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EXECUTIVE SUMMARY

This document defines the policies which govern the City of Los Angeles' participation in the establishment of Mello-Roos and special assessment districts for purposes of issuing bonds to provide funds for infrastructure improvements in both new developments and existing properties.

The impacts of development on public facilities (in a time of reduced revenues) has increased reliance on developer exactions to finance new infrastructure which mitigates these impacts. Such developer exactions can come in the form of local infrastructure such as streets, curbs and gutters; regional infrastructure such as parks, highway widening and freeway on-ramps; or cash payments (such as "trip fees") to finance local and regional mitigation measures. Many public agencies have recognized that, by accessing the bond market through the creation of Mello-Roos special tax and special assessment districts, they can assist developers in financing new infrastructure. In return, the public agency can receive infrastructure improvements which provide a public benefit beyond simply mitigating the direct impact of new development. Additionally, public agencies have recognized that through the creation of assessment districts, lower cost funds can be made available to existing property owners to make significant and costly alterations to their properties which significantly benefit the general public, such as installation of fire sprinkler systems in high rise buildings and seismic strengthening of commercial and residential structures.

The Nature of Mello-Roos And Special Assessment Financing

Mello-Roos and special assessment districts are both methods of financing public improvements which involve agency creation of districts which will benefit from the improvements, and agency levy of a charge against the benefited properties within those districts. Typically, those charges repay bonds issued to finance the improvements.

In special assessment districts, the lien amount is based on the direct benefit received by each property and pays for improvements associated with community infrastructure (e.g., sidewalks, curbs, gutters, street lighting and storm drains). Under the Mello-Roos Act, by contrast, the special tax can be structured more flexibly because the law does not require a direct relationship between the benefit received and the tax imposed. Additionally, Mello-Roos financings can pay for a wider variety of facilities and services than special assessment law allows. These are: (i) the planning, design, purchase, construction, expansion or rehabilitation of real or other tangible property with an estimated useful life of at least five years (e.g., parks and recreation facilities, schools, libraries and utilities); and (ii) specific services such as police, fire protection, recreation and library services. Also, Mello-Roos financing was created by the State Legislature in direct response to Proposition 13's requirement that all tax increases be approved by a two-thirds vote. The Mello-Roos Act provides that where fewer than 12 voters reside in the special tax district, the landowner (e.g., the developer) is designated as the qualified elector for the district's creation and its special tax levy. This landowner approval is the main reason for the rapid growth of Mello-Roos financing in California.

The Proposed Policies

The following Mello-Roos and Assessment Financing Policies (the "Policies") provide the City with a basis for considering requests for such financing in a manner that is fair and consistent, and that protects the interests of the City as a whole. These Policies were prepared and recommended by the Mello-Roos Task Force (created by the City Council in August, 1990). The Task Force was composed of various City departments and assisted by consultants, Connell & Associates and Public Resources Advisory Group. The Policies are intended to apply only to Mello-Roos financings and large assessment financings (i.e., special assessments exceeding \$1 million). They are not intended to apply to the more traditional assessments the City has long undertaken for streets, alleys, and small public works in existing neighborhoods.

These Policies are organized into sections addressing the most significant issues in the public financing of infrastructure as follows:

The Introduction -- provides a historical background to the issues raised by these Policies, a brief summary of the important features of Mello-Roos and assessment financings, and a review of the process by which these Policies were formulated.

Section I -- The Credit Impact of Mello-Roos and Assessment Financing examines the impact of Mello-Roos and special assessment debt on the City's general credit. Mello-Roos and special assessment debt is accounted for in debt burden ratios used to evaluate the City's credit condition. Accordingly, there are limits to the amount of Mello-Roos and special assessment debt the City can authorize without affecting its credit rating and increasing the cost of borrowing for all its taxpayers. This section of the Policy addresses these concerns and provides a mechanism that sets limits on the amount of such Mello-Roos and assessment debt.

Section II -- Project Review Criteria for Mello-Roos and Assessment Financing

recommends criteria for selecting projects to receive financing based on the benefit provided and the feasibility of the project. Given the City's limited debt capacity, the City must prioritize proposed applications for Mello-Roos and assessment financing. Thus, the Policies recommend that such financing be considered only-for projects which provide the City with some "Extraordinary Public Benefit" (i.e., public benefits obtained from a financing applicant that are beyond those reachable by the City's power to mitigate impacts of that applicant's project). This section sets forth some of the recommended criteria for determining such "Extraordinary Public Benefit." These criteria favor improvements which serve a regional population, significantly accelerate completion of an improvement, and/or meet specific public policy goals (e.g., low-income housing).

The City must also concern itself with the feasibility and quality of any financings with which it is involved. While the City's liability, in the event of a default of a Mello-Roos or assessment financing, is limited to prosecuting the foreclosure on the non-paying properties, such a default could impact investors' willingness to purchase such bonds in the future, as well as to purchase other bonds issued by the City. Accordingly, the Policies recommend that the City only consider such financings for projects that meet certain thresholds of financial feasibility and credit quality. Guidelines for analyzing proposed projects are contained in this section.

Section III -- Mello-Roos and Assessment Requirements establishes general requirements for the structure of Mello-Roos and Assessment financings. While these financings are typically requested by larger property owners acting in the capacity of developers, the special taxes and assessment liens will eventually be paid by future property owners and tenants who are not present at the time the transaction is structured. It is the City's desire to protect the interests of these future taxpayers. Therefore, this section of these Policies establishes general terms and conditions for project costs, special taxes and assessment liens to ensure equability for current and future taxpayers.

This section also contains recommendations relative to the structuring of bonds secured by Mello-Roos taxes and assessment liens. These recommendations are aimed at ensuring strong bond issues with a low risk of default, having consistent bond features from financing to financing, and providing mechanisms which protect the City's rating in the credit markets. In addition, standards of disclosure to future purchasers and tenants are established so that the existence of special taxes and assessments can be properly accounted for in the real estate marketplace.

Section IV -- Application and Administrative Procedures addresses the administrative concerns of Mello-Roos and Assessment financings, including the procedures for considering applications for projects, forming districts, issuing bonds, and administering the districts through debt retirement. Mello-Roos and assessment financings may create a burden not only on the City's debt capacity, but also in the administrative requirements imposed on City staff who have to consider, implement and maintain them. The City will impose fees to recover all of its costs for such activities. A standing Mello-Roos and Assessment Review Committee, comprised of various City departments, is recommended to assist in the administration of the system that implements these Policies.

Appendix 1 -- attached hereto, contains a form of application to be used by financing applicants.

Appendix 2 -- attached hereto, outlines the Application/Approval Process and the steps for a Mello-Roos financing.

In preparing these Policies, the Task Force recognized that it could not anticipate every issue which will be raised by Mello-Roos and assessment applications and financings in the future. Therefore, it is anticipated that these Policies will evolve to incorporate the City's cumulative experience with these two financing methods. Formal amendment to the Policies will occur as needed.

INTRODUCTION

The following Policies are intended to provide a fair, reasonable and consistent process for considering projects submitted for infrastructure improvements financing using Mello-Roos or assessment districts. The ultimate goal of the Policies is to maximize the effectiveness of Mello-Roos or assessment financing in providing public benefits while minimizing public costs and risks. It is intended that these Policies apply only to Mello-Roos and large assessment financings (many of which will be proposed in connection with new development) and not to the more routine assessments currently undertaken by the Department of Public Works. Thus, projects subject to these Policies are defined as any Mello-Roos or assessment-financed improvement or service resulting in the issuance of \$1 million or more in bonds.

This Introduction provides historical background on infrastructure financing of new development, outlines the basic features of Mello-Roos and assessment financing, and reviews the process by which these Policies were formulated.

Historical Background

Over the course of Los Angeles' history, responsibility for providing public improvements has periodically shifted back-and-forth between private property owners and government. In the 19th Century, infrastructure was in large measure a private responsibility. Water, electricity, and public transportation were primarily private enterprises. Main thoroughfares were built and maintained by rail companies as a condition of their franchise. Other street improvements were built by the developers of new housing subdivisions, originally with minimal public regulation and no public financing. After the turn of the century, the rise of city planning began to impose common standards on such infrastructure. As Los Angeles became home to more and more automobiles, the expansion of the street system remained largely a private responsibility initiated through private petition and financed through the assessment of adjoining property owners.

The infrastructure demands of a growing city could not be met by such limited and often voluntary methods of financing. Increasing taxation of property, bond issues secured by property taxes (which in California have required a two-thirds vote since the 19th Century), fees charged by municipal utilities, and new taxes and charges on gasoline and automobiles increased the public funding available to build its infrastructure. Accordingly, the private sector's role became increasingly limited to meeting the requirements of new residential subdivisions: building its streets; water and sewer lines; and perhaps, dedicating some undeveloped land for a school.

The fiscal constraints of public agencies in the late 1960s and the 1970s began a new reversal of trends. Those constraints were first felt with the rejection of bond issues by the voters and the early manifestation of a property tax revolt that culminated in 1978 with Proposition 13. This constitutional amendment severely limited what had previously been a significant source of capital financing: ad valorem property taxes. Constraints on property tax revenues were joined by an inability or unwillingness of both the State and federal governments to raise gasoline taxes to keep pace with inflation.

While public capital funding was being reduced, public awareness of the environmental impacts of development was increasing. New development created new burdens on the existing infrastructure. Public agencies attempted to shift the cost of mitigating these burdens to new development. Besides streets and sewers, developers were increasingly required to provide transportation improvements to connecting streets and highways, accommodations for public transportation, and public facilities such as parks and fire stations, either by constructing these improvements directly or by paying various fees. These requirements for additional public infrastructure were added to the local planning and zoning regulations, and imposed as a condition of various discretionary approvals.

As private developers were faced with increasing demands to construct public facilities as a condition of their land use entitlements, these same developers began looking to public agencies for assistance in financing such improvements. Developers turned to an old tool, assessments, and petitioned for the creation of assessment districts to finance improvements. At the time of creation, these districts would encompass land of a single property owner, the developer. The development community also worked through the State legislature to create a new tool, the Mello-Roos Community Facilities District, which provided greater flexibility. It relied on special taxes, as the security for a financing, and allowed a land owner vote on the tax, in most circumstances.

Assessment and Mello-Roos Finance

The assessment lien and Mello-Roos special tax involve levying a special charge on property. In the assessment context, the levy pays for the special benefits the property receives from a public improvement, while in the Mello-Roos context, the levy may be based on benefit received, cost of the improvement, or other reasonable basis.

Numerous laws codified assessment proceedings and bond issuances in California, with the most relevant, for purposes of these Policies, being the Municipal Improvement Act of 1913 (setting forth procedures for forming an assessment district and imposing an assessment lien on property) and the Improvement Bond Act of 1915 (providing a method of issuing bonds secured by those assessment liens). The Improvement Act of 1911, routinely used by the City of Los Angeles for small assessment projects, is rarely, if ever, used for developer-sponsored assessment financing.

Generally, all assessment proceedings share common procedural features:

Adoption of a resolution of intention identifying the area of special benefit.

Notice and public hearings.

Termination of proceedings if there is sufficient opposition to the proposed assessment.

Calculation of assessments based on the benefits received, typically a function of dividing the total cost of the improvements by some land-related factor such as square or linear feet of property.

Imposition of an assessment lien on each parcel within the boundaries of the district.

Selling of bonds to pay for new infrastructure with debt service on those bonds secured by the lien on real property.

Traditionally, assessment financing is used for improvements that clearly and directly benefit specific property. Creation of a special assessment district requires that a jurisdiction determine and calculate the pro-rata benefits derived by each parcel of property as a result of the improvements within that district. For example, street improvements, sewer lines, and sidewalks clearly benefit the adjoining properties.

By contrast, Mello-Roos financing was created to provide a financing mechanism for improvements (and services) that were not well suited for traditional assessment financing. Some improvements, especially regional improvements, have benefits which are more difficult to calculate. For example, a school may generally benefit a specific community, but each property's benefits can only be determined by the number of children living on that property who attend the school. Therefore, greater flexibility is obtained if properties within the community as a whole are taxed for these improvements. Also, the Mello-Roos Act provides statutory procedures for creating a district called a Community Facilities District ("CFD") which can approve, by a two-thirds vote, a special tax to finance a variety of public improvements and services. The tax-supported nature of the financing grants much greater flexibility to the various types of improvements to be financed; virtually any public improvement is eligible. The CFD can be irregularly shaped, include non-contiguous parcels, and finance improvements which are located outside the boundaries of the district. The statute, however, includes procedural features analogous to assessments: a resolution of intention, public hearings, and the ability to halt proceedings through protest.

Mello-Roos and assessment financing are secured by a lien on real property, and that lien is superior to all mortgages even if those mortgages pre-date the special tax or assessment lien. It is the superiority of that lien which attracts investors to Mello-Roos and assessment bonds. If these vehicles are used to finance publicly-owned improvements, interest on the bonds is typically exempt from federal and state income taxes. Tax-exemption lowers the interest rate paid to purchasers of these bonds, and thus decreases the special tax or assessment lien paid by property owners.

The key advantage of Mello-Roos and assessment financing of public infrastructure accrues to developers. There are limits to the amount a commercial bank, insurance company, or other traditional project lender will loan to a given developer or project. Borrowing money for public infrastructure through Mello-Roos or assessment bond issues preserves the developer's credit capacity for other purposes. This benefit has become increasingly important as recent difficulties experienced by financial institutions have reduced their capacity for lending.

The advantages of these financing tools to subsequent property owners or tenants are not immediately obvious. Since Mello-Roos and assessment bonds carry a tax exempt interest rate, the developer's cost to finance certain infrastructure improvements is lower than with more traditional taxable forms of financing. However, real estate prices paid by subsequent property owners or tenants are more a function of the real estate market than the costs of development. Therefore, in order for the real estate market to fully reflect the existence of Mello-Roos or assessment financing on a particular property, and for subsequent property owners to realize any benefit, the existence of Mello-Roos or assessment financing must be fully disclosed to all

purchasers of property throughout the life of the assessment in a comprehensible and timely manner.

Mello-Roos Task Force

Because of the increasing requirement for public infrastructure improvements as a condition of various land use approvals, and a growing interest among the development community in the use of these financing tools, Council created a Mello-Roos Task Force to consider such financings, and to report back its findings. The Task Force was comprised of representatives of the City Administrative Officer (Chair), the City Attorney, the Planning Director, the City Engineer, the General Manager of the Department of Transportation, the Treasurer, the Controller, the General Manager of the Housing Preservation and Production Department, and the Chief Legislative Analyst. Consulting support was provided by the City's General Financial Advisors, Connell and Associates and Public Resources Advisory Group. The Task Force met from time to time beginning in December, 1990 to discuss the various issues raised by Mello-Roos and assessment financing, and to formulate these Policies.

These Policies recommend the establishment of the Mello-Roos Preview Committee, consisting of the Finance Subcommittee, to be chaired by the City Administrative Officer and to include the Treasurer and City Attorney, and the Infrastructure Subcommittee, to be chaired by the Planning Director and to include the City Engineer and General Manager of the Department of Transportation.

SECTION I

THE CREDIT IMPACT OF MELLO-ROOS AND ASSESSMENT FINANCING

The following provides a discussion of the City's debt burden and the impact of special assessment and Mello-Roos debt on the City's debt capacity as of the date on which the policies were adopted by the City Council. This information is updated periodically. For the most recent information please contact the Office of the City Administrative Officer. In analyzing the debt of cities and other public agencies, the rating agencies and other credit analysts track two primary measures of debt burden: "direct debt" and "overall debt." Direct debt represents debt that is payable out of tax and other general fund revenues, and includes general obligation bonds and lease purchase certificates of participation. Overall debt includes direct debt and "overlapping debt", or debt issued by other jurisdictions but paid by the taxpayers residing within a city. Examples of overlapping debt issuers within the City of Los Angeles include the Community Redevelopment Agency (CRA), the Metropolitan Water District, the County of Los Angeles and the Los Angeles Unified School District. The City's direct and overlapping debt are summarized below.

Statement of Direct and Overlapping Debt City of Los Angeles as of 9/1/93

<u>Direct Debt (1) and Overlapping Debt (2)</u>	Applicable	
<u>General Obligation Bonds (2)</u>	100.000%	\$ 315,225,000
<u>Parcel Tax Bonds</u>		
<u>Fire Communications and Dispatch System</u>	100.000	44,655,000
<u>Police Emergency Command Control Communications System</u>	100.000	43,305,000
Subtotal.....		\$ 87,960,000
<u>Lease Obligations</u>		
Equipment	100.000	110,555,000
Real Property.....	100.000	809,255,000
Subtotal.....		\$ 919,810,000
Judgment Obligation Bonds.....	100.000	198,175,000
Subtotal - Direct Debt		\$ 1,521,170,000
Community Redevelopment Agency (3)	100.000%	772,505,000
Los Angeles County	40.689	31,713,007
Los Angeles County Building Authorities and Superintendent of Schools.....	40.689	979,201,870
Los Angeles County Flood Control District.....	41.376	42824,842
Los Angeles county Flood Control District (Certificates of Participation).....	41.376	15,520,138
Metropolitan Water District.....	22.792	152,535,460
Los Angeles Community College District (Certificates of Participation)	71.276	49,087,781
Los Angeles Unified School District (Certificates of Participation).....	86.431	166,616,665
Los Angeles Unified School District (Various Issues).....	86.404	1,365,183
Las Virgenes Unified School and Authority.....	1.305	66,033
Southern California Rapid Transit District Benefit		
Assessment Districts	100.000	162,170,000
Other School Districts.....	Various	75,486
Other School Districts.....	Various	727,412
Subtotal-Overlapping Debt		\$ 2,373,908,877
TOTAL DIRECT AND OVERLAPPING DEBT		\$ 3,895,078,877

(1) Direct debt as of November 1, 1993 adjusted for the issuance of General Obligation Bonds, Refunding Series 1993-C issued on November 17, 1993

(2) Overlapping debt provided by California Municipal Statistics as of September 1, 1993 except otherwise noted.

(3) Outstanding debt provided by the Community Redevelopment Agency as of June 30, 1993.

While Mello-Roos and special assessment bonds are excluded from calculations of the City's direct debt, the rating agencies treat such obligations as another form of overlapping debt. Therefore, 100% of the outstanding amount of all Mello-Roos and special assessment bonds issued within the City's geographic limits will be added to the calculation of the City's overall debt.

One of the more significant factors rating agencies consider in evaluating a city's credit is "debt burden". Debt burden is measured as a ratio of direct and overall debt to such other economic measures as assessed property values and population. These debt ratios measure the burden on the community of all public debt that is secured by tax liens on real estate and the general taxing power of local government. The City's ratios and the corresponding median ratios for all U.S. cities with populations greater than 500,000 (as published by Moody's Investors Service) are indicated below. (The City's 1993 population was 3,607,700; its assessed valuation was \$192,455,766,000.)

Debt Ratios

	\$1.521 billion	\$3.895 billion
	<u>Direct Debt(1)</u>	<u>Overall Debt (2)</u>
Debt per capita	\$422	\$1,079
Moody's Median (1993)	\$722	\$1,315
City as % of Median	58.5%	82.1%
Debt as % of Assessed Value	0.79%	2.0%
Moody's Median (1993)	1.8%	3.0%
City as % of Median	43.9%	66.7%

(1) Direct debt as of November 1, 1993 adjusted for the issuance of General Obligation Bonds, Refunding Series 1993-C issued on November 17, 1993.

(2) Overall debt includes Direct Debt and Overlapping Debt. Overlapping Debt is provided by California Municipal Statistics as of September 1, 1993 except for debt of the Community Redevelopment Agency which is provided by the CRA as of June 30, 1993.

As indicated above, the City's direct debt levels are modest relative to the Moody's medians of direct debt. The overall debt of the City is relatively higher when compared to the national medians. For example, the City's direct debt per capita is currently 58.5% of the median, while overall debt per capita is 82.1% of the median. This relationship is not uncommon in California municipalities, where restrictions on the issuance of direct debt has encouraged issuers to establish other jurisdictions that can issue bonds for public purposes. In the City's case, tax allocation debt of the City's Community Redevelopment Agency at \$772 million represents 33% of the City's total overlapping debt.

While it is common to ascribe greater importance to direct debt, as it represents a burden to the issuer's own tax revenues, credit analysts place a great deal of importance on overall debt. Notwithstanding the fact that overall debt will include the debt of other overlapping agencies over which the City has no control or responsibility, such ratios are invaluable to credit analysts in comparing different cities, many of whom will perform functions different from our own. For example, San Francisco is a city/county, while New York's municipal government includes schools and public transportation.

The City's overall debt ratios, while closer to the Moody's median than its direct debt, are still relatively low. For example, the ratio of overall debt to assessed property value is approximately 2.0%, or only 66.7% of the median ratio of 3.0%. However, these ratios have been growing rapidly as compared to the Moody's median. In 1992, the City's overall debt to assessed value (at 1.65%) represented only 55% of the median ratio: between 1992 and 1993 the City's ratio of overall debt to assessed value grew by 16% (1.65% to 1.92%) indicating that debt outstanding debt grew much faster than the City's assessed value.

The low overall debt ratios relative to the medians has been a critical factor behind the City's current high general obligation bond credit ratings. This low ratio provides evidence of the high wealth levels available to repay City indebtedness and the currently "moderate" claim on those resources. For example, Moody's has stated in their published credit reports on the City that while the City has substantial borrowing plans, debt burden should remain modest due to the City's large revenue base. Because the relatively low ratio of debt to assessed value is a key element of the City's credit quality, it is recommended that the City attempt to remain below 100% of the median in planning for future debt issuance.

It is important to note that few jurisdictions have been downgraded by the rating agencies due to large amounts of overlapping debt. Moody's has cited the City of Pleasanton as an extreme example of a downgrading that occurred in 1987 due to a large increase in tax allocation debt that dwarfed that city's direct debt. While such extreme growth in overlapping debt is unlikely, the standards for the City of Los Angeles are higher. The City currently enjoys high ratings on its general obligation bonds of Aa1 from Moody's (its second highest rating) and AA from Standard & Poor's (its third highest rating). The City's bond ratings were downgraded by Moody's in July 1993 due primarily to the effects of the severe and protracted recession and restructuring of the area economy. However, Moody's noted that the City's debt has increased significantly in the past five years. If the City were to reach 100% of the median for overall debt measurements, the significance of the City's high wealth levels and sizable tax base would be diminished as the ratios of debt to that wealth increase. The loss of this distinguishing credit strength would make the City more vulnerable to a further downgrade, especially if additional adverse events occur.

Based on an analysis of projected future debt issuance, the City Administrative Officer and the City's General Financial Advisors suggest that the City manage its issuance of both direct debt (such as general obligation bonds and lease purchase certificates of participation) and overlapping debt relative to the various indices of debt capacity. The debt issuance projections and debt capacity indices are provided in Exhibit One (The "Debt Capacity Study"). In order to provide an estimate of the additional capacity for all such debt, the debt capacity study analyzes the City's overall debt capacity using three alternative ratios of overall debt to assessed value: (1) 65% of the Moody's median, for the low end of the range, which would maintain the current relative debt position; (2) 85% of the Moody's median as the objective for the ratio; and (3) 95% of the Moody's median as the target upper limit. Based on a desire to preserve the City's current credit strength of "modest" debt burden, a planning objective of 85% of the Moody's median was selected as the definition of the City's debt "capacity", providing a cushion to accommodate unplanned debt issuances which would impact the ratio while maintaining the ratio below 95% of the median.

The City has reviewed this proposed debt capacity guideline with the rating agencies. The response from both rating agencies, Moody's and S&P, was similar: the means used by the City to allocate its debt capacity, whether by written policies, dollar limits, or proactive management, is

not as important as the fact that the City recognizes the importance of allocating debt capacity and it is being done in some manner. Therefore, a specific dollar limit, or one tied to a formula, is not seen as critical to preserving the City's creditworthiness. However, the imposition of some kind of limit was recognized by the rating agencies as a useful management tool. It was further believed that the level of any limit be sufficient to ensure that all of the City's capital needs could be met into the future and that the City not defer the issuance of bonds as a result of the limit that would otherwise be necessary to maintain the City's capital infrastructure. These policies were drafted in large measure, to address these rating agency concerns.

The Debt Capacity Study analyzes the five-year period from fiscal year 1993-94 through fiscal year 1997-98 based on projections of direct debt issuance (general obligation and lease financings), projections of assessed value growth, and projections of overlapping debt issuance for purposes other than Mello-Roos and assessment projects. During this five-year period, projected issuances of direct debt by the City are as follows:

Authorized General obligation bonds	\$ 490,670,000
Parcel Tax Bonds	235,005,000
Real Property Lease Financings	<u>321,025,000</u>
Equipment Lease Financings	428,740,000
Subtotal	1,475,440,000
Less: Retirement of debt	544,024,000
NET INCREASE IN DIRECT DEBT	<u>\$ 931,41000</u>

In addition to the above increase in direct debt, overlapping debt from other jurisdictions of \$120,000,000 per year was assumed for this five-year period, based on debt issuance in the past. Furthermore, the planned issuance of \$200 million in assessment bonds for fire safety improvements in commercial buildings, already approved by the City Council, has been included in the forecast.

The amount of the City's additional capacity for overall debt, using this approach, is shown in the table which follows:

Target Ratio of Overall Debt to Assessed Value	Estimated FY 1994 Additional Capacity (in 000's)	Estimated FY 1998 Additional Capacity (in 000's)
65% of Median	\$ -413,561	\$ -378,987
85% of Median	760,478	1,103,211
95% of Median	1,347,498	1,844,310

These capacity projections are based on an assumption that the City's assessed value grows at an annual rate of 6.0% from fiscal year 1993 to fiscal year 1998. This growth rate is less than the average annual growth rate of 9% from 1989 to 1994 but is more than FY 93-94 growth of 2%. Based on this assumed growth in assessed value, the capacity for additional debt is assumed to increase from \$760 million in fiscal year 1994 to \$1,103 million in fiscal year 1998. This increase in capacity over this time is the result of assumptions behind additional direct debt issuance, which project new issuance at a rate less than the increase in debt capacity.

Allocation of Debt Capacity

The additional capacity for overall debt must be viewed in conjunction with all the potential users of that additional capacity, which include: (1) the City, for general obligation, special tax and lease financings in addition to those currently identified and projected above; (2) debt in excess of the projections above issued by overlapping jurisdictions such as the CRA, County and School District; and (3) future Mello-Roos and assessment financings.

Because there are competing uses for the additional capacity, it is recommended that the City initially allocate only a portion of this capacity to Mello-Roos and assessment financed projects based on City policy objectives. The recommended basis for allocation is as follows:

Limit Mello-Roos and Assessment Debt to Half of Projected Additional Debt Capacity

An initial allocation of half of the projected additional debt capacity to Mello-Roos and assessment projects would provide approximately \$550 million through fiscal year 1998. The initial \$550 million allocation to Mello-Roos and assessment projects is a guideline. The actual amount allocated to Mello-Roos and assessment financings could vary based on: (1) The amount of debt projected to be issued by the City and overlapping issuers, which have priority use of the debt capacity; and (2) the projected assessed value of property in the City, on which debt capacity is based. The five year debt capacity projection will be evaluated annually and the debt capacity allocation to Mello-Roos and assessment adjusted accordingly.

Allocate Mello-Roos and Assessment Capacity Between New Development and Existing Development in Need of Improvement

A fair allocation of limited debt capacity must balance the needs of the owners of undeveloped or underdeveloped land and the owners of existing buildings for financing improvements for public benefit. Allocation between these potential groups of applicants will not be preset, but will depend upon the anticipated demand for funds by projects in both categories and the extent to which the projects provide a public benefit.

Allocation of Mello-Roos and Assessment Capacity Over Fiscal Years and Among Projects

Each allocation of debt capacity will be made in light of other projects which are anticipated to seek such allocation in the future. The amount of Mello-Roos and assessment debt approved in any fiscal year and for any project may be limited to assure that the City's limited debt capacity is equitably distributed. If capacity is used within too short a time (or on too few projects), future year capacity would be extremely limited.

Encourage Non-Mello-Roos and Non-Assessment Debt Structures

Certain types of projects may qualify for other tax-exempt financing besides Mello-Roos or assessment financing. For example, a recycling facility may qualify as a tax-exempt private activity, whose bonds could be supported by project revenues. Such debt would be viewed as self-supporting by the rating agencies, and excluded from the calculations of the City's debt burden. The City will encourage such projects, if publicly financed, to be secured as revenue debt, or initially financed with Mello-Roos debt to be taken out as revenue debt when self-sustaining, in order to further preserve debt capacity.

Careful Selection of Eligible Projects

The types of projects that the City authorizes to use Mello-Roos and special assessment financing must meet the criteria discussed in Section U, herein, and will be scrutinized by the bond rating agencies. Although Mello-Roos and special assessment bonds are typically not rated, the bond rating agencies evaluate an issuer's Mello-Roos and special assessment debt in the context of the issuer's overall debt burden and the benefit the issuer receives from the use of its bonding capacity. The rating agencies prefer that the debt be used to provide the greatest public benefit. Schools, public transportation, public facilities for police or general services and general transportation improvements have been mentioned as positive uses for this type of debt. Streets, gutters, internal sewers and related internal infrastructure have been mentioned as examples of projects that would not be the best use of the City's limited debt capacity. The City's criteria for project funding has been developed accordingly.

Five Year Planning Activity

In Section IV of these Policies, an Interdepartmental Review Committee is established to consider project applications. This Committee shall also be charged with annually reviewing the City's capacity for Mello-Roos and assessment debt, and revise its five year target for this debt accordingly. The review committee will develop and present to the Mayor and Council a Five Year Plan for such debt. The Plan will take into account the projected capacity and the projected demand for projects, and may provide a tentative allocation of projects over the five year period based upon such factors as type of improvement and area of the City. This Five Year Program shall not be binding, but will serve as a planning tool to be used when considering applications.

SECTION II

PROJECT REVIEW CRITERIA FOR MELLO-ROOS AND ASSESSMENT FINANCING

The following sets forth the principal criteria which will be considered when reviewing proposals for financing. The Interdepartmental Review Committee will review applications for such financing and make recommendations to the Mayor and Council as to the appropriate findings of benefit, if any. See Section IV - "Application and Administrative Procedures".

Extraordinary Public Benefit

As stated in Section I, Mello-Roos and assessment debt reduces the City's overall debt capacity for the benefit of a private development. The transfer of this limited City asset to benefit a private development mandates a City policy that conditions approval of Mello-Roos and assessment financings on the receipt of an Extraordinary Public Benefit from the project financed.

Distinguishing Extraordinary Public Benefit from simple-mitigation measures to be carried out by the developer can be a difficult task. Therefore, it is recommended that the application form for Mello-Roos and assessment financing contain: (i) a section titled "Extraordinary Public Benefits" which requires the applicant to describe in detail the nature of such Benefits offered; (ii) an explanation of which factors should be considered by the City as evidence of Extraordinary Public Benefit; and (iii) a statement that exaction measures provided pursuant to a development agreement the applicant has negotiated with the City may be listed as part or all of the Extraordinary Public Benefits required for these financings. (See item 5 of application form attached hereto as Appendix 1.)

The following factors will be considered by the City as evidence of Extraordinary Public Benefit in evaluating all applications for financing (on large-scale multi-phase projects, the City may evaluate Extraordinary Public Benefit based on the benefits provided by entire project rather than evaluating each phase separately):

Regional Benefit

Under existing State law, developers are required to mitigate certain regional impacts of their development by providing improvements which benefit a regional population. Examples of regional improvements are libraries, fire stations, parks and recreational improvements of a unique or otherwise significant nature that are anticipated to serve residents from across a city. Additional examples included transportation improvements which result in significant net improvement to the regional transportation system after accounting for any negative impacts of the new development. By contrast, such dearly local benefits as local streets would not merit financing under these Policies.

Another feature of a regional benefit could be construction of an innovative improvement which, though of primarily local direct benefit, is viewed as a pilot project with potentially broader application. For example, a development-supported waste processing facility primarily benefiting local residents, but incorporating new waste management technologies, might qualify as such a pilot project, if development of such alternate technologies were of sufficiently high priority to the city.

Yet another feature of regional benefits could be improvements to an existing development. For example, assessment financing of fire sprinkler retrofit could be viewed as significantly benefiting the general public (not only the building owners and tenants) by increasing the fire and life safety of a high-density land use (i.e., commercial buildings) regularly visited by the general public.

Accelerated Improvements

Often, development exactions are in the form of fees paid to the City to finance public improvements, such as Quimby fees paid in lieu of park development. Efficient utilization of these revenues can be impaired by the City's inability to collect all of the fees required to finance an improvement prior to the construction of the improvement. In some instances, creation of a Mello-Roos special tax district as an alternative to such fees could accommodate more timely completion of important public improvements. Bonds could be issued up-front to finance the improvement and paid off through special taxes collected over time from the developers and subsequent property owners and their tenants. The level of benefit of such acceleration would depend on the benefits of the project itself. More specifically, acceleration would more likely be found to be an "Extraordinary Public Benefit" when the improvements themselves generate regional benefits.

Additional Public Improvements

"Extraordinary Public Benefit" could be found where a developer seeks to finance public improvements beyond those required as a condition of development. For example, provision of additional park lands or recreational facilities.

Environmental Benefits

"Extraordinary Public Benefit" could also be found where environmentally beneficial activities are included as part of a proposed development. Examples of such environmental benefits are: the acquisition and preservation of wetlands (or other significant ecological habitats); the provision of public access to coastal areas and recreational trails; child care and other facilities, which facilitate the jobs/housing balance desired by the City; and the construction of storm water treatment facilities. The City, however, will not provide financing for the clean up of contaminated property.

Low-income Housing and Economic Development

Public infrastructure undertaken in connection with low and very-low income multi-family rental housing and low and medium income first time owner occupied housing (as defined by Federal law) as well as areas targeted for economic development (such as enterprise zones or redevelopment project areas), including infrastructure with only local benefit such as local streets, could be deemed to be of "Extraordinary Public Benefit". Public financing could be considered if it furthers the policy goals of such programs.

Other Tests

No policy can anticipate all of the instances when an improvement would be of such Extraordinary Public Benefit to merit public financing. Additional projects will be considered when they meet the intent of the above tests.

Project Feasibility

A key goal of these Policies is to ensure that any public financing undertaken on behalf of private property owners will be repaid without interruption. Typically, the greatest risk of default under such financings occurs during the initial years when the special taxes or assessments are borne by the initial property owners (i.e., the developers prior to the successful marketing of a project to buyers and tenants). The following sets forth the criteria for determining the feasibility of a project and the public financing (either Mello-Roos or assessment lien) which will support it. See Section IV -"Application and Administrative Procedures" for a discussion of the application procedures.

The following factors will be considered by the City as part of all applications to evaluate a project's feasibility and suitability for financing:

Developer Qualifications

To minimize the risk of default, the City will provide public financing only to developments undertaken by developers of proven capabilities. Accordingly, applications for public financing must be accompanied by the applicant's resume, appropriate due diligence records for the type of business entity involved, the financial plan for the project, and references from the project lenders.

Property Owner Review

The City, or its representative, will review the financial capability of all property owners owning more than 20 percent of the land within the district, which will include a review of their financial statements for the prior three years and prior property tax records.

Project Review

The City, or its representative, will analyze project pro formas to evaluate risks such as construction delays, extended market absorption periods, cost overruns and pricing feasibility. This analysis will form the basis for determining the appropriate structure of the third party guarantees and the appropriate value-to- lien ratio.

An Absorption Study, projecting the rate at which homes are purchased and office space is leased based on assumptions as to projected sale prices, lease rates, and comparable real estate market information, will be required for all projects to be secured by new development. A market absorption consultant will be selected by the City. The cost of such study to be paid out of application fees.

Environmental Audit

To minimize the possibility of the City's and prospective bond holders' involvement with contaminated property, all financing applications must be accompanied by a Phase I audit report of the subject property which concludes there is minimal or no possibility of contamination. If the audit concludes that contamination exists or further studies are warranted, the applicant shall conduct an appropriate Phase II audit of the property, and funding eligibility will be based on the results of the Phase II audit. Mello-Roos or special assessment bond proceeds will not be used to fund hazardous materials mitigation.

Value-to-Lien Ratios

A value-to-lien ratio is the ratio of the appraised value of the property, including the value of the proposed improvements, to the total assessments and special tax liens on the project. The higher the value-to-lien ratio, the greater the amount of equity securing a Mello-Roos or an assessment bond. State law requires a minimum of 3:1 value-to-lien ratio, with certain exceptions. However, in recognition of the volatility of property values, the need to ensure adequate security for the bonds, and to provide consistency with current underwriting standards in other jurisdictions, the City will require a minimum 4:1 value-to-lien ratio. The City reserves the right to require an even higher value-to-lien ratio on specific projects which have greater risk relative to the ability to dispose of the property in the event of a default. The City further reserves the right to permit a lower value-to-lien ratio on public projects.

The City will rely on an independent MAI appraiser, selected by the City and the cost paid out of application fees (see Section IV -- "Consultant Selection"), to determine appraised value of the property. The assessed valuation of a property by the County Assessor may be considered for financings secured by existing developed properties.

The City, or its representative, will review the applicant's estimate of the costs of the improvements, as well as costs associated with the proposed financing, to determine the total lien created by the financing. The applicant will provide the City with a preliminary title report in order to evaluate any prior tax-level liens on the property. Because these bonds are secured by a superior lien on the underlying property, no accounting is made of mortgage liens on that property.

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

The greatest exposure to default on Mello-Roos or special assessment bonds is the period between the issuance of the bonds and project stabilization (the point at which the cash flow to the developer is sufficient to generate 110% of developer obligations). 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 in a Mello-Roos or special assessment bonds can negatively impact the City's bonding capacity or market perception.

To minimize the risk of a default, the City may require third party guarantees for the annual special assessment or special tax payments within the district. If required, the third party guarantee must be provided on or before the date of delivery of the bonds. Third party guarantees can include letters of credit, surety bonds or some other mechanism which assures payment of special taxes in the event of the bankruptcy of the developer entity or its principals. The need for and nature and duration of any third party guarantees will be evaluation on a case-by-case basis.

SECTION III

MELLO-ROOS AND ASSESSMENT REQUIREMENTS

While Mello-Roos and Assessment financings are typically requested by larger property owners acting in the capacity of developers, the special taxes and assessment liens will eventually be paid by future property owners and tenants, who are not present at the time the transaction is structured. Furthermore, while the City's liability, in the event of a default of a Mello-Roos or assessment financing is limited, a default of a financing could impact investors' willingness to purchase such bonds in the future, as well as to purchase other bonds issued by the City. As it is the City's desire to protect the interests of both the future taxpayers of the developments and protect its own debt position, the following sets forth the general terms and conditions for financing approaches, project costs, special taxes and assessment liens and the structure of bonds.

Financing Requirements

Construction and Acquisition Financing

There are two basic approaches to the management of Mello-Roos and assessment financings and the timing of their bond issues. The bonds can be sold prior to the beginning of construction, with the bond proceeds used directly by the City or its agent to make contractor payments. This form of Mello-Roos and assessment financing is called a "Construction District". Alternatively, the developer can construct the public improvements, pay contractors out of its own funds, and be reimbursed upon project completion out of bond proceeds. These bond issues occur on or about the time of project completion, and are structured as "Acquisition Districts" (i.e., the proceeds are used by a public agency to acquire the finished improvements from the developer). The City has a preference for acquisition districts but will consider both acquisition and construction districts, or a combination of the two.

Construction District: The City will consider construction districts on a case-by-case basis. Improvements constructed as part of the construction district will be subject to various City requirements including inspections.

Acquisition District: Acquisition financing will generally be used for projects undertaken through the City's "B-Permit" process. This process generally occurs with improvements on and minor improvements adjacent to property currently owned or controlled by the developer. Under the B-Permit process, the developer manages and finances the construction improvements, but must comply with various City requirements including inspections.

Eligible Project Costs

The City will determine the portion of a project's costs that is eligible for public financing on a case-by-case basis. The City may choose to finance only a portion of the costs of any public improvement. The City will limit reimbursements for prior expenses to direct project costs, such as engineering and design.

The City will not reimburse the developers' indirect project costs, such as legal fees, financial advisor fees and expediting costs. Such costs incurred by the City or its consultants in connection with forming the district or structuring the financing will be eligible for reimbursement at the City's discretion.

During the project review process, Council approval may include "inducement" for Federal tax law purposes, by which the City sets forth its intention to undertake a tax-exempt financing, which would allow for reimbursement of subsequent project costs out of bond proceeds. Such Council approval would not, however, constitute the more formal "Resolution of Intention", described in Section IV -- "Formation of a District and Issuance of Bonds", or ensure that all costs incurred as of that date would be reimbursed even if a financing were eventually approved.

Special Tax and Assessment Requirements

While bond proceeds provide the immediate source for financing improvements, it is the annual levy of Mello-Roos special taxes and special assessment liens servicing this debt which serve as the ultimate source of financing. The special tax or assessment lien must be sufficient to adequately secure the debt so that the risk of default (and thus the interest cost) is reasonably low. But the special tax or assessment lien must also be fair to the taxpayer. In the case of most Mello-Roos financing, the ultimate taxpayer (*e.g.*, the home buyer) is typically not present at the time the CFD is formed and the tax formula is determined. These Policies are intended to provide for special taxes and assessment liens which meet both the investors' requirements for security and the taxpayers' requirements for an equitable and reasonable tax structure.

Accordingly, to mitigate the risk of default and help protect future special tax and assessment lien payers in the district, the following will be additional requirements of any Mello-Roos or special assessment financing approved by the City:

Special Tax Consultant

In the case of Mello-Roos financing, a special tax consultant will be engaged by the City, and the cost paid out of application fees (see Section IV -- "Consultant Selection"), to assist in the formation and the administration of CFDS. The consultant role is to collect various information on the tax base in the CFD, and assist in the development of appropriate special tax calculation and allocation methods.

Maximum Tax and Assessment Burden

The City will seek to limit the amount of special taxes and assessment liens levied annually against each property as a result of Mello-Roos and assessment projects. Analysis will be undertaken of all existing tax liens (*e.g.*, the 1% property tax, other Mello-Roos special taxes, pre-existing voter approved taxes and assessments) and of the proposed annual special tax or assessment lien. Generally, the maximum special tax or assessment lien the City will approve will be that amount which, together with other taxes and assessments on a property, results in a total annual levy of no more than 2% of anticipated assessed valuation after improvements are built. The City may, therefore, limit the amount of Mello-Roos special taxes to something less than the maximum annual tax rate permitted under the terms of the CFD. A higher tax may be considered for commercial properties.

Calculation and Allocation of Special Assessment

By law, the amount of an assessment lien must directly reflect the benefit received from the improvement. The City will continue to follow current practice by which the total cost of the project, including financing, is spread to property owners based on the appropriate property-based measure of benefit, including linear feet of frontage **or** square feet of land or improvements, as adjusted to reflect actual benefits received by the assessed properties.

Calculation and Allocation of Special Tax

Significant flexibility is allowed for the structuring of Mello-Roos special taxes because the law does not require a direct relationship between the tax and the benefit received. As a result, the tax structure of CFDs can be very complicated and special tax consultants are required. In order to ease the administrative burden of such financings, the City will adopt a flexible system for calculating and allocating this tax which: (i) provides a rational linkage between the benefit received and the tax paid (e.g., adjusted square footage of land); and (ii) permits varying approaches in different CFDs to determine this rational linkage. The tax rate on unimproved property shall not be significantly lower than the tax rate on improved property within the district. The tax rate can account for basic land use designations. For example, a Mello-Roos special tax could be levied at a higher rate against commercial properties than against residential properties.

Special Tax Coverage and Maximum Tax Rates

The maximum tax rate adopted in each district 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. Any delinquent properties will be excluded from the tax base when calculating the subsequent year's special tax (the special tax would still be levied against such delinquent properties).

Bond Structure Requirements

Mello-Roos and assessment bonds are limited obligations of the CFD payable only out of the proceeds of the special taxes and assessments, respectively. The City's obligation is limited to the collection of the taxes and assessments, and the prosecution of foreclosures in the event of non-payment. While such bonds will not be secured by the credit of the City, it is in the City's interest to ensure that the bonds are properly structured and marketed. An improperly structured bond issue would increase costs and risks for the property owners in the special tax or assessment district, for future property owners wishing to utilize these financing tools at the lowest cost, and for the City as a whole, whose general debt could suffer adverse market impacts from a default on an obligation bearing the name of the City of Los Angeles. The guidelines for such bond issues are set forth below.

Underwriter and Bond Counsel Selection

Subsequent to initial approval of an application, a selection panel will be formed to recommend an underwriting team to be approved by the Mayor and Council. See Section IV -- "Consultant Selection".

Method of Sale

It will be the City's policy to sell Mello-Roos and special assessment district bonds through competitive sale, unless it is otherwise found to be in the City's interest to use a negotiated sale. A negotiated sale may be considered when: 1) a negotiated sale would provide significant cost savings, 2) the issue is complicated and would benefit from the direct involvement of an underwriter to inform the investor community, or 3) when market conditions are highly volatile and the timing of the sale is uncertain.

Maturity

All bonds will mature within twenty-five years or the useful life of the financed facilities, whichever is less.

Principal Structure

It is the City's intent that bonds should be retired through level debt service, consistent with the City's own debt practice. However, the City reserves the right to permit graduated debt service on a case-by-case basis.

Debt Service Reserve Fund

Each bond issue shall provide for funding a reserve fund. Bond proceeds may be used for this purpose up to the maximum permitted by law.

Capitalized Interest

The proceeds of a bond issue which are set aside to make debt service payments prior to project completion are called "capitalized interest". Capitalized interest can improve the credit quality of the bonds and result in lower borrowing costs. However, capitalized interest also uses debt capacity which could otherwise be used for additional infrastructure improvements. Therefore, the City will determine the amount of capitalized interest allowable on a case-by-case basis.

Prepayment

All Mello-Roos and assessment lien proceedings will permit property owners to prepay the lien after paying full costs thereof, including trustee's fees and redemption premiums.

Rating

It is recognized that most Mello-Roos and assessment bonds are not rated by the rating agencies. In certain instances, the City may pursue a rating; however, as a general rule, Mello-Roos and assessment bonds will be issued on an unrated basis.

Timing of Bond Sale

The City will not schedule any sale of Mello-Roos and assessment bonds so as to conflict with the sale of other City securities. In the event of any scheduling conflicts, the sale of the City's bonds will take priority.

Review/Disclosure Requirements

Underwriter Review of Project

When the securities are sold through a negotiated sale (see Section III - Bond Structure Requirements - Method of Sale), the senior underwriter(s) will conduct sufficient due diligence to evaluate project feasibility along with the qualifications and capabilities of the developer and property owners.

Bond Disclosure

All parties to the financing will be responsible for ensuring proper disclosure in the official statement. All features of the disclosure will emphasize that the bonds are secured by the development and the underlying real estate. The City of Los Angeles' presence will be minimized. (For example, the City's name in the title will be of the smallest type size used in the title; disclosure relative to the City's financial condition will be limited to no more than a few paragraphs.) The Official Statement will include information on the project, the developer and major property owners sufficient for a potential investor to make an informed investment

decision, including at a minimum, summaries of the appraisal and the market absorption study. Copies of the appraisal and market absorption study may be included in the Official Statement if feasible. The developer and the underwriter, or their respective counsel, will be required to provide certifications as to the adequacy of the disclosure document. The developer will also covenant to the City that, during development, the developer will provide continuing disclosure to the City and, if requested, directly to the investors and will provide ongoing disclosure after development as appropriate.

Developer's Semi-Annual Update

Financing recipients shall provide semi-annual updates to the City on the progress of the subject project until final completion.

Disclosure to Primary and Future Purchasers and Tenants

State law requires Mello-Roos and assessment liens to be recorded so that they appear on a title report, and a notice be given to the initial purchasers of property prior to the close of escrow. 1992 amendments to the Mello-Roos Act have imposed additional notice requirements and expanded them to include secondary sellers of real property. In order to ensure compliance with State law and adequate disclosure to secondary buyers, the City will impose the following:

Disclosure Statement: Potential purchasers and tenants will be provided a notice which includes: (i) a statement that the property being purchased is subject to a special tax, which is in addition to regular property taxes and any other applicable local tax or assessment; (ii) the maximum annual amount of the special tax, the number of years for which it will be levied, and the permitted amount of annual increases; (iii) the principal, interest rate, duration and prepayment penalty on the bonds; (iv) the prepayment requirements of the special tax or assessment and the right of any purchaser to have the prepayment of the tax or assessment lien assumed as part of the sales price; (v) the specific facilities or services which are being financed; (vi) a statement that the special tax is imposed on the property because it is a new development, and that such tax may not be imposed generally upon property outside of the new development; (vii) a statement that if the purchaser fails to pay this tax when due each year, the property may be foreclosed upon and sold; (viii) a statement that the tax is used to provide public facilities or services that are likely to particularly benefit the property; (ix) a statement that the purchaser should take this tax and the benefits from the facilities and services for which it pays into account in deciding whether to buy the property; (x) the fact that the authorized facilities may not yet have been constructed or acquired and it is possible that some may never be constructed or acquired; (xi) an acknowledgment by the purchaser that he or she has read the notice and received a copy of this notice prior to entering into a contract to purchase or deposit receipt with respect to the property; and (xii) a statement that the purchaser may terminate the contract to purchase or deposit receipt within three days after receiving the notice in person or within five days after it was deposited in the mail.

Secondary Market Disclosure

A procedure must be formulated and implemented to ensure compliance with this requirement for the benefit of secondary purchasers of property.

Additional Disclosure

The City reserves the right to impose additional notification and disclosure requirements it deems appropriate and to amend these policies accordingly.

SECTION IV

APPLICATION AND ADMINISTRATIVE PROCEDURES

The following outlines the key steps (and policies related thereto) of the administrative procedure for receiving and evaluating applications for Mello-Roos and assessment financing, including the roles of various City departments, financing applicants, and contractors.

Application Procedures

The procedures for considering Mello-Roos and assessment financings will be as follows (see also Appendix 2):

Interdepartmental Review Committee

Consideration of proposed financings will be the responsibility of an interdepartmental Mello-Roos and Special Assessment Review Committee (the "Review Committee"). The Review Committee will consist of two subcommittees, the Finance Subcommittee, to include the City Administrative Officer (Chair), City Attorney and Treasurer, and the Infrastructure Subcommittee, to include the Director of Planning (Chair), the City Engineer and the General Manager of the Department of Transportation. Other City departments and the Community Redevelopment Agency will participate in project review on an as-needed basis. The Finance Subcommittee will review applications and make recommendations as to the financial structure of the proposed project, and the City Administrative Officer will oversee the establishment of the district and development of the financing. The Infrastructure Subcommittee will review applications and make recommendations as to whether the proposed improvements to be funded are consistent with planning, engineering and transportation approvals and the improvements to be funded with bond proceeds are consistent with these Policies. The Review Committee will also recommend any amendments to these Policies as appropriate.

Pre-Application Communication

Early communication with the City (through the members of the Review Committee) is encouraged to assist potential applicants in evaluating the feasibility of utilizing these financing programs and to discuss program procedures. In many cases a pre-application conference will be appropriate to discuss the project.

Application Filing and Initial Evaluation

An application, substantially in the form as Appendix 1, will be filed together with a \$5,000 initial application deposit with the Planning Department. The Planning Department will check the application for completeness and, if necessary, request the applicant to provide further information. The Committee will consider the public benefits offered by a financing applicant, make a preliminary assessment of the project feasibility, and transmit its recommendations to the Council and the Mayor. The Council may grant provisional approval at this stage, and authorize staff to proceed with a more comprehensive project review.

This Council approval may include "inducement" for Federal tax law purposes, by which the City sets forth its intention to undertake a tax-exempt financing, which would allow for reimbursement of subsequent project costs out of bond proceeds. Such Council approval would not, however, constitute the more formal "Resolution of Intention" described below, or

ensure that all costs incurred as of that date would be reimbursed even if a financing were eventually approved.

Comprehensive Project Review

After the Council and Mayor grant provisional approval, the execution of a "Deposit and Reimbursement Agreement" and the completion of the required environmental audits, the City will appoint the appraiser, absorption and/or other feasibility consultants for the proposed financing. The Review Committee and its consultants will then conduct a comprehensive review of the developer, property owners and the project, seeking additional reports or other information as appropriate. The Committee will report its recommendations to the Council and the Mayor. This report will provide the basis for the Officer's report required under Mello-Roos statutes. In addition, the report shall include the Committee's recommendations for underwriters and bond counsel for the project, and any special condition of financing approval.

Project Approval

After consideration of the Review Committee's recommendations, the Council may approve proceeding with a financing. This approval will be viewed as the requisite action to initiate legal proceedings under the Mello-Roos and assessment statutes. While the various statutes also provide for initiating proceedings by petition, the application and review procedures outlined above are better facilitated by the City's legislative action. If the Council approves proceeding with a financing, subject to approval by the Mayor, the City Attorney will be instructed to prepare the Ordinance of Intention to establish the district, and the City Engineer will be instructed to prepare the necessary maps. The City Engineer may contract for such services if it is determined to be more cost effective or feasible.

Application Requirements

The following items will be required for evaluating Mello-Roos and assessment financings:

Fees

It will be the City's policy to charge non-refundable fees to cover its full costs associated with the financings. Accordingly, application and bond issuance fees will be collected pursuant to a Deposit and Reimbursement Agreement between the applicant and the City, executed prior to the City beginning its comprehensive project review. An initial \$5,000 non-refundable application deposit will be required of a fee for preliminary City review costs. The City will assess supplemental fees to cover all City and consultant costs in developing the financing. Some or all of these fees may be recoverable from bond proceeds when a financing is completed and any surplus fees would be refunded. Additionally, the costs associated with administering a district after bonds are sold will be recaptured through an annual "administrative special tax" or "administrative assessment" which is added to the annual tax or lien assessment of that district.

Environmental Review

The applicant will engage an environmental consultant to perform a Phase I environmental audit of the property (if one has not already been done). The selection of such a consultant and the scope of review will be subject to City approval. The City will receive copies of such audit together with all soil, hazardous waste, toxic materials, or similar reports. Additionally, if the Phase I audit indicates the possibility of hazardous wastes or materials on the subject property, the Review Committee may request a Phase II audit to further study the property.

Consultant Selection

The procedures for selecting consultants in conjunction with a Mello-Roos Assessment District financing will be as follows:

Appraiser

The City will rely on an independent MAI appraisal to determine the value of the project for calculating value-to-lien ratios. The appraiser shall be selected by the City, and the appraisal paid for out of application fees. The appraiser shall not have previously prepared appraisals for the applicant or any related partnership or entity regarding the property being financed. The City will be responsible for drafting the appraisal instructions and reviewing the appraisal report.

Market Absorption Study

An Absorption Study is an analysis of the rate at which homes are purchased and office space is leased based on assumptions as to projected sale prices, lease rates, and comparable real estate market information. An Absorption Study will be required for all projects to be secured by new development. A market absorption consultant will be selected by the City, and the cost of the study paid out of application fees.

Special Tax Consultant

In the case of Mello-Roos financing a special tax consultant will be engaged by the City to assist in the formation and the administration of CFDS. The consultant role is to collect various information on the tax base in the CFD, and assist in the development of appropriate special tax calculation and allocation methods. The special tax consultant will be selected by the City, and paid out of application fees. The City may consider the applicant's preference for a tax consultant.

Underwriter Selection

When it has been determined that a negotiated sale is in the City's best interest (see Section III - Bond Structure Requirements - Method of Sale), the City will form an underwriting team for Mayor and Council approval. The underwriting team will be formed as follows: the senior underwriter will be selected by the majority taxpayer from the City's list of qualified senior underwriters; co-managing underwriters will be selected by rotation from the City's list of qualified underwriters. The number of underwriters on a particular transaction will depend on the size of the transaction. Firms selected by rotation will be removed from the list after serving on a transaction until all firms have participated in a transaction.

A City selection panel, comprised of a representative of the City Administrative Officer, other interested City staff members of the Interdepartmental Review Committee, and the appropriate City financial advisor, will solicit statements of qualifications and establish a list of underwriters qualified to serve as senior underwriters and co-managing underwriters. This list will include appropriate minority- and women-owned firms. The list will be updated every three years. Firms not on the City's list will be considered only if they can demonstrate unique qualifications necessary for a particular financing.

Bond Counsel Selection

The City will solicit statements of qualifications and establish a list of law firms qualified to serve as bond counsel. This list will include appropriate minority- and women-owned firms.

Subsequent to initial approval of an application, a selection panel will be formed to be comprised of a representative of the City Administrative Officer, the City Attorney, other interested City staff members of the Interdepartmental Review Committee, the appropriate City financial advisor, and the applicant. This panel will review the list of qualified bond counsel, solicit supplemental proposals if appropriate, and recommend bond counsel for Mayor and Council approval.

Formation of a District and Issuance of Bonds

The above application process is intended to provide the City with the information necessary to assure itself that any proposed district will satisfy the various policy objectives set forth herein. Subsequent to the review and approval process set forth above, various other actions must be taken to meet the statutory requirements of a Mello-Roos or assessment financing and to issue bonds.

Ordinance of Intention

The City Attorney will transmit to Council the Ordinance of Intention to form a district. This will define the boundaries of the proposed district, the proposed maximum special tax rates or assessment liens, set the date for a public hearing, and direct staff to prepare various additional reports and documents required for district formation.

Formation Proceedings

Subsequent to adoption of the Ordinance of Intention, various actions will be required of City departments to form Mello-Roos or assessment districts, they are as follows:

Public Notice: Notice will be mailed and published by the City Clerk (and posted, if required by an assessment statute, by the City Engineer), as required by the relevant statute(s).

Officer's Report: Under the Mello-Roos statute, the Council must direct each of its officers, who is responsible for providing one or more of the proposed types of public facilities or services to be financed, to study the proposed district and file a report containing a brief description of the facilities which will be required to meet the needs of the proposed district and an estimate of the cost of providing those facilities. In order to efficiently meet this requirement, all officers responsible for providing the facilities or services proposed for a particular project will participate on the Review Committee with the permanent members detailed above. The Review Committee's report will then be considered the officer's report for purposes of complying with state statutes.

Public Hearing: A public hearing will be scheduled before the Council on the date set in the Ordinance of Intention. Provided the Review Committee's report has been filed, the public hearing will be held. Otherwise, a finding of "complexity" will be made, and the public hearing continued to the anticipated date of completion of the report.

Ordinance of Formation: Unless there are sufficient protests at the public hearing to halt formation proceedings, the Council may direct the City Attorney to draft an Ordinance of Formation.

Election: Because it involves a special tax, a Mello-Roos financing requires an election. The City Clerk shall determine the number of registered voters residing in the proposed district. If less than twelve registered voters reside in the district, or the special tax will not be imposed

on residential property, then the vote will be by the owners of land in the district. It is anticipated that all or most such districts considered under these Policies will involve such landowner votes. The Mello-Roos election is conducted pursuant to the State and City Elections Code, unless there is unanimous consent of the qualified electors in the proposed district to waive such requirements. In such as case alternate voter procedures may be utilized (such as voting prior to the 90 day minimum waiting period or voting by mail). The City Clerk will conduct the appropriate election for a proposed Mello-Roos district and certify the results to the City Council.

Levy Special Tax: Following certification of the election, the City Attorney, with the assistance of bond counsel and CAO, will submit an ordinance to levy the special tax to the Council. Following its adoption and publication, the City Clerk will record the lien with the County of Los Angeles.

Bond Issuance

Subsequent to approval of the Resolution of Formation and, for Mello-Roos, the election, the Council will consider approval of the bond documents. The City Administrative Officer shall be the lead department in the issuance of bonds subject to these Policies, and shall report his recommendations relative to the terms and conditions of each proposed bond issue.

District Administration

The following outlines the administrative procedures and responsibilities following issuance of the bonds.

Disbursement of Bond Proceeds

Bond proceeds may be held in the City Treasury in an interest earning special fund (and invested as part of the City's general pool or separately, as determined by the Treasurer) or held by a third-party trustee. The specific mechanisms for disbursements will be set forth in the bond resolution.

Administrative Levies

The City will levy on each property within an assessment district or CFD an annual assessment or special tax, as appropriate, that reflects the costs to the City associated with that district. The maximum rate for each district will be set forth in the Ordinance of Formation. The actual rate of such levy will be based on rates adopted by the Council. These rates will be reviewed from time-to-time to ensure that they accurately reflect City costs.

Levy of Assessments

The basic assessment levied on each property is determined at the time the bonds are sold. The Treasurer or his designee (which may be the City Engineer or other City officer) will be responsible for annually transmitting to the County of Los Angeles sufficient information to assure collection, along with the property tax levy, of the basic assessment to pay debt service on the bonds and the administrative levy.

Levy of Special Taxes

The special tax for any CFD will be calculated annually in accordance with the Ordinance of Formation for the subject district and will include any additional levies to meet the coverage requirements for that tax as well as the City's administrative levy. The Treasurer or his designee will be responsible for annually transmitting to the County of Los Angeles the information necessary to include the levy on property tax bills. If required or permitted by the Resolution of Formation for that CFD, initial billings of special taxes may be made directly by the Treasurer.

Administration of and Accounting for Assessment and Special Tax Collections

Prior to September 1 of each year, the Treasurer or his designee will request from the County the delinquency roll for each district and complete the accounting of receipts.

Administration of the Bonds

After deduction of the administration charges, revenues from the special tax will be deposited in the appropriate debt service funds maintained by the Treasurer or by a trustee, who will be responsible for paying interest and principal as due. The Treasurer will be responsible for ensuring other administrative requirements of the bond resolution are met, such as arbitrage and reserve fund administration.

Prosecuting Delinquencies

Because Mello-Roos and assessment bonds are secured exclusively by payments from property owners, bond investors (and letters-of-credit providers for such bonds, if any) will require that the City covenant to prosecute foreclosure on defaulting property within a few months of determining such a default. The City Attorney will be required to file a suit in Superior Court to prosecute such foreclosure. If the special tax or assessment remains unpaid and the foreclosure is prosecuted to conclusion, the property will be sold to the highest bidder at a tax sale, with the proceeds of the sale used to satisfy the delinquent payments. At no time will the City obtain or retain ownership of the property (unless it is acquired by the City for a public purpose).

With large districts containing a large number of proprioration, it may not be necessary to foreclose on all delinquent properties as they become delinquent but only when delinquencies reach a pre-determined threshold. Such decisions will be made on a case-by-case basis and governed by the indenture for each bond issuance.

The Treasurer will be responsible for determining any tax delinquencies and notifying the City Attorney to initiate foreclosure. The City Attorney shall retain outside counsel if that department determines it would be more cost effective or feasible, with such counsel's fees paid out of the proceeds of the foreclosure.

APPENDICES

APPENDIX I

CITY OF LOS ANGELES
MELLO-ROOS AND ASSESSMENT FINANCING PROGRAM

APPLICATION FORM

(Please submit 3 copies of this application and any attachments. Use separate sheets if necessary.)

APPLICANT INFORMATION

1. Applicant Information

Project:

Previous name(s) under which project has been known or processed by the City:

Applicant:

Relationship to Property Owner:

Mailing Address:

Contact:

Title:

Phone: ()

FAX: ()

Major Property Owner(s):

Mailing Address:

Contact:

Title:

Phone: ()

FAX: ()

Developer:

Mailing address:

Contact:

Title:

Phone: ()

FAX: ()

Mello-Roos and Assessment Financing Program
Application Form Page 2

DISTRICT INFORMATION

2. Financing Method: (Check all that apply)

Special Assessments

Mello-Roos Community Facilities Act

Revenue Bonds

Other

Undecided

Explanation

3. **District Boundaries.**

Define the boundaries of the proposed Assessment/Mello-Roos district.

4. **Public Improvements Proposed.**

Describe the improvements to be financed through an Assessment/Mello-Roos district. Include a cost breakdown, construction timetable and the operating cost impact on the City.

5. **Extraordinary Public Benefit.**

Describe the extraordinary public benefit you will provide as a condition of the City's burdening its debt capacity with the proposed financing. Extraordinary public benefits include, without limitation: (i) regional improvements which benefit a population beyond the immediate impact area of your project (e.g., libraries, fire stations, and freeway on-ramps); (ii) low and very low income housing; (iii) environmental benefits such as preservation of wetlands or the construction of storm water treatment facilities; and (iv) additional public improvements (e.g., improvements beyond those required by the City Planning Department or CRA as a condition of your project's approval). NOTE: You may list as extraordinary public benefits any environmental mitigation measures or other exactions to be provided pursuant to a development agreement you have negotiated with the City concerning this project.

6. **District Financing Plan.**

State the estimated dollar amount of the proposed Assessment/Mello-Roos bond(s) and your assumptions, including interest rates, maturity and capitalized interest, if applicable. As a guideline, use a maximum 25 year maturity and a maximum one year of capitalized interest. Interest cost assumptions will be provided by the City based on the most recently available information on outstanding comparable Assessment/Mello-Roos transactions.

Mello-Roos and Assessment Financing Program
Application Form Page 3

7. Other Public Infrastructure Needs.

List all other required public infrastructure not financed with the requested Assessment/Mello-Roos district. Provide cost estimates and funding methods.

8. Taxes, Assessment and Liens.

List all existing and proposed taxes, assessments and liens on properties in the proposed district. Provide a recent preliminary title report and recent property tax bill.

9. Other Districts on the Property.

Have you, or anyone else, filed a petition with another public agency (e.g., school or water district) to form an Assessment/Mello-Roos district on the property?

10. Other Property Owners.

Identify other property owners who may be included in the proposed district but who were not indicated in #1, above, and attach a map identifying their properties. Please indicate their level of support for the proposed district.

11. Other Public Assistance.

What other forms of public financial assistance (e.g., mortgage revenue bonds, block grants, Section, 8 funds, etc.) will you pursue for your project?

12. Additional Information.

Do you foresee any unusual requirements, problems or opportunities associated with establishing this district, or financing the improvements?

PROJECT INFORMATION

The City may designate a representative to receive and review confidential materials required below.

13. Project Description.

Provide a map identifying your project. Attach a full description of the project, including number of units/acres by land use, development schedule and utility and transportation requirements.

14. Civil Engineer.

Provide name, address, contact, and phone number of - the project's civil engineer.

15. Market Absorption Study.

Attach a copy of any market absorption study, already undertaken specifying date and contact person. An Absorption Study will be required for all projects to be secured by new development. A market absorption consultant will be selected by the City.

Mello-Roos and Assessment Financing Program
Application Form Page 4

16. Appraisal(s).

List the date and amount of most recent appraisals) and name of appraiser, if any. Attach a copy of the appraisals). The City will rely on an independent MAI appraiser, selected by the City to determine appraised value of the property for calculating the value-to-lien ratio.

17. City Planning Approvals.

List status of planning approvals required for your project, including processing numbers, projected approval dates and any development agreements.

18. Project Pro Formas.

Provide project pro formas (a) assuming conventional financing for the infrastructure improvements and (b) assuming tax-exempt public financing.

19. Project Guarantees.

Identify proposed mechanism for guaranteeing special tax or assessment payments prior to positive project cash flow.

20. Environmental Impacts.

Please attach copies of completed EIR(S) or indicate status. What efforts are planned to mitigate traffic congestion or other impacts, and will such efforts be financed by Assessment/Mello-Roos financing? Please also include copies of any soils or hazardous material surveys prepared in connection with such EIR(s).

21. Environmental Audit.

Please attach a Phase I environmental audit for the subject real property or properties (prepared by a reputable environmental consulting firm).

APPLICANT EXPERIENCE/REFERENCES

The City may designate a representative to receive and review confidential materials required below.

22. Financial Statements and References.

(a) List up to three banking references, one of which should be the current project lender. Include name, address, contact person and phone number.

(b) Provide recent financial statements of developer (or other relevant entity), or provide other information demonstrating past financial performance.

23. Prior Development Experience.

List previous experience on similar developments and any other development ventures in California. Include location, project mix, size (number of units/square footage), year built and role of your development firm. Also provide the name of a city official that you worked with on the project.

Mello-Roos and Assessment Financing Program

Application Form Page 5

24. Prior Assessment/Mello-Roos Experience.

List all Assessment/Mello-Roos financings in which you have participated.

Has an application for such financing on this property been previously denied, or have you ever been party to an abandoned, defaulted or court challenged Assessment/Mello-Roos district? If so, please explain.

25. Application Fee.

Please include a non-refundable \$5,000 initial application deposit, payable to the City of Los Angeles. A Deposit and Reimbursement Agreement between the applicant and the City, will be required prior to the City beginning its comprehensive project review.

Submitted by:

Firm:

Name:

Title:

Date:

Signature:

Received by:

City Official:

Title:

Date:

Signature:

Project Number Assigned:

Distributed to:

APPENDIX 2

CITY OF LOS ANGELES MELLO-ROOS AND ASSESSMENT FINANCING PROGRAM

Application/Approval Process

Stage	Applicant	City	Time Period
Stage 1 Pre-Application Period	Pre-application communication	Pre-application communication	Undefined
Stage 2 Application	Submit Application Including: non-refundable \$5,000, initial application deposit. Phase I Environmental Audit Submit additional information as required.	Planning Department reviews application for completeness (requests additional information as required).	Undefined
Stage 3A Initial Staff Evaluation	No action needed.	Interdepartment Committee Initial Review: Considers public benefits Reviews project feasibility Submits recommendations	Undefined
Stage 3B Initial Council/ Mayor Review	No action needed.	Council & Mayor Review Project: Reject Financing Provisionally Approve Approve Inducement	Undefined
Stage 4A Comprehensive Project Review	Complete Deposit and Reimbursement Agreement	Interdepartmental Committee Appoints Consultants Conducts In-depth Review	Undefined
Stage 4B Comprehensive Project Review	No action needed.	Interdepartmental Committee Prepares staff report Prepares recommendations for Underwriters & Bond Counsel	Undefined
Stage 4B Council/Mayor Review	No action needed.	Council/Mayor Action The Mayor/Council may: Reject Financing Approve Financing, City Attorney to Prepare Ordinance of Intention (for Mello-Roos)	Undefined

Mello-Roos District Formation

The formation steps outlined below are for a Mello-Roos financing, however, the formation steps for an assessment district financing are similar.

Stage	Applicant Action	City Action	Time Period
Stage 1 Approved Financing	No action needed.	City Attorney Prepares Ordinance of Intention per Council Mayor Action	
Stage 1 Alt. Petition	Submit Petition	Agency must adopt ordinance of Intention	90 days from submitting petition
Stage 2 Public Hearing		Conduct Public Hearing Reject Financing Approve Financing, Prepare Ordinance of Formation Revise Financing, Size and Area can be reduced but not expanded Continue Hearing 30 days w/out Special Findings, 6 months w/Special Findings Note: If 50% or more of the registered voters file written protest, the proceedings are abandoned	30 to 60 days after approving Ordinance of Intention
Stage 3 Election Hearing	No action needed.	City Clerk to conduct election certify results	90 to 180 days after Public Hearing (unless unanimously waived by Electors)
Stage 4 Implementation		City Attorney, with assistance of CAO and Bond Counsel submits ordinance to Council for approval of special tax	
Stage 5 Validation		City Attorney to determine need for legal validation	

APPENDIX 3

DEBT CAPACITY STUDY

The following tables provide historical information on direct and overlapping debt levels for the City since fiscal year 1991-92 and a projection of direct and overlapping debt issuance through fiscal year 2000-01. This ten-year period was selected to encompass the five-year planning period used in the report.

A brief description of the four tables is provided below.

Table One This table contains information on the issuance of direct debt by the City that has occurred since fiscal year 1991-92 and that is assumed to take place through fiscal year 2000-01. Debt issuance is broken down by type of borrowing: general obligation bonds, special tax bonds, lease obligations and other bonded general fund obligations. The debt assumed to be issued from fiscal year 1993-94 to 1997-98 is as follows (amounts in thousands):

	Fiscal Years Ending June 30					
	1994	1995	1996	1997	1998	TOTAL
GENERAL OBLIGATION BONDS	\$ 24,723	\$ 14,685	\$ 0	\$ 0	\$ 0	\$ 39,408
Libraries	45,968	45,000	30,000	7,444	0	128,412
Police	15,400	0	0	0	0	15,400
Sprinklers	60,909	99,200	84,200	60,141	0	304,450
Seismic	3,000	0	0	0	0	3,000
Incremental Refunding Bond Amount	150,000	158,885	114,200	67,585	0	490,670
SPECIAL TAX BONDS						
Police Emergency Command Control Communication System	43,305	0	91,700	0	100,000	235,005
LEASE OBLIGATIONS						
Equipment Financings						
General Services Radio Communication System	34,025	0	0	0	0	34,025
MICLA Equipment & Fleet Replacement		87,000	0	0	0	0
	87,000					
MICLA Equipment - General	0	50,000	50,000	50,000	50,000	200,000
Subtotal	121,025	50,000	50,000	50,000	50,000	321,025
Real Property Financings						
First Street North	200,000	0	0	0	0	200,000
Incremental amount issued for Convention Center Refunding	68,740	0	0	0	0	68,740
Other Financings - General	0	40,000	40,000	40,000	40,000	160,000
Subtotal	268,740	40,000	40,000	40,000	40,000	428,740
TOTAL NEW ISSUANCE	\$ 583,070	\$ 248,885	\$ 295,900	\$ 157,585	\$ 190,000	\$ 1,475,440

ars)

Fiscal Years Ending June 30

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
112,825	144,865	168,310	310,995	454,620	545,441	583,747	550,893	517,820	484,536
11,210	2,215	24,723	14,685	0	0	0	0	0	0
15,210	25,575	45,968	45,000	30,000	7,444	0	0	0	0
10,600	0	15,400	0	0	0	0	0	0	0
1,830	1,390	60,909	99,200	84,200	60,141	0	0	0	0
0	0	3,000	0	0	0	0	0	0	0
38,850	29,180	150,000	158,885	114,200	67,585	0	0	0	0
(6,810)	(5,735)	(7,315)	(15,260)	(7,944)	(15,435)	(15,625)	(16,040)	16,250	(16,500)
144,865	168,310	310,995	454,620	545,441	583,747	550,893	517,820	484,536	451,003
61,240	57,160	51,120	87,960	80,280	162,105	141,175	220,240	188,545	159,350
0	0	43,305	0	91,700	0	100,000	0	0	0
0	0	0	0	0	-9,170	-9,170	-19,170		-19,170
(4,080)	(6,040)	(6,465)	(7,680)	(9,875)	(11,760)	(11,765)	12,525	(10,025)	(3,955)
57,160	51,120	87,960	80,280	162,105	141,175	220,240	188,545	178,520	136,225
792,195	832,205	832,220	1,194,115	1,232,402	1,265,915	1,288,413	1,305,098	1,314,544	1,321,947
49,685	14,220	121,025	50,000	50,000	50,000	50,000	50,000	50,000	50,000
0	8,500	268,740	40,000	40,000	40,000	40,000	40,000	40,000	40,000
49,685	22,720	389,765	90,000	90,000	90,000	90,000	90,000	90,000	90,000
	0	0	(14,188)	(21,327)	(29,502)	(38,284)	(47,794)	(57,992)	(68,929)
(9,675)	(22,705)	(27,870)	(37,525)	(35,160)	(38,000)	(35,030)	(32,760)	(24,605)	(26,165)
832,205	832,220	1,194,115	1,232,402	1,265,915	1,288,413	1,305,098	1,314,544	1,321,947	1,316,853
0	0	213,735	198,175	180,175	161,185	141,335	120,575	98,795	75,950
0	213,735	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0
0	0	(15,560)	(18,000)	(18,990)	(19,850)	(20,765)	(21,775)	(22,845)	(24,020)
0	213,735	198,175	180,175	161,185	141,335	120,570	98,795	75,950	51,930
1,034,230	1,265,385	1,791,245	1,947,477	2,134,646	2,154,669	2,196,801	2,119,704	2,041,783	1,958,011

CTIONS

1995 and later assumed to be amortized over 20 years on an equal principal basis at an average interest rate of 8.0%.
 and later assumed to be amortized over 10 years on an equal principal basis at an average interest rate of 7.0%.
 of FY 1994 and later assumed to be amortized over 7 years on a level debt service basis at an average interest rate of 7.0%.
 half of FY 1994 and later assumed to be amortized over 20 years on a level debt service basis at an average interest rate of 8.0%.

is information on the issuance of overlapping debt by the City and other agencies with tax bases which overlap the City (1) Mello-Roos and assessment district bonds, (2) tax allocation debt issued by the Community Redevelopment Agency, the County, school districts and special assessment bonds of the Metropolitan Transportation Authority among others. The overlapping debt in the first category, it has limited control over the issuance of overlapping debt in the other two categories.

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Fiscal Years Ending June 30

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
	0	0	0	110,000	197,056	193,034	188,106	182,784	177,036	170,828
	0	0	110,000	90,000	0	0	0	0	0	0
		0	0	(2,404)	(4,563)	(4,928)	(5,322)	(5,748)	(6,208)	(6,704)
	0	0	110,000	197,596	193,034	188,106	182,784	177,036	170,828	164,124
	650,156	732,925	772,505	651,640	682,040	673,840	668,640	660,240	686,840	676,840
	82,769	39,580	(120,865)	30,400	(8,200)	(5,200)	(8,400)	26,600	(10,000)	10,000
	732,925	772,505	651,640	682,040	673,840	668,640	660,240	686,840	676,840	666,840
	1,258,564	1,321,327	1,556,305	1,676,305	1,796,305	1,916,305	2,036,305	2,156,305	2,276,305	2,396,305
	62,763	234,978	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
	1,321,327	1,556,305	1,676,305	1,796,305	1,916,305	2,036,305	2,036,305	2,156,305	2,276,305	2,516,305
	<u>2,054,252</u>	<u>2,328,810</u>	<u>2,437,945</u>	<u>2,675,941</u>	<u>2,783,179</u>	<u>2,893,051</u>	<u>2,999,329</u>	<u>3,140,181</u>	<u>3,243,973</u>	<u>3,347,269</u>

is assumed to be amortized on a level debt service basis over 20 years at an average interest rate of 8.0%.

lapping debt based on average net increase from June 30, 1986 to June 30, 1993.

ns historical information on the issuance of dept from fiscal year 1985-86 to 1992-93 by agencies with tax bases wh
 average annual net increase in overlapping debt over this time period has been approximately \$120 million.

rs)

		Fiscal Years Ending June 30							
		1986 (1)	1987 (1)	1988 (1)	1989 (1)	1990	1991	1992	1993
ns		0	0	38,224	37,079	35,881	34,514	33,159	31,713
		0	189,028	189,028	189,028	189,028	0	0	0
		336,618	370,416	418,041	397,888	411,802	742,595	832,502	931,660
		108,497	97,267	85,704	74,475	66,128	58,054	50,643	43,173
DP's		0	0	20,544	19,520	18,616	17,621	16,644	15,613
		125,086	125,614	129,992	119,004	164,049	158,401	155,379	151,786
		0	0	0	0	0	0	0	0
		6,162	4,803	4,263	3,860	3,451	43,477	42,913	49,173
		67,937	53,303	37,544	30,918	19,826	203,552	188,947	170,139
		0	0	0	0	0	219	187	152
		0	0	0	0	0	0	0	0
tricts		255	255	255	255	255	133	954	162,897
		0	0	0	0	0	0	0	0
		644,555	840,688	923,594	872,027	909,035	1,258,564	1,321,327	1,556,305
Year (3)		50,000	196,133	82,906	(51,568)	37,009	349,529	62,763	234,978

agency debt.
 120,219.

ns projections of key debt ratios for the City's direct, overlapping and overall debt. The three debt ratios provided a
 (2) debt per capita and (3) debt service as a percentage of general fund revenues.

(Years Except Where Noted)

		Fiscal Years Ending June 30									
Body's 1993 Median		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
		1,034,230	1,265,385	1,791,241	1,947,477	2,134,646	2,154,669	2,196,801	2,119,704	2,041,783	1,956,011
		2,054,252	2,328,810	2,437,945	2,675,941	2,783,179	2,893,051	2,999,329	3,140,181	3,243,973	3,347,269
		3,088,482	3,594,195	4,229,190	4,623,418	4,917,824	5,047,720	5,196,130	5,259,885	5,285,757	5,303,280
		22,768	26,292	33,645	46,461	46,079	46,252	44,510	43,679	39,781	32,668
		0	0	0	6,355	28,115	52,291	60,004	71,149	68,445	65,740
		69,391	75,741	103,896	98,116	107,941	109,461	104,567	100,365	90,543	90,590
		0	0	0	39,110	51,661	64,703	74,394	87,745	101,097	114,449
		92,159	102,033	137,541	189,043	233,796	272,706	283,475	302,939	299,866	303,447
		182,146	192,455	195,673	207,413	219,858	233,050	247,033	261,855	277,566	294,220
		3,536,799	3,575,000	3,607,700	3,643,777	3,680,215	3,717,017	3,754,187	3,791,729	3,829,646	3,867,943
		2,420,000	2,382,100	2,525,026	2,676,528	2,837,119	3,007,346	3,187,787	3,379,054	3,581,798	3,796,705
	1.800%	0.586%	0.657%	0.915%	0.939%	0.971%	0.925%	0.889%	0.809%	0.736%	0.685%
	1.200%	1.128%	1.210%	1.246%	1.290%	1.266%	1.241%	1.214%	1.199%	1.169%	1.138%
	3.000%	1.696%	1.868%	2.161%	2.229%	2.237%	2.166%	2.103%	2.009%	1.904%	1.802%
		31.5%	36.5%	50.9%	52.2%	53.9%	51.4%	49.4%	45.0%	40.9%	36.9%
		94.0%	100.8%	103.8%	107.5%	105.5%	103.4%	101.2%	99.9%	97.4%	94.8%
		56.5%	62.3%	72.0%	74.3%	74.6%	72.2%	70.1%	67.0%	63.5%	60.1%
	\$ 722	\$ 292	\$ 354	\$ 497	\$ 534	\$ 580	\$ 580	\$ 585	\$ 559	\$ 533	\$ 506
	593	581	651	676	734	756	778	799	828	847	865
	\$ 1,315	\$ 873	\$ 1,005	\$ 1,172	\$ 1,269	\$ 1,336	\$ 1,358	\$ 1,384	\$ 1,387	\$ 1,380	\$ 1,371
		40.5%	49.0%	68.8%	74.0%	80.3%	80.3%	81.0%	77.4%	73.8%	70.0%
		97.9%	109.9%	114.0%	123.8%	127.5%	131.3%	134.7%	139.7%	142.8%	145.9%
		66.4%	76.5%	89.1%	96.5%	101.6%	103.3%	105.3%	105.5%	105.0%	104.3%

nd Rev.	0.941%	1.104%	1.332%	1.936%	2.615%	3.277%	3.279%	3.398%	3.002%	2.592%
al Fund Rev.	<u>2.867%</u>	<u>3.180%</u>	<u>4.115%</u>	<u>5.127%</u>	<u>5.626%</u>	<u>5.791%</u>	<u>5.614%</u>	<u>5.567%</u>	<u>5.350%</u>	<u>5.350%</u>
und Rev.	3.808%	4.283%	5.447%	7.063%	8.241%	9.068%	8.893%	8.965%	8.372%	7.992%

estimated to grow at annual rate of 6.0% thereafter.

1993-94 estimate.

-93, budget estimate for 1993-94 and estimate of 6.0% growth thereafter.