

CALIFORNIA MUNICIPAL FINANCE AUTHORITY

POLICIES AND PROCEDURES FOR COMMUNITY FACILITIES DISTRICTS

I. GENERAL.

The purpose of these Policies and Procedures (the "Policies") is to provide guidance and conditions for the conduct by the Authority of proceedings and the issuance of bonds for the establishment and financings by community facilities districts (each a "CFD") under and pursuant to the terms and provisions of the "Mello-Roos Community Facilities Act of 1982," being Chapter 2.5, Part 1, Division 2, Title 5 of the Government Code of the State of California (the "Act") as amended. The Policies are intended to be general in nature and the specific details will depend on the nature of each particular financing. The Policies are intended to comply with Section 53312.7 (a) of the Act. The Policies are subject to amendment and deviation by the Authority at any time.

II. TYPES OF PROJECTS-PRIORITIES.

A. New Development. Except as otherwise provided, any facilities allowed under the Act can be financed, with a preference for those public improvements that benefit not only the particular new development, but also the member of the Authority in whose jurisdiction such new development is located will be considered for financing. Such improvements include water, sanitary and storm sewer and related facilities, roads and interchanges, bridges, major collector or "spine" streets, including related landscaping and lighting. The acquisition of rights-of-way, lands and easements for public improvements for new development are eligible to be financed as are fees of cities, school districts, special districts or any other public entity.

B. Existing Development. The restrictions above shall not apply if the Board determines that the public necessity of any member of the Authority requires the improvements. Such improvements include the installation, construction, replacement or renovation of domestic water, sanitary sewer and storm drainage systems, pedestrian walkways, paths and/or overcrossings and the improvement of streets to correct unsafe conditions. Priority will be given for improvements required for public health and safety, such as sanitary sewer, safe drinking water and storm drainage facilities.

C. Combined. Projects containing both new and existing development will separately apply the above to each type, with priority given to projects affecting existing development.

D. School Facilities. School facilities are eligible to be financed under appropriate joint community facilities agreements created between the Authority and the school district.

III. APPLICATION FOR FINANCING.

A. Filing. Any person seeking to use land-secured financing (an "Applicant") must submit the Authority's form of application, to be followed upon preliminary acceptance by the required deposit.

B. Deposit. The costs of processing an application and, if approved the proceedings for land-secured financings shall be borne by the Applicant unless otherwise waived as provided

herein. Upon determination that the project is eligible for CFD financing the applicant may be required to deposit the estimated costs of CFD formation. The following is applicable to Deposits:

1. The amount of the Deposit or any waiver thereof may be determined by the Executive Director. No further action shall be taken on the Application unless and until the Deposit is made.

2. The Deposit shall be sufficient to cover Authority costs, including the costs of non-contingent outside consultants retained for the financing, recordings, filings, duplication, mailing and messenger costs.

3. The Deposit shall be increased upon demand of the Authority if at any time the Authority determines that the amount remaining is not sufficient, upon submission of a written request setting forth the reasons for the increase and the amount thereof. Without satisfactory assurance that the increased amount will be paid, the Authority will not undertake further processing unless and until the additional amount is paid.

4. The Deposit and any additional amounts shall be held by the Authority, separate from all other funds of the Authority and used only for the costs of formation of the District and/or related financing. The Authority shall not be required to invest the trust account or to assure any rate of return if funds in the account are invested. Any interest earnings on the account shall be retained in the account and be used for the costs of the financing. Any unused balance remaining in the account shall be returned to the applicant. The use of the Deposit and/or establishment of the account shall in no way be construed as requiring the Authority to issue land-secured indebtedness or to provide reimbursement from the proceeds thereof for expended portions of the Deposit. Reimbursement of the Deposit may be made to the Applicant from proceeds of bonds issued for the CFD.

C Financing Team. The Authority shall select all consultants to be retained by the Authority for the financing, including, but not limited to, appraiser, bond counsel, bond paying agent, fiscal agent or trustee, disclosure counsel, financial advisor, special tax consultant and underwriter. Providers of letters of credit, surety bonds or other credit enhancements, if required, are also subject to Authority approval. The Authority shall designate one Authority official as the contact person for contacts with the members of the financing team.

D. Processing the Application. Upon filing the Application, the Authority and the financing team will review the Application and notify the Applicant of preliminary approval status or if additional information is needed for preliminary approval. If it is complete and acceptable for participation in the program, Applicant will be notified in writing, detailing what changes or other requirements, if any, must be made and/or met for the Authority to continue to formation of the CFD, including any increases in the Deposit for additional work required to process the Application. Before commencing any formation proceedings, subsequent reviews may be held with the Applicant, Authority and Financing Team representatives to cover any final conditions, including Economic Viability Review (below).

IV. ECONOMIC VIABILITY REVIEW-CREDIT QUALITY

A. General. To help assure the appropriateness of the project for CFD financing and to avoid, to the extent possible, possible bond defaults, as part of the Application process the Authority, working with its financial advisor and the designated underwriter, will review each proposal on its own merits and on its own facts and circumstances for economic viability and the criteria for evaluating the credit quality of the financing.

B. Required Information. The Authority typically will (unless clearly unnecessary under the circumstances) require each of the following as a condition of processing an Application:

1. *Title Evidence*. A CLTA or ALTA lender's title insurance policy or preliminary title evidence showing the vesting of title to the land that will secure the financing and showing the interests of any lenders, creditors, etc., as well as any easements, rights of way or other encumbrances that may impact the value of the land. The title evidence will also be used to verify ownership for any owner's petition for the financing. The Applicant will upon request supply copies of any documents related to the title evidence as requested by the Authority.

2. *Financial Information*. Any Applicant or other owner of property within the proposed financing Authority who will be responsible for a percentage, as determined on a case by case basis, of annual debt service on bonds, or any other Applicant when so requested, shall submit such financial information as requested by the financing team as part of the necessary financing due diligence. Updated financial information may be required as a part of bond sale activities.

3. *Experience and Equity Participation*. The Authority will take into account the degree of the Applicant's (or other major owner's) development experience and equity contribution as of the time of Application and any possible increases through the anticipated date of bond sale.

4. *Administrative Approvals*. The Applicant shall furnish information as to the completeness of the approval process, including, but not limited to environmental clearances, land use planning approvals, rights to capacity or ability to use water, sewer and storm drainage facilities, availability of special permits (Army Corps of Engineers, California Fish and Game, Cal-Trans, Division of Dam Safety, etc.). Failure or inability to obtain any approval deemed necessary by the financing team may cause delay or suspension of the Application or proceedings, including any bond sale activities.

5. *Value of Land*. An appraisal will in most instances be needed to verify that the value of the land that will secure the bond issue is at least four times the amount of bonds to be sold and any overlapping special assessment and/or community facilities bonded debt on the property as of the anticipated date of sale of the bonds under the Application. Alternatively, evidence may consist of the full cash value as shown on the most current *ad valorem* assessment roll for the property, if relevant and sufficient as determined by the financing team.

C. Sufficiency of Revenues. In determining whether the financing which is the subject of the Application is viable, the Applicant must demonstrate that the annual amount of debt service is reasonable for the type of property use in its final, developed state. For commercial or industrial

property, comparable numbers for similar uses shall be provided. For residential property, the maximum annual debt service for the expected financing, together with all other charges collected or to be collected on the annual tax bill for each developed parcel shall not exceed two percent (2%) of such parcel's expected assessed value. Based on these criteria, bond issues and, hence, financings, shall be sized accordingly. Apart from this basic rule, the following shall also apply:

1. *Administrative Expenses.* Anticipated annual revenues to be collected on the tax roll shall take into account the Authority's estimates of annual administrative costs, including, as appropriate, costs of CFD administration, continuing disclosure, arbitrage and rebate calculation, preparation and up-dates of debt collection schedules and special tax computations.

2. *Residential Properties.* For residential properties only, the following special considerations apply:

a. Debt service (including administrative expenses) shall be level or may increase as provided for in the Rate and Method throughout the life of a bond issue, as determined appropriate by the financing team.

b. Special taxes for the CFD may escalate not more than two percent (2%) per year.

c. Prepayments of special taxes shall be allowed provided computation and processing is at the expense of the prepaying owner.

V. AUTHORITY PROCEEDINGS.

A. Petition. For new development projects, a petition meeting the requirements of the applicable authorizing law may be required in addition to the Application. The Applicant is urged to obtain unanimous waivers of election waiting periods as permitted by the Act. The Applicant must specify in the Application any reasonably expected impediments to obtaining petitions, including from co-owners and/or lenders of record (where required). Waiver of the petition may be determined by the Executive Director. For existing development, petitions are preferred, but may be waived, depending on the nature of the project and degree of public importance.

B. Representatives. The Authority and the Applicant shall each designate a representative for each financing district proceedings. The representatives shall be responsible for coordinating the activities of their respective interests and shall be the spokespersons for each such interest. The purpose of this requirement is to avoid duplication of effort and misunderstandings from failure to communicate effectively. In the case of the Authority, it allows the Authority's consultants to report to a single official who will, in turn, communicate with the Authority and, in turn, its Board as needed.

C. Time Schedule. The final schedule of events for any proceeding shall be determined by the Authority, in consultation with its financing team and the Applicant. Any changes will require approval by the appropriate Authority official. Time schedules will (unless specific exceptions are allowed) observe established Board meeting schedules and agenda deadlines. To the extent possible, bond financings will be scheduled to allow debt service to be placed on the tax rolls, however capitalized interest may be permitted.

VI. FINANCING TERMS

A. Limited Obligation. Unless specifically found to be required for a particular kind of financing, bonds issued for land secured financings shall be limited obligations, payable solely from special taxes of the CFD or other identified sources other than revenues of the Authority and do not require the use of any Authority revenues to replenish any reserves or to bid at any foreclosure sale.

B. Debt Service. Debt service shall be structured to avoid any large increases to residential owners in any single year, either by using substantially level debt service throughout the life of the bond issue or providing for up to 2% annual increases. Unless determined to be specifically required, debt service shall not exceed thirty (30 years) from the date of bond issuance.

C. Denominations. Bond denominations, registration, book-entry qualification, CDIAC submissions and other bond features shall conform to industry norms and standards at the time of issuance. For bonds secured by special taxes any other policies of the Authority requiring greater than \$5000 denominations shall not be applicable due to the unique collection and security features of the special taxes securing the bonds.

D. Bond Redemption. Maximum redemption premiums shall not exceed three percent (3%). Call provisions shall not exceed ten years unless circumstances warrant as determined by the Authority, and no provision shall be made to unduly restrict the ability of the Authority to refund any bond issue with a final maturity greater than ten years. Provision may be made to allow redemption of bonds with prepayments. Provision shall be made to allow the Authority to purchase bonds on the open market at par plus accrued interest, in lieu of redemption of bonds.

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

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

G. Foreclosure Covenants. Every land-secured bond issuance document shall provide for the judicial foreclosure of delinquent payments of special taxes. Such covenants may vary with particular financings, but shall at the minimum provide for the institution of foreclosure on an accelerated basis rather than at the end of the 5 year period applicable to property taxes generally. The ability to commence foreclosure shall be without further Board action and subsequent to notification to the property owner of the delinquency. Any costs advanced by the Authority to collect special taxes, including any actions taken related to foreclosure, shall be reimbursed by the CFD.

H. Discounts. Original issue discount will be allowed only if the Authority determines that it results in a lower true interest cost and will not adversely affect the ability to construct the public improvements.

VII. DISCLOSURES

A. General. Any initial disclosure and any continuing disclosures mandated by applicable law shall apply to each CFD. The terms of such disclosures shall be determined by the financing team based on applicable industry standards on a case-by-case basis.

B. Forms. The Authority may prescribe specific forms to be used for disclosures.

C. Market Absorption. The Authority may require the use of market absorption studies as part of the disclosure due diligence.

VIII. APPRAISALS

A. General. Appraisals undertaken to establish value-to-lien ratios for land-secured financings can be complex, requiring the appraiser to interpret the significance of various financial and demographic data. The process of arriving at an appraised value may be summarized as follows:

- Statement of appraisal problem.
- Required data and sources of data.
- Gathering, recording and verification of data.
- Determination of "highest and best use."
- Estimation of land value.
- Estimation of improvement value by relevant approach:
 - sales comparison,
 - cost (or replacement value), or
 - income capitalization.
- Reconciliation of results to concluded value.
- Report of value with statement of limitations, conditions, and assumptions.

B. The Appraiser. Because an appraisal essentially is an appraiser's opinion of value, the Authority requires that the appraiser be qualified to render this opinion. The appraiser will be credentialed by the State of California Office of Real Estate Appraisers or be a member of the Appraisal Institute (MAI) or have similar training, experience and qualifications. The appraiser will be an independent contractor retained by the Authority rather than a land owner/developer. All appraisals will be conducted in accordance with appraisal standards and guidelines found in the Uniform Standards of Professional Appraisal Practice (USPAP) and the Appraisal Standards for Land Secured Financing published by the California Debt and Investment Advisory Commission (2004).

C. Valuation. The date of the value estimate should clearly be identified in the appraisal report. The period between the date of the appraisal and the financing should be no more than three (3) months, or appropriately updated, to accurately represent land values to prospective investors.

IX. PERFORMING THE WORK

A. General. Facilities being financed may be provided by either the construction of them by a developer or other person and acquired (“Acquisition”) or by public contract let by the Authority or member public agency (“Construction”) or, in appropriate cases, both.

B. Acquisition. Acquisition will be permitted for improvements or facilities to be constructed entirely upon land owned or controlled by the Applicant and then dedicated or sold to the Authority member public agency, or as otherwise approved by the member public agency. Preference is for “turn-key” projects that do not require advances as work progresses, however progress payments will be allowed as permitted and provided in a joint community facilities agreement with the Authority and its member public agency. Any work performed by Acquisition must be done under prevailing wage contracts and the Applicant shall be responsible for such compliance. In Acquisition projects, the Authority will allow for construction overhead, management and related costs on a case by case basis.

C. Impact and Other Public Entity Fees. Financing of fees of any member public agency or of any public entity contracting with the Authority in a joint community facilities agreement will be allowed provided the facilities financed with the fees are allowed under the Act and appropriate for bond financing. The usually applicable public bidding rules of the participating member Authority shall apply and any financing time schedule shall take into account a suitable period for the preparation of plans and specifications, bidding and notices thereof and bid opening. Mandatory bid hold periods shall take into account any applicable cash payment or comparable financing preparation periods.

X. INTERPRETATION AND WAIVER

If a Program CFD or Program financing does not strictly comply with these Goals and Policies, but the Executive Director does not reasonably expect such noncompliance to have a material adverse effect on the interests of the Authority, its bondholders, the special taxpayers in the applicable CFD and/or the applicable member public agency, the Executive Director may waive any such noncompliance, which waiver shall be evidenced in writing or by the subsequent issuance of Bonds for such CFD, and which evidence shall be conclusive and final as to such waiver. For purposes of the preceding sentence, a reasonable expectation by the Executive Director may be established by his or her good faith belief after receiving the advice and counsel of the Authority’s Financial Advisor, issuer’s counsel, bond counsel and any other interested parties with whom the Executive Director seeks to consult in his or her discretion.

After making any such interpretation or waiver, the Executive Director shall report such interpretation or waiver to the Board and may recommend any formal amendments to these Goals and Policies as may be necessary or convenient. The Board of Directors may adopt any such proposed amendment or may adopt any other amendments on its own initiative; provided that Board agrees not to overturn any interpretations or waivers made by the Executive Director pursuant to this paragraph on a retroactive basis.