trustee, the trustee shall provide regular, periodic (monthly) statements regarding the investments and transactions involving Bond proceeds.

- **Arbitrage Rebate and Yield** - Unless a Tax Certificate documents that bond counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:

  - the City shall engage the services of a Rebate Service Provider, and the City or the Bond trustee shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;
upon request, the PFM and other appropriate City personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

default management

ten, the PFM and other appropriate City personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is retired; and

during the construction period of each capital project financed in whole or in part by Bonds, the PFM and other appropriate City personnel shall monitor the investment and expenditure of Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds.

The City shall retain copies of all arbitrage reports and trustee statements as described below under “Record Keeping Requirements.”

Use of Bond Proceeds - The PFM and other appropriate City personnel shall:

monitor the use of Bond proceeds, the use of Bond-financed assets (e.g., facilities, furnishings or equipment) and the use of output or throughput of Bond-financed assets throughout the term of the Bonds (and in some cases beyond the term of the Bonds) to ensure compliance with covenants and restrictions set forth in applicable City resolutions and Tax Certificates;

maintain records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds;

consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of Bond-financed facilities to ensure compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates;

maintain records for any contracts or arrangements involving the use of Bond-financed facilities as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates;

meet at least annually with personnel responsible for Bond-financed assets to identify and discuss any existing or planned use of Bond-financed, assets or output or throughput of Bond-financed assets, to ensure that those uses are consistent with all covenants and restrictions set forth in applicable City resolutions and Tax Certificates.

All relevant records and contracts shall be maintained as described below.

Record Keeping Requirements - Unless otherwise specified in applicable City resolutions or Tax Certificates, the City shall maintain the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:
a copy of the Bond closing transcript(s) and other relevant documentation delivered to the City at or in connection with closing of the issue of Bonds;

a copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts, purchase orders, invoices, trustee requisitions and payment records, as well as documents relating to costs reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds;

a copy of all contracts and arrangements involving private use of Bond-financed assets or for the private use of output or throughput of Bond-financed assets; and

copies of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements.

Continuing Disclosure Compliance

The City of West Sacramento (the “City”), the West Sacramento Financing Authority (the “Authority”) and the Successor Agency to the West Sacramento Redevelopment Agency (the “Agency,” and collectively with the City and the Authority, the “Obligors”) are issuers in the public debt markets, and have undertaken and will undertake in the future to enter into agreements to provide annual reports and certain material event notices pursuant to continuing disclosure agreements and/or certificates executed at the time of each issuance of securities (each, a “CDA”) pursuant to Securities Exchange Commission Rule 15c2-12 (the “Rule”). A list of the currently effective CDAs is attached as Exhibit A. These Policies and Procedures are intended to provide a framework for consistent and accurate compliance by the Obligors with the CDAs.

Compliance Officer - The Obligors hereby designate the Public Finance Manager of the City (the “PFM”) as the officer responsible for compliance with continuing disclosure obligations under the CDAs. The PFM may from time to time delegate tasks and specific responsibilities under these Policies and Procedures to other staff members; however, the PFM shall remain responsible to ensure that all such delegated tasks and responsibilities are completed and fulfilled and the PFM shall monitor compliance by any such delegates. The PFM may convene a group of appropriate officials within the City, which may include the City Manager, Director of Administrative Services, City Attorney, Director of Public Works, Risk Manager and others to form an ad hoc disclosure compliance group to the extent that the PFM determines that input is needed from such officials to complete required disclosures under the CDAs. The PFM shall maintain minutes of any such meetings and be responsible to confirm that group decisions and follow up tasks are implemented. The PFM may seek advice from legal counsel regarding issues that may arise in compliance with the requirements of a CDA, and shall consult with the City Attorney concerning retention of such counsel as needed.

CDAs - The PFM shall maintain a file containing all CDAs entered into by each Obligor and including copies of all Annual Reports, Material Event Notices and Voluntary Disclosure filings, if any. The PFM shall be responsible for understanding the requirements of each CDA and for reviewing any new CDA proposed to be entered into by any Obligor for appropriateness and consistency with prior CDAs Third Party Provider(s).

The Obligors shall retain the services of one or more third party providers to assist in the preparation and timely filing of annual reports and required notices under the CDAs. Currently, Willdan Financial Services has been retained for such purpose.
The PFM shall from time to time review the services of any third-party provider and may determine to change firms and/or add a firm to provide such services. The third-party provider(s) shall provide at least the following services:

- Maintain a tickler system to provide advance notice to the PFM of upcoming filing requirements.
- Monitor Bloomberg or a similar service for any rating changes or other events which may trigger the requirement for filing a material event notice, and so inform the Finance Director.
- Provide drafts of annual reports for review to the PFM no later than thirty days prior to the due date for filing and of any Material Event Notices no later than five days prior to the due date for filing.
- Upon review and approval by the PFM, complete the filing of such reports and notices on EMMA or any other required filing platform in compliance with the requirements of the Rule.
- In the event a required filing is late or otherwise not filed, file an appropriate Notice of Failure to File as required by the Rule.
- Provide an annual compliance report to the PFM showing all filings made for each fiscal year, no later than 300 days after the close of each fiscal year.
- Assist in setting up “tickler” systems with each trustee for the Obligors and with the EMMA system to notify the PFM of filing requirements.

Calendar and Compliance Checks - The PFM shall ensure that each continuing disclosure filing deadline is appropriately calendared in the City’s common calendaring system (currently, Outlook) and shall coordinate with the trustees’ and the third-party provider(s)’ tickler systems so that there are to better ensure filings are not missed or late. The PFM shall independently check (by logging on to EMMA or other compliance platform, as appropriate) to ensure that required filings were actually made.

Training - The PFM shall work with legal counsel and the third-party provider(s) to obtain appropriate training as necessary to keep up to date on continuing disclosure compliance requirements and practices. The PFM shall seek opportunities to participate in outside training sessions, webinars or other continuing education opportunities for such purpose, consistent with the City’s budgetary constraints.
GLOSSARY

- **Accrued interest.** Coupon interest accumulated on a bond or note since the last interest payment or, for a new issue, from the dated date to the date of delivery. Since interest on municipal bonds is payable semi-annually, every six months, when you buy a bond in mid-term you are only entitled to the interest the bond earns after you buy it. The interest earned previously, the accrued interest, belongs to the seller. Some first-time bond buyers think this payment is a hidden charge or fee, not realizing that they will get it back in full at the next interest payment date as tax-free interest.

- **Ad Valorem Tax.** (It actually means "according to its value.") A state or local government tax based on the value of real property as determined by the county tax assessor.

- **Advanced Refunded Bonds.** A municipality may sell a second bond issue at a lower interest rate cost, placing the proceeds of the issue in an escrow account from which the first issue's principal and interest will be repaid when due. See also ETM bonds.

- **AMBAC.** AMBAC Indemnity Corp. The number two-ranked municipal bond insurance company.

- **Amortization of Debt.** The annual reduction of principal through the use of serial bonds or term bonds with a sinking fund.

- **Arbitrage.** The interest rate differential that exists when proceeds from a municipal bond - which is tax-free and carries a lower yield - are invested in taxable securities with a yield that is higher. The 1986 Tax Reform Act made this practice by municipalities illegal solely as a borrowing tactic, except under certain safe-harbor conditions.

- **Assessed Valuation.** A municipality's worth in dollars based on real estate and/or other property for the purpose of taxation, sometimes expressed as a percent of the full market value of the community.

- **Authority or Agency.** A state or local unit of government created to perform a single activity or a limited group of functions and authorized by the state legislature to issue bonded debt.

- **Authorizing Ordinance.** A law that when enacted allows the unit of government to sell a specific bond issue or finance a specific project.

- **Average life.** The average length of time an issue of serial bonds and/or term bonds with mandatory sinking funds and/or estimated prepayments is expected to be outstanding. It also can be the average maturity of a bond portfolio.

- **Balloon Maturity.** An inordinately large amount of bond principal maturing in any single year. Also called a Term Bond.

- **B.A.N. (Bond Anticipation Note).** A short-term security, one year or less, used for interim financing to be repaid from the proceeds of a planned long-term bond issue.

- **Base Point (or Basis Point).** One one-hundredth of one percent (1/100 % or 0.01 percent). Thus 25 basis points equal one-quarter of one percent, 100 basis points equal one percent. This is typical in-group, professional bond talk.
• **Bearer Bond.** A bond that has no identification of the owner of the security. It is presumed to be owned by the bearer or the person who holds it. It was much sought after because of the ease of transferring or gifting. All bonds issued prior to June 1983 were bearer bonds; since then, they have been issued in Registered Bond form.

• **Bid.** An offer to buy at a fixed price or yield. As opposed to Ask, which is an offering to sell.

• **Bond or note.** A security whereby an issuer borrows money from an investor and agrees and promises, by written contract, to pay a fixed principal sum on a specified date (maturity date) and at a specified rate of interest.

• **Bond.** A unit of debt, $1000 of principal or par amount. For 200 years municipal bonds were sold in $1000 denominations. Since the mid-1970s the minimum bond denomination has been $5000; nevertheless, "A Bond" is bought, sold, referred to and priced as if it were $1000.

• **Bond Counsel or Bond Approving Attorney.** A lawyer who writes an opinion on the bond or note as to its tax-exempt status and the authenticity of its issuance. In theory their opinion is meant to assure the bond investor, but they are paid by the issuer so it is not clear who their real client is.

• **Bond Fund (Tax-Exempt).** A portfolio of municipal bonds sponsored by registered investment companies that offer shares to investors either through (1) closed-end funds or unit investment trusts, which offer shares of a fixed portfolio of municipal bonds; or (2) open-end or managed funds, which offer shares in a managed portfolio of municipal bonds whose size will vary as shares are purchased or redeemed.

• **Bond Insurance.** Insurance issued by a private insurance company for either an entire issue or specific maturities that guarantees to pay principal and interest when due. This will provide a credit rating of triple-A and thus a lower borrowing cost for the issuer. The four largest monoline bond insurers are AMBAC, FGIC, FSA and MBIA, which see.

• **Bond Premium.** The amount at which a bond or note is bought or sold above its par value or face value without including accrued interest.

• **Bonded debt.** The portion of an issuer's debt structure represented by outstanding bonds, sometimes limited by constitutional or legislative restraints.

• **Book Entry.** A system of security ownership in which the ownership is held as a computer entry on the records of a central company for its owner. The bond owner gets a computer printout as proof of ownership.

• **Broker.** Technically a broker is a bond trader in the secondary market buying from and selling to bond dealers. Its most common usage is as a description of a bond salesperson.

• **Callable bond.** A bond or note that is subject to redemption at the option of the issuer prior to its stated maturity. The call date and call premium, if any, is stated in the offering statement or broker's confirmation.

• **Certificates of Participation (COPs).** A form of lease revenue bond that permits the investor to participate in a stream of lease payments, installment payments or loan payments relating to the acquisition or construction of specific equipment, land or facilities. In theory the certificate holder could foreclose on the equipment or facility financed in the event of default, but so far no investor has ended up owning a piece of a school house or a storm drainage system. A very popular financing device in California since Proposition 13 because COP
issuance does not require voter approval. COPs are not viewed legally as "debt" because payment is tied to an annual appropriation by the government body. As a result, COPs are seen by investors as providing weaker security and often carry ratings that are a notch or two below an agency's general obligation rating.

- **CFD. Community Facilities District.** If a bond issue name has CFD in it you know it is a Mello-Roos Bond. The name refers to the taxing District that is set up to authorize the issuance of bonds, that will benefit from the financing, and from which special taxes will be collected for the bonds' repayment.

- **Closed End Fund.** A mutual fund of a fixed-dollar amount of issues traded on one of the exchanges not at its NAV, but priced based on perception and supply and demand. These funds can sell at a substantial discount or premium to their net asset value.

- **Conduit Bonds.** Bonds whose repayment is the responsibility of the business or developer who benefits from the financing, rather than the issuer who only collects the taxes, fees or revenues and passes them on to the bondholder.

- **Coupon.** The detachable part of a bond that evidences the rate of interest due and the interest payment date. In the good old days of bearer bonds, coupons were detached from the bonds and presented to the paying agent for payment just as one might cash a government check. Thus, the reference to wealthy persons as "coupon clippers."

- **Coupon rate.** The specified annual interest rate payable to the bond or note holder as printed on the bond. This term is still used even though there are no coupon bonds anymore.

- **Covenant.** A legally binding commitment by the issuer of municipal bonds to the bondholder. An impairment of a covenant can lead to a Technical Default.

- **Coverage.** This is the margin of safety for payment of debt service on a revenue bond that reflects the number of times the actual and/or estimated project earnings or income for a 12-month period of time exceeds debt service that is payable.

- **Current Yield.** The ratio of the coupon rate on a bond to the dollar purchase price expressed as a percentage. Thus, if you pay par or 100 cents on the dollar for your bond and the coupon rate is 6%, the current yield is 6%; however, if you paid 97 for your 6% discount bond the current yield is 6.186%. (.06 divided by 97). If you paid 102 for a 6% bond the current yield is 5.88% (.06 divided by 102).

- **Cushion Bonds.** Bonds selling at a premium are called "cushion" bonds because they cushion the price volatility in an up and down market. By definition, a premium bond has a higher-than-market coupon interest rate. The dollar price movement of a high interest rate bond is less than that of a lower interest rate bond of the same maturity when general interest rates move up or down a few basis points.

- **Dated Date. (dtd.)** The date carried on the face of a bond or note from which interest normally begins to accrue.

- **Dealer.** A corporation or partnership that buys and sells and maintains an ongoing position in bonds and/or notes. They are also authorized to underwrite new issues. Some large commercial banks are licensed to act as bond dealers.

- **Debt Limited.** The maximum statutory or constitutional amount of debt that the general obligation bond issuer can either issue or have outstanding at any time.
- **Debt Ratio.** The ratio of the issuer's general obligation debt to a measure of value, such as real property valuations, personal income, general fund resources, or population.

- **Debt Service.** Required payments for principal and interest.

- **Debt Service Reserve Fund.** A bank trustee account established by the trust indenture and used as a backup security for an issuer's bonds. It usually amounts to one year's debt service, and can be drawn on by the Trustee in the event of an impairment of the Trust indenture.

- **Default.** Failure to pay in a timely manner principal and/or interest when due, or a Technical Default, the occurrence of an event as stipulated in the Indenture of Trust resulting in an abrogation of that agreement. A Technical Default can be a warning sign that a default on debt service is coming, but in reality, actual debt service interruption does not always occur if the problems are resolved in time. A Technical Default will almost always drive down the price of a bond in secondary market trading.

- **Deceased bonds.** Refunded bonds for which the payment of principal and interest has been assured through the structuring of a portfolio of government securities, the principal and interest on which will be sufficient to pay debt service on the refunded, outstanding bonds. When a bond issue is defeased, the claim on the revenues of the issuer is usually eliminated. See also ETM bonds.

- **Delinquent Taxes.** Property taxes that have been levied but remain unpaid on and after the due date. In California, December 10 and April 10. Special taxes and assessments are often due on these dates as well. When tax delinquencies exceed 5% the Bond Advisor places the issue on its internal Bond Watch.

- **Delivery.** For bonds bought or sold in the secondary market, delivery - and payment - must be in three business days. For new issues, the time when payment is made to, and the executed bonds and notes are received from, the issuer. New-issue delivery takes place several weeks after the sale to allow the bonds and notes to be printed and signed.

- **Denomination.** The face or paramount - nominally $1000 or $5000 but can be $100,000 or more in the case of a note - that the issuer promises to pay at a specific bond or note maturity.

- **Direct debt.** In general obligation bond analysis, the amount of debt that a particular local unit of government has incurred in its own name or assumed through annexation.

- **Discount.** The amount of dollars by which market value of a bond is less than par value or face value.

- **Discount Bonds.** Bonds which sell at a dollar price below par in which case the yield would exceed the coupon rate. The difference between the discount price and the maturity price is subject to federal capital gains tax except in the case of Original Issue Discount Bonds, which see.

- **Discount note.** Non-interest-bearing note sold at a discount and maturing at par. A U.S. Treasury Bill is a discount note.

- **Dollar Bond.** Generally, a term bond that is quoted and traded in dollars rather than in yield-to-maturity. They are well known issues of well-known names in the market.
• **Double-barreled Bond.** A bond with two distinct pledged sources of revenue, such as earmarked monies from a specific enterprise or aid payment, as well as the general obligation taxing powers of the issuer. A California GO Water Resources Bond would be a good example.

• **Escrow Fund.** A fund that contains monies that only can be used to pay debt service.

• **ETM. Escrowed to Maturity.** An Advanced Refunded bond. When interest rates fall, an issuer may choose to sell a new issue called a refunding issue and use the proceeds of the second issue to pay off the original issue, much the same as a home owner refinancing a mortgage in an effort to save interest costs. The proceeds of the refunding issue are used to structure a portfolio of U.S. government securities, the principal and interest payments of which exactly match the principal and interest payments of the refunded bonds. The portfolio is placed in escrow at the paying agent and the bond issue is said to be fully defeased and escrowed to maturity. In actual practice the bonds are usually called on the first call date. Because of the U.S. Treasury backing, ETM bonds are considered the safest municipal bonds available and trade on the market as a rich triple-A.

• **Feasibility Study.** A financial study provides by the issuer of a revenue bond that estimates service needs, construction schedules, and most importantly, future project revenues and expenses used to determine the financial feasibility and creditworthiness of the project to be financed.

• **FGIC. Financial Guaranty Insurance Co.** The number three-ranked municipal bond insurer.

• **Financial Advisor.** Generally, a bank, investment-banking company or independent consulting firm that advises the issuer on all financial matters pertaining to a proposed issue and is not part of the underwriting syndicate.

• **Fiscal Agent.** Also known as the Paying Agent, the bank, designated by the issuer, to pay interest and principal to the bondholder.

• **Fiscal Year.** A 12-month time horizon by which state and local governments annually budget their respective revenues and expenditures. Usually not the calendar year, January to December, but often July to June.

• **Flow of Funds.** The annual legal sequence by which enterprise revenues are paid out for operating and maintenance costs, debt service, sinking fund payments, and so on.

• **FSA. Financial Security Assurance Inc.** The number four-ranked municipal bond insurer.

• **Full Faith and Credit.** The pledge of "the full faith and credit and taxing power without limitation as to rate or amount." A phrase used primarily in conjunction with General Obligation bonds to convey the pledge of utilizing all taxing powers and resources, if necessary, to pay the bond holders.

• **General Obligation Bond. (G.O.)** A bond secured by a pledge of the issuer's taxing powers (limited or unlimited). More commonly the general obligation bonds of local governments are paid from ad valorem property taxes and other general revenues. Considered the most secure of all municipal debt. Limited in California by Proposition 13 to debt authorized by a vote of two thirds of voters in the case of local governments or a simple majority for state issuance.

• **General Property Tax.** A tax levied on real estate and personal property.
• **Gross Debt.** The sum total of a state's or local government's debt obligations.

• **Gross Revenues.** Generally, all annual receipts of a revenue bond issuer prior to the payment of all expenses. Normally only Net Revenues are pledged to the repayment of bonds.

• **Indenture of Trust.** A legal document describing in specific detail the terms and conditions of a bond offering, the rights of the bondholder, and the obligations of the issuer to the bondholder; such document is alternatively referred to as a bond resolution.

• **Industrial Development Bonds. (IDBs)** also called Industrial Revenue Bonds (IRBs). Used to finance facilities for private enterprises, water and air pollution control, ports, airports, resource-recovery plants, and housing, among others. The bonds are backed by the credit of the private corporation borrower rather than by the credit of the issuer. Also known as Conduit Bonds. Private purpose bonds are limited by federal law to $50 times the state's population on an annual basis.

• **Interim Borrowing.** (1) Short-term loans to be repaid from general revenues or tax collections during the current fiscal year (TRANs or RANs); (2) short-term loans in anticipation of bond issuance or grant receipts (BANs).

• **Intermediate Range.** Bonds maturing in 5 to 15 years.

• **Investment Banker.** A firm engaged in raising capital for an issuer. Participates as the middleman in purchasing securities from the issuer and in selling the same securities to investors.

• **Issuer.** A state or local unit of government that borrows money through the sale of bonds and/or notes.

• **Investment Grade.** Bond issues that the three major bond rating agencies, Moody's, Standard & Poor's, and Fitch rate BBB or Baa or better. Many fiduciaries, trustees, some mutual fund managers can only invest in securities with an investment grade rating.

• **Junk Bonds.** Most non-rated bonds and bonds rated below investment grade.

• **Joint Powers Authority (JPA).** A JPA is formed when it is to the advantage of two or more public entities with common powers to consolidate their forces to acquire or construct a joint-use facility. Their bonding authority and taxing ability is the same as their powers as separate units.

• **Lease-Rental Bond.** Bonds whose principal and interest are payable exclusively from rental payments from a lessee. Rental payments are often derived from earnings of an enterprise that may be operated by the lessee or the lessor. Rental payments may also be derived from taxes levied by the lessee. Also see Certificates of Participation.

• **Legal Opinion.** A written opinion from bond counsel that an issue of bonds was duly authorized and issued. The opinion usually includes the statement, "interest received thereon is exempt from federal taxes and, in certain circumstances, from state and local taxes."

• **Letter of Credit.** A form of supplement or, in some cases, direct security for a municipal bond under which a commercial bank or private corporation guarantees payment on the bond under certain specified conditions.
• **Level Debt Service.** Principal and interest payments that, together, represent more or less equal annual payments over the life of the loan. Principal may be serial maturities or sinking fund installments.

• **Lien.** A claim on revenues, assessments or taxes made for a specific issue of bonds.

• **Limited Tax Bond.** A bond secured by a pledge of a tax that is limited as to rate or amount.

• **Marks-Roos Bonds.** The State Legislature enacted the Marks-Roos (named after its legislative sponsors) Local Bond Pooling Act of 1985 to facilitate the financing of local government facilities by bond bank pools funded by bond proceeds. The pool, formed under a Joint Powers Authority, can buy any type of legally issued debt instrument within or without its geographic area. The idea was to save money through economies of scale by selling one large bond issue to finance several small projects. This in fact has not always happened. Many issues were high yielding, unrated, junk bonds that benefited only the bond underwriter. Several Marks-Roos issues have defaulted and are under investigation by the Securities and Exchange Commission. Prospective investors should find out what sort of loans the pooled fund will make before buying such deals.

• **Maximum Annual Debt Service.** The maximum amount of principal and interest due by a revenue bond issuer on its outstanding bonds in any future fiscal year. This is sometimes the amount to be maintained in the Debt Service Reserve Fund.

• **MBIA. MBIA Insurance Corp.** The first-ranked municipal bond insurer, based on insurance in force and market penetration.

• **Mello-Roos Bonds.** The Mello-Roos (named for its legislative sponsors) Community Facilities District Act of 1982 established another method whereby almost every municipal subdivision of the state may form a special, separate district to finance a long list of public facilities by the sale of bonds and finance certain public services on a pay-as-you-go basis. These Community Facilities Districts are formed and bond issues authorized by a two-thirds vote of the property owners in the district. Typically, the only voters in a district are one or more real estate developers who own or have an option on all of the land in the district. These land-based financings were nicknamed "dirt bonds" by the Bond Advisor years ago. Bonds are sold to finance facilities that can include schools, parks, libraries, public utilities and other forms of infrastructure. The Districts may provide public services that include police and fire protection, recreation programs, area maintenance, library services, flood and storm drainage. Bonded debt service and/or the public services are paid for by special taxes levied on the real property within the district. As the developer subdivides and sells off the land the new property owner assumes the tax burden. Tax delinquencies can lead to fines and penalties and ultimately foreclosure and sale. The ultimate security for Mello-Roos bonds is the value of the real property being taxed, consequently a provision in the law requires the appraised value of the land be three times the bonded debt. Recent foreclosure sales have cast doubts on the skills of the appraisers, and underscore the riskiness of some of this debt when a severe real estate slump hits developers.

• **Mortgage Revenue Bond.** A bond backed by a lien on the monthly payments of a large pool of mortgages, usually issued by a state or local housing authority.

• **Municipal Bond.** Bonds issued by any of the 50 states, the territories and their subdivisions, counties, cities, towns, villages and school districts, agencies, such as authorities and special districts created by the states, and certain federally sponsored agencies such as local housing authorities. Historically, the interest paid on these bonds has been exempt from federal income taxes and is generally exempt from state and local taxes in the state of issuance.
There are approximately $1.3 trillion municipal bonds outstanding and they generate about $50 billion tax-free interest income each year.

- **Municipal Futures.** A municipal index futures contract that has been traded at the Chicago Board of Trade since June 11, 1985. The futures contract is based on an index, known as The Bond Buyer Municipal Bond Index, composed of 40 bonds which are priced at the close of trading each day. This is no market for amateur speculators; it is used primarily by professional money managers to hedge their municipal portfolios.

- **Municipal Notes.** Short-term municipal obligations, generally maturing in one year or less. The most common types are (1) bond anticipation notes (BANs), (2) revenue anticipation notes (RANs), (3) tax anticipation notes (TANs), (4) grant anticipation notes, (5) project notes, and (6) construction loan notes. Also see TRANs.

- **Municipal Securities Rulemaking Board (MSRB).** An independent self-regulatory organization established by Congress in 1975 which is charged with primary rulemaking authority - under the SEC - over dealers, dealer banks, and brokers in municipal securities. Its board is stacked against individual investors and it is little more than a sweetheart union for the municipal bond industry.

- **Net Asset Value (NAV).** The market value of all the bonds in a mutual fund portfolio divided by all the outstanding shares.

- **Net Bonded Debt.** Gross general obligation debt less self-supporting general obligation debt, housing bonds, water revenue bonds, etc.

- **Net Interest Cost (NIC).** Generally speaking, issuers award competitive bond sales to the underwriter bidding the lowest NIC. It represents the average coupon rate weighted to reflect the time until repayment of principal and adjusted for the premium or discount.

- **Net Revenue Available for Debt Service.** Usually, gross operating revenues of an enterprise less operating and maintenance expenses but exclusive of depreciation and bond principal and interest. Net revenue as thus defined is used to determine coverage on revenue bond issues.

- **1915 Act, 1911 Act Bonds.** The California name for Special Assessment bonds or Improvement Bonds, named, obviously, for the years in which the enabling legislature was approved. A special district is formed, public improvements (streets, curbs, gutters, water or sewer systems, etc.) are constructed, and assessments are levied on all the properties in the district in proportion to the benefit derived from the improvement. Bonds are sold - without voter approval - and are repaid from the special assessments received. '15 Acts are callable on any interest payment date and are usually dated on the 2nd of the month instead of the 1st or the 15th. '11 Act bonds are payable from the assessments from one specific property and have a prior lien on that property in the event of default.

- **Official Statement (OS) or Offering Circular (OC).** A document (prospectus) circulated for an issuer prior to a bond sale with salient facts regarding the proposed financing. There are two OSs, the first known as the preliminary, or "red herring" - so named not because it smells but because some of the type on its cover is printed in red - and it is supposed to be available to the investor before the sale. The final OS must be sent to the purchaser before delivery of the bonds.

- **Open-End Fund.** This is the standard municipal bond fund. It has no fixed number of bonds in its portfolio. Rather it buys issues as investors buy shares in the fund, sells issues as
investors redeem shares. The tax-free dividend is dependent on a pro-rata share of the interest earned, and this varies as the income of the portfolio varies. The fund managers guarantee to buy back shares at their Net Asset Value, the market value of all the bonds in their portfolio as determined at the close of each business day. This NAV per share can be more or less than the original purchase price. Open-end funds have no maturity date so ultimately, they must be sold to return principal.

- **Original Issue Discount.** Some maturities of a new bond issue that have an offering price substantially below par; the appreciation from the original price to par over the life of the bonds is treated as tax-exempt income and is not subject to capital gains tax. See also Zero-Coupon Bond.

- **O.T.C. Over the Counter.** The buying and selling method used in the secondary market for municipal bonds (and unlisted stocks). Not on an exchange.

- **Overlapping Debt.** The proportionate share of the general obligation bonds of local governments located wholly or in part within the limits of the reporting unit of government that must be borne by property owners within the unit.

- **Par Value.** The face value or principal amount of a bond, usually $5,000 due the holder at maturity. It has no relation to the market value. For pricing purposes, it is considered 100.

- **Parity Bonds.** Revenue bonds that have an equal lien on the revenues of the issuer.

- **Paying Agent.** Also, Fiscal Agent. Generally, a bank that performs the function of paying interest and principal for the issuing body.

- **Premium.** The amount, if any, by which the price exceeds the principal amount (par value) of a bond. Its current yield will be less than its coupon rate.

- **Price to Call.** The yield of a bond priced to the first call date rather than maturity.

- **Primary Market.** The new issue market

- **Principal.** The face value of a bond, exclusive of interest.

- **Put Bond.** A bond that can be redeemed on a date or dates prior to the stated maturity date by the bondholder. Also known as an option tender bond.

- **Qualified Legal Opinion.** Conditional affirmation of the legal basis for the bond or note issue. The average investor should avoid any but the strongest opinion by the most recognized bond approving attorneys.

- **RANs.** Revenue anticipation notes.

- **Rate Covenant.** A legal commitment by a revenue bond issuer to maintain rates at levels to generate a specified debt-service coverage.

- **Ratings.** Various alphabetical and numerical designations used by institutional investors, Wall Street underwriters, and commercial rating companies to give relative indications of bond and note creditworthiness. Standard & Poor's and Fitch Investors Service Inc. use the same system, starting with their highest rating of AAA, AA, A, BBB, BB, B, CCC, CC, C, and D for default. Moody's Investors Services uses Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C, and D. Each of
the services use + or - or +1 to indicate half steps in between. The top four grades are considered Investment Grade Ratings

- **Red Herring.** A preliminary offering statement, subject to final change and update upon completion of sale of bonds. The name comes not from the smell but from the red type along the side on the cover.

- **Redemption.** Process of retiring existing bonds prior to maturity from excess earnings or proceeds of refunding bonds. It also refers to redeeming shares in a mutual fund by selling the shares back to the sponsor.

- **Redevelopment Agency (Redev.).** A legislatively established subdivision of government established to revitalize blighted and economically depressed areas of a community and to promote economic growth. Tax Allocation Bonds are issued to pay the cost of land and building acquisition and their redevelopment and are repaid by the incremental increase in tax revenues produced by the increase assessed value of the area after redevelopment. Redev. Agencies may also sell Housing Mortgage Revenue Bonds to finance housing units within the area, a fixed percentage of which must be for low-cost housing.

- **Refunding Bond.** The issuance of a new bond for the purpose of retiring an already outstanding bond issue.

- **Registered Bond.** A non-negotiable instrument in the name of the holder either registered as to principal or as to principal and interest.

- **Repo.** A financial transaction in which one party "purchases" securities (primarily U.S. Government bonds) for cash and simultaneously the other party agrees to "buy" them back at some future time according to specified terms. Municipal bond and note issuers have used repos to manage cash on a short-term basis. (Known formally as repurchase agreements.)

- **Revenue Bond.** A municipal bond whose debt service is payable solely from the revenues derived from operating the facilities acquired or constructed with the proceeds of the bonds.

- **Secondary Market.** The trading market for outstanding bonds and notes. This is an O.T.C. market, a free form negotiated method of buying and selling, usually conducted by telephone or computer. Traders buy and sell for their own inventory. As many as $2 billion of issues trade each day.

- **Security.** The legally available revenues and assets that are used to pay the bond holders. The key component that supports debt service.

- **Self-Supporting Bonds.** Bonds payable from the earnings of a municipal utility enterprise.

- **Serial Bond.** A bond of an issue that features maturities every year, annually or semiannually over a period of years, as opposed to a Term Bond, which is a large block of bonds maturing in a single year.

- **Short term.** Bonds or notes sold on an interim basis with tax-exempt securities for a period of from one to five years.

- **Sinking Fund.** Money set aside on a periodic basis to retire term bonds at or prior to maturity.
• **Sinking Fund Schedule.** A schedule of payments required under the original revenue bond resolutions to be placed each year into a special fund, called the sinking fund, and to be used for retiring a specified portion of a term bond issue prior to maturity.

• **Special Assessment Bond.** A bond secured by a compulsory levy of special assessments, as opposed to property taxes, made by a local unit of government on certain properties to defray the cost of local improvements and/or services that represents the specific benefit to the property owner derived from the improvement. In California these are usually 1915 Act or 1911 Act Bonds.

• **Street Name.** The registration of bonds in the name of a dealer or other third party instead of the owner, usually for custodial or safe keeping purposes. This also facilitates buying and selling from the account. The bond holder gets a monthly statement of the bonds in the account.

• **Super Sinker.** A term maturity in a housing mortgage bond issue. These will be the first bonds to be called, on any interest payment date, from the proceeds of prepaid mortgages. The average mortgage is prepaid though refinancing or sale in 6.8 years. While it is likely, it cannot be guaranteed that a super sinker will be called; as a result, they are priced as a long-term bond but are most likely to be a short-term maturity. It is a way to get a higher yield for a short-term bond.

• **Swap.** The exchange of one bond for another. Generally, the act of selling a bond to establish an income tax loss and replacing the bond with a new item of comparable value.

• **TAN.** Tax Anticipation Note.

• **Tax Base.** The total resource of the community that is legally available for taxation.

• **Taxable Equivalent Yield.** The yield an investor would have to obtain on a taxable corporate or U.S. government bond to match the same after-tax yield on a municipal bond. This emuni.com site has a taxable equivalent yield table for California residents.

• **Tax Allocation Bond.** Bonds issued in conjunction with a redevelopment project. The taxes pledged to their repayment come from the increase of assessed value over and above a pre-established base. The redevelopment creates this added value, known as the tax increment.

• **Tax-exempt Bond.** Bonds exempt from federal income, state income, or state tax and local personal property taxes. This tax exemption results from the theory of reciprocal immunity: States do not tax instruments of the federal government and the federal government does not tax interest of securities of state and local governments.

• **Technical Default.** Failure by the issuer to meet the requirements of a bond covenant. These defaults do not necessarily result in losses to the bond holder. The default may be cured by simple changes of policy or actions by the issuer.

• **Tender.** The act of offering bonds to a sinking fund.

• **Term Bond.** A large block of bonds of long maturity. They may be part of a serial Bond issue; there may be more than one term bond in an issue or a single maturity. Some are subject to a sinking fund redemption.
Territorial Bonds. Issued by Puerto Rico, the Virgin Islands, etc. Interest on this debt is exempt from state income taxes because of Congressional action that provides these territories with such benefits.

Thin Market. The scarcity of secondary market supply or few bid or offer quotes for a particular security.

Tombstone. An advertisement placed for information purposes, after bonds or notes are sold, that describes certain details of the issue and lists the managing underwriters and the members of the underwriting syndicate.

TRAN. Tax and Revenue Anticipation Note.

Trading Position. The holding of bonds in inventory by the dealer for purposes of buying or selling.

Trustee. A bank designated as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the trust indenture and represents bondholders to enforce their contract with the issuer.

Underlying Debt. The general obligation bonds of smaller units of local government within a given issuer's jurisdiction.

Underwriter. An agreement to purchase an issuer's unsold securities at a set price, thereby guaranteeing the issuer proceeds and a fixed borrowing cost.

Unit Investment Trust (UIT). A mutual fund of a fixed number (20 to 30) of different issues in a portfolio placed in a trust. Units or shares are sold in the trust and each unit receives a proportionate amount of the tax-exempt interest earned by the bonds. As the bonds mature or are called, principal is returned to the investor. UITs, unlike other mutual funds, have a finite life.

Variable Rate Bond. A bond whose yield is not fixed but is adjusted periodically according to a prescribed formula.

Yield Curve. Graph depicting the relationship between yields and current maturity for securities with identical default risk.

Yield-to-call. Return available to call date taking into consideration the current value of the call premium, if any.

Yield-to-maturity. (YTM) Return available taking into account the interest rate, length of time to maturity, and price paid. It is assumed that the coupon reinvestment rate for the life of the bonds will be the same as the yield-to-maturity.

Zero-coupon Bonds. A deep discount municipal bond on which no current interest is paid. Instead, at bond maturity, the investor receives compounded interest at a specified rate. The difference between the discount price at purchase and the accreted value at maturity is not taxed as a capital gain but is considered tax-exempt interest. Widely used for college savings bonds.