

**City of San Diego
Debt Policy
June 2007**

Department of Finance



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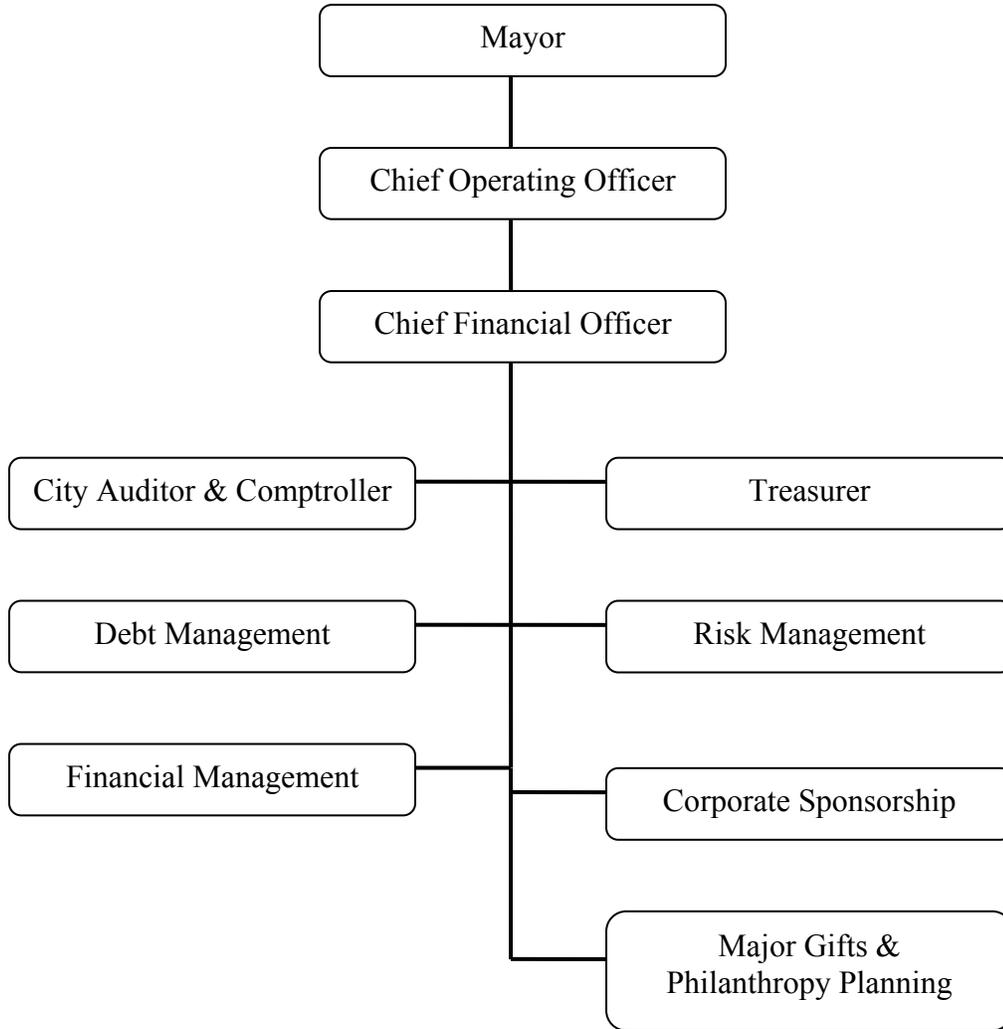
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DEPARTMENT OF FINANCE – ORGANIZATION CHART



OVERVIEW

The City of San Diego (the “City”), acting through the Chief Financial Officer, 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. The City believes that debt is an equitable means of financing projects and represents an important means of meeting fiscal responsibilities.

This policy documents the City’s procedures and goals for the use of debt to finance City needs. Regularly updated debt policy is an important tool that supports the use of the City’s resources to meet its financial commitments and to maintain sound financial management practices. This policy is enacted in an effort to standardize and plan the issuance and management of debt by the City. While the debt policy serves as a guideline for general use, it allows for exceptions in extraordinary conditions.

The primary objectives of this debt policy are to establish guidelines for the use of various categories of debt¹; to create procedures and policies that minimize the City’s debt service and issuance costs; to retain the highest practical credit ratings; and to provide full and complete financial disclosure and reporting.

The City’s Debt Policy is designed to:

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

¹ Does not include debt administered by related City Agencies, such as Housing Authority and Redevelopment Agency

CHAPTER I – PURPOSE & NEED FOR FINANCING

1.1 Purpose of Financing

The City borrows money primarily to fund long-term capital improvement projects, essential equipment and vehicle needs, and to refinance existing debt. The issuance of debt to fund operating deficits is not permitted, with the exception of Tax and Revenue Anticipation Notes.² Debt option will be used to finance eligible projects only if it is the most cost-effective means available to the City.

While the “pay-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 undertake capital projects under this method only if sufficient 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:

A. Long-Term Capital Improvements

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

The Debt Management Department, working with City departments within the context of the Capital Improvement Program and the City’s Five-Year Financial Outlook, 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 the 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 The City issues annual Tax and Revenue Anticipation Notes to meet its cash flow needs. TRANs are not deemed to be debt within the meaning of Section 90 of the City Charter. See Section 3.10 for details.

B. 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 garbage trucks to information technology systems. The underlying asset must have a minimum useful life of three years. Short-term financings, including loans and capital lease purchase agreements, are executed to meet such needs.

C. Refinancings/Refunding of Existing Debt

The Chief Financial Officer working with the Debt Management Department will periodically evaluate its existing debt and execute refinancings 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. See Chapter VIII for refunding considerations.

1.2 **Financing Priorities**

All borrowing requests or debt refunding proposals shall be reviewed by the Chief Financial Officer. The Department of Finance shall be responsible for analyzing the proposal to determine if it is beneficial to the City and complies with the City's long-term financial planning objectives. 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, the Department of Finance will work with the Public Works unit 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 the 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 Annual Budget, Five-Year Financial Outlook, and Capital Improvements 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 documented and the risk associated with the estimates assessed. The uses of funds will be identified and estimated.
3. Identify whether project will increase or reduce ongoing operation and maintenance expenses.

C. Expenditure Plan

A detailed plan for the funds expenditure 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. Where general fund revenues are proposed to service debt, the impact upon budgets will be assessed.

All requests will be prioritized based upon this evaluation. If the Debt Management Director recommends the financing proposal and the Chief Financial Officer is in concurrence, the Debt Management Department will prepare the financing proposal for the City Council's authorization.

1.3 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 periods exceeding 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. 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.

CHAPTER II - CREDITWORTHINESS OBJECTIVES

2.1 Credit Ratings

The City seeks to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the City's policy objectives. Ratings are a reflection of the general fiscal soundness of the City and the capabilities of its management. By maintaining the highest possible credit ratings, the City can issue its debt at a lower interest cost. 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 various factors in issuing a credit rating; these typically include:

- City's fiscal status
- City's general management capabilities
- Economic conditions that may impact the stability and reliability of debt repayment sources
- City's general reserve levels
- City's debt history and current debt structure
- The capital improvement project that is being funded
- Covenants and conditions in the governing legal documents

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. Projects with volatile or risky debt repayment revenue streams that may adversely impact the City's rating will be avoided.

2.2 Rating Agency Relationships

The Chief Financial Officer is responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort shall include providing periodic updates, both formal and informal, on the City's general financial condition and coordinating meetings and presentations in conjunction with a new debt issuance.

2.3 Use of Rating Agencies

The Chief Financial Officer, working with the Debt Management Department and, if applicable, a financial advisor, shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating. Obtaining ratings and credit enhancements for new issuances is discussed in Chapter V.

CHAPTER III - TYPES OF DEBT

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. City issues conduit financings to benefit third parties where public benefit can be achieved. The following are brief summaries of different types of long and short term financing instruments that the City may consider.

DIRECT DEBT OBLIGATIONS

3.1 General Obligation Bonds

General Obligation (GO) bonds are secured either by a pledge of full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. GO bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk.

California State law, Article 16 - Public Finance, Section 18, requires that the issuance of a GO bond must be approved by a two-thirds majority of those voting on the bond proposition. Uses of bond proceeds are limited to the acquisition and improvement of real property.

3.2 Certificates of Participation / Lease Revenue Bonds

Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) are lease obligations secured by an installment sale or by a lease-back arrangement between the City and another public entity, where the general operating revenues are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation. 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. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The governmental lessee is obligated to place in its Annual Budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

3.3 Revenue Bonds

Revenue Bonds are obligations payable from revenues generated by an enterprise, such as water or wastewater utilities, public golf courses or parking facilities. Because the debt service is directly paid by the facility, such debt is considered self-liquidating and generally does not constitute a debt of the issuer.

The City's utility Revenue Bonds are payable solely from the City's Water or Metropolitan Wastewater Enterprise Funds and are not secured by any pledge of ad valorem taxes or general fund revenues of the City. The revenues generated by these Enterprise Funds must be sufficient to maintain required coverage

levels, or the rates of the enterprise have to be raised to maintain the coverages. The issuance of revenue bonds does not require voter approval.

OTHER DEBT OBLIGATIONS

3.4 Revenue Securitizations

Revenues are said to be securitized when the right to receive the revenues is sold to investors at a discounted price in exchange for an upfront lump sum payment. The current value of the receivable is determined by applying a discount rate to that projected receivable and the buyer of the revenue will offer to buy the receivable at the agreed discount rate.

Revenue securitization may be used as a mechanism to raise monies when the City is able to identify suitable revenue streams. Voter approval is not required. However, a legal validation of the financing may be necessary. The City utilized this mechanism in June 2006 and securitized its future stream of Tobacco Settlement Revenues.

3.5 Pension Obligation Bonds

Pension Obligation Bonds (POBs) are financing instruments used to pay some or all of the unfunded pension liability of a pension plan. POBs are issued as taxable instruments over a 30-40 year term or by matching the term with the amortization period of the outstanding unfunded actuarial accrued liability. The purpose of the pension obligation bond, its structure, and the use of the proceeds will go through an active validation process prior to the sale of the bonds. POBs are not subject to voter approval.

In California, municipal and county POBs are issued under the local agency refunding law and considered valid without a vote under a judicially created exception to the State Constitution: Article XVI, Section 18, is a debt limitation exception referred to as “obligations imposed by law.” However, POBs are a general obligation of the City.

POBs allow municipal governments to borrow at a rate that is lower than the assumed actuarial rate that is built into the unfunded actuarially accrued liability (UAAL). Such assumed actuarial rate is used to project the investment rate to be earned on the proceeds of the POBs and the investment rate payable on the UAAL. The City may consider the issuance of POBs if they are cost effective and in the City’s overall best financial interest.

REDEVELOPMENT AGENCY DEBT OBLIGATIONS

3.6 Tax Allocation Bonds

Tax Allocation Bonds (TABs) are special obligations that are secured by the allocation of tax increment revenues that are generated by increased property taxes from new construction in a designated redevelopment area. The revenue is deposited in a special fund to pay for public improvements within the designated area. TABs are not a debt of the City, the State, or any of their political subdivisions.

Under the California State Law, the City of San Diego Redevelopment Agency (administered by the City’s Planning and Community Investment Department, the Centre City Development Corporation and

the Southeastern Economic Development Corporation) has the authority to issue Tax Allocation Bonds as a means of financing redevelopment projects. Voter approval is not required.

CONDUIT FINANCINGS

3.7 Special Districts Financing

Special Districts are primarily 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 formation may also be initiated by an established community. Subject to voter approval, once a district is formed special taxes or assessments may be levied upon properties within the district to pay for facilities and services directly, or to repay bonds issued to finance public improvements.

The City will consider requests for Special District formation and debt issuance when such requests address a public need or provide a public benefit. Each application will be considered on a case by case basis, and the Chief Financial Officer may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the City.

Refer to Appendix A – Special Districts Policy, for additional information.

3.8 Marks-Roos Bonds

The Marks-Roos Local Bond Pooling Act of 1985 permits two or more public agencies to form a joint-powers authority (JPA) to facilitate the financing of public capital improvements, working capital, or other projects when use of these provisions results in savings in effective interest rate, bond underwriting and issuance costs, or any other significant public benefit can be realized.

The Public Facilities Financing Authority of the City of San Diego was established pursuant to a Joint Exercise Powers Agreement by and between the City and the Redevelopment Agency of the City. The Public Facilities Financing Authority has in the past used Marks-Roos bonds to pool and refund certain assessment district bonds to maximize property owner savings by transforming the existing non-rated land-secured debt into insured revenue bond debt.

3.9 Industrial Development Bonds

Industrial Development Bonds (IDBs) are securities issued to finance the construction or purchase of industrial, commercial or manufacturing facilities to be purchased by or leased to a private user. IDBs are backed by the credit of the private user and generally are not considered liabilities of the governmental issuer (although in some jurisdictions they may also be backed by an issuer with taxing power). While the authorization to issue IDBs is provided by a state statute, the tax-exempt status of these bonds is derived from federal law (Internal Revenue Code Section 103(b)(2)).

The Economic Development Division of the City's Planning and Community Investment Department administers the IDB Program pursuant to Council Policy 100-12. The City, through the City Charter and under the California Industrial Development Finance Act, has the authority to issue the full range of taxable and tax-exempt conduit revenue private activity industrial development bonds permitted by the

Internal Revenue Code. Bonds are also issued in partnership with the California Statewide Communities Development Authority, a joint powers agency.

Since IDBs are tax-exempt municipal bonds, interest rates are substantially lower than commercial financing rates. The bonds also allow long-term amortization periods up to 30 years (depending on the useful life of the assets financed), so a growing company will also devote less cash-flow to service loan principal repayment.

SHORT-TERM BORROWINGS

3.10 Tax Revenue Anticipation Notes

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.

The City annually issues TRANs each June to meet General Fund cash flow needs, in anticipation of the receipt of property tax and other revenues later in the fiscal year. The issuance of TRANs is authorized pursuant to section 92 of the City Charter, together with article 7.6 (commencing with section 53850) of Chapter 4, Part 1, Division 2, Title 5 of the California Government Code. The cash flow needs are determined by projections prepared by the City Comptroller, working with the City Treasurer, and reviewed by the Chief Financial Officer. The timing of the note sale, the notes' due date, the timing, and structuring of repayment will be components of the cash flow and cash management analysis performed by the Department of Finance. As tax payments and other revenues are received, they are used in part to repay the TRANs.

TRANs are not deemed to result in the creation of debt within the meaning of Section 90 of the City Charter. Voter approval is not required.

3.11 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 Chief Financial Officer to be prudent and advantageous to the City. Voter approval is not required.

3.12 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 that monies available to pay debt service or to purchase a demand bond are insufficient for that purpose.

A Letter of Credit is an arrangement with a bank that provides additional security that money will be available to pay debt service on an issue. A Letter of Credit can provide the City with access to credit under terms and conditions as specified in such agreements, and/or to provide a liquidity facility or credit enhancement to the City's variable rate debt issuances. In the event that a bank facility is being entered into for a long-term capital need, before entering into any such agreements, takeout financing for such

lines and letters of credit must be planned for and determined to be feasible by the Chief Financial Officer.

When it is considered by the Chief Financial Officer to be prudent and advantageous to the City, the City may enter into agreements with commercial banks or other financial entities for purposes of acquiring a Line or Letter of Credit. Voter approval is not required.

3.13 Lease – Purchase Financings

The City’s Equipment and Vehicle Financing Program (EVFP) provides a mechanism for the short term financing of essential equipment through a lease-purchase mechanism. The lease purchase terms are typically three to ten years. Under this program, the City enters into a master lease agreement with a lessee at the beginning of a fiscal year to finance the lease purchase of essential equipment up to a certain amount. Equipment is funded on an as needed basis through that fiscal year under this master lease agreement. The City may enter into other stand alone operating leases or lease purchase agreements on an as needed basis without voter approval.

LOAN OBLIGATIONS

3.14 State Revolving Funds

The State Revolving Fund (SRF) loan is a low interest loan program for the construction of water and wastewater infrastructure projects. These loans are zero interest loans, over a 20-year term; the City contributes 16.7% of the loan amount and receives 83.3% in loan proceeds. While these are zero interest loans, given that the City pays back 100% of the loan, the effective interest of this loan is calculated at approximately 2%. Compared to traditional bond financing, the City may realize substantial savings as a result of the 20-year amortization period of the SRF Loans.

3.15 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 development and economic development projects.

The Economic Development Department of the City’s Planning and Community Investment Department administers the implementation and management of the HUD Section 108 Loan Guarantee Program. The program does not require a pledge of the City’s General Fund, only of future CDBG entitlements. By pledging future CDBG entitlement grants as security, the City can borrow at favorable interest rates because of HUD’s guarantee of repayment to investors who purchase the HUD Section 108 Notes.

In addition to some of the long and short term financing instruments described above that the City may access, the City may also consider joint arrangements with other governmental agencies when a project serves the public interest beyond the City boundaries. Communication and coordination will be made

with other local, state, and federal governments regarding potential jurisdictional overlap, joint projects, tax issues, and other issues that may arise. If the potential does exist, then the possibility of grants or cost sharing will be explored, quantified, and specific financial arrangements and liabilities negotiated. Municipal issuers are authorized to join together to create a separate entity, a Joint Powers Authority (JPA), to issue bonds on behalf of the municipality. The City Council may sit as the governing body of the agency or authority. Other governmental agencies that a municipal issuer can jointly issue bonds include redevelopment agencies and housing authorities. 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.

CHAPTER IV - AFFORDABILITY TARGETS

Given the significant restrictions in California on local agency revenue sources, especially those imposed under Proposition 218, the City is aware of the need to gauge the effect of ongoing debt service on its budgets and fiscal priorities over time. To provide a debt affordability plan and keep debt levels within acceptable ranges, the City will consider generally accepted debt affordability standards in evaluating when, why, and how much debt should be issued.

4.1 Affordability Targets for General Obligation Bonds

As discussed in Chapter 1, in assessing affordability, the City shall examine the direct costs and benefits of the proposed project. The decision on whether or not to assume new general obligation debt shall be based on these costs and benefits, current conditions of the municipal bond market, and the City's ability to afford new debt and service it as determined by an objective analytical approach. This process shall compare generally accepted measures of affordability to the current values for the City. These measures shall include:

- Debt per capita
- Debt as a percent of assessed valuation
- Debt service as a percent of operating budget

The Debt Management Department shall monitor and strive to achieve and/or maintain these debt statistics at a low to moderate classification. The City shall not assume more tax-supported general purpose debt than it retires each year without conducting an objective analysis regarding the City's ability to assume and support additional debt service payments.

Pursuant to Section 90 of the City Charter, the City may incur general obligation bonded indebtedness for the purpose of acquiring, constructing, or completing any municipal improvements, not including improvements to the City's water facilities, in an amount not to exceed 10% of the total assessed valuation of all real and personal property in the City subject to an annual property tax levy. The City may also incur indebtedness for the purpose of acquiring or constructing both non-utility related improvements and water related improvements in an amount not to exceed 25% of the total assessed valuation³.

4.2 Affordability Targets for General Fund-Supported Debt

The most important affordability ratio used in analyzing the City's debt position with respect to General Fund supported debt (lease revenue obligations and certifications of participation) is the Annual General Fund debt service/lease payment (e.g., payment on lease revenue bonds) as a percentage of available revenue or expenditures. This ratio is often referred to as "lease burden." This analysis excludes enterprise revenue bonds and other obligations supported by dedicated revenue pledges.

³ All voter approved debt is subject to this limit.

Credit rating agency guidelines recommend a lease burden ratio between 8% and 12%; the City shall strive to maintain its lease burden ratio below 10%. Affordability analysis as determined by this measure will be undertaken when new General-Fund supported debt is issued.

In addition to the City's direct debt burden, debt levels of underlying and overlapping entities such as counties, school districts, and special districts, as well as redevelopment agencies issuing tax increment revenue bonds add to a City's overall debt burden. The City's proportional share of the debt of other local governmental units which either overlap it or underlie it is called the overlapping debt. Overlapping debt is generally apportioned based upon relative assessed value. While the City does not control debt issuance by other entities, it recognizes that its taxpayers share the overall debt burden. The City shall include a statement of overlapping debt in its initial and continuing disclosure.

4.3 Coverage Targets for Revenue Bonds

Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (enterprise funds); revenues generated from a project; and tax collected from within a redevelopment project area in which the increase in assessed valuation has resulted from redevelopment.

In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (after payment of operating and maintenance expense) to estimated annual debt service. Per rating agency guidelines, the City shall maintain a coverage ratio of at least 110% using historical and/or projected net revenues to cover annual debt service or a coverage ratio higher than 110% if it is a covenant requirement for a debt issuance. The City will require a rate increase to cover both operations and debt service costs, and create debt service reserve funds at the maximum levels allowed under tax law, to maintain the coverage ratio at 110%. Depending on market conditions the City shall strive to maintain coverage ratios higher than 110%.

CHAPTER V - STRUCTURE & TERM OF CITY INDEBTEDNESS

5.1 Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Borrowings by the City should be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. Standard term of long-term borrowing is typically 15-30 years.

5.2 Rapidity of Debt Repayment

In structuring a bond issuance, Debt Management will manage the amortization of debt, and to the extent possible, match its cash flow to the anticipated debt service payments.

The City will seek to structure debt with aggregate level principal and interest payments over the life of the borrowing. “Backloading” of debt service will be considered only when one or more the following occur:

- Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive
- The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present
- Such structuring is beneficial to the City’s aggregate overall debt payment schedule
- Such structuring will allow debt service to more closely match project revenues during the early years of the project’s operation

5.3 Serial Bonds, Term Bonds, and Capital Appreciation Bonds

Serial bonds are bonds maturing annually (or serially) in specified amounts.

Term bonds are those where all bonds, or a portion of the issue equal to that which would mature over a period of two or more years in a bond issuance, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandated to be called or retired each year (called “sinking funds”) to mirror a serial bond structure. The funds paid into the sinking fund each year may be used at that time to retire a portion of the term bonds ahead of their scheduled redemption. Sinking funds are preferred by investors since these funds provide the security of knowing that the issuer appropriately budgets and accounts for its expected future payments. The sinking fund also ensures that the payment of funds at maturity does not overtax the issuer’s resources at that time.

Capital Appreciation Bonds (CABs) are deep discounted bonds that pay investors the face value of the bond upon maturing. CABs can be utilized in certain cases to better match a project’s cash flow to the bond’s debt service.

For each issuance, the City will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, CABs may be used. The decision to use term, serial, or CAB bonds is typically driven by market conditions.

5.4 Interest Rate Structure

The City may choose to issue securities that pay either a fixed interest rate or a variable rate of interest. Fixed rate securities ensure budget certainty through the life of the securities and can be advantageous in a low interest rate environment. Variable interest rate varies according to a predetermined formula or results from a periodic remarketing of the securities. Variable rate debt can potentially reduce long term interest expense. Some of the common variable rate securities are Variable Rate Demand Obligations (VRDOs), Auction Rate Securities (ARSs), and commercial paper.

In determining whether or not to use variable rate debt, the Chief Financial Officer, working with the Debt Management Director and the Treasurer will evaluate the City's debt portfolio and review the City's assets and liabilities. The following factors will be considered in evaluating the issuance of variable rate debt:

A. Balance sheet risk mitigation

In determining the appropriate amount of variable rate debt to be issued for risk mitigation purposes, the balance sheet of the fund that will be repaying the debt will be analyzed for the following factors: the historic average of cash balances over the course of several prior fiscal years; projected cash balances; and any basis risk, for example, the interest rate difference between the City's investment instruments and the proposed variable rate debt instrument.

B. Risk exposure

The City may accept a moderate exposure to interest rate risk. General rating agency guidelines indicate that 20% to 25% of outstanding debt can be in a variable rate mode without representing undue risk. In determining the amount of risk the City will accept, the City will consider the specific fund exposed to the risk, and the budgetary flexibility that fund has in accommodating such risk due to uncertainty of total expense. The analysis of risk exposure should be performed on the basis of "net" risk; that is, variable rate liability exposure net of any interest rate hedge provided by the availability of cash or risk mitigation tools such as interest rate swaps.

Annually, the Department of Finance will analyze each proposed variable rate bond issuance to determine the budgeted amount for debt service. Factors that will be analyzed include historic interest rates, projected interest rates, the use and effect of risk mitigation products such as interest rate swaps or caps (see Derivatives, below), and the availability of fund balances carried-forward from savings in previous years. The issuer pays for ongoing support costs over the life of the bonds for remarketing agent and the credit and/or liquidity facility.

5.5 Derivatives

Derivatives are securities that are based on, or derived from, an underlying asset, reference date, or index. Derivative products can be beneficial financial management tools, if used prudently based on a case by case assessment.

Financial Objectives

Derivative products may be considered in order to achieve specific financial objective(s) consistent with the City's overall financial strategy. Such financial objectives may include one or more of the following:

- A. Provides a better match between the interest rates on the City's debt and its investments (asset/liability management), resulting in an increased net investment return
- B. Reduces the overall cost of borrowing (net interest rate savings), as compared to a traditional fixed rate structure only
- C. Manages interest rate risk (i.e., reduce exposure to changes in interest rates)
 - Cap or hedge variable interest rate payments
 - Lock-in rates
 - Manage exposure to changing markets in anticipation of an upcoming bond issuances (e.g., lock in savings on a refunding or lock in rates for a new money issue)
- D. Provides a greater financial flexibility than would be available with a traditional fixed rate structure to either:
 - Alter or modify pattern of debt service payments
 - Modify fixed and variable allocation in debt portfolio

Permitted and Prohibited Transactions

The City will consider the following derivative instruments as acceptable:

- Interest rate swaps including synthetic fixed rate, synthetic floating variable rate, basis swaps, current swaps, and forward starting swaps
- Reverse swaps
- Options and hedges, including swaptions, caps, floors, collars and/or cancellations or index-based features

The City may not enter into any derivative transactions if the following conditions are present:

- The product is not reasonably expected to achieve the acceptable objectives stated in this Debt Policy
- The product's sole purpose is to generate operating or capital proceeds
- The product cannot be linked to existing or planned City debt
- The product is intended for speculative purposes or is designed primarily to obtain trading gains
- The product will create extraordinary leverage or other financial risk
- The product cannot be terminated without incurring a significant bid/ask spread

- The Department of Finance, working with a financial advisor, is unable to reasonably value the instrument due to lack of market information or price transparency

Risk/Benefit Analysis

Before entering into derivative contracts or agreements, the Chief Financial Officer will review the risks and benefits of such financing techniques and expected impacts on the City's long-term financial operations and credit ratings. The proposed derivative product will only be considered if it meets the objectives of the City as described above. A Risk/Benefit Analysis Report which evaluates the derivative will be prepared under the supervision of the Debt Management Director. At the discretion of the Debt Management Director, the City may employ the services of an advisor in preparing the Report. The completed Report shall be presented to the City Council for authorization and implementation along with the bond documents.

Counterparty Risk

The City will enter into derivative transactions only with qualified counterparties. In order to diversify the City's counterparty risk and to limit the City's exposure to any one single counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing swap transaction. The Counterparty risk will be monitored on an ongoing basis.

On-Going Monitoring of Derivative Products

The Debt Management Department and the City Treasurer will actively manage and monitor derivative products entered into by the City, including the frequent monitoring of market conditions to identify opportunities and risks. The City may employ the services of an advisor to monitor derivative products and monitor on-going tax compliance.

The City will consider the use of derivative products on a case-by-case basis.

5.6 Debt Instrument Rating

The Debt Management Director, with a financial advisor if appropriate, will assess whether a credit rating should be obtained for an issuance and make a recommendation to the Chief Financial Officer. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.

5.7 Credit Enhancement

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, bond insurance or surety policies (see Section 5.8). The Debt Management Director will recommend to the Chief Financial Officer the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the Chief Financial Officer, the use of such credit enhancement furthers the City's overall financial objectives.

A *Letter of Credit*, as discussed in section 3.12, may be obtained from a major bank, for a fee, to enhance the credit rating. This letter 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 a debt service obligation.

Bond Insurance is an unconditional pledge by an insurance company to make principal and interest payments on the City's debt in the event insufficient funds are available to meet a debt service obligation. Bond insurance may be obtained from an insurance company and is a potential means of enhancing the debt's rating.

5.8 Debt Service Reserve Fund/Surety Policy

With the exception of general obligation bond indebtedness, unless there are extraordinary circumstances, the City will size the debt issuance such that a debt service reserve fund is established at the time of issuance. The debt service reserve funds will be held by and are available to the Trustee to make principal and interest payments to bondholders in the event that pledged 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.

The reserve fund requirement may also be satisfied by a surety policy, a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issuance. Under this arrangement, instead of depositing cash in a reserve fund, the issuer buys a surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. The City may use a surety policy instead of a debt service reserve fund when economically feasible.

5.9 Capitalized Interest

Generally, interest shall be capitalized for the construction period of a revenue-producing project so that debt service expense does not begin until the project is expected to be operational and producing revenues. Only under extraordinary circumstances, interest may be capitalized for a period longer than the construction period. Capitalized interest is sometimes referred to as "funded interest."

5.10 Call Options/Redemption Provisions

The Debt Management Director will evaluate and recommend to the Chief Financial Officer the use of a call option, if any, and call protection period for each issuance.

A call option, or optional redemption provision, gives the City the right to prepay or retire debt prior to its stated maturity. This option may permit the City to achieve interest savings in the future through refunding of the bonds. Often the City must pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. In addition, if a bond is called, the holder may be entitled to a premium payment ("call premium"). Because the cost of call options can vary widely, depending

largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issuance:

- The call premium
- Level of rates relative to historical standards
- The time until the bonds may be called at a premium or at par
- Interest rate volatility

Generally, 30-year tax exempt municipal borrowings were structured with a 10-year call at no premium. From time to time, shorter call options (6-9 years) may be used at no premium.

CHAPTER VI - METHOD OF ISSUANCE & SALE

Under the direction of the Chief Financial Officer, the Debt Management Department will coordinate the issuance of all debt, including issuance size, debt structure, cash flow analysis, and method of sale. The selection of the financing team and the role of the various consultants are discussed in Chapter VII.

6.1 Method of Sale

Debt issuances are sold to a single underwriter or to an underwriting syndicate either through a public offering or a private offering. The selected method of sale will be that which is the most advantageous to the City in the judgment of the Chief Financial Officer, in terms of lowest net interest rate, most favorable terms in the financial structure used, and market conditions.

Public Offerings – Public offerings can be executed through either a competitive sale or a negotiated sale. Policy of the City is to sell its bonds and retain professionals to assist in the sale of the bonds on a competitive basis.

Competitive Sale – In a competitive sale, bids will be awarded on a true interest cost basis (TIC), providing other bidding requirements are satisfied. In such instances where the City deems the bids received unsatisfactory, it may, at the discretion of the Chief Financial Officer, enter into negotiation for sale of the securities or reject all bids. In general, Competitive Sale method is recommended for “plain vanilla” financings with a strong underlying credit rating and if the bond is not expected to be treated a “story bond” by the investors. In a Competitive Sale, the bidders role is limited to their review of the offering circular released by the City, make credit assessment based on the facts presented in the offering circular, and offer their bids per the bidding parameters established by the City.

Negotiated Sale –The negotiated sale process provides the City control over the financing structure, the issuance timing, and provides flexibility of distribution. Negotiated sales may be executed when competitive sales are not suitable or not a viable option. Examples of such circumstances include unusual financing terms, market volatility, and poor credit. In a Negotiated Sale, the underwriter or the underwriting syndicate for the bonds is identified upfront through a competitive selection process along with other professionals for the transaction. The underwriter will actively assist the City in structuring the financing and marketing the bonds including providing assistance in preparing the bond offering circular.

Private Offerings – When determined appropriate by the Chief Financial Officer, the City will negotiate financing terms with banks and financial institutions for specific borrowings on a private offering basis. Typically, private placements are carried out by the City when extraneous circumstances preclude public offerings, as an interim financing, or to avoid the costs of a public offering for smaller issuances.

6.2 Bidding Parameters

In a public offering, the Notice Inviting Bids will be carefully constructed so as to ensure the best possible bid for the City, in light of existing market conditions and other prevailing factors. Parameters to be examined include:

- Limits between lowest and highest coupons
- Discount or premium coupons
- Use of bond insurance
- Call provisions

Pursuant to California Government Code Section 53693, the Debt Management Department will publish the Notice 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.

6.3 Initial Disclosure Requirements

The Debt Management Department, together with the City Attorney's Office and Disclosure Counsel, coordinates all the necessary documents for disclosure, with input from various other City departments (as applicable for a particular bond issuance) and outside consultants. The disclosure documents, particularly the Official Statement, will provide the potential investor with all material information necessary to make prudent investment decisions. Information generally includes the City government description, description of project being financed, annual financial data and financial statements in appendices, various liabilities, its tax base, current debt 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.

All primary disclosure documents, which are a part of the bond offering documents (e.g., Official Statement), will be approved by the Disclosure Practices Working Group ("DPWG") before being taken to the City Council for approval (see Section 6.4). The DPWG Disclosure Controls and Procedures (Appendix C) details the preparation and approval process of primary disclosure documents.

The City will also provide ongoing disclosure, in accordance with the Continuing Disclosure Agreements executed when the financing is authorized, as required by SEC Rule 15c2-12 (see Chapter IX).

6.4 Approval Process

In coordinating the bond issuance process, the Debt Management Department will work with the City Attorney's office, other responsible City departments, and outside consultants to compile all bond related documents (see Chapter VII for the role of various outside consultants). The City Attorney's office will assess any legal issues that may arise with respect to the issuance of the bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the City may pursue an active validation action to obtain judicial approval before the bonds are issued. If a bond transaction is controversial and gives rise to a reverse validation action, the City may find itself a party to that litigation.

All proposed debt financings shall be authorized by the City Council. To ensure accuracy, all disclosure and bond related documents will go through many levels of review prior to being submitted for City Council approval.

- As stipulated by City Ordinance O-19320, the City's DPWG will serve as an oversight body that is responsible to ensure accuracy of disclosure documents. See Appendix C for DPWG Disclosure Controls and Procedures.

- The City’s Audit Committee will serve as an oversight body that is responsible to ensure accuracy of the audited financial statements.
- Pursuant to the City’s Municipal Code, section 22.2301, the Independent Budget Analyst (“IBA”) assists the City Council with regard to its decisions. The IBA will be provided advance copies of all documents related to the proposed bond financings for its review.
- Bond related documents will be submitted by established docket deadlines. All efforts will be made to distribute documents to reviewers at the earliest possible date.
- Pursuant to the City Charter Section 99, legal notice regarding the City Council hearing of the bond documents when approved via ordinance will be placed in a publication of general circulation 10 calendar days in advance of the hearing date.
- The Debt Management Department, City Attorney’s office, and other responsible City Departments will engage in briefing Councilmembers and their staffs regarding the proposed bond financing prior to the City Council hearing.

Pursuant to the City Charter Section 99, all financial obligations extending for a period of more than five years have to be authorized by ordinance adopted by a two-thirds majority vote of the City Council. Financial obligations of a shorter period may be authorized by a resolution.

CHAPTER VII – FINANCING TEAM – ROLES AND SELECTION PROCESS

The Debt Management Director, working with the City Attorney and the City’s Purchasing Department, shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement a debt issuance. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices.

7.1 Selection and Compensation

The identification of financial advisors, trustees, and paying agents is accomplished through a selection process conducted by the Debt Management Department, and may also be based upon recommendations from advisors that are specifically skilled in the type of bond issuance being proposed.

Selection of consultants will be made from either an as-needed list, which is assembled via a Request for Proposal (RFP) process, or a separate RFP issued for a specific bond issuance. Once the selection of a financial advisor has occurred, the financial advisor will assist the City in the selection of other service providers, including escrow agents, credit enhancers, verification agents, title and insurance companies, and printers.

The City Attorney’s Office will take the lead in selecting the Bond Counsel and the Disclosure Counsel. 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. Generally, City staff costs and consultant fees related to issuance of bonds are paid or reimbursed from bond proceeds.

7.2 Financing Team: Outside Consultants

Contracts with Financial Advisors, Bond Counsel, and Disclosure Counsel will be processed in accordance with Administrative Regulation 25.70, “Hiring of Consultants Other Than Architects and Engineers.”

A. Financial Advisors

As needed, the Debt Management Director, in consultation with the Chief Financial Officer, will identify an independent financial advisor based on an RFP process or from the as-needed list of Financial Advisors. The as-needed list of Financial Advisors is maintained by the Debt Management Department, which is compiled through an RFP process conducted bi-annually. The primary responsibilities of the 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.

B. Bond Counsel

The City will retain external Bond Counsel for all debt issuances. As part of its responsibility in the debt issuance process, the City Attorney will coordinate the selection of Bond Counsel. Bond Counsel will prepare the necessary authorizing resolutions, ordinances, agreements and other legal documents necessary to execute the financing. All debt issued by the City will include a written opinion by Bond Counsel affirming that the City is authorized to issue the debt, stating that the City has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal and state income status.

C. Disclosure Counsel

The City will retain Disclosure Counsel for all public issuances that entail City disclosure. City will receive a customary 10b-5 opinion from the Disclosure Counsel. The City Attorney shall oversee the selection of Disclosure Counsel. The Disclosure Counsel will work with City staff to draft all disclosure documents for a bond financing.

The City Attorney's Office may engage separate firms in the capacity of Bond and Disclosure Counsel or one single firm to perform bond and disclosure counsel functions.

The City also retains a General Disclosure Counsel to review the City materials that are to reach investors or the securities markets. The General Disclosure Counsel will also be a member of the City's Disclosure Practices Working Group.

D. Underwriters

For a competitive sale, the criteria used to select an underwriter shall be the bid providing the lowest true interest cost to the City.

For a negotiated sale debt issuance, the Chief Financial Officer, working with the Debt Management Department, shall solicit proposals for underwriting services. The Chief Financial Officer will recommend to the City Council the selected underwriter or a syndicate of underwriters. Underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed, among other criteria determined for each issuance. The Chief Financial Officer will consider the following criteria in selecting an underwriter and/or a syndicate:

- Experience with the particular type of financing, and size of the financing
- Overall experience
- Familiarity with City issues
- Marketing expertise
- Distribution capability
- Previous experience as managing or co-managing underwriter
- Financial strength, as evidenced by the firm's current financial statements
- Experience of the public finance team assigned to the financing
- Resources to complete the financing
- Compensation

E. Trustee / Paying or Fiscal Agent

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

Paying or Fiscal Agent duties are typically limited to receiving money from the issuer and paying principal and interest to bondholders on behalf of the issuer. A Trustee, in addition to performing the duties of a Paying Agent, is responsible for establishing and holding the funds and accounts relating to the bond issuance, including accounts for bond proceeds and revenues, determining that the conditions for disbursement of proceeds and revenues have been met, and, in some cases, collecting revenues, and executing investments.

The Trustee/ Paying Agent solicitation and selection is typically coordinated by the Financial Advisor in consultation with the Debt Management Director for a new bond issuance. Debt Management Department will monitor the ongoing performance of a Trustee/Paying Agent. The Debt Management Director, in consultation with the Chief Financial Officer, may periodically solicit for trustees or paying agent services from qualified commercial and trustee banks.

F. Other Service Providers

Other professionals may be selected, at the discretion of the Chief Financial Officer, on an as-needed basis. These 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.

CHAPTER VIII - REFUNDING OF CITY INDEBTEDNESS

The City will consider refunding its existing debt when benefits of the refunding outweigh the costs and risks.

8.1 Types of Refunding

A. Current Refunding

A current refunding is one in which the refunding bonds are issued less than 90 days before the date upon which the refunded bonds will be redeemed.

B. Advance Refunding

An advance refunding is one in which the refunding bonds are issued more than 90 days prior to the date upon which the refunded bonds will be redeemed. Advance refundings are used to refinance outstanding debt before the date the outstanding debt becomes due or callable. Proceeds of the advance refunding bonds are placed into an escrow account with a fiduciary and used to pay interest and principal on the refunded bonds and then used to redeem the refunded bonds at their maturity or call date. Internal Revenue Code §149(d)(3) provides that governmental bonds issued after 1985 may only be advanced refunded once over the life of a bond issuance.

8.2 Refunding Considerations

Refundings may be undertaken to

- Take advantage of lower interest rates and achieve debt service cost savings
- Eliminate restrictive or burdensome bond covenants
- Restructure debt to either lengthen the duration of debt or free up reserve funds
- Refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management

Generally, the City will consider a refunding only when there is a net economic benefit; i.e., when there is an aggregate net present value savings, expressed as a percentage of the par amount of the refunding bonds, at 3% and above for a current refunding, and 4% and above for an advance refunding. This savings requirement for a refunding may be waived by the Chief Financial Officer upon a finding that such a restructuring is in the City's overall best financial interest. Exceptions shall be made only upon the approval of the Chief Financial Officer.

8.3 Refunding Escrows

The City will seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. However, at the discretion of the Chief Financial Officer, the City may choose to fund an

escrow through purchase of treasury securities on the open market when market conditions make such an option financially preferred.

CHAPTER IX – POST ISSUANCE ADMINISTRATION

9.1 Investment of Bond Proceeds

The proceeds of the bond sales will be invested until used for the intended project in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The City of San Diego Investment Policy and the bond indentures govern objectives and criteria for investment of bond proceeds. The City Treasurer, or the bond trustees under the direction of the City Treasurer, will invest the bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.

9.2 Arbitrage Compliance

The Auditor and Comptroller Department shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by the federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issuances. Additionally, general financial reporting and other tax certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are in compliance. The ongoing compliance verification function will be coordinated by the Debt Management Department.

9.3 Ongoing Disclosure

The City will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the SEC Rule 15c2-12. The Chief Financial Officer shall be responsible for providing ongoing disclosure information to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, including the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The City may also employ the services of firms that improve the availability of or supplement the City's NRMSIR filings.

The City will provide full and complete financial disclosure to rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, and accurate financial information using the appropriate channels/policies/procedures.

All disclosure information shall be reviewed and approved by the City's Disclosure Practices Working Group.

9.4 Compliance with Other Bond Covenants

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the City is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments
- Taxes/fees are levied and collected where applicable
- Timely transfer of debt service/rental payments to the trustee or paying agent
- Compliance with insurance requirements
- Compliance with rate covenants where applicable
- Compliance with all other bond covenants

The Debt Management Department will coordinate verification of covenant compliance and will work with the City Attorney's Office, the Auditor and Comptroller Department, and all other responsible departments to monitor and ensure the aforementioned compliance requirements are met. As of January 2006, the Debt Management Department implemented a formal centralized monitoring program (FCMP) to coordinate, monitor, and report ongoing compliance requirements.

APPENDIX A – SPECIAL DISTRICT FORMATION AND FINANCING POLICY

10.1 Overview

The following Special District Formation and Financing Policy is enacted to provide a uniform guideline for Community Facilities District (“CFD”) and 1913/1915 Act Assessment District formation and financing. A Special District is typically formed to provide funding for public infrastructure in connection with new development, but may also be formed to finance improvements pertaining to developed properties. Subject to voter approval and once a district is formed, special taxes or assessments may be levied upon properties within a district to directly pay for facilities, and, in the case of CFDs, services. Special taxes or assessments may also be levied to repay bonds issued to finance public improvements.

The City expects that private developers should have primary responsibility for providing public infrastructure required in connection with new development. With this policy as a guideline, the City will continue to consider requests for Special District formation and debt issuance to finance such public infrastructure when the requests address an extraordinary public need or benefit. However, due to the significant burden placed on the City to provide these conduit financings, and in light of potential impacts to the City’s debt position, the Chief Financial Officer, working with the Debt Management Director, will consider each application for Special District debt issuance on a case by case basis, and may not proceed with such financing if it is determined that the financing could be detrimental to the debt position or best interests of the City.

This Special District Formation and Financing Policy is specific to Special Districts and supplemental to the City’s Debt Policy. As such, guidelines provided in the City’s Debt Policy would, in many cases, also be applicable to Special Districts. In addition, the City will adhere to all state and federal laws concerning the issuance of Special Districts related debt.

The City’s Special District Formation and Financing Policy is specifically designed to:

- Establish parameters for the Special District formation and financing processes
- Assist concerned parties in following the City’s approach for forming districts and issuing any related debt
- Facilitate the actual formation and financing processes by establishing important policy guidance in advance
- Amend and restate the City’s Local Goals and Policies (currently set forth within Council Policy 800-03) for CFD formation and financing, as required by Section 53312.7 of the California Government Code

10.2 Background: Types of Special Districts

This Special District Formation and Financing Policy is intended to provide a uniform guideline for Community Facilities District (“CFD”)¹ and 1913/1915 Act² Assessment District formation and financing. These Special Districts are primarily developer initiated, whereby a developer seeks a public financing mechanism to fund public infrastructure required of it by the City in connection with development permits or agreements, and/or tentative or subdivision maps. Special District formation may also be initiated by an established community.

It is important to note that the formation and debt issuance processes related to Special Districts may be considered as distinct activities. That is, districts may be established and the assessments or special taxes levied could pay directly for improvements and/or, in the case of CFDs, services. Alternatively, associated bonds may be issued by such districts to finance improvements, in which case the debt service would be paid with assessment or special tax revenues.

A. Community Facilities District Financing – Mello-Roos Bonds

The Mello-Roos Community Facilities Act of 1982 (the “Mello-Roos Act”) was enacted by the State to help growing areas finance certain essential public facilities that typically accompany major development projects. The Mello-Roos Act permits a public agency to create a defined area within its jurisdiction and, by a two-thirds majority vote of the registered voters within the district (or, if there are fewer than 12 registered voters, through a landowner vote), levy a special tax within the district to pay directly for public improvements or services, or pay debt service on bonds issued to finance improvements. CFD, or Mello-Roos, Bonds are not fiscal obligations of the City, and are limited obligations of the CFD, payable solely from special taxes levied upon property within the district. The special taxes are calculated and levied pursuant to a Rate and Method of Apportionment, or tax formula. Under the Mello-Roos Act, the formula must be reasonable.

Formation of a CFD may be initiated by the legislative body on its own or when the appropriate request or petition, as defined by the Mello-Roos Act, is filed with the City. The financed public facilities must ultimately be owned and operated by a public entity, such as the City, and may include, among other things, parks, libraries, police and fire facilities, roadways, and water and sewer infrastructure improvements that have a useful life of five years or more. In accordance with Section 53313 of the California Government Code, CFDs may also provide funds for certain public services, including police and fire services, and recreation program services so long as they are in addition to, and do not supplant, services already provided within the territory.

¹ The Mello-Roos Community Facilities Act of 1982 permits a public agency to levy a special tax within a defined area to finance certain essential facilities, or to pay for certain services, when specific voting requirements are met.

² An Assessment District may be formed pursuant to the Streets and Highways Code Municipal Improvement Act of 1913. The associated bond acts, also contained within the Streets and Highways Code, include the Improvement Bond Act of 1915 and the Refunding Act of 1984, which provide for the issuance of bonds under various assessment proceedings and the refunding of assessment bonds, respectively.

B. Assessment District Financing

The Municipal Improvement Act of 1913 provides for a local agency to form an Assessment District to finance certain infrastructure, including roadways, water and sewer facilities, storm drains, and other improvements often required in connection with new development. Unlike CFDs, services cannot be funded by Assessment Districts. Assessment Districts may also be formed to provide for, among other things, the undergrounding of overhead utility lines or the abatement of hazardous geological conditions, upon a successful petition signed by owners of property who want the improvement. An Assessment District must include all properties that will benefit directly from the improvements to be constructed, and formation of the district requires an election in which at least 50% of property owners vote in favor of the district. If an Assessment District is formed, the City may levy assessments that can be utilized to directly finance the public improvements, or may be pledged to support debt service on bonds, which may be issued under the Improvement Bond Act of 1915. The assessments that are levied upon each parcel must be based upon the direct and special benefit received by the property.

10.3 Considerations for Authorization of Special District Financing

The formation and financing processes related to Special Districts may be considered as two distinct processes. In order for a financing process to occur, a formation process is also necessary. However, a district could be formed without an associated bond financing. In this case, the special taxes or assessments that are levied would provide revenues to pay directly for public improvements, or, in the case of CFDs, services (versus paying debt service on bonds issued to finance improvements). The following guidelines generally relate to the financing process for Special Districts.

A. Credit Considerations

It is the City's policy to exercise caution in approving requests for Special District financing and that each request be weighed in the context of the City's total infrastructure and financing needs. Although the rating agencies consider Special District financings as overlapping debt (as compared to direct debt), if, and to the extent, the City's overlapping debt burden is viewed as excessive, there could be an impact to the City's credit. Such an impact could increase the costs of all future City bond financings. In light of potential impacts to the City's debt position, the Chief Financial Officer will consider each application for Special District financing on a case by case basis, and may not recommend such financing if it is determined the financing could be detrimental to the City's overall debt position or the best interests of the City.

B. Extraordinary Public Benefit

With respect to CFD financing, the applicant should demonstrate that a proposed project will provide an extraordinary public benefit. This condition may be met if at least one of the following criteria is satisfied:

Regional Benefit – The improvements must be generally large in scope, and provide a community-wide or regional benefit. Examples of regional improvements are libraries,

fire stations, and transportation improvements that result in a significant net improvement to the regional transportation system, and parks and recreational improvements of a unique or otherwise significant nature that are anticipated to serve residents from across the City.

Additional Public Benefits – The proposed improvements must provide some other extraordinary benefit which otherwise would not be realized through the normal subdivision process. Examples of this type of benefit would include: the provision of the proposed improvements in a more timely fashion; facilitating a project that multiple properties/developments are responsible for providing; facilitating a City adopted redevelopment project; the provision of environmental benefits; the provision of public infrastructure undertaken in connection with affordable housing; or a similar benefit that the City finds acceptable.

C. Competing Projects

The City's ability to provide the resources necessary to implement new Special District financings must be considered in the context of competing needs for general City and Water and Wastewater Utility debt issuances. Also, priority for Special District financing will generally be given to the projects that will confer the greater level of benefit to the City's residents.

It is the City's policy that bond financing will not generally be utilized in conjunction with the formation of smaller districts, defined as projects totaling less than \$5.0 million. Such projects often benefit only a relatively small number of property owners. For projects under \$5.0 million, bond financing is not typically cost effective. Due to these factors, the allocation of limited staff resources would not generally be justified in relation to the City's other financing priorities. In these cases, an Assessment District may be formed, followed by a one-time enrollment of assessments to pay for the subject public facilities directly.

D. Administrative Considerations

Although Special District financings are not fiscal obligations of the City, the City is required to provide extensive on-going annual disclosure with respect to each Special District financing in conformance with federal securities laws, and must also perform extraordinary on-going administrative work. Such work includes the calculation, enrollment, and collection of special taxes and assessments each year, the monitoring of delinquency activity and conducting of foreclosure activities if certain delinquency thresholds are reached, the calculation and processing of pre-payments and subsequent updating of debt service schedules, and preparation of additional annual disclosure pursuant to State law. In its assessment of each application for Special District financing, consideration will also be given to the significant burden placed on the City's limited resources to administer these conduit financings for the term of the bonds.

E. Recommended Method of Special District Financing

The generally recommended method of Special District financing is CFDs due to the following factors:

Flexibility of Taxing Formula: CFD financing offers more flexibility with respect to the taxing formula as compared to Assessment District financing (e.g., publicly owned property, such as property owned by a school district or the City, can be exempted from the payment of special taxes, and low income housing can be assessed a nominal special tax thereby easing the burden on such properties).

Eligible Facilities: CFDs offer more flexibility than Assessment Districts with respect to the types of facilities that may be financed, and also permit the funding of certain services, which is not permitted with respect to Assessment Districts. In addition, eligible facilities under Assessment Districts are limited to facilities located within the district; this is not the case for CFDs.

Credit Strength: For a given project, CFD Bonds are perceived to be a stronger credit than Assessment District Bonds because the Mello-Roos Act permits greater than 100% debt service coverage and allows an administering agency to factor in a certain amount for delinquencies in the annual enrollment of special taxes. Comparatively, only 100% debt service coverage is permitted with respect to Assessment Districts and there is no allowance for delinquencies.

On-Going Costs: CFDs are less resource intensive than Assessment Districts to administer on a post debt issuance basis (e.g., for Assessment Districts, any changes in parcel configuration require a costly and time-intensive reapportionment process under the State law).

Unless circumstances warrant otherwise, it is the policy of the City to support CFD financing versus Assessment District financing for a given project. However, as noted above, in the case of districts that would finance smaller projects, an Assessment District may be more appropriate. In such cases, a one-time enrollment of assessments (versus a bond financing) may also be recommended.

10.4 Eligible Public Facilities and Priorities

A. Ownership and Useful Life of Proposed Facilities

The improvements eligible to be financed must be owned by a public agency or public utility, and must have a useful life of at least ten years.

B. Types of Eligible Facilities

The list of public facilities eligible to be financed by a CFD may include, but is not limited to the following: streets, highways, and bridges; water, sewer, and drainage facilities; parks; libraries; police and fire stations; traffic signals and street lighting; recreation facilities; governmental facilities; flood control facilities; environmental mitigation measures; and public rights-of-way landscaping.

C. Priority of Facilities

In general, with respect to CFDs, none of the types of facilities listed under Section 10.4.B. will have priority over the others; however, when a developer submits an application to finance more than one eligible facility, the applicable City departments (e.g., the Library Department, the Park and Recreation Department, Engineering & Capital Projects, City Planning and Community Investment, etc.) will confer and determine the priority based on the estimated impacts (i.e., benefits conferred) of the eligible projects to the district and surrounding impacted communities.

D. Joint Communities Facilities Agreement(s)

Under Section 53316.2 of the California Government Code, a CFD may be formed to finance facilities owned or operated (or to fund services to be provided) by an entity other than the agency that created the district, if a Joint Communities Facilities Agreement (JCFA) or a joint exercise of powers agreement is adopted. The City will not enter into a JCFA or joint exercise of powers agreement for a CFD proposed to be formed by another public agency unless:

- The proposed CFD complies with the provisions of this Special District Formation and Financing Policy with regard to Sections 10.6 (C), “Maximum Tax and Assessment Rates,” Section 10.8 (C) “Disclosure to Prospective Purchasers of Property,” as well as any other provisions the Debt Management Director may deem applicable to the proposed CFD;
- The applicant/developer requesting CFD financing provides funds to reimburse City costs incurred to review and approve the JCFA.

All disclosures provided to prospective property owners within a CFD formed by another public agency in which the City has entered into a JCFA shall clearly specify that such public agency is solely responsible for the CFD, including formation of the CFD, the levy and administration of special taxes, and the bond financing.

E. Services

Consistent with recent trends in other municipalities across the State, the Chief Financial Officer, working with the Debt Management Department, recommends that services be included among the list of authorized items to be financed through a new CFD. Under Section 53313 of the California Government Code, a CFD may finance any one or more of the following types of services so long as they are in addition to the services provided in the territory before the district was established and do not supplant services already available in such territory: police protection services; fire protection services; recreation program services; library services; maintenance of parks, parkways, and open space; and flood and storm protection services.

In general, the City would expect that when a CFD provides for public facilities that require on-going City operations and/or maintenance (or when the impacts of the new development create other on-going service demands within the area), a mechanism would

be established to off-set a portion of those associated costs through the CFD. Methods that could be employed may include: (1) the incorporation of some pre-determined amount into the special tax formula for services; or (2) a provision in the special tax formula that special taxes would be levied up to the maximum tax rates, with any amounts collected over and above the amount needed for debt service, replenishment of the Debt Service Reserve Fund, administrative costs, and any other periodic items required in connection with a bond issuance, to be allocated for services. The City will have complete discretion as to the method of incorporating a services component into the CFD, and would consult with its Bond Counsel and special tax consultant in developing the appropriate mechanism.

10.5 Credit Quality Requirements for Bond Issuances

It is the objective of the City to minimize the credit risks associated with Special District bonds. To this end, the following policies are established:

A. Value of Property

Bonds shall be sold in connection with a district or improvement area only if the value of each individual parcel of real property that would be subject to the special tax or assessment is at least four times the share of the bond principal allocable to such parcel and the share of principal allocable from any other outstanding bonds that are secured by a special tax or special assessment levied on the parcel. On a case by case basis, the City reserves the right to require a higher value to lien ratio. In determining the value to lien ratio, either assessed values for individual properties may be obtained from the County of San Diego Assessor's Office or the City may utilize an appraisal prepared by an independent appraiser under contract to the City.

To meet this policy, property owners may elect to prepay special taxes to comply with this requirement. In certain circumstances, the City reserves the right to require the provision of credit enhancement to the satisfaction of the City, including letters of credit or appropriate assurance.

B. Debt Service Coverage for CFD Bonds

The maximum tax rate adopted in each CFD must provide a minimum of 110% coverage of debt service (excluding earnings on a Debt Service Reserve Fund) in order to finance delinquencies out of special tax revenues.

C. Capitalized Interest

Generally, for Special District financings, a capitalized interest account would be established from bond proceeds if such proceeds are necessary to pay principal and interest on the bonds prior to the enrollment and receipt of the first year of special taxes and assessments for the district. A capitalized interest account should be established if it will improve the credit quality of the bonds and result in lower borrowing costs. In no event will the capitalized interest period exceed two years.

D. Debt Service Reserve Fund

A Debt Service Reserve Fund should be established for Special District financings. At minimum, the Debt Service Reserve Fund for Special District financings should be the least of (i) maximum annual debt service on the bonds; (ii) 125% of average annual debt service on the bonds; or (iii) 10% of the original principal amount of the bonds.

E. Maturity Date

No bonds shall be issued with a maturity date greater than the expected useful life of the facilities or improvements being financed.

F. Acquisition Type Districts

Unless there are extraordinary circumstances, Special Districts will be formed as acquisition type districts whereby a developer will be reimbursed for projects only when discrete, useable facilities are deemed completed by the City, as opposed to merely completing a section of a facility. Acquisition type districts present stronger credit features, and better assures that the public facilities, which are ultimately paid for by assessment and special tax payers, are completed.

G. Third Party Guarantee of Special Tax and Assessment Payments During Project Development

The greatest exposure to default on Special District bonds is the period between the issuance of bonds and project stabilization. The risk of default is increased when only a single or a few property owners are responsible for the special assessment or special tax payments. While the City's credit is not pledged to support the bonds, a default on Special District bonds can negatively impact the investment community's perception of the City.

To minimize the risk of default, the City may require a third party guarantee for the annual special tax or assessment payments within a district while the project is being developed and until there is significant absorption of the new development. The need for, nature, and duration of any third party guarantees will be evaluated by the City and its Financing Team on a case by case basis. However, a third party guarantee, such as a letter of credit ("LOC"), would be specifically required of a property owner/developer in each year in which the property owner/developer owns or leases property within the district which is responsible for 20% or more of the special taxes or assessments levied; the LOC would provide for 100% of the of the special tax or assessment levy due in each applicable fiscal year for property owned or leased by such property owner/developer. If required, the third party guarantee must be provided within five days of the Resolution of Issuance.

Third party guarantees may include letters of credit, surety bonds, or some other mechanism which assures payment of special taxes or assessments while the project is being developed. When LOCs are required, they must meet any City standards for LOCs that exist at the time the LOC is provided.

H. Foreclosure Covenants

Because Special District financings are generally solely secured by liens against property within the district, the investment market expects to see appropriate foreclosure covenants. Foreclosure covenants would compel the City to take action to file a foreclosure lawsuit against a parcel when certain delinquency thresholds are reached. For each financing, the Debt Management staff and its consultants will analyze key aspects of the district (e.g., number of parcels, special tax/assessment rates, and debt service) to structure foreclosure covenants in a manner that reduces the likelihood of a shortfall in special taxes/assessments to pay debt service.

10.6 **Tax and Assessment Allocation Formulas**

A. Calculation and Allocation of Special Taxes and Assessments

Special Assessments – By law, the amount of an assessment must directly reflect the benefit received from the improvement. Typically, this means the total cost of the project, including any financing costs, is spread to property owners based on the appropriate property-based measure of benefit. The City will hire an outside assessment engineer, which specializes in the area of calculation and allocation of special assessments, to develop the appropriate assessment spread methodology.

Special Taxes – Significant flexibility is allowed for structuring CFD special taxes because the law does not require a direct relationship between the tax and the benefit received. However, the Rate and Method of Apportionment of the special tax must be both reasonable and equitable in apportioning the costs of the public facilities and/or services to be financed to each of the taxable parcels within the boundaries of the proposed district. Exemptions to the payment of special taxes may be provided for parcels that are to be dedicated at a future date to public entities, held by a homeowners association, or designated as open space. Also, consideration should be made with respect to minimizing the special tax burden on any affordable units. Because the tax structure for CFDs can be very complicated, special tax consultants, who specialize in the development of Rates and Methods of Apportionment are required.

B. Administrative Expenses

The calculation of special taxes and assessments should also provide, whenever possible, for the full recovery of all administrative expenses and other periodic costs of the proposed district.

C. Maximum Tax and Assessment Rates

The City desires to establish a maximum level of taxes to limit the overlapping debt burden on any parcel. As such, the total taxes and assessments collected through the property tax bill should not exceed 1.80% of the expected assessed value of the parcel upon final sale of the property to end users.

D. Special Tax Coverage and Maximum Tax Rates

The maximum tax rate adopted in each CFD must provide a minimum of 110% coverage of debt service (excluding earnings on a reserve fund) in order to finance delinquencies out of tax revenues. An allowance for delinquent properties will be factored in when calculating the subsequent year's special tax (the special tax would still be levied against such delinquent parcels).

E. Predictability of Special Tax Liabilities

Special tax formulas should promote stable and predictable tax liabilities, particularly for residential properties. With the exception of a variation for administrative expenses, the annual special tax levy on each residential parcel developed to its final land use shall be approximately equal each year. In the event special tax payments are supporting the provision of services, rather than, or in addition to, capital expenditures, an appropriate escalation factor may be incorporated into the Rate and Method of Apportionment to provide for the impact of inflation to on-going service costs.

F. Term of Special Tax

The term of the special tax should be sufficiently in excess of the term of any bond issue which it supports to allow for delinquencies, refinancing, and/or acquisitions of pay-as-you go facilities. However, the Rate and Method of Apportionment should also specify that the levy of special taxes would cease once the bonds are repaid. The exception would be for any special taxes levied to provide for on-going services; in this case, the City may consider a special tax term in excess of the final maturity of any bonds issued to provide for the on-going services.

10.7 Appraisal Standards

The City recognizes the California Debt and Investment Advisory Commission's Appraisal Standards for Land-Secured Financings (CDIAC Standards), released July 2004 (or any subsequently published update) as the basis for the conduct of appraisals performed in connection with Special District financings.

10.8 Developer Disclosure Requirements

A. Initial Disclosure to Investors

The applicant/developer will be required, as requested by Debt Management and Bond Counsel, to supply any and all material needed from it to help ensure appropriate information is disclosed to prospective investors.

B. Developer Continuing Disclosure to Investors

The City shall use all reasonable means to ensure that an appropriate Developer Continuing Disclosure Agreement is executed at the time a financing is issued to ensure

that the Developer and/or any affiliates, as applicable, which are material to the district are required to provide on-going disclosure to bond investors so long as they remain material.

C. Disclosure to Prospective Purchasers of Property

The developer will be required to provide a certification to the City that it will provide full disclosure of the special taxes or assessments to prospective purchasers of property it sells within the district, and in accordance with all applicable state and local laws.

10.9 Application and Administrative Procedures

As stated above, it is the policy of the City to exercise caution in approving requests for Special District financing and that each request be weighed in the context of the City's total infrastructure and financing needs. In light of potential impacts to the City's debt position, the Chief Financial Officer, working with the Debt Management Director, will consider each application for Special District financing on a case by case basis, and may not recommend such financing if it determines a financing could be detrimental to its overall debt position or the best interests of the City. Among other things, the guidelines below will help interested applicants understand the process for submitting a request for Special District formation and--if applicable--financing.

A. Petition

Notwithstanding the minimum petition thresholds established under the State law,⁵ the City requires that a preponderance of the affected property owners (75%) petition the City to form a Special District. The higher threshold is established due to the following factors: (1) significant City resources would be directed to the advance work to form the district, and it is prudent to have some assurance that formation of the district would be successful; and (2) a successful petition and subsequent ballot process in an established community (e.g., where there are residential property owners) could result in a significant lien on property whose owners voted against the proposed district.

B. Application Procedures

For applicant/developer initiated districts, an application may be obtained from, and filed with, the Department of Finance. The Department of Finance will review the application for completeness and, if necessary, request the applicant to provide further information. In consultation with any applicable departments (e.g., the City Attorney's Office, the City Planning and Community Investment Department, Engineering & Capital Projects, etc.) the Department of Finance will consider the public benefits offered by the proposed project in the context of these policies, and will make a recommendation on whether to authorize a feasibility study, pursuant to Section C, below.

⁵ Pursuant to Sections 53318 and 53319 of the California Government Code, proceedings to form a CFD may be commenced upon: (1) the written request of two members of the legislative body; (2) majority approval of the City Council; or (3) a petition signed by at least 10% of registered voters (or if fewer than 12 registered voters, by the owners of at least 10% of the land). Under the California Streets and Highway Code, district formation proceedings may be commenced if landowners of 60% of the land area file a petition in which such landowners waive the requirements of the Special Assessment Investigation, Limitation and Majority Protect Act of 1931.

C. Feasibility Study

If authorized by the Chief Financial Officer, the City will hire an independent financial or feasibility consultant to perform a comprehensive project review and feasibility analysis of the proposed project that would ultimately provide for the payment of special taxes or assessments in connection with a bond financing. Such comprehensive review will include, but not be limited to, a review of the audited financial statements of all landowners who own more than 20% of the land contained within the proposed district in order to investigate the developer(s) financial strength and experience in large scale projects. In addition, the consultant will consider environmental requirements in connection with the development, and economic factors such as market absorption and how it relates to the project's overall feasibility. The consultant will also investigate and report on all liens against the property in question, the value to lien ratios, and other financial aspects of the project. For the Chief Financial Officer to consider a proposed financing, the study should conclude the project is feasible and could support the issuance of bonds, and that it is reasonable to proceed with formation of the district and the issuance of bonds.

D. Fees

It is the City's policy that all City and consultant costs incurred in the evaluation of applications for Special District formation and financing, as well as any and all costs incurred in forming the district and, if applicable, issuing bonds shall be paid by the applicant(s) by advance deposit increments or as otherwise agreed in writing by the City. Accordingly, fees will be collected pursuant to a Deposit and Reimbursement Agreement between the City and the applicant executed prior to the City beginning its project review. Some or all of these fees may be recoverable from bond proceeds when a financing is completed and any surplus fees would be refunded (notwithstanding the forgoing, consultant and legal costs of the developer or applicant are not eligible for reimbursement). Additionally, the costs associated with administering a district after its formation will be included in the annual special tax or assessment for the district.

E. Selection of Financial Consultants and Service Providers

The policies established in the City's Debt Policy for the solicitation and selection of professional services that are required to develop and implement the City's debt program shall apply with respect to Special District financings. In addition to the professional services outlined in the City's Debt Policy, there are consultants specific to Special District formation and financing that may be engaged, including an appraiser, a market absorption consultant, and a special tax consultant or assessment engineer.

10.10 Timing

If recommended by the Chief Financial Officer, and pursuant to the filing of an appropriate petition and application, and, if applicable, the completion of a Feasibility Study that concludes the project is feasible (all as set forth above in Sections 10.9 A, B, and C), the City will use its best efforts to form the district

and, if a financing is contemplated, issue the bonds. However, the City will prioritize the formation and any financing activities as specified in Section 10.3 of this policy.

The City will not schedule any sale of Special District bonds so as to conflict with the sale of other securities issued for City purposes. In the event of any scheduling conflicts, the sale of bonds issued for City purposes will have priority.

10.11 Policy Exceptions

The City may find in limited and exceptional instances that a waiver to any of the above stated policies is reasonable.

APPENDIX B – BASIC LEGAL DOCUMENTS

The following basic legal documents are found in most public finance transactions.

11.1 Indenture

Purpose:

The indenture is the basic security document of a bond transaction. It provides the terms of the bonds, including payment dates, maturities, redemption provision, registration, transfer and exchange, etc. The indenture creates the legal structure for the security for the bonds, including:

- Creation and granting of the Trust Estate
- Pledge of revenues and other collateral
- Covenants
- Default and remedy provisions
- Flow of funds
- Parity debt provisions for issuance of additional bonds in the future
- Trustee-related provisions

Substitutes: Trust Agreement; Fiscal Agent agreement; Bond Resolution or Bond Ordinance.

Principal Drafter: Bond Counsel.

Parties: Issuer, Trustee.

Critical Provisions for Issuer Review:

Definitions of permitted investments and revenues; scope of trust estate and pledged collateral; payment and redemption terms of bonds; additional bonds test; flow of funds with special consideration to retaining the flexibility needed to use funds not otherwise needed for debt service; reserve fund provisions; covenants; default and remedy provisions; defeasance provisions.

11.2 Loan Agreement

Purpose:

The loan agreement is the document under which the bond proceeds are lent or otherwise provided for the project being financed and the user of the proceeds agrees to pay the amount of the bonds, plus interest. It provides for payment of loan, installment sale or lease payments sufficient in time and amount to pay debt service on the bonds.

Substitutes: Installment Sale Agreements, Facilities or Project Lease.

Principal Drafter: Bond Counsel.

Parties: Conduit Borrower/Obligator, Issuer.

Critical Provisions for Issuer Review:

Representations and warranties; covenants; prepayment provisions; pledge provisions; title provisions; abatement provisions.

11.3 Authorizing Resolution

Purpose:

The resolution authorizes issuance and sale of bonds, authorized execution and delivery of documents, and directs staff to take other actions necessary to complete financing.

Substitutes: Authorizing Ordinance.

Principal Drafter: Bond Counsel or Issuer’s Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review:

Parameters for delegation of authority to sell bonds; maximum par amount and term of bonds; conformance to issuer’s standard form of resolution.

11.4 Bond/Note Purchase Agreement

Purpose:

Provides for the sale of the bonds to the underwriter; specifies discount, interest rates and terms for payment of purchase price; contains representations and warranties of the issuer; contains conditions precedent to underwriter’s obligation to purchase the bonds at closing; specifies documents to be delivered at closing; specifies who will pay expenses.

Substitutes: Official Notice of Sale and Bid Form (competitive sales); Placement Agreement (private placements).

Principal Drafter: Underwriter’s Counsel or Disclosure Counsel.

Parties: Underwriter, Issuer, and Conduit Borrower.

Critical Provisions for Issuer Review:

All points listed under “Purpose” section.

11.5 Official Statement

Purpose:

The Official Statement is the document, which provides disclosures to investors and potential investors. Most financings are required to have Official Statements under SEC Rule 15c2-12. This document provides disclosure to prospective investors regarding term of bonds, security, risk factors, and financial and operating information concerning issuer and background information.

Substitutes: Offering Memorandum; Limited Offering Memorandum, Offering Circular.

Principal Drafter: Issuer, Disclosure Counsel.

Parties: Issuer.

Critical Provisions for Issuer Review:

Security and sources of payment for the bonds; risk factors; financial and operating data regarding the entity responsible for payment; litigation; and general information about the issuer.

11.6 Continuing Disclosure Agreement

Purpose:

The Continuing Disclosure Agreement contains the undertakings of the issuer to provide ongoing disclosure in the form of annual reports and event notices pursuant to SEC Rule 15c2-12. The undertakings must remain in place for the life of the issuance, with certain exceptions for pool bonds.

Substitutes: Continuing Disclosure Certificate.

Principal Drafter: Underwriter's Counsel, Disclosure Counsel, or Bond Counsel.

Parties: Issuer, Obligated Persons; Trustee.

Critical Provisions for Issuer Review:

Contents of annual reports; deadline for filing annual reports; listed event notices; amendment provisions.

11.7 Reimbursement Agreement

Purpose:

The Reimbursement Agreement appears in transactions involving a letter of credit or surety policy guaranteeing payment on the bond or draws against the reserve fund, respectively. It contains the obligation to repay the letter of credit bank amounts drawn on the credit facility. Term and conditions vary depending upon the type of transaction involved.

The Reimbursement Agreement provides for costs incurred prior to the bonds being issued to be reimbursed from such proceeds up to the date that is specified therein.

Substitutes: Financial Guarantee Agreement.

Principal Drafter: Bank Counsel, Surety Provider Counsel.

Parties: Issuer, Bank, and Trustee (in some cases).

Critical Provisions for Issuer Review:

Representations and warranties; fees payable to bank; ability of bank to “participate” the credit facility to other banks; renewals and extensions of the credit facility; default and remedy provisions; collateral provisions; choice of law provisions.

11.8 Tax Certificate

Purpose:

The Tax Certificate contains certifications required to be made by the issuer, and in case of a conduit issue, the borrower, in order to satisfy the requirements of the Internal Revenue Code and the regulations issued there under for the bonds to be tax-exempt. It also describes the rules applicable to the investment of bond proceeds under federal tax law.

Substitutes: Tax Agreement; Arbitrage or Non-arbitrage Certificate.

Principal Drafter: Bond Counsel.

Parties: Issuer, Borrower.

Critical Provisions for Issuer Review:

Spend down requirements, yield restrictions, arbitrage filing dates.

11.9 Closing Documents

Purpose:

Contains the certificates, receipts, written directions and requests, requisitions and similar documents, which are delivered at the closing of the issuance. These documents generally accomplish the following:

- A. Document the factual representations required by the purchase contract and accuracy and completeness of expertise portions of the disclosure;
- B. Document compliance with the requirements of law and contract for the issuance of the bonds;
- C. Document the flow of funds at closing; and

- D. Instruct parties to take certain actions upon closing; i.e., deposit funds in accounts, record documents, file reports, release security, etc.

Substitutes: None.

Principal Drafter: Bond Counsel.

Parties: All parties to transaction.

Critical Provisions for Issuer Review:

Accuracy of all amounts for receipt and deposit of funds, accuracy of representations, warranties, and certifications. All requisitions should be reviewed to determine correctness of payments, deposits and transfers.

**APPENDIX C – DISCLOSURE PRACTICES WORKING GROUP: DISCLOSURE
CONTROLS AND PROCEDURES**

City of San Diego
Disclosure Practices Working Group

Disclosure Controls and Procedures

Article I
General

Section 1.1. Purpose. These Disclosure Controls and Procedures are designed to (i) ensure the accuracy of the City of San Diego’s disclosures and the City’s compliance (including the City Council, City officers, and staff in the exercise of their official duties) with all applicable federal and state securities laws, and (ii) promote best practices regarding disclosures relating to securities issued by the City and the City’s disclosure provided to its Related Entities.

Section 1.2. Disclosure Practices Working Group. Pursuant to Sections 22.4101 and 22.4103 of the Municipal Code, the City Manager, the City Attorney, the City Auditor and Comptroller, and the City Treasurer have established the Disclosure Group.

Section 1.3. Responsibilities of the Disclosure Group. The Disclosure Group shall have the responsibilities set forth in (i) subsection (b) of Section 22.4101 of the Municipal Code, (ii) Section 22.4107 of the Municipal Code, (iii) subsection (a) of Section 22.4109 of the Municipal Code, and (iv) such additional responsibilities as are set forth in these Disclosure Controls and Procedures.

Section 1.4. Rules and Regulations. The Disclosure Group may establish such Rules and Regulations as it determines are appropriate to govern the operation of its meetings and other procedural matters. In the event of any conflict between the terms of the Rules and Regulations and the terms of these Disclosure Controls and Procedures, the terms of the Disclosure Controls and Procedures shall govern.

Article II
Definitions

Section 2.1. Definitions. Capitalized terms used in these Disclosure Controls and Procedures shall have the meanings set forth below:

“*CAFR*” means the City’s Comprehensive Annual Financial Report.

“*City*” means the City of San Diego, California.

“*City Financial Statements*” means, individually or collectively as the context may require, CAFR, the audited financial statements of the Metropolitan Wastewater Utility, and the audited financial statements of the Water Utility.

“*Contributors*” means those persons contacted by the Financing Group or the Disclosure Group, or assigned by a department director, to assist with the review or preparation of a Disclosure Document as described in Section 4.3.

“*Deputy City Attorney for Finance and Disclosure*” means the attorney designated as such pursuant to Section 22.0302 of the Municipal Code.

“*Disclosure Documents*” means those documents defined as such in Article III.

“*Disclosure Group*” means the Disclosure Practices Working Group that has been established in the manner described in Section 1.2.

“*Financing Group*” means, collectively, those persons identified as such pursuant to subsection A. of Section 4.3.

“*Municipal Code*” means the San Diego Municipal Code, as amended from time to time.

“*NRMSIRs*” means the nationally recognized municipal securities information repositories approved by the Securities and Exchange Commission to accept the filings referenced in Rule 15c2-12 under the federal Securities Exchange Act of 1934, 17 CFR 240.15c2-12.

“*Preparer*” means those persons defined as such in subsection A. of Section 4.4.

“*Related Entities*” means those entities as defined in Section 22.4102 of the Municipal Code. Related Entities include, but are not limited to, those Related Entities as set forth in Exhibit A, as updated from time to time.

“*Rules and Regulations*” means the rules and regulations established by the Disclosure Group, as described in Section 1.4.

Article III ***Disclosure Documents***

Section 3.1. Disclosure Documents. “Disclosure Documents” means (i) the City’s documents and materials prepared, issued, or distributed in connection with the City’s disclosure obligations under applicable federal and state securities laws relating to its securities and (ii) any other disclosure which, pursuant to the Municipal Code, the Disclosure Group has the responsibility to review and approve. Disclosure Documents shall include, but not be limited to, the following:

- A. Preliminary and final official statements, and preliminary and final private placement offering documents, relating to the City’s securities, together with any supplements;
- B. the City Financial Statements;
- C. any filing made by the City with the NRMSIRs, whether made pursuant to a continuing disclosure agreement to which the City is a party or made voluntarily;
- D. press releases (to the extent that such releases are or could reasonably be construed to be an intended communication to the financial markets), rating agency presentations, postings on the investor information section of the City’s webpage, and other communications, reasonably likely, in the determination of the Disclosure Group, to reach investors or the securities markets;
- E. any disclosure materials requiring, pursuant to the Municipal Code, approval and certification by the City Manager, City Attorney, or City Auditor and Comptroller;
- F. disclosures provided by the City in connection with securities issued by Related Entities, together with all of such documents and materials prepared, issued, or distributed in connection with such securities, to the extent that the City, the City Council, or City officers, or staff are responsible for the form or content of such documents or materials;
- G. offering documents prepared by Related Entities if such documents are subject to the approval of the City Council; and
- H. such portions of the City’s published adopted annual budget as the Disclosure Group determines to be appropriate, which shall at a minimum include the executive summary.

Article IV ***Review Process***

Section 4.1. Determination of “Disclosure Document” status. Whether a particular document or written, posted or other communication is a Disclosure Document shall be determined by the Disclosure Group, including the determination whether a document should be filed voluntarily with the NRMSIRs (see Section 3.1.C.) or whether a communication is reasonably likely to reach investors or the securities markets (see Section 3.1.D.). To assist the Disclosure Group in its determination whether a particular document is a Disclosure Document as described in subsection F. of Section 3.1,

information shall be solicited from the appropriate Related Entity by means of a letter in the form attached as Exhibit B.

Section 4.2. Review of Form and Content of Disclosure Documents. The Disclosure Group shall review the form and content of each Disclosure Document.

Section 4.3. Review of Official Statements. The following procedures shall apply to those Disclosure Documents described in subsections A. or G. of Section 3.1:

A. Financing Group. Financial Services shall timely identify for the Disclosure Group a Financing Group for each financing (the composition of which may differ for each financing), which shall include the Deputy City Attorney for Finance and Disclosure (or such other Deputy City Attorney designated to work on the matter by the Deputy City Attorney for Finance and Disclosure), such manager of Financing Services as the City Treasurer determines to be the appropriate interface with the bond financing team (i.e., bond counsel and/or disclosure counsel, underwriter(s), underwriter's counsel, financial advisors, and appropriate City staff), the City's outside disclosure counsel, and such other members of the Disclosure Group as the Disclosure Group determines to be appropriate.

B. Responsibilities of Financing Group. The Financing Group shall (i) assist the bond financing team in the preparation of the Disclosure Document and (ii) the manager of Financing Services working with the Financing Group shall certify to the Disclosure Group that, to the best of his/her knowledge, these Disclosure Controls and Procedures were followed in such preparation.

1. The Financing Group shall be responsible for soliciting material information from City departments. The Financing Group shall identify Contributors who may have information necessary to prepare or who should review portions of the Disclosure Document. These Contributors should be timely contacted and informed that their assistance will be needed for the preparation of the Disclosure Document, which notification will contain the information set forth in Exhibit C.

2. The Financing Group shall contact the individuals and departments identified as Contributors as soon as possible in order to provide adequate time for such individuals to perform a thoughtful and thorough review or draft of those portions of the Disclosure Document assigned to them.

3. The manager of Financing Services assigned to the financing, together with the Deputy City Attorney for Finance and Disclosure, shall maintain or cause to be maintained an accurate log of all individuals or departments that were requested to review or draft information in connection with a Disclosure Document, including what sections such individuals or department prepared or reviewed. The Deputy City Attorney for Finance and Disclosure shall also be responsible for collecting all transmittal letters, certifications, and lists of sources for incorporation into the minutes maintained by the Disclosure Group.

4. The Financing Group shall confirm to and advise the Disclosure Group that each section of and all financial and operating information contained in the Disclosure Document has been reviewed by an appropriate person, as evidenced by the written material described in 3. above (which shall constitute the “audit trail” referenced in Section 22.4105(a)(4) of the Municipal Code). Of particular import is that the “Appendix A” and other information concerning the City is thoroughly compared for accuracy against the City Financial Statements. The Financing Group shall review the letters and any accompanying information provided pursuant to subsections C. through G. of this Section 4.3 and shall transmit such materials to the Disclosure Group, such letters to be substantially in the form set forth in Exhibit D.

5. The Financing Group shall report any significant disclosure issues and concerns to the Disclosure Group as they are discovered.

6. The Financing Group shall advise the financial advisor and the underwriter(s) and their counsel, that they must execute upon their selection a confidentiality agreement substantially in the form attached as Exhibit E.

C. Responsibilities of Contributors. A Contributor shall assist in reviewing and preparing the Disclosure Document using his or her knowledge of the City and by discussing the Disclosure Document with other members of the department in an attempt to ensure the accuracy of the information and to determine whether any other information should be discussed or disclosed. Once a Contributor is notified of his or her need to participate in preparing a Disclosure Document, the Contributor and the Contributor’s department director shall cooperate with Financing Group and Disclosure Group requests.

D. Review by Human Resources Manager. With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City’s general fund, the Financing Group shall forward the Disclosure Document to the Human Resources Manager for review by means of a letter substantially similar to Exhibit C. In particular, the Human Resources Manager and the Personnel Director shall review any information in the Disclosure Document relating to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. The Human Resources Manager shall timely send any comments on the Disclosure Document to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit F.

E. Review by San Diego City Employees’ Retirement System (SDCERS). With respect to those Disclosure Documents described in subsection A. of Section 3.1 that relate to securities that are secured directly or indirectly by the City’s general fund, the Financing Group shall forward the Disclosure Document to the [Retirement Administrator, Head of the Investment Division, Head of the Administration Division and Head of the Legal Division] by means of a letter substantially similar to Exhibit C. Such individuals shall be requested to review any information in the Disclosure

Document relating to pension benefits and other retirement benefits, pension plan funding and litigation concerning SDCERS. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit G.

F. Review by City Attorney for Litigation. The Deputy City Attorney for Finance and Disclosure shall transmit the Disclosure Document to the appropriate attorneys in the City Attorney's office who are responsible for identifying any material current, pending or threatened litigation. The responsible attorneys shall timely draft descriptions of any such litigation, and of any material settlements or court orders, for the Disclosure Document after receiving the Disclosure Document. The responsible attorneys shall timely transmit the requested information to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit H.

G. Review by City Auditor and Comptroller. The Financing Group shall forward the Disclosure Document to the City Auditor and Comptroller by means of a letter substantially similar to Exhibit C. The City Auditor and Comptroller shall designate one or more employees to assist the Financing Group with comparing and noting any discrepancies between the City Financial Statements and the Disclosure Document. The City Auditor and Comptroller shall also review the Disclosure Document in full to identify any material difference in presentation of financial material from the Financial Statements, any misstatement or omission in any sections that contain descriptions of information prepared by or of interest to the City Auditor and Comptroller. Any comments on the Disclosure Document shall timely be sent to the Financing Group after receiving the Disclosure Document, by means of the transmittal letter attached as Exhibit I.

H. Reference Materials. The Deputy City Attorney for Finance and Disclosure and the City's outside disclosure counsel, in providing advice to the Disclosure Group regarding the contents of those Disclosure Documents described in subsections A. or G. of Section 3.1, shall review and take into consideration the reference materials listed in Exhibit J, as updated from time to time.

Section 4.4. Review of Disclosure Documents other than Official Statements. The following procedures shall apply to those Disclosure Documents that are not addressed in Section 4.3:

A. Determination of Disclosure Document. Any person (each, a "Preparer") preparing any information for release to the public that could be considered a Disclosure Document and that is not otherwise identified as a Disclosure Document in the forward calendar referenced in Section 6.3, shall notify the Disclosure Group of such information. The Disclosure Group shall timely make a determination whether such information is a Disclosure Document pursuant to Section 4.1.

B. Notify Disclosure Group. If it is determined that a document is a Disclosure Document, the Preparer shall inform the Disclosure Group of the (i) expected

completion date of the Disclosure Document and (ii) the expected or required dissemination date of the Disclosure Document.

C. Involvement of Deputy City Attorney. The Deputy City Attorney for Finance and Disclosure, in consultation with the City's outside disclosure counsel, shall assist the Preparer to:

1. identify material information that should be disclosed;
2. identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document; and
3. determine when the Disclosure Document is final and ready for review by the Disclosure Group.

D. Prepare Source List. The Preparer shall keep a list of individuals or groups that have contributed to the preparation of the Disclosure Document and a list of sources from which the information summarized or updated in the Disclosure Document was derived. These lists shall be submitted to the Disclosure Group along with the Disclosure Document.

Article V *Approval Process*

Section 5.1. General. The Disclosure Group shall review and approve the form and content of each Disclosure Document. Such approval shall be evidenced by the affirmative vote of a majority of a quorum of the Disclosure Group, as determined by the Rules and Regulations. The Disclosure Group may determine that those Disclosure Documents that (i) the City is contractually obligated to file with the NRMSIRs if determined to be a material event or as a result of the failure to file the required annual financial information and (ii) contain no discretionary content (e.g., rating changes), may be filed with the NRMSIRs upon the approval of the City's outside disclosure counsel and at least one other member of the Disclosure Group.

Section 5.2. Submission of Official Statements to Disclosure Group for Approval. The Financing Group shall submit any Disclosure Document described in Section 4.3 to the Disclosure Group when (i) it has obtained all of the approvals and source documentation described in Section 4.3, and (ii) in its best judgment, the Disclosure Document is in substantially final form. Such submission shall be by means of the transmittal letter attached as Exhibit K.

The Disclosure Group shall critically evaluate the Disclosure Document for accuracy, and have the opportunity to ask questions of the Financing Group and of any Contributor or other person who reviewed or drafted any section of the Disclosure Document. The Disclosure Group may send the Disclosure Document back to the Financing Group for revisions. The Disclosure Group shall timely contact the Financing

Group with any comments or questions on the Disclosure Document or the associated financing.

Section 5.3. Submission of Official Statements to City Manager and City Attorney. The Disclosure Group shall submit any Disclosure Document described in Section 4.3 to the City Manager and City Attorney when, in its best judgment, (i) the Disclosure Document is in substantially final form and (ii) the Disclosure Group has complied with these Disclosure Controls and Procedures. Such submission shall be by means of the transmittal letter attached as Exhibit L.

The City Manager and City Attorney shall critically evaluate, or cause to be evaluated, the Disclosure Document for accuracy. The City Manager and the City Attorney shall meet with the Financing Group and the Disclosure Group at a mutually convenient time, and ask questions of the Financing Group, the Disclosure Group, any Contributor, and any other person who reviewed or drafted any section of the Disclosure Document. The City Manager or City Attorney may send the Disclosure Document back to the Financing Group for revisions. Upon satisfaction with the Disclosure Document, the City Manager and City Attorney shall execute the certifications required by Section 22.4111(a) of the Municipal Code, in the form attached as Exhibit M, and provide a copy to the Disclosure Group.

Section 5.4. City Auditor and Comptroller Certification. Upon satisfaction with a Disclosure Document described in Section 4.3 or in subsection F. of Section 3.1, the City Auditor and Comptroller shall execute the certification required by 22.0709(b) of the Municipal Code, in the form attached as Exhibit N, and provide a copy to the Disclosure Group. With respect to each CAFR, the City Auditor and Comptroller shall execute the certification required by 22.0709(a) of the Municipal Code, in the form attached as Exhibit O, and provide a copy to the Disclosure Group.

Section 5.5. Submission of Official Statements to City Council for Approval. As part of the docketing process, the Disclosure Group shall submit any Disclosure Document described in Section 4.3 to the City Council for approval together with the certifications from the City Manager, the City Attorney, and the City Auditor and Comptroller promptly after the receipt of such certifications. The approval of such a Disclosure Document by the City Council shall be docketed on the adoption agenda and **not** be approved as a consent item. The City Council shall undertake such review as they are advised by the Deputy City Attorney advisor to the City Council appointed pursuant to Section 22.0303 of the Municipal Code and the City's outside disclosure counsel to be appropriate to fulfill their responsibilities under applicable federal and state securities laws.

Section 5.6. Approval of Disclosure Documents other than Official Statements. Any Disclosure Document and accompanying source lists described in Section 4.4 shall be submitted to the Disclosure Group for approval when the Preparer, the Deputy City Attorney for Finance and Disclosure, and the City's outside disclosure counsel believe such Disclosure Document is ready for dissemination.

The Disclosure Group shall critically evaluate the Disclosure Document for accuracy and sufficiency, and have the opportunity to ask questions of the Preparer or any other person who reviewed or drafted any section of the Disclosure Document. The Disclosure Group may send the Disclosure Document back to the Preparer for revisions. The Disclosure Group shall contact the Preparer with any comments or questions on the Disclosure Document or the associated financing by no later than (a) in the case of a Disclosure Document scheduled on the forward calendar referenced in Section 6.3., the later of (i) five (5) business days after receiving such Disclosure Document and (ii) the business day immediately succeeding the next regularly scheduled meeting of the Disclosure Group, or (b) in the case of an unscheduled Disclosure Document, as soon as reasonably practicable.

Article VI *Timelines for Review*

Section 6.1. Timelines for Review of Official Statements. The timeline for any particular bond financing for which a Disclosure Document as described in subsections A. or G. of Section 3.1 will be used will vary depending on the type of bonds being offered (e.g., variable rate, fixed rate, auction rate), the security for the bonds (e.g., general obligation, revenue pledge), the purpose for the financing, and other factors unique to each bond financing. Accordingly, the following timeline has been developed to assist the Disclosure Group, each Financing Group, and each bond financing team in developing a bond financing schedule, but is intended only to provide very general guidance in light of the unique characteristics of each bond financing.

Day 270	Disclosure Group notified of the bond financing by inclusion of the financing on the forward calendar referenced in Section 6.3, and identifies a Financing Group
Days 150-270	Financing Group meets with the bond financing team to understand basics of bond financing; initial draft of Disclosure Document is prepared
Day 150	Financing Group distributes information to Contributors and department directors
Day 150	Financing Group distributes information to Human Resources Manager, SDCERS representative, and City Auditor and Comptroller, as may be applicable
Day 130	Deputy City Attorney for Finance and Disclosure transmits Disclosure Document to appropriate litigation attorneys in City Attorney's Office
Days 110-130	Department directors and Contributors discuss Disclosure Document at departmental meetings

Day 100	Contributors submit requested information to Financing Group
Day 90	Human Resources Manager, SDCERS representative and City Attorney representative transmit any requested information to Financing Group
Days 60-90	Financing Group reviews Disclosure Document and all related materials, and transmits to Disclosure Group
Days 40-60	Disclosure Group reviews Disclosure Document and all related materials, and submits to City Manager and City Attorney
Days 30-40	City Manager and City Attorney meet with Disclosure Group
Day 30	City Manager and City Attorney execute required certifications
Day 29	Disclosure Group submits Disclosure Document and related certifications to City Council as part of the docketing process referenced in Section 5.5
Day 15-29	City Council briefed regarding Disclosure Document by Deputy City Attorney advisor to the City Council and the City's outside disclosure counsel
Day 5	City Council approves Disclosure Document
Day 0	Preliminary Official Statement is mailed
Day 0 – Delivery Date (or such later date through which the City is contractually obligated to advise the bond financing team of material events)	Financing Group advises Disclosure Group of (i) any material changes to Preliminary Official Statement to create the final Official Statement and (ii) any material changes to the final Official Statement up to and including the date of delivery of the bonds. In either such event, the Disclosure Group must review and approve the form and content of the material change disclosure and determine whether it is necessary or appropriate to submit the material change disclosure to the City Council for approval.

Section 6.2. Timelines for Review of Disclosure Documents other than Official Statements. The timeline for preparing any particular Disclosure Document will vary depending on the type of Disclosure Document and whether or not the Disclosure Document was on the forward calendar referenced in Section 6.3. Accordingly, the following timeline has been developed to assist the Disclosure Group and the Preparer in developing a schedule, but is intended only to provide very general guidance in light of the unique characteristics of each Disclosure Document.

Action	Scheduled (measured by days before Disclosure Document dissemination scheduled)	Unscheduled (measured from days after unexpected Disclosure Document revealed)
Disclosure Group notified of the potential Disclosure Document	60 days	ASAP
Disclosure Group makes a determination whether a document is a Disclosure Document	N/A	2 business days
Preparer, Deputy City Attorney for Finance and Disclosure, and the City's outside disclosure counsel identify other persons that may have material information or knowledge of any information omitted from such Disclosure Document	50-60 days	4 business days
Disclosure Document finalized and transmitted to Disclosure Group	25-50 days	4-5 business days
Disclosure Group reviews Disclosure Document and all related materials, and approves Disclosure Document for dissemination	10 days	5-6 business days

Section 6.3. Forward Calendar. The Disclosure Group shall develop a forward calendar that sets forth, to the best judgment of the Disclosure Group, a comprehensive list of Disclosure Documents that are subject to the review and approval of the Disclosure Group over the next twelve months. Such forward calendar shall be revised from time to time, and every effort shall be made to keep such document current. The City Treasurer shall advise the Disclosure Group of all Disclosure Documents originating in Financing Services (being those Disclosure Documents described in subsection A. of Section 3.1, and those Disclosure Documents filed by the City with the NRMSIRs pursuant to continuing disclosure agreements described in subsection C. of Section 3.1) that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. In addition, the City Treasurer shall advise the Disclosure Group, after soliciting the appropriate information from the Related Entities, of those Disclosure Documents described in subsections F. or G. of Section 3.1 that are expected to be submitted to the Disclosure Group for review and approval over the next twelve months. The City Auditor and Comptroller shall advise the Disclosure Group of the dates that the CAFR, the audited financial statements of the Metropolitan Wastewater Utility, the audited financial statements of the Water Utility, the Disclosure Documents described in subsection B. of Section 3.1, and any other Disclosure Document, are expected to be

submitted to the Disclosure Group for review and approval over the next twelve months. The Deputy City Manager for Finance shall advise the Disclosure Group of the date that the Disclosure Document described in subsection H. of Section 3.1 is expected to be submitted to the Disclosure Group for review and approval over the next twelve months.

Article VII ***Training Policy***

Section 7.1. Training Sessions.

A. Employees with responsibility for collecting or analyzing information that may be material to the preparation of a Disclosure Document shall attend disclosure training sessions conducted by the City's outside disclosure counsel, with the assistance of the Deputy City Attorney for Finance and Disclosure appointed pursuant to Section 22.0302 of the Municipal Code. New employees shall attend such a session within three months of their first day of employment. Such training sessions shall include education on the City's disclosure obligations under applicable federal and state securities laws and their responsibilities and potential liabilities regarding such obligations, the anonymous and confidential contact information for the Financial Reporting Oversight Board described in Section 9.2, and the contact information for the Deputy City Attorney for Finance and Disclosure. Such training sessions may be conducted by videotape.

B. The determination as to whether or not an employee shall receive such training shall be made by the Deputy City Manager, the City Auditor and Comptroller, or the City Attorney, as appropriate, responsible for such employee. The Disclosure Group may also require training for an employee not specified by any such person.

C. Separate training sessions shall be conducted by the City's outside disclosure counsel, with the assistance of the Deputy City Attorney for Finance and Disclosure and the Deputy City Attorney designated as an advisor to the City Council pursuant to Section 22.0303 of the Municipal Code, for the Mayor and City Council members.

Article VIII ***Document Retention Policies***

Section 8.1. Official Statements.

A. Materials retained. The Disclosure Group shall retain in a central depository, for a period of five years from the date of delivery of the securities referenced in a Disclosure Document described in subsections A. or G. of Section 3.1, the following materials:

1. the printed copy of the Preliminary and final Official Statement (or Preliminary and final Offering Memoranda);
2. the "deemed final" certification provided by a City official to the underwriter of the securities in accordance with paragraph (b)(1) of Rule 15c2-12;

3. the executed copies of the letters, requests, and certifications, the forms of which are attached as Exhibits B-K, and M;
4. the information and related sources referenced in the materials described in 3. above;
5. the bond purchase agreement; and
6. any written certification or opinions executed by a City official relating to disclosure matters, delivered at the time of delivery of the related securities.

B. Materials not retained. The Disclosure Group shall not retain after the date of delivery of the related securities the drafts of any of the materials referenced in subsection A. above.

Section 8.2. Disclosure Documents other than Official Statements. The Disclosure Group shall retain in a central depository, for a period of five years from the date the respective Disclosure Document is published, posted, or otherwise made publicly available:

1. the final version of the Disclosure Document,
2. all transmittal letters, requests, and certifications relating to information in the Disclosure Document,
3. the information and related sources referenced in the materials described in 2. above.

The Disclosure Group shall not retain the drafts of any such materials.

Article IX *Confidential Submissions*

Section 9.1. Deputy City Attorney for Finance and Disclosure. The City shall encourage City employees to contact the Deputy City Attorney for Finance and Disclosure with any disclosure questions or concerns. To the extent permitted by law, upon the employee's request, the Deputy City Attorney for Finance and Disclosure shall keep the employee's identity confidential.

Section 9.2. Financial Reporting Oversight Board (FROB) Contact Information. The City shall set up a confidential and anonymous system so that City employees can contact the FROB with any concerns about accounting or financial disclosure issues if they prefer not to contact the Deputy City Attorney for Finance and Disclosure. The FROB will create a procedure for contacting them in an anonymous and confidential manner.

Article X
Annual Review

Section 10.1. Annual Review. The Disclosure Group shall conduct an annual evaluation of these Disclosure Controls and Procedures and prepare an annual report, in accordance with the procedures and the dates established by Section 22.4106 of the Municipal Code.

Exhibits

- A. List of Related Entities
- B. Related Entity Letter
- C. Request for Information from Contributors
- D. Transmittal by Department Director or Deputy City Manger to Financing Group
- E. Underwriter's/Financial Advisor's Confidentiality Agreement
- F. Letter from Human Resources Manager
- G. Letter from SDCERS Representative
- H. Letter from City Attorney's Office Regarding Litigation
- I. Letter from City Auditor and Comptroller
- J. Municipal Finance Disclosure Reference Materials
- K. Transmittal of Official Statement by Financing Group to Disclosure Group
- L. Transmittal of Official Statement by Disclosure Group to City Manager and City Attorney
- M. Certifications by City Attorney and City Manager
- N. Certification by City Auditor and Comptroller Regarding Official Statements
- O. Certification by City Auditor and Comptroller Regarding CAFR

Related Entities

Assessment District 4030 (Otay Mesa Industrial Park)

Assessment District 4096 (Piper Ranch Business Park)

City of San Diego/MTDB Authority

Community Facilities District No. 1 (Miramar Ranch North)

Community Facilities District No. 2 (Santaluz)

Community Facilities District No. 3 (Liberty Station)

Community Facilities District No. 4 (Black Mountain Ranch Villages)

Convention Center Expansion Financing Authority

Public Facilities Financing Authority of the City of San Diego

Reassessment District No. 1999-1

Reassessment District No. 2003-1

Redevelopment Agency of the City of San Diego

San Diego Facilities and Equipment Leasing Corporation

San Diego Housing Commission

San Diego Open Space Park District No. 1

Related Entity Letter

Pursuant to Ordinance No. O-19320 (the “Ordinance”), the Disclosure Practices Working Group (Group) has the responsibility to review the form and content of information disclosed by the City in connection with securities issued by Related Entities (as defined in the Ordinance). Accordingly, in order to fulfill such responsibility, you must submit this letter for approval by the Group, and you understand and agree that you will not docket the Preliminary Official Statement or other offering document for consideration by the City Council prior to submitting this letter to the Group.

You have received this letter because [name of issuer] is a Related Entity. Please advise, by checking the appropriate box below, whether you are in receipt of any information of the type referenced in the preceding paragraph.

We did not request, and did not receive, any information from a City employee that we intend to include in the Preliminary Official Statement or other offering document that is being prepared in connection with the securities being offered by [name of Related Entity].

We received information from [name of City employee], a copy of which is attached, which we intend to include in the Preliminary Official Statement that is being prepared in connection with the securities being offered by [name of Related Entity]. We understand and acknowledge that we are not authorized to include this information in such Preliminary Official Statement or any other disclosure document until we receive written authorization from a representative of the Group to include such information.

Related Entity: _____

Authorized Officer: _____

Request for Information from Contributors

The Financing Services Division of the City Treasurer's Office is requesting information from [department or division name] to be included in a detailed disclosure of the City's financial and operating data for an [official statement] [annual report] to be issued by the City in connection with [the sale of bonds or other securities] [federal annual reporting requirements for municipal securities]. This information will be disseminated publicly to the investing public, including bondholders, rating agencies, financial advisors and other members of the investment community.

Federal securities laws require that the information be complete, accurate, and in no way misleading. Please review carefully the information you are providing to be certain, to the best of your knowledge after reasonable inquiry of the appropriate persons, that it is accurate, complete and not misleading. Please be certain that the source documentation is in all ways reliable and auditable, should any future inquiry arise. Please provide a copy of all source documentation. Please describe any exceptions or other caveats to the information you are providing.

Please review the information in its entirety, rather than simply updating that which has already been provided, to determine whether any material changes have occurred or if any new or additional information should be included to make the information you are providing not misleading and as complete and accurate as possible.

Please provide the information by no later than [X date], and please advise of any subsequent changes to such information through [Y date].

If you require additional information regarding this request for information, please contact _____, at x _____. Thank you for your assistance.

**Transmittal by Department Director
or Deputy City Manager
to Financing Group**

I am the [Department Director/Deputy City Manager] responsible for reviewing the portion of the Disclosure Document that is attached. This disclosure has been reviewed by me and by each identified Contributor, and was discussed at a meeting of the _____ department. I have also attached copies of any materials that were a source for all or a portion of this disclosure. I have reviewed and complied with the procedures set forth in subsection C. of Section 4.3 of the Disclosure Controls and Procedures. I have attended the federal securities law training seminar conducted by the City's outside disclosure counsel. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall promptly advise the Financing Group.

[Department director/Deputy City Manager]

Attachments

- reviewed disclosure
- source materials
- list of Contributors

[Underwriter's/Financial Advisor's] Confidentiality Agreement

The [Underwriter/Financial Advisor] acknowledges, represents and warrants to the City that in connection with the preparation for and offering and sale of the Bonds, the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided non-public information by or on behalf of the City, including but not limited to drafts of the Preliminary Official Statement and Official Statement; the [Underwriter/Financial Advisor], its agents, employees and counsel involved in the offering have been and will be provided such information for the purpose of the offering and sale of the Bonds and not for any other purpose; and the Preliminary Official Statement and Official Statement, and any supplements or amendments thereto in accordance with the provisions of the Bond Purchase Agreement, constitute the only documents authorized by the City for dissemination of such information.

The [Underwriter/Financial Advisor] covenants and agrees to protect and maintain the confidentiality of such information and to take appropriate steps to assure that its agents, employees and counsel involved in the offering will not make use of such information for any purpose other than the offer and sale of the Bonds.

Notwithstanding the preceding two paragraphs, the [Underwriter/Financial Advisor] has the right to use or to disclose any information: (i) which is, at the time of disclosure, generally known or available to the public (other than as a result of a breach of this Agreement); (ii) which becomes, at a later date, generally known or available to the public through no fault of the [Underwriter/Financial Advisor] and then only after said later date; (iii) which is disclosed to the [Underwriter/Financial Advisor] in good faith by a third party who, to [Underwriter/Financial Advisor]'s knowledge, has an independent right to such information and is under no known obligation not to disclose it to the [Underwriter/Financial Advisor]; (iv) which is possessed by the [Underwriter/Financial Advisor], as evidenced by such [Underwriter/Financial Advisor]'s written or other tangible evidence, before receipt thereof from the City; (v) to the extent expressly required by any governmental, judicial, supervisory or regulatory authorities pursuant to federal or state law, subpoena or similar legislative, administrative or judicial process; (vi) in connection with the offering and sale of the Bonds if the [Underwriter/Financial Advisor] or its counsel determines that confidential information is material (within the meaning of the federal securities laws) and therefore must be disclosed in connection with the offering and sale of the Bonds, provided, that the [Underwriter/Financial Advisor] shall provide prior written notice thereof to the City (to the extent permitted by law), including a copy of the proposed disclosure or other use, and shall have obtained the City's written consent to such use if the offering has not commenced; or (vii) the use of which is consented to by the express prior written consent of the City.

The [Underwriter/Financial Advisor] shall return all confidential material to the City when the bond transaction is completed or their services are otherwise completed.

Letter from the Human Resources Manager

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum] that relates to employee relations, collective bargaining, pensions and benefits, and litigation concerning current or former employees. I have also read and understand the directions that were provided to me in the letter from the Financing Group. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group. [No information concerning the above categories was included./I have no comments./My comments are attached.]

Human Resources Manager

Letter from SDCERS Representative

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum] that relates to pension benefits and other retirement benefits, pension plan funding, and litigation concerning SDCERS. I have also read and understand the directions that were provided to me in the letter from the Financing Group. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group. [No information concerning the above categories was included./I have no comments./My comments are attached.]

SDCERS Representative

Letter from City Attorney's Office Regarding Litigation

Financing Group:

The litigation section of the Disclosure Document has been reviewed by the appropriate attorneys, and the attached disclosure reflects all material current, pending or threatened litigation, and describes any material settlements or court orders. For purposes of this letter, the term "material" means (i) any litigation threatened, pending or commenced against the City seeking to prohibit, restrain or enjoin the issuance, sale or delivery of the Bonds, or contesting or affecting the validity or enforceability of, or the power of the Issuer to issue, the Bonds, (ii) any litigation the potential exposure for which is greater than \$5,000,000. In the event of any material change to such information between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group.

Deputy City Attorney for Finance and
Disclosure

Letter from City Auditor and Comptroller

Financing Group:

I have reviewed the information in the [Official Statement/Offering Memorandum], including particularly the financial disclosures, and I have compared the financial disclosures in the Disclosure Document to the City's Comprehensive Annual Financial Report. I have also read and understand the directions that were provided to me in the letter from the Financing Group. To the best of my knowledge, there are no misstatements or omissions in any sections of the Disclosure Document that contain descriptions of information prepared by or of interest to the City Auditor and Comptroller. In the event of any material change to the attached disclosure between the date of this letter and the scheduled delivery date for the bonds (X date), I shall immediately advise the Financing Group. [I have no comments./My comments are attached.]

City Auditor and Comptroller

Municipal Finance Disclosure Reference Materials

1. Public Finance Criteria, Standard & Poor's (see www.standardandpoors.com, click on "Criteria and Definitions" under "Credit Ratings").
2. Questions to Ask Before You Approve a Bond Issue: A Pocket Guide for Elected and Other Public Officials, National League of Cities; National Association of Counties; National Association of State Auditors, Comptrollers, and Treasurers; and the Government Finance Officers Association, Dec. 1996
3. Disclosure Roles of Counsel in State and Local Government Securities Offerings, American Bar Association, State and Local Government Law, and National Association of Bond Lawyers, 1995.
4. Recommended Best Practices in Disclosure, National Federation of Municipal Analysts, 2004.
5. Making Good Disclosure: The Role and Responsibilities of State and Local Officials Under the Federal Securities Laws, Government Finance Officers Association, 2001.
6. Disclosure Guidelines for State and Local Government Securities, Government Finance Officers Association, 1991.

**Transmittal of Official
Statement by Financing Group
to Disclosure Group**

Disclosure Group:

The Financing Group has, with respect to the [Official Statement/Offering Memorandum], (i) performed the responsibilities set forth in subsection B. of Section 4.3 of the Disclosure Controls and Procedures, (ii) obtained all the approvals and source documentation described in said Section 4.3, copies of which are attached, and (iii) in our best judgment, the Disclosure Document is in substantially final form and ready for review by the Disclosure Group.

Representative of Financing Group

[list names of members of Financing Group]

**Transmittal of Official
Statement by Disclosure Group
To City Manager and City Attorney**

City Manager and City Attorney:

The Disclosure Group has reviewed and approved the [Official Statement/Offering Memorandum] in accordance with the procedures set forth in Section 5.2 of the Disclosure Controls and Procedures. In the best judgment of the Disclosure Group, the Disclosure Document is in final form and the Disclosure Group has complied with the Disclosure Controls and Procedures.

Representative of Disclosure Group

[list names of members of Disclosure Group]

Certifications by City Attorney and City Manager

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum], and I have met with and asked questions of the Financing Group, the Disclosure Group, any Contributor, any other person who reviewed or drafted any section of the [Official Statement/Offering Memorandum], and any other person that I thought necessary or appropriate. I hereby certify that, to the best of my knowledge, the [Official Statement/Offering Memorandum] does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

City Manager/City Attorney

Certification by City Auditor and Comptroller Regarding Official Statements

City Council:

I have reviewed the [description of Official Statement or Offering Memorandum] and compared the City Financial Statements with the Disclosure Document. In addition, I have reviewed the Disclosure Document in full to identify any misstatement or omission in any sections that contain or omit descriptions of information prepared by or of interest to the City Auditor and Comptroller. I hereby certify that, to the best of my knowledge:

1. the Disclosure Document fairly presents, in all material respects, the financial condition and results of operations of the City;
2. the Disclosure Document does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and
3. that the financial statements and other financial information from the City Financial Statements included in such Disclosure Document, if any, fairly present in all material respects the financial condition and results of operations of the City as of, and for, the periods presented in the City Financial Statements.

City Auditor and Comptroller

Certification by City Auditor and Comptroller Regarding CAFR

City Council:

I hereby certify that, to the best of my knowledge, as of the date of the CAFR:

1. the information contained in the [Fiscal Year] CAFR fairly presents, in all material respects, the financial condition and results of operations of the City as of, and for, the periods presented in the CAFR; and

2. the CAFR does not make any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading.

City Auditor and Comptroller

APPENDIX D – GLOSSARY

Arbitrage

With respect to municipal bonds, arbitrage is the profit made from investing the proceeds of tax-exempt bonds in higher-yielding securities.

Assessment

A charge levied against a parcel of land for the benefit that is generated by the underlying public service or improvement project. The governing body of the entity levying the Assessment must make a finding of special benefit in order to validate this process.

Assessment District

A Special District formed by a local government agency and includes property that will receive direct benefit from the construction of new public improvement or from the maintenance of existing public improvements.

Auction Rate Securities (ARS)

ARS are securities with long-term maturities that are structured with short-term holding periods, which are periodically reset through a Dutch Auction Process. A Dutch Auction Process, also known as descending price auction, uses a bidding process to find an optimal market price for the security, the lowest price at which an issuer can sell all the available securities.

Basis Risk

Refers to the risk of a mismatch between the interest rate received from the swap contract and the interest actually owed by the Issuer on the Issuer's underlying bonds.

Basis Swap

An interest rate Swap involving the exchange of payments in which the amounts exchanged are calculated based on difference indices.

Bid/Ask Spread

Difference between bid and offer prices. The bid and asked (or offered) prices together comprise a Quotation (or quote).

Cap

A product which places a maximum interest rate that the purchase would pay; for any differential above the capped rate, the seller of the cap compensates the purchaser.

Collar

The combination of buying a cap and selling a floor. Generally it is structured so that the net cost of the collar is zero or close to zero. This means that the expense for the cap premium is offset by the credit received for the floor premium.

Community Facilities District

A common and popular type of Special Tax district that can fund ongoing maintenance services, capital projects, or both. It is allowed under the Mello-Roos Community Facilities Act of 1982 and California Government Code Section 53311 et seq.

Conduit Financing

A financing in which the proceeds of the issue are loaned to a nongovernmental borrower who then applies the proceeds for a project financing or-if permitted by federal tax law for a qualified 501(c)(3) bond – for working capital purposes.

Continuing Disclosure

The ongoing disclosure provided by an issuer or obligated person pursuant to an undertaking entered into to allow the underwriter to comply with SEC Rule 15c2-12.

Counterparty

A party that enters into an agreement with the Issuer in a derivative transaction, usually a commercial bank or underwriter.

Current Swap

A Swap with an immediate or near term start date.

Debt Service

The total interest, principal and mandatory sinking fund payments due at any one time.

Debt Service Reserve Fund

An account from which monies may be drawn to pay debt service on an issue of bonds if pledged revenues and other amounts available to pay debt service are insufficient. The size of the debt service reserve fund and investment of monies in the fund/account are subject to restrictions contained in Federal Tax law for tax-exempt bonds.

Escrow Agent

With respect to an advance refunding, the commercial bank or trust company retained to hold the investments purchased with the proceeds of the refunding and, customarily, to use the amounts received as payments on such investments to pay debt service on the refunded bonds.

Floor

A product which establishes a rate such that for any differential below the rate, the seller of the Floor compensates the purchaser.

Forward Starting Swap

An interest rate Swap under which the accrual and exchange of cash flows commences at a future date, rather than at the current date.

Generally Accepted Accounting Principles (GAAP)

A widely accepted set of rules, conventions, standards and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

Government Accounting Standards Board (GASB)

A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

Hedge

A tactic or financial product used to limit potential losses or gains associated with an existing financial position, asset or liability.

Joint Powers Authority

A public authority created by a joint exercise of powers agreement between any two or more governmental agencies. The authority may be given power to perform any function which both parties to the agreement are empower to perform and which will be of benefit to both parties.

Municipal Standards Rulemaking Board (MSRB)

An independent self-regulatory organization established by the Securities Acts Amendments of 1975, which is charged with primary rulemaking authority over dealers, dealer banks, and brokers in municipal securities.

Nationally Recognized Municipal Securities Information Repositories (NRMSIRs)

An acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs are the repositories for all annual reports and event notices filed under SEC Rule 15c2-12. NRMSIRs are required to be approved by the Municipal Standards Rulemaking Board (MSRB).

Options

A derivative contract. There are two primary types of Options:

Put Option – A contract through which the owner of the Put Option is given the right (but not the obligation) to sell the underlying security or commodity at a fixed price within a limited time frame.

Call Option – A contract through which the owner of the Call Option is given the right (but not the obligation) to purchase the underlying security or commodity at a fixed price within a limited time frame.

Remarketing Agent

The investment bank or commercial bank retained to remarket bonds that have been tendered for purchase by the issuer or another party pursuant to an option to sell (a put) that accompanies the bond.

Reverse Swap

A Swap agreement in which Counterparties reverse positions of an existing Swap.

SEC Rule 15c2-12

A rule promulgated by the SEC under the Securities Exchange Act of 1934 concerning disclosure and continuing disclosure requirements for municipal securities.

Securities and Exchange Commission (SEC)

A federal agency which oversees and regulates stock, bond, and other financial markets.

Special Assessment

A financial charge levied on parcels of land or businesses, based on the special benefit received from the service or capital improvement.

Special District

A Special District is a local governmental body formed under the laws of the State. It may be independent or dependent (upon another local governmental agency). Examples of a Special District are water districts, sewer districts, and community facilities districts.

Special Tax

A financial charge that is calculated via some type of special tax formula (or Rate and Method of Apportionment, in the case of a Community Facilities District), and is levied annually on property for a defined period of years.

State and Local Government Series (SLGS)

An acronym (pronounced “slugs”) for a type of U.S. Treasury obligation, the complete name of which is United States Treasury Securities – State and Local Government Series. SLGS are special United States Government securities sold by the Treasury to states, municipalities and other local government bodies through individual subscription agreements. The interest rates and maturities of SLGS are arranged to comply with arbitrage restrictions imposed under Section 103 of the Internal Revenue Code. SLGS are most commonly used for deposit in escrow in connection with the issuance of refunding bonds.

Swap

A customized financial transaction between two Counterparties who agree to make periodic payments to one another. Swaps cover interest rate, equity, commodity and currency products. They can be simple floating or fixed exchanges or complex hybrid products with multiple Option features.

Swaptions

The Option to enter into a Swap in the future within a limited timeframe that is used to lock in certain rates and hedge against certain risks.

Synthetic fixed rate

The resulting rate the Issuer would pay on an issue of variable rate obligations after entering into a floating-to-fixed interest rate Swap.

Synthetic floating rate

The resulting rate the Issuer will pay on an issue of fixed rate obligations after entering into a fixed-to-floating interest rate Swap.

True Interest Cost (TIC)

A method of calculating bids for new issues of municipal securities that takes into consideration the time value of money.

Underwriter

An investment banking firm which, singly or as a member of an underwriting group or syndicate, agrees to purchase a new issue of bonds from an issuer for resale and distribution to investors. The underwriter acquires the bonds either by negotiation with the issuer or by award on the basis of competitive sale.

Underwriter Syndicate

A group of underwriters formed to purchase (underwrite) a new issue of municipal securities from the issuer and offer it for resale to the general public. The syndicate is organized for the purpose of sharing the risks of underwriting the issue, obtaining sufficient capital to purchase an issue and for broader distribution of the issue to the investing public. One of the underwriting firms will be designated as the syndicate manager or lead manager to administer the operations of the syndicate.

Variable Rate Demand Obligations (VRDOs)

VRDOs are short-term, tax-exempt fixed income instruments whose yield is reset on a daily or weekly basis by The Bond Market Association (TBMA).

Verification Agent

A certified public accountant who verifies that sufficient funds are deposited into an escrow to implement the objectives of the refunding or financing plan.