REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: February 4, 2020

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Council File No.
Council District: All

To: The Mayor
The City Council

From: Richard H. Llewellyn, Jr., City Administrative Officer

Reference: Periodic update of the Debt Management Policy for the City of Los Angeles, initiated by the City Administrative Officer

Subject: **Revision of the Debt Management Policy Section of the Financial Policies for the City of Los Angeles**

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Adopt the revised Debt Management Policy Section of the Financial Policies for the City of Los Angeles that is presented as Attachment 1 to this report; and,

2. Request the City Attorney, with the assistance of the City Administrative Officer, to prepare any necessary ordinances required to codify the revised Debt Management Policy of the Financial Policies for the City of Los Angeles.

SUMMARY

As part of the 2019-20 Adopted Budget, the City Council instructed the City Administrative Officer (CAO), with the assistance of the Chief Legislative Analyst (CLA) and the City Attorney, to prepare revisions to the Financial Policies including the Debt Management Policy. On January 21, 2020, the Council adopted revisions to four of the six sections of the Financial Policies: the Fiscal Policies, the Fee Waiver Policy, the Pension and Retirement Funding Policy, and the Reserve Fund Policy. A new Encumbrance Policy section was also added. This Office has also developed recommendations for revisions to the Capital Improvement Program Funding Policy that was transmitted to Council and is currently under consideration.

In this report, this Office is presenting a revised Debt Management Policy (Policy) that represents the first comprehensive review and update to the Policy since 2005. A redline version of the Policy is included as Attachment 2.

In the 15 years since the first revision of the Policy, there have been several changes in the

municipal market that warrant an update. These include an emphasis on post issuance compliance, new types of debt, and changes to the way debt is issued. This revised Policy also conforms to the new requirements under Government Code Section 8855(i)(1) and with Government Finance Officers Association's (GFOA) updated "best practices" related to debt management policies. Reference tables indicating where these requirements and best practices are captured in the Policy are provided in Attachment 3.

The most significant proposed revisions to the Policy include:

- A reformatted, easier to read Policy;
- Updating objectives to meet requirements under Government Code Section 8855(i)(1);
- Incorporating current practices related to method of sale;
- Incorporating current practices related to budgeting staff for a bond program;
- Identifying the type of debt instruments the City may use and adding new debt designations;
- Simplifying and restating the purpose and use of fixed rate debt versus variable rate debt;
- Deleting the Interest Rate Swap policy;
- Updating and restating the MICLA policies and guidelines adopted by the Mayor and City Council in 2000 (C.F. 99-0600-S54);
- Adding a Post Issuance Compliance policy;
- Updating and clarifying the Disclosure policy; and,
- Updating the Conduit Financing policy.

FISCAL IMPACT STATEMENT

There is no fiscal impact from adopting the recommendations in this report.

FINANCIAL POLICIES STATEMENT

This review and revision of the Debt Management Policy of the Financial Policies will ensure that the City continues to be guided by fiscally responsible policies supporting ongoing efforts to provide and improve the management of the City's debt programs.

DEBT IMPACT STATEMENT

There is no impact to the City's debt levels or capacity resulting from the adoption of the revised Debt Management Policy. Approval of the revised Policy and ongoing compliance with said Policy will help the City maintain and potentially improving the City's credit rating on its debt.

FINDINGS

Background

In 1998, the Mayor and Council adopted the first Debt Management Policy (Policy) (C.F. 99-0600-S54), which was subsequently added to the Administrative Code by Ordinance 173306.

In 2004, the City Council instructed the CAO and the CLA to submit overarching budgetary and fiscal policies in light of growing concern regarding the City's reported structural deficit. At the time, the structural deficit was attributed to a combination of the economic downturn that followed the September 11, 2001 terrorist attacks, recent State of California actions to balance its budget using traditionally local government sources of revenue, and rising employee-related costs from pensions, workers' compensation, employee compensation, and health insurance.

In response to that request in 2005, the CAO recommended revisions to the Policy and these were incorporated into the City's Financial Policies. The City Council and Mayor adopted the Financial Policies in April 2005 (C.F. 04-1822).

Since then, there have been significant changes to the municipal market that warrant revisions to the Policy.

Changes to the Debt Management Policy Section of the Financial Policies

A. Reformatting Policy

The most significant proposed change to the Policy is stylistic rather than substantive. This version is easier to read and is stream-lined in style.

B. Objectives

The Policy has been updated to ensure compliance with Government Code Section 8855(i)(1) that provides the required objectives that all debt policies must have as follows:

(1) The purposes for which the debt proceeds may be used.

(2) The types of debt that may be issued.

(3) The relationship of the debt to, and integration with, the issuer's capital improvement program or budget, if applicable.

(4) Policy goals related to the issuer's planning goals and objectives.

(5) The internal control procedures that the issuer has implemented, or will implement, to ensure that the proceeds of the proposed debt issuance will be directed to the intended use.

(6) Minimizing the cost of debt; and,

(7) Maintaining and improving the City's credit rating on its debt.

C. Methods of Sale

Private placements is a method of sale the City has utilized in addition to competitive and negotiated sales. This section now reflects current practice.

D. Budgeting Staff Costs

The following policy statement has been added to ensure that the positions funded with any bond proceeds are directly related to the capital being funded, whether equipment or real property. Each bond issuance type will have different rules and positions associated with a bond issuance and will be evaluated on a case-by-case basis to determine if eligible for reimbursement.

24. All staff costs directly related to bond-funded projects will be analyzed to determine if such staff costs can be reimbursed from bond proceeds under federal and state law. Each bond program has its own rules to determine eligibility for reimbursements from bond proceeds. City operations and routine maintenance costs will not be funded with any type of debt.

E. Type of Debt Instruments and New Debt Designations

This section discusses the various types of debt instruments available to the City. The substantive policy change in this section adds a requirement for the CAO to inform the Mayor and City Council of its intent to hire an independent municipal advisor and obtain an actuarial analysis to evaluate the cost/benefit of issuing Pension Obligation Bonds (POBs).

This section also includes and defines Green, Social, and Sustainable Bonds as special designations that the City may pursue in alignment with the City's broader goals on environment and social issues.

F. Clarifying Fixed-Rate Debt and Variable-Rate Debt

These two sections have been updated and stream-lined to clarify the differences between these two types of debt, when each is issued, and the advantages of each.

G. Eliminated Interest Rate Swap policy

Since the CAO does not expect to recommend the use of Interest Rate Swaps in the near future, the Interest Rate Risk Mitigation Products (Swap) Policy has been deleted from the overall Debt Management Policy. A revised policy must be approved by the Mayor and City Council should the use of swaps be considered in the future.

H. Update and restated MICLA policies

The MICLA policies where first adopted by the Mayor and City Council in 2000 (C.F.99-0459, 04-0459-S1). We have updated and clarified the administrative procedures, debt structures, and operating guidelines for the CAO and departments. As MICLA is the largest General Fund program, these policies and guidelines are institutionalized into the Policy to ensure the best management practices.

I. Post Issuance Compliance

The Policy indicates the CAO's role in coordinating with departments to ensure compliance with federal tax-exempt debt. The CAO has implemented Post-Issuance Compliance procedures, with the assistance of the City Attorney, to detail each departments' responsibilities in compliance.

J. Disclosure

This section clarifies and expands the City's purpose, objectives, and procedures for complying with Securities and Exchange Commission (SEC) Rule 15(c)2-12 of federal securities law, the rule that describes the On-going Disclosure Obligations of Participants in Municipal Transactions.

K. Conduit Financing

The change in this section recommends flexibility in the City's Conditions for Consideration to recognize the differences in the type of projects managed by the CAO and the Housing and Community Investment Department (HCID).

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Attachments:

Attachment 1 Proposed Debt Management Section to the Financial Policies
Attachment 2 Redline of Proposed Debt Management Section to the Financial Policies
Attachment 3 Government Finance Officers Association's Debt Management Policy Best Practices and SB 1029 Requirements

ATTACHMENT 1

PROPOSED
DEBT MANAGEMENT SECTION
OF FINANCIAL POLICIES

SECTION 6
DEBT MANAGEMENT POLICY

INTRODUCTION

The Debt Management Policy (Policy) has been developed to provide guidelines for the issuance of bonds and other forms of indebtedness to finance the acquisition of real property and capital equipment, capital improvements, and other matters for the City including short-term cash flow and large legal judgments. From time to time, it may be desirable for the City to update the Policy, particularly to reflect any changes to applicable federal and state laws regarding debt issuances, and revisions to City procedures. This Policy amends and supersedes the Policy approved by the Mayor and City Council in 2005, and also incorporates and amends the Municipal Improvement Corporation of Los Angeles (the "MICLA") Departmental Operating Policies approved in 2000, and the Variable Rate and Swap Policies approved in 2003. In addition, the Mello-Roos Policies and Procedures, adopted in 1994, are incorporated by reference and attached hereto as Exhibit A.

While the issuance of debt is frequently an appropriate method of financing capital projects and major capital equipment acquisition, these guidelines are designed to assist the City in determining the appropriate debt financing structures to use, and establishing certain debt management goals.

The Policy describes the circumstances and methods with which certain types of financing products can be used, the guidelines that will be imposed on them, and who in the City is responsible for implementing these policies. A *Glossary of Key Terms* is provided at the end of this Policy.

OBJECTIVE

The following represent key objectives of the Policy:

- To mitigate risk and support sound decision-making with regard to long-term financing commitments.
- To comply with federal and state laws and regulations, including disclosure and reporting requirements.
- To incorporate best practices into the City's issuance and management of its debt obligations.
- To ensure that the City's debt is consistent with the City's planning goals and objectives, and capital improvement program or budget, as applicable.
- To minimize the cost of debt.

- To maintain and improve the City's credit ratings on its debt.

- To establish selection criteria for retaining the best qualified financial consultants, attorneys, underwriters, and other financing participants through fair procurement processes.

GENERAL

Designated Managers of City Debt

1. The City Council has the final approval of all City debt and awards all contracts with respect to the sale of bonds and other debt instruments.

2. The City Administrative Officer's ("CAO") Debt Management Group structures debt issuances and oversees the ongoing management of all the General Fund and certain special fund debt programs. These include general obligation bonds, lease revenue bonds, lease purchase obligations, revenue obligations, judgment obligation bonds, special tax obligations, and Mello-Roos and special assessment obligations. Other programs may be added from time to time as new debt instruments are developed.

3. The CAO manages the following programs, each with its own ratings:

   a. General Obligation Bonds
   b. Judgment Obligation Bonds
   c. MICLA Lease Revenue Bonds and Commercial Paper
   d. Solid Waste Resources Revenue Bonds
   e. Tax and Revenue Anticipation Notes
   f. Wastewater System Revenue Bonds and Commercial Paper
   g. Land-Secured Assessment Financings
   h. Special Tax or Assessment District Financings

4. The CAO is responsible for managing the City's primary and continuing disclosure obligations for the above-referenced programs.

5. The CAO is responsible for ensuring compliance with this Policy and the development and implementation of procedures to ensure the compliance with applicable federal and state laws.

6. The CAO will provide the necessary debt documentation to the Controller to assist them in their responsibilities such as financial reporting.

7. The Departments of Airports, Harbor, Water and Power, the Housing and Community Investment ("HCID"), and the Industrial Development Authority (IDA through the Economic and Workforce Development Department (EWDD)), are

responsible for issuing and administering their own debt due to the specialized aspects of the debt issued by these agencies and the integral ties between the debt that is issued and the programs these agencies administer.

8. The CAO reviews and monitors debt programs of the Departments of Airports, Harbor, Water and Power (Proprietary Departments). In accordance with Charter Section 609(a), the CAO makes recommendations to the Mayor and City Council on the proposed issuance of revenue bonds by the Proprietary Departments.

9. The CAO reviews and makes recommendations to the Mayor and Council for the issuance of housing bonds. HCID and IDA are Council-controlled entities and are expected to adhere to the guidelines set forth in the Policy, where applicable.

Method of Sale

10. There are three methods of issuing debt: 1) a competitive sale; 2) a negotiated sale; and 3) a private placement. There are advantages to each method of sale, depending on the facts and circumstances of the financing and the City's particular goals. The City should determine which method of sale to use based on the characteristics of the debt being issued, including rating quality, size of issuance, market conditions, and policy goals.

11. Competitive Sale: In a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest True Interest Cost (TIC) is awarded the bonds. The City will use the competitive method of sale for its general obligation bonds and selected other securities.

12. Negotiated Sale: When a competitive sale is not practicable or less advantageous to the City, pursuant to the Charter Section 371(e)(2) and based on advice by an independent municipal advisor and the City Attorney that a negotiated bond sale is appropriate, the City may issue debt through a negotiated sale. In a negotiated sale, the City selects the underwriter or underwriting syndicate through a Request for Proposal ("RFP") process. The underwriter or underwriting syndicate will assist the City in structuring and marketing the bonds. The RFP process to select the underwriter or underwriting syndicate should consider the participation of Minority/Women/Other Business Enterprise (MBE/WBE/OBE), prior performance on competitive sales, and new ideas and approaches with the potential of lowering costs to the City. Since an underwriter can premarket the bonds to investors, negotiated sales are particularly appropriate for new or unusual credits or structures, or for Mello-Roos and assessment bonds sold without ratings; commonly referred to as story bonds.

13. Private Placements: A private placement is a type of negotiated sale in which the issuer places a financing directly with a private investor, generally a bank. Therefore, pursuant to the Charter Section 371(e)(2) and based on advice by an independent municipal advisor and the City Attorney that a private bond sale is

appropriate, the City will select a bank through a RFP process and directly negotiates the transaction. These loans or bonds are used for smaller transactions where the costs of preparing an official statement and securing ratings are greater than the benefit, for unusual credits, or for a better pricing than the municipal bond market.

Pricing of Bonds

14. The City may issue bonds at their par value, at a premium (a price that is above par), or at a discount (a price that is below par) depending on the preferences of various types of investors. During periods when interest rates are low or have been trending lower, a larger proportion of bonds will be sold at a premium. Generally, when interest rates are high, a larger proportion of bonds will be sold at a discount.

Debt Affordability and Capacity

15. The determination of how much indebtedness the City should incur will be based on the long-term borrowing needs of the City, the availability of resources to repay the debt, and the impact of planned debt issuances on the long-term affordability of all outstanding debt as measured by the debt ratios developed by the City as guidelines in evaluating the affordability of future debt.

16. The Capital and Technology Improvement Program (CTIP) is one tool to identify the long-term borrowing needs of the City. The CTIP will incorporate the City's current five-year capital plan and include all presently known City financings to be repaid from the General Fund and relevant special funds. The CAO will revise the Five-Year CTIP Plan on an annual basis or as part of the annual budget process. See the CTIP Policy for details.

17. The City will carefully monitor the issuance of debt to maintain a balance between debt and resources available to service debt. The CAO shall use Direct Debt Service Payments as percent of General Revenues for voter approved and non-voter approved debt as the basis for its debt ratios.[1]

18. A Debt Affordability Chart illustrating projected debt ratios will be updated each time the CAO recommends the issuance of debt and included in the CAO report in conjunction with the Debt Impact Statement and Fiscal Impact Statement required by Charter Section 325.

19. The Debt Affordability Ceiling for debt service on non-voter approved debt shall be no more than 6 percent of General Revenues. The 6 percent ceiling may be

[1] Direct Debt includes all debt that repaid from the General Fund or from any revenues deposited into special funds not supporting revenue bonds, such as general obligation bonds and Citywide parcel tax bonds. "General Revenues" consist primarily of the General Fund, as well as revenues from the special funds supporting direct debt.

exceeded only in the following situation: (1) if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5 percent or, (2) if there is not a guaranteed revenue stream but the 6 percent ceiling will only be exceeded for one year.

20. The Debt Affordability Ceiling for debt service on voter-approved and non-voter approved debt combined shall be no more than 15 percent.

21. Debt capacity for revenue bonds secured by enterprise revenues is not measured in terms of the City's tax base or general revenues, but relative to factors specific to the system and its enterprise fund. One of the key measures of debt capacity for bonds secured by enterprise revenues is the system's Coverage Ratio, calculated by dividing the amount of net revenues (that is revenues after the payment of operations and maintenance, but excluding depreciation) by annual debt service. Coverage represents the amount of additional net revenues after payment of debt service, which are typically applied to pay-as-you-go capital or to build reserves. While the bond documents will set minimum coverage ratios the City must maintain in setting rates or issuing additional bonds, rating agencies and investors expect that actual coverage ratios will be higher. The City's CAO-managed revenue bonds, currently consisting of the Wastewater System Revenue Program and the Solid Waste Resources Revenue Program, are both highly rated in the AA-category. The CAO will analyze the appropriate level of Debt Service Coverage for each program and report actual and target coverage ratios in its staff reports recommending bond issuance and changes in rates and charges.

22. The rapid repayment of outstanding debt allows for additional future debt capacity for the City as well as long-term savings by reducing interest costs. The CAO will structure its general debt issuances (general obligation bonds and lease revenue obligations) to reach a target of 50 percent of all outstanding direct debt being repaid within 10 years.

23. Through pay-as-you-go financing, capital projects are funded from current revenues in the operating budget rather than through debt. Except under certain circumstances, the City will fund routine maintenance projects in each year's capital program with pay-as-you-go financing. Extenuating circumstances that may be debt financed include unusually large and non-recurring budgeted expenditures, or when depleted reserves and weak revenues would require delaying or eliminating necessary capital projects.

Budgeting

24. All staff costs directly related to bond-funded projects will be analyzed to determine if such staff costs can be reimbursed from bond proceeds under federal and state law. Each bond program has its own rules to determine eligibility for reimbursements from bond proceeds. City operations and routine maintenance costs will not be funded with any type of debt.

25. Any existing and new bond funds that remain unspent for a period longer than three years from the date the funds were originally deposited will be subject to reversion to pay debt service or to defease bonds. The City Controller and the CAO are authorized to implement this Policy and to ensure funds are closed at the appropriate time. Any exceptions shall require Mayor and City Council approval.

26. Any new bond funds remaining unencumbered after 18 months from the date the funds were originally deposited shall be subject to reversion and such funds may be reallocated for other capital projects with similar useful lives or to pay debt service. The City Controller and the CAO are authorized to implement this Policy and to ensure funds are either re-appropriated or transferred to the Trustee with the necessary administrative approvals. Any exceptions shall require Mayor and City Council approval.

Refinancing Outstanding Debt

27. The CAO shall periodically evaluate potential savings to the City from refinancing outstanding debt (Refundings). Savings will be analyzed on a present value basis with a goal of achieving a Present Value Savings of 3 percent of the refunded par amount for any one refunding transaction.

28. The CAO's present value analysis must identify the economic effect of any proposed refunding. The CAO shall recommend to the Mayor and City Council individual refunding candidates above or below the City's Present Value Savings Goal of 3 percent to optimize the City's financial objectives.

29. Refundings may be executed for reasons other than economic purposes, such as to restructure debt, to change the type of debt instrument, or to retire a bond issue and indenture for more desirable covenants. The CAO may recommend a refunding that has economic benefit but does not meet the Present Value Savings Goal of 3 percent. The CAO must inform the Mayor and City Council that this refunding does not meet the goal and explain the benefits as well as the costs.

Rating Agency Strategy

30. Communication with the rating agencies is the responsibility of the CAO. The CAO will continue its practice of meeting regularly with the rating agencies to keep them informed of the City's borrowing plans and financial condition. Meetings will generally occur at least once annually with each rating agency and, at a minimum, conference calls will be offered in connection with each issuance of bonds, at the discretion of the CAO.

31. The CAO, as its discretion, will decide which rating agency and the number of ratings to use for each bond financing.

32. The CAO will periodically report to the Mayor and City Council, detailing the City's credit strengths and weaknesses as perceived by the rating agencies. The CAO will include recommended actions to address any weaknesses identified by the rating agencies. This report may occur as part of the annual budget development process or in connection with any debt-related transaction. The report recommendations will take into consideration potential credit impacts of budget balancing options.

Investor Relations

33. Investor relations is a strategic management responsibility that integrates finance, communication, marketing, and securities law compliance to enable the most effective two-way communication between the City and its investors. The CAO's Debt Management Group will be responsible for managing the City's relationship with its investors and will respond to any investor's inquiry in a timely and informative manner.

34. The CAO will maintain and update the City's Debt Management and Investor Relations website, where it will provide current debt, financial, and disclosure information for ready access by investors.

Annual Debt Report

35. The CAO will annually prepare a report to the Mayor and City Council, which reviews the outstanding debt of the City. This may occur in conjunction with the annual budget development process.

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TYPES OF DEBT

General Obligation Bonds

1. Voter-approved General Obligation Bonds ("GO bonds") provide the lowest cost of borrowing to finance the acquisition or improvement of real property, and provide a new and dedicated revenue source in the form of additional ad valorem property taxes to pay debt service. Pursuant to California law, the voter approval threshold for City GO bonds is two-thirds. In recognition of the difficulty in achieving the required two-thirds voter-approval, GO bonds will be generally limited to facilities that provide wide public benefit and that have generated broad public support.

2. The final maturity of GO bonds will be limited to the shorter of the average useful life of the asset financed or 20 years.

3. In GO bond issues, the principal will generally be amortized in equal annual amounts or faster to meet the rapidity of debt repayment goals and should be callable no later than 10 years. Call options allow the City the right to prepay or retire debt prior to its maturity and thus provide opportunities to achieve interest savings through Refundings or cash pay downs.

4. GO bond issues will generally be sized to the amount reasonably expected to be spent in no more than three years.

5. GO bonds issued for new money purposes will be sold at a minimum price equal to the par amount of the bonds offered for sale.

Lease-Purchase Obligations

6. The City finances both capital improvements and equipment through the issuance of lease revenue bonds, lease revenue commercial paper, and through leases directly placed with banks and other private placement lenders. Generally, the City's lease revenue bonds and other obligations are issued through the Municipal Improvement Corporation of Los Angeles (MICLA). A fuller discussion of the City's lease financing program, including its use of commercial paper as a form of interim financing, is discussed in the MICLA section below.

7. In lease-purchase obligations, the final maturity of capital equipment obligations will be limited to the average useful life of the equipment to be financed, usually 10 years.

8. In lease-purchase obligations, the final maturity of real property obligations will be determined by the size of the financing: 10 to 15 years for small issues; 20 to 25 years for large issues; and 30 years for exceptional projects or those with a direct revenue component such as a special tax.

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9. In lease-purchase obligations, the principal will generally be amortized to result in level annual lease payments; however, more rapid principal amortization may occur where permissible to meet debt repayment goals. The obligations should be callable no later than 10 years to provide opportunities for interest savings through Refundings or cash pay downs.

Revenue Obligations

10. Revenue bonds secured solely from fees are not included when rating agencies calculate the City's debt ratios in their criteria.

11. Revenue obligations include any bonds secured by fees or revenues derived from the enterprise and deposited into special funds (Revenue Bonds), such as the City's Sewer Construction and Maintenance Fund, the Solid Waste Resources Revenue Fund, and the Special Parking Revenue Fund. If a new revenue source is put into its own fund, then a new revenue bond program could be developed.

12. From time to time, the City may enter into other revenue obligations including direct loans with state and federal agencies, such as the California State Water Resources Control Board and the Environmental Protection Agency, that offer local agencies low cost loans to fund certain capital projects.

13. To preserve General Fund debt capacity and budget flexibility, Revenue Bonds will be preferred over General Fund-supported debt when a distinct and identifiable revenue stream can be identified to support the issuance of bonds.

14. The final maturity of Revenue Bonds or other debt obligations secured by enterprise or other special revenues will be determined by the expected useful life of the financed project and the revenues available to repay the debt.

15. Generally, principal amortization will be structured to provide level debt service for the bond issue or for overall level debt service for that specific program. The obligations should be callable no later than 10 years to provide opportunities for interest savings through Refundings or cash pay downs.

Judgment Obligation Bonds

16. Judgment Obligation Bonds (JOBs) are issued to finance a court action against the City and a court-approved settlement. To issue these bonds, the City must participate in a court-approved validation process.

17. The final maturity of any JOB will be limited to 10 years to demonstrate the City's willingness to repay such obligations quickly.

18. The principal amortization will be determined as appropriate for each particular JOB transaction.

Special Tax Obligations

19. Special Tax Obligations are secured by revenues derived from a voter-approved special tax. These obligations are repaid with either excise taxes or parcel taxes, but not by ad valorem taxes.

20. Generally, the final maturity of City-wide special tax obligations will be limited to 20 years, unless there are unusual circumstances, as determined by the CAO. The obligations should be callable no later than 10 years from date of issuance to provide opportunities for interest savings through Refundings.

Mello-Roos and Special Assessment Obligations

21. Mello-Roos and Special Assessment Obligations are secured by additional charges levied on a discrete group of property owners. These obligations constitute overlapping indebtedness of the City and have an impact on the overall level of debt affordability.

22. The City has developed separate guidelines for the issuance of Mello-Roos and Special Assessment Obligations. The City of Los Angeles Policies and Procedures for Mello-Roos and Assessment Districts, adopted by the City Council on November 1, 1994, and all subsequent amendments, are hereby incorporated into this Policy. A copy of the Mello-Roos Policy is incorporated by reference and attached as Exhibit A.

Pension Obligation Bonds

23. Pension Obligation Bonds (POBs) are taxable bonds issued as part of an overall strategy to fund the unfunded portion of pension liabilities. The use of POBs rests on the assumption that the bond proceeds, when invested in higher-yielding asset classes that are allowed for pension systems (such as corporate stock), will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds.

24. POBs involve considerable investment timing risk, making the goal of issuing POBs somewhat speculative. Failing to achieve the targeted rate of return burdens the issuer with both the debt service requirements of the taxable bonds and the unfunded pension liabilities that remain unmet because the investment portfolio did not perform as anticipated.

25. If the City is considering the use of POBs, the CAO shall provide notification to the Council and Mayor of its intent to hire an independent municipal advisor and obtain an actuarial analysis to evaluate the cost/benefit of issuing POBs.

Section 108 Loans

26. Section 108 loans are made from federal funds and administered by HCID, but are guaranteed by other City funds, with an ultimate backstop from the General Fund. Accordingly, HCID, will adhere to the Debt Management Policy when structuring Section 108 loans.

27. Section 108 loans should be structured to be financially sound loans to assist in economic development projects.

28. Although the General Fund is the ultimate backstop, Section 108 loans will be structured with sufficient guarantees so that if the loan is in default, there will be another funding source besides the General Fund for the payment of the loan.

29. In compliance with the Block Grant Investment Fund (BGIF) Policy, block grants should be used as guarantor for payment on Section 108 loans.

Tax and Revenue Anticipation Notes

30. These notes are short-term borrowings in anticipation of taxes and revenues that have not yet been received. This borrowing is for cash flow purposes and is desirable to manage the timing mismatch between revenues and expenditures over the course of a fiscal year, or to take advantage of the opportunity to prepay annual pension obligations for a discount.

Bond Anticipation Notes

31. In certain circumstances, in anticipation of an expected revenue source, the City may issue short-term obligations to finance a capital project, with this obligation refunded with a more conventional long-term financing funded from the anticipated revenue source.

Grant Anticipation Notes

32. The City may issue short-term notes to be repaid with the proceeds of federal and state grants if appropriate for the project and in the best interest of the City. Generally, grant anticipation notes will only be issued if there is no other viable source of up-front cash for the project.

Other Types of Obligations

33. From time to time, the CAO may recommend other types of bonds or obligations that are beneficial to the City. The CAO will bring these to the Mayor and City Council for consideration.

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Bonds with Special Designations

34. Green, Social and Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and social projects or a combination of both. Green, Social and Sustainability Bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.

35. When determining whether to designate a bond issuance or transaction with a special designation such as Green, Social, or Sustainable, the City should examine and agree to comply with reporting (i.e. impact reporting) and disclosure requirements associated with the special designation.

36. Prior to issuing a bond with a special designation, the City, working with its consultants, should determine what if any independent/external review will be used such as a second party opinion, verification, certification, or bond scoring/rating process. These reviews will be made publically available.

37. Bonds with special designations may or may not result in premium pricing for the City and yet require additional reporting and disclosure. The City may choose to issue bonds with a special designation even when there is no additional pricing benefit based on other benefits such as:

    i. A greater diversification of the City's investor base that may result in potential increased demand and future premium pricing.

    ii. An alignment with the City's broader goals on environmental and social issues.

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FIXED-RATE DEBT

Purpose and Use of Fixed-Rate Debt

1. Fixed-Rate Debt should be used to finance essential capital assets such as facilities, real property, and certain capital equipment where it is appropriate to spread the cost of the asset over more than one budget year. In doing so, future taxpayers, who will benefit from the investment, will help pay a share of its cost as well as current taxpayers.

2. The City shall restrict the use of Fixed-Rate Debt to the following general categories:

   a. Capital Equipment Financing
   b. Financing of Real Property

3. Projects that are not appropriate for spreading costs over future years will not be debt financed.

Capital Equipment Financing

4. Although lease obligations can be a routine and appropriate means of financing capital equipment, lease obligations also have the greatest impact on debt capacity and budget flexibility. Therefore, efforts shall be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority equipment purchases should be funded with lease obligations.

5. All equipment with a useful life of less than six (6) years shall be funded on a pay-as-you-go basis unless the following conditions are met:

   a. In connection with the Proposed Budget, the Mayor makes a finding that there is an "economic necessity" based on a significant economic downturn, earthquake, other natural disaster, or there are no other viable sources of funds to purchase the equipment;

   b. The City Council concurs with the Mayor's finding in the adoption of the budget; and,

   c. The various Debt Affordability Ceiling, as discussed earlier in Debt Affordability and Capacity, are not exceeded except as provided for in said section.

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Financing of Real Property

6. Lease financing for facilities and real property is appropriate if the City desires to finance them from existing revenue sources, and not through voter-approved bonds secured by an increase in property taxes.

7. There are alternative ways to deliver large capital projects through public-private partnerships (P3) where government entities and private-sector businesses enter into agreements to finance, build, and/or operate the projects. As part of a P3 agreement, the government entities typically makes availability payments and possibly construction milestone payments. In some cases, the government entity may issue bonds to support the P3 project. When considering a P3 project, the City should determine the financial impacts and understand how the rating agencies will treat the availability payments and construction milestone payments as debt, as a contingent liability, or neither.

Asset Transfer Lease

8. An Asset Transfer is when an asset other than the asset being financed with the proceeds of lease revenue bonds is used to support the lease payments. The City will use "asset transfer" or "asset strip" leases to finance capital needs when there are no other viable financing options or to reduce the amount of interest that must be funded out of proceeds, since lease payments cannot commence until the asset that is being leased is available for use and occupancy.

9. An Asset Transfer Lease may be used if significant savings in financing costs can be generated compared to other financing alternatives. This type of legal structure secures the City's lease financing commercial paper programs.

Capitalized Interest

10. Funding interest payments to investors out of debt proceeds (Capitalized Interest) increases the amount of debt to be issued and therefore should be avoided unless essential from a legal standpoint, as in the case of lease-purchase obligations secured by the financed asset, or a project financing expected to be repaid out of project revenues.

11. Interest on General Obligation Bonds will not be capitalized, except out of bond premium.

12. Generally, interest on lease-purchase obligations will be capitalized for a maximum of one year following a conservatively based estimate of project completion to provide a cushion for project slippage. Commercial paper can be used to provide interim project funding and avoid the cost of capitalized interest.

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VARIABLE INTEREST RATE DEBT

Purpose and Use of Variable Interest Rate Debt

1. The City may use variable interest rate debt instruments as a balance sheet management tool, offsetting the risks inherent in variable rate assets such as investments. The maintenance of variable rate debt liabilities in an amount equal to or less than the amount of variable rate assets reduces the City's overall risk of exposure to changes in interest rates.

2. The City may use variable interest rate debt instruments to achieve an expected lower net cost of borrowing with respect to the City's debt by accepting a limited level of interest rate risk.

3. The City may use variable interest rate debt instruments as a tool for interim financing. Since the expectations of variable rate investors are, by their nature, short-term, variable rate debt can be redeemed on short notice. Variable rate debt does not have a fixed rate but varies anywhere from daily to yearly mode, thus allowing flexibility in refunding them at any time without any penalty in the form of a payment for calling the bonds (known as a call premium) or higher initial interest rates.

   a. Variable rate debt is a preferred tool for financing projects for which a prepayment or restructuring is a high probability.

   b. Certain variable rate products, most notably commercial paper, can be issued incrementally as funds are needed to finance current construction, and can reduce the long-term cost of construction financing. Usually commercial paper will be refunded with a long-term financing when the project is completed.

4. Before implementing any variable interest rate debt strategy designed to serve as a hedge against interest rate risk, the CAO will provide an analysis of asset and liability balance on a fund-by-fund basis and include it in its report to the Mayor and City Council when recommending variable rate debt.

5. When considering variable rate debt, it is important for the City to consider both the interest rate as well as the ongoing fees for credit enhancement (letter of credit) and remarketing of the bonds for an all-in cost comparison.

Types of Variable Interest Rate Debt

6. Variable Rate Bonds: It is often appropriate to issue variable rate bonds to diversify the debt portfolio and improve the match of assets to liabilities. Variable rate debt may also provide interest cost savings. If variable rate bonds are used, the CAO will periodically, but at least annually, determine if it is appropriate to convert the debt to a fixed interest rate.

7. Commercial Paper Notes: Commercial Paper (CP) is a short-term obligation with maturities ranging from 1 to 270 days. It is often used as interim financing until a project is completed to take advantage of lower interest rates. CP is typically backed by a bank letter of credit. Once a project is completed, the CAO may recommend refunding CP with a long-term financing obligation, if appropriate.

8. Synthetic fixed rate: In some markets, the City can simultaneously issue variable rate debt and enter into corresponding swap agreements that have the effect of creating a net fixed rate obligation at a lower net interest cost than the cost of issuing traditional fixed rate debt.

Considerations for Use of Variable Interest Rate Debt

9. The use of variable interest rate debt instruments should be analyzed as part of a balance sheet risk mitigation strategy to determine the appropriate amount of variable rate debt to be issued for risk mitigation purposes based on an analysis of the following factors with reference to the funds that will be repaying the debt:

    a. The historic average of cash balances over the course of several prior fiscal years.

    b. The projected cash balances based on known demands on a given fund and on City's fund balance policies.

    c. Any basis risk, such as the difference in the performance or duration of the City's investment vehicle compared to the variable rate debt instrument to be used by the City.

10. The use of variable interest rate debt instruments should be analyzed as part of a strategy that benefits from the out-performance of the variable rate market to fixed rate debt, and to determine the appropriate level of risk exposure for the City to accept.

    a. Based on market convention, a debt portfolio that contains up to 25% of variable rate debt is generally acceptable.

    b. In determining the amount of risk the City should take, the CAO should consider the specific fund exposed to the risk, and the budgetary flexibility that fund has in accommodating such risk.

    c. The analysis of risk exposure should be performed on the basis of "net" risk; that is, variable rate liability exposure net of any interest rate hedge provided by the availability of cash or risk mitigation tools such as interest rate swaps.

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11. Recommendations regarding the use of variable interest rate debt instruments for Interim Financing should consider issuing commercial paper in connection with its major debt-financed construction programs, especially when interest earnings on construction and capitalized interest funds are at a rate lower than the rate of long-term bonds, thereby increasing the amount of debt that must be issued to fund a program. Variable rate debt should also be considered in lieu of a long-term fixed rate financing when a refunding or restructuring of the debt is likely due to potential changes in use of the project or credit quality.

Selection and Diversification of Firms

12. In selecting remarketing agent for variable rate debt and commercial paper dealers, the City generally should choose multiple remarketing agents to diversify its exposure and create more competition among the various remarketing agents.

13. In selecting institutions to provide liquidity or credit enhancement, the City should generally seek to diversify its exposure. At times, based on the amount of the transaction and the project itself, one institution may be chosen.

Budgeting for Debt Service

14. The CAO will analyze each variable interest rate debt program to determine the required budget amount for debt service. The factors to be analyzed include historic interest rates, projected interest rates, the effect of risk mitigation products such as interest rate swaps or caps, and the availability of fund balances carried-forward from savings in previous years. Due to the uncertainty inherit in the financial markets and to protect against potentially increasing variable interest rates, the CAO may recommend budgeting for higher than anticipated debt service payments as the appropriate budget amount. This analysis shall be done in conjunction with the formulation of the Mayor's Proposed Budget.

Monitoring and Reporting

15. The CAO will manage the City's variable interest rate debt programs, including comparing the performance of actual interest rates compared to the interest rates assumed at the time of budget formulation.

16. The CAO will recommend any appropriate mid-year budget adjustments to debt service payments based on the performance of actual interest rates compared to the interest rates assumed at the time of budget formulation.

17. The CAO will review and report on the following on a periodic basis, to the extent applicable:

    a. Whether balances remaining at the end of the fiscal year, accruing from actual lower interest rates than those assumed in the budget process, will be reserved

for future interest rate stabilization or otherwise applied for interest rate management or principal redemption.

b. The performance of the individual remarketing agents as compared to other remarketing agents, other similar programs and market indices.

c. The factual circumstances, such as balance sheet factors or the relative amount of debt that supported the original issuance of the variable rate debt.

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INTEREST RATE SWAPS

In 2003, the City adopted an "Interest Rate Risk Mitigation Products Policy," primarily to govern the use of interest rate swaps that, when combined with variable interest rate debt, resulted in a pair of matched obligations to create "synthetic" fixed rate obligations. Because the use of this approach is no longer common in the municipal market, and it is the City's expectation that it will not be used in the future, the Interest Rate Risk Mitigation Products Policy has been deleted from the overall Debt Management Policy. A revised policy must be approved by the Mayor and City Council should the use of swaps be considered in the future.

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MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES LEASE REVENUE PROGRAM

Purpose and Use of Municipal Improvement Corporation of Los Angeles (MICLA) Debt

1. MICLA is a non-profit corporation established by the City of Los Angeles in 1984 to serve as the lessor in lease-purchase transactions involving the City. MICLA was organized for social welfare purposes within the meaning of Section 501(c)(4) of the Internal Revenue Code. Board members were originally appointed by the Mayor and concurred by the City Council. Appointments to subsequent vacancies are made by the Board with the concurrence of the City Council. MICLA plays no active role in either the procurement of funds or equipment (the financed projects), but must review and approve the projects proposed by the City for financing through MICLA.

2. MICLA funding may come in the form of fixed interest rate, variable interest rate, or commercial paper.

3. The Mayor and City Council approved the MICLA Lease Revenue Commercial Paper Note Program (CP Program) for the purpose of financing the acquisition of various capital assets, including capital equipment and real property.

   a. The CP Program gives the City flexibility in financing its capital program, including quicker implementation and reduced costs.

   b. The City may from time to time have more than one MICLA CP Program for a specific purpose, such as improvements to the Los Angeles Convention Center.

   c. The CP Program is designed to be a form of Bond Anticipation Note, with lease revenue bonds being issued from time to time to refund the CP and provide permanent financing.

Administrative Procedures

4. On an annual basis, departments will send requests to have projects (capital equipment and real property) included in the Mayor's Proposed Budget. Final approval of all projects will be made through the Adopted Budget.

5. The CAO, at its discretion, will determine the appropriate financing method and instrument (fixed rate, variable rate or commercial paper) for each project. The CAO may use a combination of methods and instruments such as CP for the initial financing of a project and then refinance the outstanding CP into fixed rate debt once the capital equipment is purchased or when the real property acquisition and/or improvements are completed.

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6. The CAO is responsible for the overall management of the MICLA program and has been delegated by the MICLA Board to perform most MICLA responsibilities. For the CP Program, these responsibilities include the following:

   a. Requesting that the dealers issue new CP notes as needed to fund approved projects.

   b. Managing the roll-over of maturing notes until there is a long-term take out financing.

   c. Planning and executing the take-out financing.

   d. Budgeting for debt service and on-going administrative expenses.

7. The City Controller is responsible for creating and maintaining all MICLA Funds, and approving demands in the same manner as other City funds. The City Controller will also provide quarterly reports to show the financial condition of all the MICLA Funds.

8. Each department that uses MICLA Funds is responsible for awarding contracts, encumbering funds, processing payment for approved projects, and providing the CAO sufficient information so that either CP or long-term debt can be issued in a timely as-needed basis.

9. Each department that uses MICLA Funds must submit an expenditure plan prior to gaining approval to fund any project and then submit updates every six (6) months or when required by the CAO for refinancing and compliance purposes.

10. On an annual basis, or as frequently as directed by the CAO, each department that uses MICLA Funds must submit a Certification of Use of Proceeds.

<u>Debt Structure</u>

11. It is good practice for the City to pay interest on CP as it becomes due to avoid issuing CP for interest that would be considered capitalized interest. Principal is usually refinanced into fixed rate or can be paid down as part of the Adopted Budget.

12. The decision to issue long-term debt with variable or fixed-rate bonds will be determined by interest rates, the market, and the useful life of the asset. Usually, when a project funded with CP is completed, it will be refinanced into long-term debt for the remainder of its useful life or retired with cash.

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MICLA Operating Guidelines

13. MICLA funding (long-term and CP) approved in the Adopted Budget will be made available to departments as early in the fiscal year as practicable, unless a determination is made by the City Council that an alternate financing method can efficiently meet the City's needs.

14. Departments are required to follow the Post-Issuance Compliance procedures for all capital equipment or real property purchased through MICLA. Failure to do so could adversely affect the tax-exempt status of the bonds and commercial paper.

15. MICLA funding shall be provided for the purchase, improvement and construction of real property for which final plans and/or design have been completed and are ready for bid award.

16. MICLA funding shall only be provided for those capital equipment items that have the highest priority as described in the eligibility equipment guidelines below. More specific criteria may be provided in the Mayor's Annual Budget Policy Memo.

17. MICLA funds that remain unspent for a period longer than three years from the date of availability shall be subject to reversion to pay debt service and/or to offset new MICLA projects. Any exceptions shall require Mayor and City Council approval. The City Controller and the CAO are authorized to implement this Policy and to ensure funds and accounts are closed at the appropriate time.

18. MICLA authorizations that remain unspent for a period longer than three years from the date of availability shall be swept and no longer available for expenditure. Any exceptions shall require Mayor and City Council approval. The City Controller and the CAO are authorized to implement this Policy and to ensure funds and accounts are closed at the appropriate time.

19. The General Services Department (GSD) should only approve departmental purchase order changes resulting from safety or regulatory reasons that occur during the ordering period.

20. GSD and user departments will limit custom order vehicles to instances when manufacturers do not have standard models that will reasonably meet the City's operational requirements.

21. The following guidelines will be used to determine eligibility for capital equipment to be purchased with MICLA:

    a. All capital equipment should have a minimum useful life of six (6) years with a goal of financing mostly equipment with a useful life of 10 years or more. Useful life means a period of time during which an asset will provide the desired service to the department using it. The useful life of a piece of technical

equipment could be substantially less than the term of its expected use by the City (e.g., computers due to technical obsolescence are not eligible).

b. Equipment must directly support the delivery of essential or core government services.

c. Large bulky equipment that are not easily transportable or hidden such as fire apparatuses, construction equipment, dozers, heavy trucks, and helicopters are generally appropriate for MICLA lease financing. The City will avoid debt financing equipment such as servers, software, radios, antennas, testing materials, police black and white patrol vehicles, and motorcycles as their depreciation and damage rates are typically high.

d. The City has a goal of financing capital equipment (plus set-up accessories) with a minimum total unit cost of $250,000. Not all capital equipment, however, can meet this goal due to the nature of the equipment.

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CONSULTANTS

Retention of Consultants

1. All municipal advisors, bond counsel, underwriters, and other as needed market participants (i.e. trustees and arbitrage consultants) will be selected through a RFP or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances.

2. In isolated instances, contracts may be awarded on a sole source basis if it is clear that a RFP/RFQ process would not be feasible or in the City's interests.

3. The City's contracting policies, in effect at the time, will apply to all contracts with public finance professionals, as permitted by federal and state laws. Generally, the terms of the contracts for municipal advisor and bond counsel will depend on each financing program.

4. Generally, municipal advisors, bond counsel teams, and underwriters who participate in City contracts should, but are not required, to have an office in the County of Los Angeles. Exceptions may be made for smaller firms serving as co-bond counsel or co-municipal advisor, and who are seeking to expand their client base and open new offices. Additionally, exceptions will be made when specialized expertise is required and such expertise is best provided by a firm located outside of the County.

5. Depending on particular expertise and consultant availability, some firms may be used on more than one program. Efforts will be made, however, to establish different teams to provide a number of firms the opportunity to participate in City contracts.

6. In the event that the City issues bonds through a negotiated sale, the selection of underwriters will generally be for a single transaction. However, underwriters may be selected for multiple transactions if multiple issuances are planned for the same project.

7. All municipal advisors or firms acting as municipal advisors must be registered with the Municipal Securities Rulemaking Board (MSRB).

General Municipal Advisors

8. The City will retain a general municipal advisory team to provide general advice on the City's debt management program, financial condition, budget options, and rating agency relations.

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9. The general municipal advisors will structure the City's General Obligation Bond issuances and may be used on an as-needed basis to structure bond issuances that do not fall into the other categories of City debt obligations.

Municipal Advisors

10. The City will retain municipal advisors for each bond financing or transaction. The CAO will issue either a RFP or RFQ depending on the needs of the City.

11. The CAO will usually recommend two municipal advisors for each transaction depending on the size, complexity, and timing of the bond sale or transaction.

Legal Counsel Services

12. A Legal Counsel team may consist of separate Bond Counsel, Special Tax Counsel, and Disclosure Counsel depending on the specifics of the financing.

13. The City Attorney has Charter authority to hire outside counsel and will work with the CAO to hire appropriate legal counsel for each transaction.

Use of Independent Municipal Advisors on Competitive Sales

14. The City will hire municipal advisors who are independent and do not participate in the underwriting or trading of bonds or other securities.

15. Under certain circumstances it may be in the City's best interests to hire an investment banking firm to act as co-municipal advisor on a specific bond issue. These may be referred to as sell side advisors. In these instances, the firm will not be permitted to bid on the bonds for which the firm is acting as municipal advisor.

Use of Independent Municipal Advisors on Negotiated Sales:

16. In a negotiated sale, the City will hire municipal advisors who do not participate in the underwriting or trading of bonds or other securities to represent the City.

17. The City may hire an underwriter to act as municipal advisor to the City as part of a negotiated sale only if all independent municipal advisory firms, which responded to the RFP, are found to be unqualified.

18. If no independent municipal advisory firms were found to be qualified, an underwriter could be the municipal advisor. This firm would be prevented from participating in the underwriting of the transaction, including any profit sharing or other type of agreement with any member of the underwriting team for the transaction.

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Use of Municipal Advisors for Investment Advice

19. Although the City Treasurer makes all investment decisions relative to temporary investments pending the expenditure of bond proceeds, the municipal advisor may provide investment advice on refinancings and other transactions with specialized investment needs.

20. Under no circumstances will the City enter into any investments for which the municipal advisor receives any fee or compensation from the investment provider or any outside party.

Disclosure by Financing Team Members

21. All financing team members will be required to provide full and complete disclosure, as required under MSRB rules, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction.

22. No agreements will be permitted that would compromise any firm's ability to provide independent advice that is solely in the best interests of the City, or that could reasonably be perceived as a conflict of interest.

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POST-ISSUANCE TAX COMPLIANCE

The CAO is responsible for the development and implementation of procedures to ensure the compliance with applicable federal tax laws to maintain the tax-exempt status of its debt obligations. The CAO will have primary responsibility to coordinate with the applicable City departments and monitor the use of tax-exempt bond proceeds.

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DISCLOSURE

Purpose

1. It is the policy of the City to fully comply with applicable state and federal securities law, and with the terms of its contractual agreements executed pursuant to Rule 15c2-12, adopted by the Securities and Exchange Commission, to provide financial and operating data periodically and timely notices of certain events or other reporting requirements.

Objectives

2. To ensure compliance with applicable federal and state securities laws with respect to the securities that it issues, including with respect to any statement or other communication that is intended (or reasonably can be expected) to be accessible to and reasonably relied upon by investors in the City's securities, in order to:

    a. Reduce and manage the City's (and its officials' and employees') exposure to liability for damages and enforcement actions based on misstatements or omissions;
    b. Demonstrate that the City has taken reasonable care to avoid, to the best extent possible, the occurrence of misstatements or omissions;
    c. Promote best practices regarding the preparation of disclosure documents;
    d. Avoid damage to residents of the City and other third parties stemming from misstatements or omissions; and
    e. Potentially reduce borrowing costs by establishing a reputation for providing good disclosure and thereby promoting good investor relations.

Procedures

3. The CAO is responsible for the development and implementation of procedures to ensure compliance with this Disclosure Policy. The procedures promulgated by the CAO will establish a framework for compliance with, and adherence to, applicable state and federal securities laws relating to disclosure with respect to the City's primary offering documents, continuing disclosure certificate and filings, required state reporting, audited financial statements, websites and social media, and any public statements, among other things as determined by the CAO.

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CONDUIT FINANCING

General

1. Conduit Finance and City Liability: A "conduit financing" is the issuance of municipal securities by a governmental unit such as the City (referred to as the "issuer" or the "conduit issuer") to finance a project to be used primarily by a third party, which may be a for-profit entity engaged in private enterprise, a 501(c)(3) organization, or another government entity, which are all referred to as "conduit borrowers." In a conduit financing, the conduit borrower is responsible for making debt service payments on the bonds. If the project fails and the security goes into default, it is the conduit borrower's financial obligation, and not the City's obligation as the conduit issuer.

2. Applicability and Administration: This Conduit Financing Policy applies where the City acts as a conduit issuer for a 501(c)(3) organization to finance projects such as hospitals, retirement facilities, museums, and community centers. The CAO will be responsible for managing these conduit financings. Conduit financings associated with affordable housing shall be undertaken in accordance with HCID's debt policy. The CAO, however, has oversight responsibilities to review all bond transactions conducted by the HCID.

Conduit Procedures

3. Pre-application Meetings: Early communication with Council Office staff and the CAO is recommended. In most cases, a meeting of the conduit borrower, also referred to herein as the "applicant", the CAO, and the Council District staff, in which the project is located, will be required prior to submission of the formal application for funding.

4. Selection of Financing Team: The applicant will select its own financing team (e.g. underwriters and bond counsel), subject to the approval of the City.

5. Form of Application: Applications will be in the form of a letter request, to be submitted to the Council Office in which the project is located. The letter will request that the matter be forwarded to the CAO Debt Management Group for processing and reporting to the Mayor and City Council with a review of the project, identification of any potential impact to the City, and recommendations relative to proceeding with the conduit financing.

6. Application Information: The application letter should include the name, address and telephone number of all principals, including underwriter and bond counsel; a history of the applicant and its facilities; the population served by the facilities, including, if applicable, the percentages that receive some form of public assistance such as Medicare or Medical and the percentages that are residents of the City of Los Angeles; the population employed at the facilities; a complete

description of the proposed project(s) to be financed; the sources and uses of funds; and, a complete statement of the public purpose served through the conduit financing.

7. Application Review: City staff will review the application and obtain other information as required. A report will be made to the Mayor and City Council recommending whether or not the City should initiate financing activities. This action may include inducement of the project for federal tax purposes. Subsequently, assigned departmental staff will coordinate the completion of documents with the applicant, which will be submitted to the City Council for approval.

8. Public Hearing: The Tax Equity and Fiscal Responsibility Act of 1982 (the "TEFRA") requires that a public hearing be held to allow for the public to voice any objections to the project (the "TEFRA hearing"). If any entity other than the City (e.g. joint powers authority), is acting as the conduit issuer, the City's involvement begins and ends with the TEFRA hearing. In cases where the City is acting as the conduit issuer, the TEFRA hearing will be held in conjunction with consideration of the resolution authorizing the sale of the bonds.

Conditions for Consideration

9. Minimum Credit Ratings: Generally, all conduit financings should have a minimum credit rating of AA from any of the recognized rating agencies, and must be rated by at least two of the rating agencies. If the underlying rating of the borrower is not sufficient to provide the minimum rating, the financing must have credit support that will result in the minimum rating.

10. Public Benefit: The proposed conduit financing must have a public benefit to the residents of the City of Los Angeles that is sufficient to merit the City's participation.

11. Non-Sectarian Nature: While religious ownership and sponsorship of a project are acceptable, the project for which bond proceeds will be utilized cannot be used for any sectarian purpose. In analyzing the sectarian nature of a project, the City may rely on an opinion issued by the California State Attorney General on this matter, which address both federal and state constitutional prohibitions against public support for religious institutions.

12. Fees: The City will charge a fee, payable from bond proceeds, to pay for all of its costs in undertaking a conduit financing. The fee will vary depending on the complexity of the project and will be determined prior to adoption of the resolution authorizing the sale of the bonds.

13. Document Requirements: The following will be applicable to all documents related to conduit financings:

a. All contracts to which the City is a party will comply with all City contracting provisions in effect at the time the contracts are executed.

b. The transaction will be clearly structured as a limited obligation payable strictly from revenues from the conduit borrower, and the City will in no way be obligated to make payments on the bonds as a result of default.

c. The conduit borrower will fully indemnify the City.

d. The conduit borrower will provide annual financial statements to the City and a statement that there has been no default or other material event that requires disclosure. Additionally, the conduit borrower will covenant to expeditiously provide additional information to the City and investors as may reasonably be requested. The conduit borrower will covenant to immediately inform the City of any event that materially affects the organization and may require disclosure and be liable for any costs incurred in connection with providing additional disclosure to investors, bond rating agencies or other parties.

e. In addition to monthly statements and other information provided for in the trust indenture, the Trustee will covenant to provide information to the City and investors as may reasonably be requested.

f. Closing documents will include a contract with an arbitrage consultant.

g. The conduit borrower will deem the preliminary official statement final for SEC purposes and will sign the final official statement.

h. The name of the City of Los Angeles in the masthead of the official statement will be in the smallest type size used in that location and the name of the conduit borrower will be larger and more prominently displayed than that of the City.

i. Throughout the official statement, the limited obligation of the City will be clearly disclosed.

j. Private placements may not require marketing or disclosure documents such as an official statement or credit ratings.

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GLOSSARY OF KEY TERMS

Amortize: To retire the principal of an issue by periodic payments either directly to bondholders or first to a Sinking Fund and then to bondholders.

Arbitrage: The difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the bonds in higher yielding taxable securities. Federal tax laws generally restrict the ability to retain any arbitrage in connection with tax-exempt bonds.

Bond: A bond is a debt instrument issued for a period of more than one year, which allows the issuer to finance capital needs or refinance prior debt. The issuer is obligated to repay the investor a specified principal amount on a certain date, together with interest. The bond bears a stated rate(s) of interest or states a formula for determining that rate and matures on a date certain.

Bond Anticipation Notes: Short-term notes issued by a state or municipality, usually for capital projects, to borrow funds that are expected to be refinanced by a future long-term bond issue.

Bond Counsel: An attorney (or firm of attorneys) retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal income taxation and, where applicable, from state and local taxation.

Bond Proceeds: The money paid to the issuer by the purchaser or underwriter of a new issue of bonds. These moneys are used to finance the project or purpose for which these bonds were issued and to pay certain costs of issuance as may be provided in the bond documents.

Call Option: Redemption provisions in the bond contract for a security may provide the issuer the right to retire the debt fully or partially before the scheduled maturity date.

Capitalized Interest: Interest is commonly capitalized for the construction period of a revenue-producing project or a project financed with a lease, and sometimes for a period thereafter, so that the debt service expense does not begin until the project is expected to be operational and producing revenues.

Commercial Paper: Short-term notes with maturities ranging from one to 270 days, usually backed by a letter of credit with a bank, which are intended to be "rolled over" in a series of current refinancing as portions of the issue mature from time to time. Generally, the maturity of the commercial paper sold on each rollover is determined by market conditions at the time of rollover.

Competitive Sale: The sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale.

Conduit Financing: The issuance of municipal securities by a governmental unit (the "conduit issuer") to finance a project to be used primarily by a third party (the "conduit borrower"), which may be a for-profit entity engaged in private enterprise, a 501(c)(3) organization, or another governmental entity. The security for this type of bond issue is the credit of the conduit borrower or pledged revenues from the project financed, rather than the credit of the conduit issuer.

Continuing Disclosure: Disclosure of material information relating to municipal securities provided to the marketplace, after the initial issuance of municipal securities, by the issuer. Such disclosures include, but not limited to, annual financial information and material event notices provided by the issuer or obligor to various information repositories for the bondholders, as contemplated under SEC Rule 15(c)2-12 or on a voluntary basis.

Costs of Issuance: The expenses associated with the sale of a new issue of municipal securities. These expenses may include, but are not limited to, legal fees, trustee fees, municipal advisor fees, printing, and rating agency fees. These fees are typically reported separately from underwriter's discount, defined below.

Credit Enhancement: The use of the credit of an entity other than the issuer to provide additional security in a bond or note financing to improve an issuer's credit standing. Examples include bond insurance and bank letters of credit, but also may refer more broadly to the use of any form of guaranty, secondary source of payment or similar additional credit-improving instruments.

Credit Ratings: Evaluations of the credit quality of notes and bonds usually made by independent rating services such as Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service, and S&P Global Ratings. Credit ratings are intended to measure the probability of the full and timely repayment of principal and interest on municipal securities. Ratings are initially made before issuance, are periodically reviewed and are subject to change over time to reflect changes in an issuer's credit profile.

Debt Limit: The maximum principal amount of certain forms of debt that a municipal government is permitted to incur under constitutional, statutory or charter provisions.

Debt Ratio: Comparative statistics showing the relationship between a bond issuer's outstanding debt and factors affecting repayment. Such ratios are often used in the process of determining credit quality of an issue.

Debt Service: The amount of money necessary to pay interest on the outstanding bonds, the principal of maturing or redeemed bonds, and the required contributions to a sinking fund for term bonds.

Disclosure Counsel: An attorney or law firm retained by the issuer to provide advice on issuer disclosure obligations, to prepare the Official Statement and Continuing Disclosure Agreement, and to provide a 10b-5 Opinion.

Discount: Generally, the amount by which the par value of a Bond exceeds the sale price.

Electronic Municipal Market Access (EMMA): EMMA, a service provided by the Municipal Securities Rulemaking Board (MSRB), is a comprehensive, centralized online source for free access to municipal disclosures, market transparency data, and educational materials about the municipal securities market.

General Obligation Bond: A bond that is secured by the taxing power of an issuer. General Obligation Bonds issued by local governments are secured by a pledge of the issuer's ad valorem taxing power. Such bonds constitute debts of the issuer and, in California, require approval by two-thirds vote prior to a City's issuance.

Generally Accepted Accounting Principles (GAAP): Rules adopted by the Governmental Accounting Standards Board that establish standards for preparing financial statements of an enterprise, and by the Governmental Accounting Standards Board for preparing financial statements of state and local governments.

Governmental Accounting Standards Board (GASB): A standard-setting body, associated with the Financial Accounting Foundation. GASB prescribes standard accounting practices for governmental units in maintaining their financial records and releasing financial data to the public.

Grant Anticipation Note (GAN): A short-term note issued on the expectation of receiving grant moneys, usually from the federal government. The notes are payable from the grant funds, when received.

Green Bonds: Any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance projects with clear environmental benefits including, but not limited to, renewable energy, energy efficiency, pollution prevention and control, Green buildings, terrestrial and aquatic biodiversity conservation, and clean transportation.

Interest Rate: The annual rate, expressed as a percentage of principal, payable for use of borrowed money.

Interest Rate Risk: The risk associated with changes in general interest rate levels or Yield Curves (see Yield Curves below).

Judgment Obligation Bond: A bond issued to finance obligations arising from unusual and non-recurring court judgments.

Lease Revenue Bond: A bond from an issue that is secured by lease payments made for the use of capital equipment or facilities, either by leasing the facilities financed by the issue or the lease-leaseback of existing facilities (an "asset transfer"). Typically, lease revenue bonds are used to finance construction of facilities used by a state or

municipality, which leased the facilities from a financing authority. Under California case law, the state or municipality is generally obligated to appropriate funds from its general tax revenues to make lease payments as long as it has beneficial use or occupancy of the leased property.

Mello-Roos Bond: A bond issued by a Mello-Roos Community Facilities District (a "CFD") to finance public improvements and services. Bonds issued by a CFD are secured by the levy of specified special taxes, which must be approved by a two-thirds vote of the registered voters or landowners within the proposed district. Pursuant to the Mello-Roos Community Facilities Act of 1982, any county, city, special district, school district, or joint powers authority can establish a CFD.

Municipal Advisor: A consultant who advises the issuer on matters related to a new issue, such as structure, timing, marketing, fairness of pricing, terms and credit ratings. A municipal advisor can also provide financial advice on matters unrelated to a new issue such as cash flow and investments. All municipal advisors must be registered with the MSRB.

Municipal Securities Rulemaking Board (MSRB): An independent self-regulatory organization, established by the Securities Acts Amendments of 1975, consisting of representatives of securities firms, bank dealers, municipal advisors, issuers, investors and the public, that is charged with primary rulemaking authority over municipal securities dealers and municipal advisors in connection with their municipal securities and municipal advisory activities. MSRB rules are approved by the SEC, and enforced by the SEC and the federal banking regulators depending on the regulated entity.

Negotiated Sale: The sale of new issue of bonds by an issuer directly to a selected underwriter or underwriting syndicate in which the terms and price are negotiated.

Official Statement: A document prepared by or on behalf of the issuer of bonds which discloses material information on the new bonds such as the purpose of the issue, how the bonds will be repaid, and the financial and economic characteristics of the issuer, conduit borrower, or other obligated person with respect to the offered securities. Investors may use this document to evaluate the credit quality of the bond issue.

Remarketing Agent: A broker-dealer who is responsible for reselling variable rate bonds that have been tendered for purchase by the issuer.

Request for Proposal (RFP): A formal process by which an issuer gathers written information, such as qualifications, experience, and proposed compensation arrangements, from professionals for the purpose of selecting underwriters, municipal advisors, and attorneys.

Request for Qualifications (RFQ): A more general form of "Request for Proposals."

Revenue Bond: A bond that is payable from a specific source of revenue and to which an issuer's taxing power or general fund revenues are not pledged.

Par Value: Refers to the principal amount of the bond that must be paid at maturity. A bond may be purchased "at par" meaning the price of the bond is equal to its principal amount. Par value is also referred to as "face amount" or "face value" of a bond.

Private Placement: A private placement is a type of negotiated sale in which the issuer sells bonds or places another form of loan directly to a private investor, generally a bank.

Rating Agency: An organization that provides ratings that indicate the relative credit quality of liquidity characteristics of bonds. The nationally recognized rating agencies by the SEC are Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service and S&P Global Ratings.

Redemption: The payment of principal of a bond at maturity or prior to maturity pursuant to redemption provisions in the bond documents.

SEC Rule 10b-5: A SEC rule that makes it unlawful for any person, in connection with the purchase or sale of any security, to employ an device, scheme, or artifice to defraud; to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

SEC Rule 15(c)2-12: A SEC rule setting forth certain obligations of the underwriters to receive, review and disseminate official statements prepared by the issuers of most primary offerings of bonds and to obtain continuing disclosure agreements from issuers and provide material event notices and annual financial information on a continuing basis. In addition, the rule requires broker-dealers to have access to such continuing disclosure information in order to make recommendations of the bonds in the secondary market.

Securities Exchange Commission (SEC): The federal agency responsible for the supervising and regulating the securities industry. Generally, municipal securities are exempt from the SEC's registration and reporting requirements. Broker-dealers involved with municipal securities are subject to SEC regulation and oversight. The SEC also has responsibility for the approval of MSRB rules and has jurisdiction, pursuant to SEC Rule 10b-5, over fraud in the sale of municipal securities.

Social Bonds: Any type of bond instrument where the proceeds will finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population(s). Social Project categories include providing and/or promoting: affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, or socioeconomic advancement and empowerment.

Special Assessment Bonds: An obligation payable from revenues of a special. assessment. A special assessment is a charge imposed against a property in a particular locality because that property receives a special benefit by virtue of some public improvement, separate and apart from the general benefits accruing to the public at large.

Sustainability Bonds: Any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance a combination of Green and Social Projects.

Tax and Revenue Anticipation Notes ("TRANs"): Short-term notes issued in anticipation of receiving tax receipts or other revenues at a future date.

Tax Equity and Fiscal Responsibility (TEFRA) Act of 1982: A federal tax law which requires, among other things, as a pre-condition for the exclusion from gross income for federal income tax purposes of interest on all qualified private activity bonds, that the issue be approved either by an elected official or body of elected officials of the applicable governmental entity after a public hearing following reasonable public notice.

TEFRA Hearing: A public accountability procedure involving the legislative body of the local agency in which the proposed project is located. During such process, the legislative body conducts a public hearing providing members of the community the opportunity to speak on behalf of or again the nature and location of the proposed project to be financed with tax-exempt bonds.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

Trust Indenture: A contract between the issuer and a trustee for the benefit of the bondholders.

Trustee: A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the trust indenture.

Underwriter: A broker-dealer that purchases a new issue of municipal bonds from the issuer for resale in a primary offering.

Underwriter's Counsel: An attorney or law firm retained to represent the interests of the underwriter in connection with the purchase of a new issue of bonds.

Underwriter's Discount: The fee, expressed in dollars per $1,000 of bonds, paid to underwriters in connection with an issuance of bonds. The Underwriter's Discount typically includes the takedown, which is the sales commission associated with the placement of bonds with investors, and expenses, which are the reimbursable expenses of the underwriters related to the financing. Less typically and usually for longer term and highly complex financings, Underwriter's Discount may also include a management fee.

Underwriting Syndicate: A group of underwriters formed to purchase a new issue of municipal bonds from the issuer and offer it for resale to the general public.

Yield Curve: Refers to the graphical or tabular representation of interest rates across different maturities. The presentation often starts with the shortest-term rates and extends towards longer maturities. It reflects the market's views about implied inflation/deflation, liquidity, economic and financial activity, and other market forces.

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Exhibit A

Mello-Roos Policy

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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

Direct Debt (1) and Overlapping Debt (2)	Applicable	
General Obligation Bonds (2)	100.000%	$ 315,225,000
Parcel Tax Bonds		
Fire Communications and Dispatch System	100.000	44,655,000
Police Emergency Command Control Communications System	100.000	43,305,000
Subtotal		$ 87,960,000
Lease Obligations		
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	15,520138
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 Direct Debt(I)	**$3.895 billion Overall Debt (2)**
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 assess 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 agendas, 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	321,025,000
Equipment Lease Financings	428,740,000
Subtotal	**1,475,440,000**
Less: Retirement of debt	544,024,000
NET INCREASE IN DIRECT DEBT	$ 931,41000

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 Pubic 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.

0Public 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 <u>owners</u> 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 propriation, 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: ( )

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.

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.

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.

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**

City of Los Angeles
Changes in Direct Net Debt
(All Amounts in Thousands of Dollars)

	Fiscal Years Ending June 30									
	1992	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
GENERAL OBLIGATION BONDS										
Outstanding @ July 1	112,825	144,865	168,310	310,995	454,620	545,441	583,747	550,893	517,820	484,536
Plus: New Issuances (1)										
Libraries	11,210	2,215	24,723	14,685	0	0	0	0	0	0
Police	15,210	25,575	45,968	45,000	30,000	7,444	0	0	0	0
Sprinklers	10,600	0	15,400	0	0	0	0	0	0	0
Seismic	1,830	1,390	60,909	99,200	84,200	60,141	0	0	0	0
Other	0	0	3,000	0	0	0	0	0	0	0
Total	38,850	29,180	150,000	158,885	114,200	67,585	0	0	0	0
Less: New Retirements (post 11/93)					(7,944)					
Less: Scheduled Retirements	(6,810)	(5,735)	(7,315)	(15,260)	(15,435)	(15,625)	(15,820)	(16,040)	16,250)	(16,500)
Outstanding @ June 30	144,865	168,310	310,995	454,620	545,441	583,747	550,893	517,820	484,536	451,003
SPECIAL TAX BONDS										
Outstanding @ July 1	61,240	57,160	51,120	87,960	80,280	162,105	141,175	220,240	188,545	159,350
Plus New Issuances (2)	0	0	43,305	0	91,700	0	100,000	0	0	0
Less: New Retirements (post 11/93)		0	0	0	0	-9,170	-9,170	-19,170		-19,170
Less: Scheduled Retirements	(4,080)	(6,040)	(6,465)	(7,680)	(9,875)	(11,760)	(11,765)	12,525)	(10,025)	(3,955)
Outstanding @ June 30	57,160	51,120	87,960	80,280	162,105	141,175	220,240	188,545	178,520	136,225
LEASE OBLIGATIONS										
Outstanding @ July 1	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
Plus: New Issuances										
Equipment (3)	49,685	14,220	121,025	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Real Property (4)	0	8,500	268,740	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Total	49,685	22,720	389,765	90,000	90,000	90,000	90,000	90,000	90,000	90,000
Less: New Retirements (post 11/93)		0	0	(14,188)	(21,327)	(29,502)	(38,284)	(47,794)	(57,992)	(68,929)
Less: Scheduled Retirements	(9,675)	(22,705)	(27,870)	(37,525	(35,160)	(38,000)	(35,030)	(32,760)	(24,605)	(26,165)
Outstanding @ June 30	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
OTHER BONDED GENERAL FUND OBLIGATIONS										
Outstanding @ July 1	0	0	213,735	198,175	180,175	161,185	141,335	120,575	98,795	75,950
Plus: New Issuances (5)	0	213,735	0	0	0	0	0	0	0	0
Less: New Retirements (post 11/93)		0	0	0	0	0	0	0	0	0
Less: Scheduled Retirements	0	0	(15,560)	(18,000)	(18,990)	(19,850)	(20,765)	(21,775)	(22,845)	(24,020)
Outstanding @ June 30	0	213,735	198,175	180,175	161,185	141,335	120,570	98,795	75,950	51,930
TOTAL DIRECT NET DEBT @ JUNE 30	**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**

1 General obligation bond issuance for FY 1995 and later assumed to be amortized over 20 years on an equal principal basis at an average interest rate of 8.0%.
2 Special tax bond issuance for FY 1995 and later assumed to be amortized over 10 years on an equal principal basis at an average interest rate of 7.0%.
3 Equipment lease issuance for second half 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%.
4 Real property lease issuance for second 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%.
5 Judgement obligation bonds.

Table Two

This table contains information on the issuance of overlapping dept by the City and other agencies with tax bases which overlap the City. Overlapping debt is shown in three categories: (1) Mello-Roos and assessment district bonds, (2) tax allocation debt issued by the Community Redevelopment Agency and (3) other overlapping debt which includes the County, school districts and special assessment bonds of the Metropolitan Transportation Authority among others. The City has direct control over the issuance of overlapping debt in the first category, it has limited control over the issuance of overlapping debt in the other two categories.

City of Los Angeles
Changes in Direct Net Debt
(All Amounts in Thousands of Dollars)

	Fiscal Years Ending June 30									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
CITY MELLO-ROOS & ASSESSMENT DISTS.										
Outstanding @ July 1	0	0	0	110,000	197,056	193,034	188,106	182,784	177,036	170,828
Plus: New Issuances (1)	0	0	110,000	90,000	0	0	0	0	0	0
Less: New Retirements (2)		0	0	(2,404)	(4,563)	(4,928)	(5,322)	(5,748)	(6,208)	(6,704)
Outstanding @ June 30	0	0	110,000	197,596	193,034	188,106	182,784	177,036	170,828	164,124
TAX ALLOCATION DEBT										
Outstanding @ July 1	650,156	732,925	772,505	651,640	682,040	673,840	668,640	660,240	686,840	676,840
Plus Net New Debt (3)	82,769	39,580	(120,865)	30,400	(8,200)	(5,200)	(8,400)	26,600	(10,000)	10,000
Outstanding @ June 30	732,925	772,505	651,640	682,040	673,840	668,640	660,240	686,840	676,840	666,840
OTHER OVERLAPPING DEBT										
Outstanding @ July 1	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
Plus: Net New Debt (4)	62,763	234,978	120,000	120,000	120,000	120,000	120,000	120,000	120,000	120,000
Outstanding @ June 30	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
TOTAL OVERLAPPING DEBT @ JUNE 30	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

1 Fire sprinkler assessment districts.
2 Mello-Roos and Assessment District bonds assumed to be amortized on a level debt service basis over 20 years at an average interest rate of 8.0%.
3. Amortization of CRA debt provided by CRA.
4 $120,000,000 net increase in other overlapping debt based on average net increase from June 30, 1986 to June 30,1993.

Table Three This table contains historical information on the issuance of dept from fiscal year 1985-86 to 1992-93 by agencies with tax bases which overlap the City. This table shows that the average annual net increase in overlapping debt over this time period has been approximately $120 million.

City of Los Angeles
Changes in Direct Net Debt
(All Amounts in Thousands of Dollars)

	Fiscal Years Ending June 30							
	1986 (1)	**1987 (1)**	**1988 (1)**	**1989 (1)**	**1990**	**1991**	**1992**	**1993**
Los Angeles County	0	0	38,224	37,079	35,881	34,514	33,159	31,713
Los Angeles County Pension Fund Obligations	0	189,028	189,028	189,028	189,028	0	0	0
Los Angeles County Building Authorities	336,618	370,416	418,041	397,888	411,802	742,595	832,502	931,660
Los Angeles County Flood Control District	108,497	97,267	85,704	74,475	66,128	58,054	50,643	43,173
Los Angeles County Flood Control District COP's	0	0	20,544	19,520	18,616	17,621	16,644	15,613
Metropolitan Water District	125,086	125,614	129,992	119,004	164,049	158,401	155,379	151,786
Other Water Districts	0	0	0	0	0	0	0	0
Community College Districts	6,162	4,803	4,263	3,860	3,451	43,477	42,913	49,173
Los Angeles Unified School District	67,937	53,303	37,544	30,918	19,826	203,552	188,947	170,139
Other Unified School District	0	0	0	0	0	219	187	152
High School Districts	0	0	0	0	0	0	0	0
Assessment Districts and other Special Districts	255	255	255	255	255	133	954	162,897
School Districts	0	0	0	0	0	0	0	0
Total Overlapping Debt (2)	644,555	840,688	923,594	872,027	909,035	1,258,564	1,321,327	1,556,305
Increase in Overlapping Debt over Prior Year (3)	*50,000*	*196,133*	*82,906*	*(51,568)*	*37,009*	*349,529*	*62,763*	*234,978*

1 As of June 1,
2 Excluding Community Redevelopment Agency debt.
3 Average increase from 1986 to 1993 of 120,219.

Source: California Municipal Statistics

Table Four This table contains projections of key debt ratios for the City's direct, overlapping and overall debt. The three debt ratios provided are: (1) debt as a percentage of assessed value, (2) debt per capita and (3) debt service as a percentage of general fund revenues.

City of Los Angeles
Changes in Direct Net Debt
(All Amounts in Thousands of Dollars Except Where Noted)

	Moody's 1993 Median	Fiscal Years Ending June 30										
		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	
DIRECT NET DEBT												
Outstanding @ June 30		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	
OVERLAPPING DEBT												
Outstanding @ June 30		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	
OVERALL NET DEBT												
Outstanding @ June 30		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	
DEBT SERVICE ON DIRECT NET DEBIT												
Voter Authorized												
Existing		22,768	26,292	33,645	46,461	46,079	46,252	44,510	43,679	39,781	32,668	
New		0	0	0	6,355	28,115	52,291	60,004	71,149	68,445	65,740	
Non-Voter Authorized												
Existing		69,391	75,741	103,896	98,116	107,941	109,461	104,567	100,365	90,543	90.590	
New		0	0	0	39,110	51,661	64,703	74,394	87,745	101,097	114,449	
Total		92,159	102,033	137,541	189,043	233,796	272,706	283,475	302,939	299,866	303,447	
DEBT RATIO BASES												
Assessed Value ("A.V.") ($Millions)(1)		182,146	192,455	195,673	207,413	219,858	233,050	247,033	261,855	277,566	294,220	
Population (2)		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	
General Fund Revenues (3)		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	
DEBT RATIOS												
Direct Debt as a percentage of A.V.	1.800%	0.586%	0.657%	0.915%	0.939%	0.971%	0.925%	0.889%	0.809%	0.736%	0.685%	
Overlapping Debt as a percentage of A.V.	1.200%	1.128%	1.210%	1.246%	1.290%	1.266%	1.241%	1.214%	1.199%	1.169%	1.138%	
Overall Net Debt as a percentage of A.V.	3.000%	1.696%	1.868%	2.161%	2.229%	2.237%	2.166%	2.103%	2.009%	1.904%	1.802%	
Direct Debt as a % of A.V. ratio to Moody's Median		31.5%	36.5%	50.9%	52.2%	53.9%	51.4%	49.4%	45.0%	40.9%	36.9%	
Overlapping Debt as % of A.V. ratio to Moody's Median		94.0%	100.8%	103.8%	107.5%	105.5%	103.4%	101.2%	99.9%	97.4%	94.8%	
Overall Net Debt as % of A.V. ratio to Moody's Median		56.5%	62.3%	72.0%	74.3%	74.6%	72.2%	70.1%	67.0%	63.5%	60.1%	
Direct Debt Per Capita	$ 722	$ 292	$ 354	$ 497	$ 534	$ 580	$ 580	$ 585	$ 559	$ 533	$ 506	
Overlapping Debt Per Capita	593	581	651	676	734	756	778	799	828	847	865	
Overall Net Debt Per Capita	$ 1,315	$ 873	$ 1,005	$ 1,172	$ 1,269	$ 1,336	$ 1,358	$ 1,384	$ 1,387	$ 1,380	$ 1,371	
Direct Debt Per Capita Ratio to Moody's Median		40.5%	49.0%	68.8%	74.0%	80.3%	80.3%	81.0%	77.4%	73.8%	70.0%	
Overlapping Debt Per Capita ratio to Moody's Median		97.9%	109.9%	114.0%	123.8%	127.5%	131.3%	134.7%	139.7%	142.8%	145.9%	
Overall Net Debt Per Capita ratio to Moody's Median		66.4%	76.5%	89.1%	96.5%	101.6%	103.3%	105.3%	105.5%	105.0%	104.3%	
Voter Authorized debt service as % of General Fund Rev.		0.941%	1.104%	1.332%	1.936%	2.615%	3.277%	3.279%	3.398%	3.002%	2.592%	
Non-Voter Authorized debt service as % of General Fund Rev.		2.867%	3.180%	4.115%	5.127%	5.626%	5.791%	5.614%	5.567%	5.350%	5.400%	
Debt service on Direct Net Debt as % of General Fund Rev.		3.808%	4.283%	5.447%	7.063%	8.241%	9.068%	8.893%	8.965%	8.372%	7.992%	

1 Actual assessed values through FY 1993-94, estimated to grow at annual rate of 6.0% thereafter.
2 Population assumed to grow by 1.0% from FY 1993-94 estimate.
3 Actual general fund revenues through FY 1992-93, budget estimate for 19

ATTACHMENT 2

REDLINE OF
PROPOSED DEBT MANAGEMENT SECTION
OF FINANCIAL POLICIES

SECTION 6
DEBT MANAGEMENT POLICY

INTRODUCTION

The Debt Management Policy (Policy) has been developed to provide guidelines for the issuance of bonds and other forms of indebtedness to finance the acquisition of real property and capital improvements, equipment acquisition and other matter items for the City, including short-term cash flow and large legal judgments. From time to time, it may be desirable for the city to update the Policy, particularly to reflect any changes to applicable federal and state laws regarding debt Over the past five years, the City has approved several new debt policies in response to the issuance, and revisions to City procedures. of a variety of debt instruments. This amended Policy amends and supersedes incorporates the original Debt Management Policy approved by the Mayor and City Council in 20051998, and also incorporates and amends the Municipal Improvement Corporation of Los Angeles (the "MICLA") Departmental Operating Policies approved by the Mayor and City Council in 2000, and the Variable Rate and Swap Policies approved by the Mayor and Council in 2003.In Although theaddition, the Mello-Roos Policies and Procedures, adopted in 1994, remain as separate policies based on the unique nature of this debt structure, they are incorporated by reference and attached for reference hereto as Exhibit A.

While the issuance of debt is frequently an appropriate method of financing capital projects and major equipment acquisition, careful monitoring of such issuances is required to preserve the City's credit strength and budget flexibility. Tthese guidelines are designed towill assist the City in determining the appropriate uses for debt financing, structures to use, ing debt financings and establishing certain debt management goals.

is The City Administrative Officer, Debt Management Group (the "CAO"), as part of its ongoing responsibility to manage the City's Debt Program, will use these policies in determining the appropriate uses for fixed rate, long term rate, variable rate debt, commercial paper and interest rate risk reduction products and establishing parameters for their use, when recommending their use to the Mayor and City Council. In evaluating a particular transaction involving the use of any of these financing products, the CAO will review the long term implications, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations. This analysis will be included in the CAO report recommending a transaction to the Mayor and City Council. In addition, the CAO will report on revenue bonds issued by the propriety departments.

The Policy describes the circumstances and methods with which certain types of financing products can be used, the guidelines that will be imposed on them, and who in the City is responsible for implementing these policies. A *Glossary of Key Terms* is provided at the end of this Policy.

OBJECTIVES

~~The City of Los Angeles has earned some of the highest credit ratings of any major urban area in the nation. These high credit ratings reduce the interest costs paid by the City on the amounts borrowed. Lower interest costs result in lower tax rates and a reduced burden on the General Fund. This Policy is intended to help in maintaining the City's high credit ratings so that access to borrowed funds is provided at the lowest possible interest rates. Additionally, these policies are intended to set forth selection criteria for certain financial consultants and attorneys that will ensure a fair and open selection process, provide opportunities for all firms, including minority, women and other business enterprise firms, to participate in City contracts, and result in the selection of the best qualified professionals.~~

The following represent key objectives of the Policy:

- To mitigate risk and support sound decision-making with regard to long-term financing commitments.
- To comply with federal and state laws and regulations, including disclosure and reporting requirements.
- To incorporate best practices into the City's issuance and management of its debt obligations.
- To ensure that the City's debt is consistent with the City's planning goals and objectives, and capital improvement program or budget, as applicable.
- To minimize the cost of debt.
- To maintain and improve the City's credit ratings on its debt.
- To establish selection criteria for retaining the best qualified financial consultants, attorneys, underwriters, and other financing participants through fair procurement processes.

GENERAL

Designated Managers of City Debt

1. The City Council has the final approval of all City debt and awards all contracts with respect to the sale of bonds and other debt instruments.
2. The City Administrative Officer's ("CAO") Debt Management Group structures debt issuances and oversees the ongoing management of all the General Fund and certain special fund debt programs. These include general obligation bonds, lease revenue bonds, lease purchase obligations, revenue obligations,

judgment obligation bonds, special tax obligations, and Mello-Roos and special assessment obligations. Other programs may be added from time to time as new debt instruments are developed.

3. The CAO manages the following programs, each with its own ratings:

   a. General Obligation Bonds
   b. Judgment Obligation Bonds
   c. MICLA Lease Revenue Bonds and Commercial Paper
   d. Solid Waste Resources Revenue Bonds
   e. Tax and Revenue Anticipation Notes
   f. Wastewater System Revenue Bonds and Commercial Paper
   g. Land-Secured Assessment Financings
   h. Special Tax or Assessment District Financings

4. The CAO is responsible for managing the City's primary and continuing disclosure obligations for the above-referenced programs.

5. The CAO is responsible for ensuring compliance with this Policy and the development and implementation of procedures to ensure the compliance with applicable federal and state laws.

6. The CAO will provide the necessary debt documentation to the Controller to assist them in their responsibilities such as financial reporting.

7. The Departments of Airports, Harbor, Water and Power, the Housing and Community Investment Department ("HCID"), and Industrial Development Authorities (IDA, through the Economic and Workforce Development Depart (EWDD)), ~~through the Housing and Community Development Departments, and the Community Redevelopment Agency,~~ are responsible for issuing and administering their own debt due to the specialized aspects of the debt issued by these agencies and the integral ties between the debt that is issued and the programs these agencies administer.

8. ~~Charter Section 291(i) instructs the CAO to provide information or recommendations to the Mayor and City Council. As part of this duty,~~ T~~t~~he CAO reviews and monitors ~~the proprietary departments'~~ debt programs of the Departments of Airports, Harbor, Water and Power (Proprietary Departments). In accordance with Charter Section 609(a), the CAO makes recommendations to the Mayor and City Council on the proposed issuance ~~of revenue bonds~~ by the~~se~~ Proprietary D~~d~~epartments. A~~lthough the IDAs issue separately, they are still Council-controlled departments and are expected to adhere to the guidelines set forth in these Policies. As such, the City Council is the final issuer of all City debt and awards all contracts for the purchase of bonds~~.

9. The CAO reviews and makes recommendations to the Mayor and Council for the issuance of housing bonds. HCID and IDA are Council-controlled entities and are expected to adhere to the guidelines set forth in the Policy, where applicable.

Method of Sale

10. There are two methods of issuing debt: 1) a competitive sale; 2) a negotiated sale; and 3) a private placement. There are advantages to each method of sale, depending on the facts and circumstances of the financing and the City's particular goals. The City should determine which method of sale to use based on the characteristics of the debt being issued, including rating quality, size of issuance, market conditions, and policy goals.

11. Competitive Sale: In a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest True Interest Cost (TIC) is awarded the bonds.~~sale.~~ The City will use the competitive method of sale for its general obligation bonds and selected other securities.

12. Negotiated Sale: When a competitive sale is not practicable or less advantageous to the City, pursuant to the Charter Section 371(e)(2) and based on advice by an independent municipal advisor and the City Attorney that a negotiated bond sale is appropriate, the City may issue debt through a negotiated sale. In a negotiated sale, the underwriter or underwriting syndicate is selected through a Request for Proposal (RFP) process. ~~The interest rate and underwriter's fee are negotiated prior to the sale, based on market conditions.~~ The underwriter or underwriting syndicate will assist the City in structuring and marketing the bonds. The RFP process to select the underwriter or underwriting syndicate should consider the participation of Minority/Women/Other Business Enterprise (MBE/WBE/OBE), prior performance on competitive sales, and new ideas and approaches with the potential of lowering costs to the City. Since an underwriter can premarket the bonds to investors, negotiated sales are particularly appropriate for new or unusual credits or structures, or for Mello-Roos and assessment bonds sold without ratings; commonly referred to as story bonds.

13. Private Placements: A private placement is a type of negotiated sale in which the issuer places a financing directly with a private investor, generally a bank. Therefore, pursuant to the Charter Section 371(e)(2) and based on advice by an independent municipal advisor and the City Attorney that a private bond sale is appropriate, the City will select a bank through a RFP process and directly negotiates the transaction. These loans or bonds are used for smaller transactions where the costs of preparing an official statement and securing ratings are greater than the benefit, for unusual credits, or for a better pricing than the municipal bond market.

~~It shall be the policy of the City to issue debt through a competitive sale whenever feasible, as a competitive sale usually results in the lowest cost of borrowing to a high rated issuer like the City. This policy follows the City Charter and a City Attorney Opinion, dated November 27, 1985 (R85-1129), which stipulates that the sale of bonds is subject to Charter provisions relative to the award of contracts through a competitive process.~~

~~Charter Sections 371 and 372 describe the process that requires the use of competitive bidding with some exceptions. One of the exceptions, under Section 371(e)(2) states "(2) Contracts, as determined by the contracting authority, for the performance of professional . . . or other special services . . . finds that competitive bidding is not practicable or advantageous." Any finding that a negotiated bond sale is appropriate will be based on advice by an independent financial advisor and the City Attorney.~~

~~It is usually not feasible to issue bonds through a competitive sale for certain types of financings, such as variable rate debt, commercial paper and specialized financings like Mello-Roos. Still, a competitive process should be used to choose the appropriate underwriter and financing team to ensure the most qualified firms are used for a specific financing.~~

~~When determining whether to use a competitive or negotiated sale, the following criteria shall be used by the CAO:~~

~~A. Issuer Characteristics~~

~~1. Market Familiarity. A frequent issuer can generally sell most issues through a competitive sale since investors and underwriters are familiar with its credit quality. A successful sale does not require as much pre-marketing from frequent issuers. A negotiated sale may be appropriate if extensive pre-marketing to investors is advantageous.~~

~~2. Credit Strength. The higher the credit quality of the issuer, the less likely the need for a negotiated sale due to the demand for high quality municipal bonds. Strong issuers fare well in competitive bidding compared to issuers with credit ratings below "A."~~

~~3. Policy Goals. The competitive sale does not provide the issuer influence over choosing the underwriting syndicate. If the issuer finds that influencing the composition of the syndicate and the distribution of bonds are worthwhile policy objectives for a particular financing, then the issuer may have a negotiated sale. If the issuer chooses a negotiated sale for this policy reason, the issuer should then clearly specify the rationale and criteria for the selection of the underwriters to avoid the appearance of favoritism.~~

~~B. Financing Characteristics~~

~~1. Type of Debt Instrument. The market responds well to familiar debt instruments and is often leery of innovations. New types of instruments may require an education process that is more conducive to the negotiated sale. Thus, as the market becomes more familiar with the issuer's debt instrument, the need to educate the market diminishes. All things being equal, familiar debt instruments would be better suited to competitive sales.~~

~~2. Issue Size. The bond size influences both investor interest and the market's ability to absorb the bonds. In general, if the bond amount is too small or too large, then the issuer should consider a negotiated sale. A small bond sale may not attract market attention without a sales effort while a large sale may be difficult for the market to absorb without the pre-sale activity offered by the negotiated sale process.~~

~~3. Market Conditions. When the market has interest rate stability, flexibility in the timing of the sale is not critical. However, the timing of the sale is critical when there is a volatile market. If this is the case, then a negotiated sale could be more appropriate.~~

~~1. Story Bonds. When bonds are unique or have a "story" associated with them, then the pre-marketing process is essential. These bonds require additional explanation and are called "story" bonds because to develop sufficient market interest, the issuer has to "tell a story" and explain why the bonds are a solid investment.~~

Pricing of Bonds

14. The City may issue bonds at their par value, at a premium (a price that is above par), or at a discount (a price that is below par) depending on the preferences of various types of investors. During periods when interest rates are low or have been trending lower, a larger proportion of bonds will be sold at a premium. Generally, when interest rates are high, a larger proportion of bonds will be sold at a discount.

Debt Affordability and Capacity

15. The determination of how much indebtedness the City should incur will be based on ~~a Capital Financing Plan (the "Plan"), which analyzes~~ the long-term borrowing needs of the City, the availability of resources to repay the debt, and the impact of planned debt issuances on the long-term affordability of all outstanding debt as measured by the debt ratios developed by the City as guidelines in evaluating the affordability of future debt. The Plan will incorporate the City's current five-year capital plan and will include all presently known City

financings to be repaid from the General Fund and relevant special funds. The affordability of the incurrence of debt will be determined by calculating various debt ratios (itemized below) that would result after issuance of the debt and analyzing the trends over time.

16. The Capital and Technology Improvement Program (CTIP) is one tool to identify the long-term borrowing needs of the City. The CTIP will incorporate the City's current five-year capital plan and include all presently known City financings to be repaid from the General Fund and relevant special funds. The CAO will revise the Five-Year CTIP Plan on an annual basis or as part of the annual budget process. See the CTIP Policy for details.

17. The City will carefully monitor the issuance of debt to maintain a balance between debt and resources available to service debt. The CAO shall use Direct Debt Service Payments as percent of General Revenues for voter approved and non-voter approved debt as the basis for its debt ratios.[1]

~~A. Ceilings for Debt Affordability: One of the strengths behind the City's high credit ratings is its moderate debt level relative to other cities and as compared to the resources available to repay the debt. The issuance of debt must be carefully monitored to maintain a balance between debt and resources. Ceilings have been developed as guidelines in evaluating the affordability of future debt. Table I provides the various debt ratios that are measured and the maximum levels for those ratios.~~

~~1. Debt Ratios.~~

~~Table I~~

~~Ratio~~	~~Ceiling~~
~~Total Direct Debt Service as Percent of General Fund Revenues~~	~~15%[2]~~

[1] Direct Debt includes all debt that repaid from the General Fund or from any revenues deposited into special funds not supporting revenue bonds, such as general obligation bonds and Citywide parcel tax bonds. "General Revenues" consist primarily of the General Fund, as well as revenues from the special funds supporting direct debt.

~~[2] The ratio of debt service payments to General Fund revenues for voter approved debt shall be no more than 15% including the percent for non-voter approved debt.~~

~~Non-voted Direct Debt Service as Percent of General Fund Revenues~~	~~6%[3]~~

~~Direct debt includes all debt that is repaid from the General Fund or from any tax revenues deposited into special funds not supporting revenue bonds, such as General Obligation bonds and City-wide parcel tax bonds. "General Revenues" consist primarily of the General Fund, as well as the revenues to the special funds supporting direct debt.~~

18. A Debt Affordability Chart illustrating projected debt ratios will be updated each time the CAO recommends the issuance of debt and included in the CAO report in conjunction with the Debt Impact Statement and Fiscal Impact Statement required by Charter Section 325.

19. The Debt Affordability Ceiling for debt service on non-voter approved debt shall be no more than 6 percent of General Revenues. The 6 percent ceiling may be exceeded only in the following situation: (1) if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5 percent or, (2) if there is not a guaranteed revenue stream but the 6 percent ceiling will only be exceeded for one year.

20. The Debt Affordability Ceiling for debt service on voter-approved and non-voter approved debt combined shall be no more than 15 percent.

21. Debt capacity for revenue bonds secured by enterprise revenues is not measured in terms of the City's tax base or general revenues, but relative to factors specific to the system and its enterprise fund. One of the key measures of debt capacity for bonds secured by enterprise revenues is the system's Coverage Ratio, calculated by dividing the amount of net revenues (that is revenues after the payment of operations and maintenance, but excluding depreciation) by annual debt service. Coverage represents the amount of additional net revenues after payment of debt service, which are typically applied to pay-as-you-go capital or to build reserves. While the bond documents will set minimum coverage ratios the City must maintain in setting rates or issuing additional bonds, rating agencies and investors expect that actual coverage ratios will be higher. The City's CAO-managed revenue bonds, currently consisting of the Wastewater System Revenue Program and the Solid Waste Resources Revenue Program, are both highly rated in the AA-category. The CAO will analyze the appropriate level of Debt Service Coverage for each program and report actual and target coverage ratios in its staff reports recommending bond issuance and changes in rates and charges.

~~[3] The 6% ceiling may be exceeded only in the following situation: (1) if there is a guaranteed new revenue stream for the debt payments and the additional debt will not cause the ratio to exceed 7.5% or, (2) there is not a guaranteed revenue stream but the 6% ceiling will only be exceeded for one year.~~

22. The ~~To provide additional debt capacity through relatively~~ rapid retirement of outstanding debt allows for additional future debt capacity for the City as well as long-term savings by reducing interest cost. The CAO will structure its general debt issuances (general obligation bonds and lease revenue obligations) to ~~will be structured to~~ reach a target of 50 percent of all outstanding direct debt being repaid within 10 years.

23. Through pay-as-you-go financing, capital projects are funded from current revenues in the operating budget rather than through debt. Except under certain ~~in extenuating~~ circumstances, the City will fund routine maintenance projects in each year's capital program with pay-as-you-go financing. Extenuating circumstances that may be debt financed include unusually large and non-recurring budgeted expenditures, or when depleted reserves and weak revenues would require ~~the~~ delaying or eliminating ~~deletion of~~ necessary capital projects.

Budgeting

24. All staff costs directly related to bond-funded projects will be analyzed to determine if such staff costs can be reimbursed from bond proceeds under federal and state law. Each bond program has its own rules to determine eligibility for reimbursements from bond proceeds. City operations and routine maintenance costs will not be funded with any type of debt.

25. Any existing and new bond funds that remain unspent for a period longer than three years from the date the funds were originally deposited will be subject to reversion to pay debt service or to defease bonds. The City Controller and the CAO are authorized to implement this Policy and to ensure funds are closed at the appropriate time. Any exceptions shall require Mayor and City Council approval.

26. Any new bond funds remaining unencumbered after 18 months from the date the funds were originally deposited shall be subject to reversion and such funds may be reallocated for other capital projects with similar useful lives or to pay debt service. The City Controller and the CAO are authorized to implement this Policy and to ensure funds are either re-appropriated or transferred to the Trustee with the necessary administrative approvals. Any exceptions shall require Mayor and City Council approval.

~~B. Plan Revision: The CAO will revise the Plan on an annual basis or as part of the annual budget process. The Debt Affordability Chart will be updated at least annually. In addition, each time the CAO recommends the issuance of debt, the Debt Affordability Chart will be included in the CAO report in conjunction with the Debt Impact Statement and Fiscal Impact Statement required by Charter.~~

~~D. Monitor Impact on City Taxpayer of All Fees and Taxes: In addition to the analysis of the City's debt affordability, the Plan will review the impact of debt issuance on City taxpayers. This analysis will incorporate the City's tax levy, other jurisdictions' tax levies, additional taxes for voter-approved debt, and assessments and fees used by the City or related agencies to service revenue bonds.~~

~~E. Update Specific Revenue Sources: If the financing plan for a project incorporates assumptions that identified revenue sources sufficient to repay the debt, the CAO will annually prepare an analysis of whether the identified revenues are performing as expected.~~

Refinancing Outstanding Debt

27. The CAO shall periodically evaluate savings to the City from refinancing outstanding debt (Refundings). Savings will be analyzed on a present value basis with a goal of achieving a Present Value Savings of 3 percent of the refunded par amount for any one refunding transaction.

28. The CAO's present value analysis must identify the economic effect of any proposed refunding. The CAO shall recommend to the Mayor and City Council individual refunding candidates above or below the City's Present Value Savings Goal of 3 percent to optimize the City's financial objectives.

29. Refundings may be executed for reasons other than economic purposes, such as to restructure debt, to change the type of debt instrument, or to retire a bond issue and indenture for more desirable covenants. The CAO may recommend a refunding that has economic benefit but does not meet the Present Value Savings Goal of 3 percent. The CAO must inform the Mayor and City Council that this refunding does not meet the Goal and explain the benefits as well as the costs.

Rating Agency Strategy

30. Communication with the rating agencies is the responsibility of the CAO. The CAO will continue its practice of meeting regularly with rating ~~credit~~ analysts ~~from the rating agencies~~ to keep them informed of the City's borrowing plans and financial condition. M~~Face-to-face m~~eetings will generally occur at least once annually with each agency and, at a minimum, conference calls will be offered to credit analysts in connection with each issuance of debt.

31. The CAO, as its discretion, will decide which rating agency and the number of ratings to use for each bond financing.

~~Strategic Plan~~

32. The CAO will periodicaly report ~~prepare an annual report~~ to the Mayor and City Council, detailing the City's credit strengths and weaknesses as perceived by rating agencies.~~credit analysts.~~ The CAO will include recommended actions to address any weaknesses identified by the rating agencies. This report may occur as part of the annual budget process ~~deliberations~~ or in connection with any debt-related transaction. The ~~annual~~ report recommendations will take into consideration potential credit impacts of budget balancing options.

Investor Relations

33. Investor relations is a strategic management responsibility that integrates finance, communication, marketing, and securities law compliance to enable the most effective two-way communication between the City and its investors. The CAO's Debt Management Group will be responsible for managing the City's relationship with its investors and will respond to any investor's inquiry in a timely and informative manner.

34. The CAO will maintain and update the City's Debt Management and Investor Relations website, where it will provide current debt, financial, and disclosure information for ready access by investors

~~Refinancing Outstanding Debt~~

~~Monitor Potential Savings: The CAO, with the assistance of City's general financial advisors, will monitor on an ongoing basis potential savings available by refinancing outstanding debt of the City. Savings will be analyzed on a present value basis by using either a percent of maximum call option value or a percentage of the refunded par amount. All costs and benefits of the refinancing will be taken into account.~~

~~Target Savings Amounts: A present value analysis must be prepared to identify the economic effect of any proposed refunding. To proceed with a refinancing, either of two methodologies may be used to analyze the targeted savings. The first is that a minimum of 90% of the maximum call option value, as calculated by the City's general financial advisors, should generally be achieved. The CAO will have the final discretion to recommend individual refunding candidates above or below the target to optimize the City's financial objectives. Alternatively, the second method that may be used is the more traditional methodology of measuring the net present value savings as a percentage of the refunded par amount with a minimum average savings of 3% for any one refunding transaction. It is at the discretion of the CAO to utilize either method for recommendation to the Mayor and City Council.~~

~~II. Other Considerations: Some refundings may be executed for other than economic purposes, such as to restructure debt, to change the type of debt instrument, or to retire a bond issue and indenture for more desirable covenants. The CAO may recommend this type of refunding. In addition, if the benefits outweigh the costs and the refunding opportunity would otherwise be lost, the CAO may recommend a refunding~~

~~that has economic benefit but does not meet the criteria stated above in the Target Savings Amount paragraph above. In either case, the CAO must inform the Mayor and City Council that this refunding does not meet the criteria set forth in the Target Savings Amount paragraph above.~~

Annual Debt Report

35. The CAO will annually prepare a report to the Mayor and City Council, which reviews the outstanding debt of the City. This may occur in conjunction with the annual budget.

TYPES OF DEBT

General Obligation Bonds

1. Voter-approved General Obligation Bonds ("GO bonds") provide the lowest cost of borrowing to finance the acquisition or improvement of real property, and provide a new and dedicated revenue source in the form of additional ad valorem property taxes to pay debt service. Pursuant to California law, the voter approval threshold for City GO bonds is two-thirds. In recognition of the difficulty in achieving the required two-thirds voter-approval, GO bonds will be generally limited to facilities that provide wide public benefit and that have generated broad public support.

2. The final maturity of GO bonds will be limited to the shorter of the average useful life of the asset financed or 20 years.

3. In GO bond issues, p~~P~~rincipal will generally be amortized in equal annual amounts or faster to meet the rapidity of debt repayment goals and should be callable in no later than 10 years.

4. GO bond issues will generally be sized to the amount reasonably expected to be spent in no more than three years. to be required for one year's commitments.

5. GO bonds issued for new money purposes will be sold at a minimum price equal to the par amount of the bonds offered for sale. ~~Any premium above par received from the sale of the bonds will first be used to pay costs of issuance of the bonds. Any premium in excess of the costs of issuance of the bonds will either be deposited into the construction fund and used for voter approved project costs or into the debt service account.~~

Lease-Purchase Obligations

6. The City finances both capital improvements and ~~final maturity of~~ equipment through the issuance of lease revenue bonds, lease revenue commercial paper, and through leases directly placed with banks and other private placement lenders. Generally, the City's lease revenue bonds and other obligations are issued through the Municipal Improvement Corporation of Los Angeles (MICLA). A fuller discussion of the City's lease financing program, including its use of commercial paper as a form of interim financing, is discussed in the MICLA section below.

7. In lease-purchase obligations, ~~will be limited to the average useful life of the equipment to be financed. The~~ the final maturity of capital equipment obligations will be limited to the average useful life of the equipment to be financed, usually 10 years.

8. In lease-purchase obligations, the final maturity of real property obligations will be determined by the size of the financing, 10 to 15 years for small issues, 20 to 25 years for large issues and 30 years for exceptional projects or those with a direct revenue component such as a special tax.

9. In lease-purchase obligations, principal will generally be amortized to result in level annual lease payments; however, more rapid principal amortization may occur where permissible to meet debt repayment goals. The obligations should be callable in no later than 10 years to provide opportunities for interest savings through Refundings or cash pay downs.

Revenue Obligations

10. Revenue bonds secured solely from fees are not included when rating agencies calculate the City's debt ratios in their criteria.

11. Revenue obligations include any bonds secured by fees or revenues derived from the enterprise and deposited into special funds (Revenue Bonds), such as the City's Sewer Construction and Maintenance Fund, the Solid Waste Resources Revenue Fund, and the Special Parking Revenue Fund. If a new revenue source is put into its own fund, then a new revenue bond program could be developed.

12. From time to time, the City may enter into other revenue obligations including direct loans with state and federal agencies, such as the California State Water Resources Control Board and the Environmental Protection Agency, that offer local agencies low cost loans to fund certain capital projects.

13. To preserve General Fund debt capacity and budget flexibility, Revenue Bonds will be preferred over General Fund-supported debt when a distinct and identifiable revenue stream can be identified to support the issuance of bonds.

14. The final maturity of Revenue bonds or other debt obligations secured by enterprise or other special revenues will be determined by the expected useful life of the financed project and the revenues available to repay the debt.

15. Generally, principal amortization will be structured ~~appropriate~~ to provide level debt service for the bond issue or for overall level debt service for that specific program. ~~for the project, based on the useful life of the project and other revenue bonds outstanding.~~ The obligations should be callable in no later than 10 years to provide opportunities for interest savings through Refundings or cash pay down.

Judgment Obligation Bonds

16. Judgment Obligation Bonds (JOBs) are issued to finance a court action against the City and a court-approved settlement. To issue these bonds, the City must participate in a court-approved validation process.

17. The final maturity of any JOB~~bonds issued as a result of obligations arising from unusual and non-recurring court judgments~~ will be limited to 10 years to demonstrate the willingness of the City to repay such obligations quickly.

18. The principal amortization will be determined as appropriate for each~~the~~ particular JOB transaction.

Special Tax Obligations

19. Special Tax Obligations are secured by revenues derived from a voter-approved special tax. These obligations are repaid with either excise taxes or parcel taxes, but not by ad valorem taxes.

20. Generally, the final maturity of City-wide special tax obligations will be limited to 20 years, unless there are unusual circumstances, as determined by the CAO. ~~Principal will be amortized as quickly as feasible, with a preference for equal annual principal payments.~~ The obligations should be callable in no later than 10 years from date of issuance to provide opportunities for interest savings through Refundings.

Mello-Roos and Special Assessment Obligations

21. Mello-Roos and Special Assessment Obligations are secured by additional charges levied on a discrete group of property owners. These obligations constitute overlapping indebtedness of the City and have an impact on the overall level of debt affordability.

22. The City has developed separate guidelines for the issuance of Mello-Roos and Special Assessment Obligations. The City of Los Angeles Policies and Procedures for Mello-Roos and Assessment Districts, adopted by the City Council on November 1, 1994, and all subsequent amendments, are hereby incorporated into this ~~the City's Financial~~ Policy.~~, Debt Management Section.~~ A copy of the Mello-Roos Policy is incorporated by reference and attached as Exhibit A.

Pension Obligation Bonds

23. Pension Obligation Bonds (POBs) are taxable bonds issued as part of an overall strategy to fund the unfunded portion of pension liabilities. The use of POBs rests on the assumption that the bond proceeds, when invested in

higher-yielding asset classes that are allowed for pension systems (such as corporate stock), will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds.

24. POBs involve considerable investment timing risk, making the goal of issuing POBs somewhat speculative. Failing to achieve the targeted rate of return burdens the issuer with both the debt service requirements of the taxable bonds and the unfunded pension liabilities that remain unmet because the investment portfolio did not perform as anticipated.

25. If the City is considering the use of POBs, the CAO shall provide notification to the Council and Mayor of its intent to hire an independent municipal advisor and obtain an actuarial analysis to evaluate the cost/benefit of issuing POBs.

Section 108 Loans

26. Section 108 loans are made from federal funds and administered by HCID, but are guaranteed by other City funds, with an ultimate backstop from the General Fund. Accordingly, HCID, will adhere to the Debt Management Policy when structuring Section 108 loans.

27. Section 108 loans should be structured to be financially sound loans to assist in economic development projects.

28. Although the General Fund is the ultimate backstop, Section 108 loans will be structured with sufficient guarantees so that if the loan is in default, there will be another funding source besides the General Fund for the payment of the loan.

29. In compliance with the Block Grant Investment Fund (BGIF) Policy, block grants should be used as guarantor for payment on Section 108 loans.

Tax and Revenue Anticipation Notes

30. These notes are short-term borrowings in anticipation of taxes and revenues that have not yet been received. This borrowing is for cash flow purposes and is desirable to manage the timing mismatch between revenues and expenditures over the course of a fiscal year, or to take advantage of the opportunity to prepay annual pension obligations for a discount.

Bond Anticipation Notes

31. In certain circumstances, in anticipation of an expected revenue source, the City may issue short-term obligations to finance a capital project, with this obligation refunded with a more conventional long-term financing funded from the anticipated revenue source.

Grant Anticipation Notes

32. The City may issue short-term notes to be repaid with the proceeds of federal and state grants if appropriate for the project and in the best interest of the City. Generally, grant anticipation notes will only be issued if there is no other viable source of up-front cash for the project.

Other Types of Obligations

33. From time to time, the CAO may recommend other types of bonds or obligations that are beneficial to the City. The CAO will bring these to the Mayor and City Council for consideration.

Bonds with Special Designations

34. Green, Social and Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and social projects or a combination of both. Green, Social and Sustainability Bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.

35. When determining whether to designate a bond issuance or transaction with a special designation such as Green, Social, or Sustainable, the City should examine and agree to comply with reporting (i.e. impact reporting) and disclosure requirements associated with the special designation.

36. Prior to issuing a bond with a special designation, the City, working with its consultants, should determine what if any independent/external review will be used such as a second party opinion, verification, certification, or bond scoring/rating process. These reviews will be made publically available.

37. Bonds with special designations may or may not result in premium pricing for the City and yet require additional reporting and disclosure. The City may choose to issue bonds with a special designation even when there is no additional pricing benefit based on other benefits such as:

    a. A greater diversification of the City's investor base that may result in potential increased demand and future premium pricing.

    b. An alignment with the City's broader goals on environmental and social issues.

~~Continuing Disclosure~~

~~The City will comply with Rule 15(c)2-12 of the Securities and Exchange Commission by filing an annual report with each Nationally Recognized Municipal Securities Information Repository and State Repository, if any, that provides certain financial information and operating data relevant to investors in City obligations. In addition, the City will take additional efforts to make information available to investors through its web site and other appropriate communication platforms. Below is a description of the City's Due Diligence process to be followed:~~

~~A. The City provides financial disclosure information in every bond issuance. The summary of City information, known as Appendix A, contains all City financial and municipal information and discloses the financial risks of the City. Appendix A is updated every time the City issues debt. In addition, the City Controller prepares the Basic Financial Statements of the City that are included in all Official Statements, known as Appendix B.~~

~~B. For bond issuances that the CAO administers, prior to submission to the Mayor and Council, staff from the CAO's Debt Management Group, Finance Group, and Employee Relations Group, the Risk Management Group, at least two Assistant CAOs and the CAO review the data included in Appendix A for accuracy and completeness, and discuss other information that should be considered for inclusion. Representatives from the Offices of the City Attorney, the Treasurer, the Controller and the affected departments also review the document.~~

~~C. To ensure that all disclosure information is available for Mayor and Council review and approval, the CAO includes the final Preliminary Official Statement in its bond issuance reports for Mayor and Council approval. The Mayor and Council then authorize the CAO to finalize the Official Statement, to disseminate the information to potential bond investors and to ensure that the information is accurate and complete. The City Council is, however, the final issuer of all City debt and awards all contracts for the purchase of bonds regardless of the City issuing agency.~~

~~Departments and agencies that issue their own debt, the Departments of Airports, Harbor, Water and Power, Housing and Community Development, the Community Redevelopment Agency and the Housing and Industrial Development Authorities, also use the general City information contained in Appendix A in their debt documents. To ensure consistent City disclosure regardless of the issuing City agency, the other agencies submit copies of their City information before disseminating the information. These departments and agencies should also abide by these same policies and their financial disclosure documents should be consistent with those of the rest of the City.~~

~~LONG-TERM~~ FIXED-RATE DEBT

Purpose and Use of Fixed-Rate Debt

1. Fixed-Rate Debt should be used to finance essential capital assets such as facilities, real property, and certain capital equipment where it is appropriate to spread the cost of the asset over more than one budget year. In doing so, future taxpayers, who will benefit from the investment, will help pay a share of its cost as well as current taxpayers.

2. The City shall restrict the use of Fixed-Rate Debt to the following general categories:

   a. Capital Equipment Financing
   b. Financing of Real Property

3. Projects that are not appropriate for spreading costs over future years will not be debt financed.

Capital Equipment Financing

4. Although lease obligations can be ~~are~~ a routine and appropriate means of financing capital equipment, ~~However,~~ lease obligations also have the greatest impact on debt capacity and budget flexibility. Therefore, efforts will be made to fund capital equipment with pay-as-you-go financing where feasible, and only the highest priority equipment purchases will be funded with lease obligations.

5. All equipment with a useful life of less than six (6) years shall be funded on a pay-as-you-go basis unless the following conditions are met:

   a. In connection with the Proposed Budget, the Mayor makes a finding that there is an "economic necessity" based on a significant economic downturn, earthquake or other natural disaster and there are no other viable sources of funds to purchase the equipment;

   b. The City Council concurs with the Mayor's finding in the adoption of the budget; and,

   c. The various D~~d~~ebt Affordability C~~c~~eilings, as discussed earlier ~~-~~in the ~~above paragraph on~~ Debt Affordability and Capacity, are not exceeded except as provided in said section.~~paragraph.~~

~~Lease~~ Financing of Real Property

6. Lease financing for facilities and real property is appropriate if the City desires to finance them from existing revenue sources, and not through voter-approved

bonds secured by an increase in property taxes. ~~Such financings will be structured in accordance with the above Other Lease Obligations paragraph~~.

7. There are alternative ways to deliver large capital projects through public-private partnerships (P3) where government entities and private-sector businesses enter into agreements to finance, build, and/or operate the projects. As part of a P3 agreement, the government entities typically makes availability payments and possibly construction milestone payments. In some cases, the government entity may issue bonds to support the P3 project. When considering a P3 project, the City should determine the financial impacts and understand how the rating agencies will treat the availability payments and construction milestone payments as debt, as a contingent liability, or neither.

~~A. Identified Repayment Source: The City will, when feasible, issue debt with a defined revenue source to preserve the use of General Fund-supported debt for projects with no stream of user fee revenues. Examples of revenue sources include voter-approved taxes (General Obligation or special tax bonds), user fees (Sanitation Equipment Charge or the Sewer Construction and Maintenance Fund) and other appropriate revenues.~~

~~B. Use of General Obligation Bonds: Voter-approved General Obligation Bonds provide the lowest cost of borrowing to finance the acquisition or improvement of real property, and provide a new and dedicated revenue source in the form of additional ad valorem taxes to pay debt service. In recognition of the difficulty in achieving the required two-thirds voter-approval to issue General Obligation Bonds, such bonds will be generally limited to facilities that provide wide public benefit and that have generated broad public support.~~

~~C. Use of Revenue Bonds: Revenue bonds supported solely from fees are not included when rating agencies calculate debt ratios. Such bonds include those revenue bonds issued by the Wastewater System, Sanitation Equipment Charge Special Revenue Fund and the Special Parking Revenue Fund. Accordingly, to preserve General Fund debt capacity and budget flexibility, revenue bonds will be preferred to General Fund-supported debt when a distinct and identifiable revenue stream can be identified to support the issuance of bonds.~~

Asset Transfer Lease:

8. An ~~The City will use "a~~Asset ~~t~~Transfer is when an " ~~or~~ "asset other than the asset being financed with the proceeds of lease revenue bonds is used to support the lease payments. ~~strip" leases to finance capital needs when there are no other viable financing options or~~The City will use the "asset transfer" or "asset strip" leases to finance capital needs when there are no other viable financing options or to reduce the amount of interest that must be funded out of

~~capitalized from~~ proceeds, since lease payments cannot commence until the asset that is being leased is available for use and occupancy.

9. An ~~Additionally, a~~Asset ~~T~~transfer ~~L~~leases may be used if significant savings in financing costs can be generated compared to other financing alternatives. This type of legal structure secures the City's lease financing commercial paper programs.

~~D. Deep Discount Debt: Deep discount debt is sold to investors at prices significantly less than the face value of the debt. Under certain market conditions, the use of deep discount debt may provide a lower cost of borrowing. The CAO will review the use of deep discount debt, taking into consideration the additional debt capacity that is utilized by the discount and the impact on future refinancing flexibility of the lower than market rate interest coupon.~~

Capitalized Interest

10. Funding interest payments to investors out of debt proceeds (Capitalized Interest) increases the amount of debt to be issued and therefore should be avoided unless essential from a legal standpoint, as in the case of lease-purchase obligations secured by the financed asset, or a project financing expected to be repaid out of project revenues.

11. Interest on General Obligation Bonds will not be capitalized, except out of bond premium.

12. Generally, interest on lease-purchase obligations will be capitalized for a maximum of one year following a conservatively based estimate of project completion to provide a cushion for project slippage. Commercial paper can be used to provide interim project funding and avoid the cost of capitalized interest.

~~I. Arbitrage Requirements~~

~~The City agrees to comply with all of its tax certificates for tax-exempt financings by monitoring the arbitrage earned on bond proceeds and by rebating all positive arbitrage, pursuant to Internal Revenue Code Section 148. The CAO may choose to hire an arbitrage consultant to prepare the calculations required by the Internal Revenue Service. Contractor payments shall be made from either the General Fund or from the special fund for which the calculation was made.~~

VARIABLE INTEREST RATE ~~AND SHORT TERM DEBT~~

Purposes and Uses of Variable Interest Rate Debt

1. The City may use variable rate debt instruments as a balance sheet management tool, offsetting the risks inherent in variable rate assets such as investments. The maintenance of variable rate debt liabilities in an amount equal to or less than the amount of variable rate assets prudently reduces the City's risk of exposure to changes in interest rates. ~~For example, the City currently maintains significant exposure from variable rate assets in the form of the short-term investment of available cash, while a large portion of its liabilities are in the form of fixed-rated debt. When interest rates fall, the City's Budget experiences reduced revenues. Offsetting this exposure with variable rate liabilities would serve to hedge against such interest rate risk. The CAO, with the assistance of the City Treasurer, will provide an analysis of asset and liability balance on a fund-by-fund basis and include it in its report to the Mayor and City Council when recommending variable rate debt.~~

2. The City may use variable interest rate debt instruments to achieve an expected lower net cost of borrowing with respect to the City's debt by accepting a limited level of interest rate risk. ~~Since the inception of municipal variable rate products in the early 1980s, variable interest rates have borne an average rate that is substantially below the average for fixed rates. For example, since 1990, the average rate on California variable rate bonds has been 3.25%, substantially lower than the lowest 30-year rate experienced over this same period (4.7%). Accordingly, issuers who have accepted variable rate risk have experienced reduced costs of borrowing. One of the goals of this Policy is to define a prudent range of risk exposure.~~

3. The City may use variable interest rate instruments as a tool for interim financing. Since the expectations of variable rate investors are, by their nature, short-term, variable rate debt can be redeemed on short notice. Variable rate debt does not have a fixed rate but varies anywhere from daily to yearly mode, thus allowing flexibility in refunding them at any time without any penalty in the form of a payment for calling the bonds (known as a call premium) or higher initial interest rates. ~~without any penalty in the form of a call premium or higher initial interest rates.~~

   a. Variable rate debt is a preferred tool for financing projects for which a prepayment or restructuring is a high probability.

   b. Certain variable rate products, most notably commercial paper, can be issued incrementally as funds are needed to finance current construction, and can reduce the long-term cost of construction financing. Usually commercial paper will be refunded with a long-term financing when the project is completed.

4. Before implementing any variable interest rate debt strategy designed to serve as a hedge against interest rate risk, the CAO will provide an analysis of asset and liability balance on a fund-by-fund basis and include it in its report to the Mayor and City Council when recommending variable rate debt.

5. When considering variable rate debt, it is important for the City to consider both the interest rate as well as the ongoing fees for credit enhancement (letter of credit) and remarketing of the bonds for an all-in cost comparison.

Types of Variable Interest Rate Debt

6. Variable Rate Bonds: It is often appropriate to issue variable rate debt to diversify the debt portfolio and improve the match of assets to liabilities. Variable rate debt may also provide interest cost savings. If variable rate debt is used, the CAO will periodically, but at least annually, determine if it is appropriate to convert the debt to fixed interest rate.

7. Commercial Paper Note: Commercial Paper (CP) is a short-term obligation with maturities ranging from 1 to 270 days. It is often used as interim financing until a project is completed to take advantage of lower interest rates. CP is typically backed by a bank letter of credit. Once a project is completed, the CAO may recommend to refund CP with a long-term financing obligation, if appropriate.

8. Synthetic fixed rate: In some markets, the City can simultaneously issue variable rate debt and enter into corresponding swap agreements that have the effect of creating a net fixed rate obligation at a lower net interest cost than the cost of issuing traditional fixed rate debt.

Considerations for Use of Variable Interest Rate Debt

9. The ~~Any staff recommendation for the~~ use of variable rate debt should be analyzed as part of balance sheet risk mitigation strategy to determine the appropriate amount of variable rate debt to be issued for risk mitigation purposes based on the analysis of the following factors with reference to ~~should be analyzed on the basis of~~ the funds that will be repaying the debt:

   a. The historic average of cash balances over the course of several prior fiscal years.

   b. Projected cash balances based on known demands on a given fund and on City fund balance policies.

   c. Any basis risk, such as the difference in the performance or duration of the City's investment vehicle compared to the variable rate debt instrument to be used by the City.

10. ~~Risk exposure: It may be appropriate for the City to accept a moderate exposure to~~ The use of variable interest rate debt instruments should be analyzed as part of a strategy that ~~risk to~~ benefits from ~~what has been~~ the ~~historic~~ out-performance of the variable rate market to fixed rate debt, and to determine the appropriate level of risk exposure for the City to accept.

a. ~~This Policy incorporates the rating agencies guidelines that 20%~~ Based on market convention, a debt portfolion that contains up to 25% of ~~outstanding~~ variable rate debt is generally acceptable. ~~can be in a variable rate mode without representing undue risk.~~

b. In determining the amount of such risk the City should take, the CAO should consider the specific fund exposed to the risk, and the budgetary flexibility that fund has in accommodating such risk.

c. The analysis of risk exposure should be performed on the basis of "net" risk; that is, variable rate liability exposure net of any interest rate hedge provided by the availability of cash or risk mitigation tools such as interest rate swaps.

11. Recommendations regarding the use of variable interest rate instruments for Interim financing ~~: The City~~ should consider issuing commercial paper ~~in connection~~ with its major debt-financed construction programs, especially when interest earnings on construction and capitalized interest funds are at a rate lower than the rate of long-term bonds, thereby increasing the amount of debt that must be issued to fund a program. Variable rate debt should also be considered in lieu of a long-term fixed rate financing when a refunding or restructuring of the debt is likely due to potential changes in use of the project or credit quality.

Selection and Diversification of Firms ~~Remarketing Agents and Counterparties~~

12. In selecting remarketing agents for ~~its various~~ variable rate debt and commercial paper deals, ~~programs,~~ the City generally should choose multiple remarketing agents to ~~that~~ diversify its exposure and create more competition among the various remarketing agents.

13. ~~Similarly,~~ In selecting institutions to provide liquidity or credit enhancement, the City should generally seek to diversify its exposure. At times, based on the amount of the transaction and the project itself, one institution may be chosen.

Budgeting for Debt Service

14. The CAO will analyze each variable rate ~~bond~~ debt program to determine the budgeted amount for debt service. The factors to be analyzed will include historic interest rates, projected interest rates, the effect of risk mitigation

products such as interest rate swaps or caps, and the availability of fund balances carried-forward from savings in previous years. Due to the uncertainty inherit in financial markets and to protect against potentially increasing volatile interest rate surges, the CAO may recommend budgeting fr highter than anticipated debt service payments as the appropriatesome cushion will be includes in the budgeted amount. This analysis shallwill be done in conjunction with the formulation of the Mayor's Proposed Budget.

Monitoring and Reporting

15. The CAO will manage the City's variable rate debt programs, including comparing the performance of actual interest rates compared to the interest rates assumed at the time of budget formulation.

16. The CAO will recommend any appropriate mid-year budget adjustments to debt service payments based on the performance of actual interest rates compared to interest rates assumed at the time of budget formation.

17. The CAO will review and report on the following on a periodic basis, to the extent applicable:

a. Whether balances remaining at the end of the fiscal year, accruing from actual lower interest rates than those assumed in the budget process, will be reserved for future interest rate stabilization or otherwise applied for interest rate management or principal redemption.

b. The performance of the individual remarketing agents as compared to other remarketing agents, other similar programs and market indices.

c. The factual circumstances, such as balance sheet factors or the relative amount of debt that supported the original issuance of the variable rate debt.

A. Controller Responsibilities: The Controller will be responsible for monitoring the City's variable debt programs and will report as appropriate to the Mayor and City Council in accordance with the Controller's Charter responsibilities. In addition, the Controller is responsible for reflecting variable rate debt in accordance with Generally Accepted Accounting Principles (GAAP) and with rules promulgated by the General Accounting Standards Board (GASB).

INTEREST RATE SWAPS ~~RISK MITIGATION PRODUCTS~~

In 2003, the City adopted an "Interest Rate Risk Mitigation Products Policy," primarily to govern the use of interest rate swaps that, when combined with variable interest rate debt, resulted in a pair of matched obligations to create "synthetic" fixed rate obligations. Because the use of this approach is no longer common in the municipal market, and it is the City's expectation that it will not be used in the future, the Interest Rate Risk Mitigation Products Policy has been deleted from the overall Debt Management Policy. A revised policy must be approved by the Mayor and City Council should the use of swaps be considered in the future.

~~I. Purpose~~

~~The purposes for which the City will consider the use of these products are as follows:~~

~~A. To prudently reduce exposure to changes in interest rates in the context of a particular financing or the overall asset/liability management of the City; or~~

~~B. To achieve a lower net cost of borrowing with respect to the City's debt.~~

~~I. Uses of Interest Rate Risk Mitigation Products~~

~~The purposes for which the City may use interest rate risk mitigation products are specified in Section 5922(a) of the Government Code of the State of California. The CAO will recommend the use of these products only in a manner consistent with the Government Code and only if the Mayor and City Council can make the requisite finding required therein.~~

~~As required by the Government Code, no local agency may enter into any contracts or arrangements unless its governing body first determines that the contract, arrangement or program of contracts is designed to reduce the amount or duration of payment, currency, rate, spread, or similar risk or result in a lower cost of borrowing when used in combination with the issuance of bonds or enhance the relationship between risk and return with respect to the investment or program of investment in connection with, or incident to, the contract or arrangement which is to be entered into. When the CAO recommends the use of interest rate reduction products, the CAO will provide information to the Mayor and City Council necessary to make the determinations required by the Government Code.~~

~~II. No Speculation~~

~~Interest rate risk mitigation products will not be used for speculative purposes.~~

~~III. Form of Swap Agreements~~

~~To the extent possible, the interest rate swap agreements entered into by the City will contain the terms and conditions set forth in the International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, including any schedules and confirmation. However, the City reserves the right to amend these terms and conditions including the remedies and obligations as are appropriate to benefit the City. The schedule may be modified to reflect specific legal requirements, business terms and changes to the remedies and obligations as determined by the CAO. The CAO will consider whether to include provisions that permit it to assign its rights and obligations under interest rate swap agreements and to optionally terminate the agreement at its market value at any time. The CAO will transmit the proposed Form of Swap Agreements with negotiating parameters to the Mayor and Council for approval. The CAO will then request authority from the Mayor and City Council to negotiate and execute these agreements, within these parameters, with the assistance of the City Treasurer and the City Attorney, and to modify these agreements to achieve the best interests for the City.~~

~~IV. Methods to solicit and procure Interest Rate Swaps:~~

~~The CAO will solicit and procure interest rate swap agreements by competitive bid whenever feasible. The CAO will determine which parties are allowed to participate in a competitive transaction but these parties must conform to the minimum credit standards outlined in this Policy.~~

~~Notwithstanding the above, the CAO may procure interest rate swap agreements by negotiated methods if it is determined that due to the size or complexity of a particular interest rate swap competitive bidding is undesirable, impractical or impossible and a negotiated transaction would result in the most favorable pricing.~~

~~Such finding will be based on advice by an independent financial advisory firm and with the assistance of the City Attorney. In this situation, the CAO should attempt to price the swap based upon an agreed-to methodology relying on available pricing screens to obtain inputs to a mathematical model. If appropriate, the CAO should use an independent financial advisory firm to assist in the price negotiations.~~

~~Regardless of the method of procurement, the CAO will obtain a finding from an independent financial advisory firm that the terms and conditions of the interest rate swap agreement reflect a fair market value of such agreement as of the date of its execution.~~

~~V. Aspects of Risk Exposure~~

~~Before entering into an interest rate swap agreement, the CAO will evaluate the risks inherent in the transaction. The risks to be evaluated could include amortization risk, basis risk, credit risk, counterparty risk, interest rate risk, rollover risk, tax event risk and termination risk. Identification of the risks and discussion of~~

~~the means, if any, employed to mitigate the risks will be contained in the CAO report recommending to the Mayor and City Council approval of the swap agreement.~~

~~A. Amortization Risk: Amortization risk is defined as the mismatch of the expiration of the underlying obligation and its hedge, the swap agreements. Amortization risk is the possibility that as the result of early redemption of the underlying variable rate bonds, the repayment schedule of the bonds differs from the underlying notional amount of the swap agreement. This risk will only arise if the City wants to redeem the variable rate bonds ahead of schedule, which is not expected for most City bond financings. Before undertaking a refunding of the bonds, the CAO will consider the implications on the related swap agreement.~~

~~B. Basis Risk: Basis risk refers to the mismatch between the actual variable rate debt service and variable rate index used to determine the swap payments. The CAO will evaluate different swap indices as part of its analysis of the swap agreement and identify the amount of basis risk that may result from various indices.~~

~~C. Credit Risk: Credit risk refers to the occurrence of an event modifying the credit rating of the counterparty. Certain interest rate risk mitigation products create a continuing exposure to the creditworthiness of financial institutions that serve as the City's counterparties on such transactions. Setting credit standards that must be met by the counterparty to participate in a transaction can minimize this risk.~~

~~D. Counterparty Risk: Counterparty risk refers to the failure of the counterparty to make its required payments. The CAO will attempt to minimize counterparty risk by establishing strong minimum credit standards and diversifying the City's exposure to counterparties. To that end, before entering into a transaction, the CAO will analyze the City's existing exposure to that counterparty and then determine how the proposed transaction would affect the exposure. The exposure should not be measured solely in terms of the amount, but rather how changes in interest rates would affect the City's exposure ("Value at Risk"). The Value at Risk should be based on all outstanding swap and interest rate risk reduction agreements of the City.~~

~~E. Rollover Risk: Rollover risk refers to the potential need to find a replacement counterparty as part of the overall plan of finance if the interest rate swap does not extend to the final maturity of the underlying variable rate bonds. Rollover risk can be minimized through the initial plan of finance by not relying on the execution of future swap agreements.~~

~~F. Tax Events Risk: Tax events risk is defined as the risk created by potential changes to Federal and State income tax codes on the interest rates to be paid~~ by ~~the City on its variable rate bonds. Tax events risk is a form of basis risk. The CAO~~

~~will evaluate the potential impact of changes in marginal tax brackets as part of its analysis of basis risk.~~

~~G. Termination Risk: Termination risk refers to the possibility that, upon a default by the counterparty, the City may be required to make a large payment to the counterparty if the swap agreement is terminated prior to its scheduled maturity pursuant to its terms. For certain types of swaps, a payment by the City may be required if interest rates have fallen causing the market value of the remaining payments to be in favor of the counterparty. The CAO will minimize termination risk by recommending to the Mayor and City Council the selection of counterparties with strong creditworthiness, the requirement for the counterparty to post collateral in excess of the swap agreement's market value, the limitation of the circumstances where a payment may be required, and the ability to assign the agreement to a creditworthy entity in lieu of termination.~~

~~VI. Counterparty Credit Standards~~

~~To protect the City's interests in the event of a credit problem, the CAO will recommend entering into a swap agreement with a counterparty only if it meets the following standards:~~

~~A. At least two of the counterparty's credit ratings are rated at least "Aa3" or "AA-", or equivalent, by any two of the nationally recognized rating agencies (i.e. Moody's, Standard and Poor's, or Fitch); or~~

~~B. The payment obligations of the counterparty are unconditionally guaranteed by an entity with such a credit rating.~~

~~VII. Collateralization on Downgrade~~

~~The obligations of the counterparty will be collateralized at levels and with securities acceptable to the CAO, as set forth in the swap agreement, should the rating:~~

~~A. of the counterparty, if its payment obligations are not unconditionally guaranteed by another entity, or~~

~~B. of the entity that unconditionally guarantees its payment obligations, if so secured.~~

~~VIII. Termination~~

~~A termination payment to or from the City may be required in the event of a termination of a swap agreement due to a default of either the City or the counterparty, certain additional termination events or optional termination by the City. Prior to making any termination payment due to the default of a counterparty,~~

~~the CAO will evaluate whether it is financially advantageous for the City to obtain a replacement counterparty to avoid making such termination payment.~~

~~IX. Legality~~

~~The City Attorney must receive an opinion reasonably acceptable to the market from a nationally recognized law firm that any interest rate risk mitigation product contract that the City enters, is a legal, valid and binding obligation of the City.~~

~~X. Monitoring and Reporting~~

~~A. CAO Responsibilities: The CAO is responsible for determining the appropriate uses for interest rate risk mitigation products in conjunction with the City's debt financing and programmatic needs, and making recommendations to the Mayor and City Council.~~

~~The CAO may issue a quarterly report to the Mayor and City Council on the month following the end of each quarter in which the City enters into or continues to have an interest rate swap agreement. Alternatively, the CAO may provide information on swaps in a subsequent Financial Status Report. The report will include the following information, to the extent applicable:~~

~~1. Highlights of all material changes to interest rate swap agreements including counterparty downgrades and/or terminations;~~

~~2. A summary of any new interest rate swap agreements entered into by the City since the last report;~~

~~3. A summary of any planned interest rate swap transactions and the impact of such transactions on the City;~~

~~4. A description of each outstanding interest rate swap agreement, including a summary of its terms and conditions, the notional amount, rates, maturity, the estimated market value of each agreement, the method of procurement (competitive or negotiated), and the full name, description and credit ratings of the agreement's counterparty and, if applicable, its guarantor;~~

~~5. Any amounts that were required to be paid and received, and any amounts that were actually paid and received under each outstanding interest rate swap agreement;~~

~~6. Any credit enhancement, liquidity facility or reserves associated with the swap including an accounting of all costs and expenses incurred, whether or not in conjunction with the procurement of credit enhancement or liquidity facilities under each outstanding interest rate swap agreement;~~

7. ~~An assessment of the counterparty risk, termination risk, and other risks associated therewith, which will include the aggregate marked to market value for each counterparty and relative exposure compared to other counterparties and a calculation of the City's Value at Risk for each counterparty; and,~~

8. ~~A copy of this Policy in the quarter after it is adopted or subsequently modified.~~

B. ~~Controller Responsibilities: The City Controller is responsible for monitoring and reporting on all City debt obligations and reporting on such debt to the Mayor and City Council. In this capacity, the City Controller will review and report on the activities and assumptions related to the various interest rate risk mitigation transactions. In addition, the Controller is responsible for reflecting the use of interest rate swap agreements and other financing transactions on the City's financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and with rules promulgated by the General Accounting Standards Board (GASB).~~

MUNICIPAL IMPROVEMENT CORPORATION OF LOS ANGELES LEASE REVENUE PROGRAM

Purpose and Use of Municipal Inprovement Corporation of Los Angeles (MICLA) Debt

1. MICLA is a non-profit corporation established by the City of Los Angeles in 1984 to serve as the lessor in lease-purchase transactions involving the City. MICLA was organized for social welfare purposes within the meaning of Section 501(c)(4) of the Internal Revenue Code. Board members were originally appointed by the Mayor and concurred by the City Council. Appointments to subsequent vacancies are made by the Board with the concurrence of the City Council. MICLA plays no active role in either the procurement of funds or equipment (the financed projects), but must review and approve the projects proposed by the City for financing through MICLA.

2. MICLA funding may come in the form of fixed interest rate, variable interest rate, or commercial paper.

3. The Mayor and City Council approved the MICLA Lease Revenue Commercial Paper Note Program (CP Program) for the purpose of financing the acquisition of various capital assets, including equipment and real property.

   a. The CP Program gives the City ~~tremendous~~ flexibility in financing its capital program, including quicker implementation and reduced costs.

   b. The City may from time to time have more than one MICLA CP Program for a specific purpose, such as improvements to the Los Angeles Convention Center.

   c. The CP Program is designed to be a form of Bond Anticipation Note, with lease revenue bonds being issued from time to time refund the CP and provide permanent financing.

Administrative Procedures

4. On an annual basis, departments will send requests to have projects (capital equipment and real property) included in the Mayor's Proposed Budget. Final approval of all projects will be made through the Adopted Budget.

5. The CAO, at its discretion, will determine the appropriate financing method and instrument (fixed rate, variable rate or commercial paper) for each project. The CAO may use a combination of methods and instruments such as CP for the initial financing of a project and then refinance the outstanding CP into fixed rate debt once the capital equipment is purchased or when the real property acquisition and/or improvements are completed.

6. The CAO is ~~will~~ be responsible for the overall management of the MICLA program and has been delegated by the MICLA Board to perform most MICLA responsibilities. For the CP Program, these responsibilities include the following:

   a. Requesting that the dealers issue new CP notes as needed to fund approved projects.

   b. Managing the roll-over of maturing notes until there is a long-term take out financing.

   c. Planning and executing the take-out financing

   d. Budgeting for debt service and on-going administrative expenses.

7. The City Controller is responsible for creating and maintaining the all MICLA~~CP~~ Funds, and approving demands in the same manner as other City funds. The City Controller will also provide ~~such~~ quarterly reports ~~as necessary and appropriate~~ to show the financial condition of all MICLA ~~the~~ CP Funds.

8. Each department that uses MICLA Funds is responsible for awarding contracts, ~~encumbering funds,~~ processing payment for approved projects, and providing the CAO sufficient information so that CP or long-term debt can be ~~en~~ issued in a timely as-needed basis.

9. Each department that uses MICLA Funds must submit an expenditure plan prior to gaining approval to fund any project and then submit updates every six (6) months or when required by the CAO for refinancing and compliance purposes.

10. On an annual basis, or as frequently as directed by the CAO, each department that uses MICLA Funds must submit a Certification of Use of Proceeds.

Debt Structure

11. It is good practice for the City ~~intends~~ to pay interest on CP as it becomes due to avoid issuing CP for interest that would be considered capitalized interest. ~~and to begin amortization of the~~ Principal is usually ~~associated with each project in the same manner as if it were~~ refinanced into fixed rate or paid down as part of the Adopted Budget. ~~with long-term lease revenue obligations~~.

12. The decision to issue long-term debt with variable or fixed-rate bonds will be determined by interest rates, the market, and the useful life of the asset. Usually, when a project funded with CP is completed, it will be refinanced into long-term debt for the remainder of its useful life or retired with cash.

MICLA Operating Guidelines

13. MICLA funding (long-term and CP) approved in the Adopted Budget will be made available to departments as early in the fiscal year as practicable, unless a determination is made by the City Council that an alternate financing method can efficiently meet the City's needs

14. Departments are required to follow the Post-Issuance Compliance procedures for all capital equipment or real property purchased through MICLA. Failure to do so could adversely affect the tax-exempt status of the bonds and commercial paper.

15. MICLA funding shall be provided for the purchase, improvement and construction of real property for which final plans and/or design have been completed and are ready for bid award.

16. MICLA funding shall only be provided for ~~vehicles,~~ capital equipment items that have the highest priority as described in the eligibility guidelines below. More specific criteria may be provide in the Mayor's Annual Budget Policy Memo.

~~and capital projects Equipment deviation requests (CAO Rule 11) shall not be approved beyond the date of MICLA funding availability, except for safety or regulatory reasons. Any other exceptions shall require Mayor and City Council approval.~~

17. ~~Any existing and new~~ MICLA funds that remain unspent for a period longer than three years from the date of availability shall be subject to reversion to pay debt service and/or to offset new MICLA projects. Any exceptions shall require Mayor and City Council approval. The City Controller and the CAO are authorized to implement this Policy and to ensure funds and accounts are closed at the appropriate time.

18. MICLA authorizations that remain unspent for a period longer than three years from the date of availability shall be swept and no longer available for expenditure. Any exceptions shall require Mayor and City Council approval. The City Controller and the CAO are authorized to implement this Policy and to ensure funds and accounts are closed at the appropriate time.

19. The General Services Department (GSD) ~~has been instructed to~~ should only approve departmental purchase order changes ~~that~~ resulting from safety or regulatory reasons that occur during the ordering period.

20. GSD and user departments will ~~have also been instructed to~~ limit custom order vehicles only in instances when manufacturers do not have standard models that will reasonably meet the City's operational requirements.

21. The following guidelines will be used to determine eligibility for capital equipment to be purchased with MICLA:

a. All capital equipment should have a minimum useful life of six (6) years with a goal of financing mostly equipment with a useful life of 10 years or more. Useful life means a period of time during which an asset will provide the desired service to the department using it. The useful life of a piece of technical equipment could be substantially less than the term of its expected use by the City (e.g., computers due to technical obsolescence are not eligible).

b. Equipment must directly support the delivery of essential or core government services.

c. Large bulky equipment that are not easily transportable or hidden such as fire apparatuses, construction equipment, dozers, heavy trucks, and helicopters are generally appropriate for MICLA lease financing. The City will avoid debt financing equipment such as servers, software, radios, antennas, testing materials, police black and white patrol vehicles, and motorcycles as their depreciation and damage rates are typically high.

d. The City has a goal of financing capital equipment (plus set-up accessories) with a minimum total unit cost of $250,000. Not all capital equipment, however, can meet this goal due to the nature of the equipment.

~~Any new MICLA funds remaining unencumbered after 18 months from the availability of the bond proceeds shall be subject to reversion and such funds may be reallocated for other capital projects with similar useful lives or to pay debt service. The City Controller and the CAO are authorized to implement this Policy and to ensure funds are either reappropriated or transferred to the Trustee with the necessary administrative approvals. Any exceptions shall require Mayor and City Council approval.~~

~~FINANCIAL MANAGEMENT GOALS~~

~~I. Multi-Year Budget~~

~~As part of its annual budget process, the CAO intends to prepare a multi-year budget, which forecasts revenues and expenditures to evaluate the financial condition of the City for the subsequent five years. This forecast shall be recognized through action of the Council along with the adoption of the budget for the coming fiscal year.~~

~~III. Fund Balance Policy~~

~~The City recognizes the importance of emergency reserves that can provide a financial cushion in years of poor revenue receipts. A Reserve Fund Policy has been developed and approved by the Mayor and Council. A copy of the Reserve Fund Policy is part of these Financial Policies of which this is a section.~~

~~IV. Annual Debt Report~~

~~The CAO will annually prepare a report to the Mayor and City Council, which reviews the outstanding debt of the City. This may occur in conjunction with the annual budget.~~

~~V. Work with Overlapping Jurisdictions~~

~~The City recognizes the impact that the borrowing of overlapping jurisdictions can have on the City's own debt affordability. The CAO will maintain contact with the major overlapping debt issuers to coordinate borrowing plans.~~

FINANCIAL CONSULTANTS

Retention of Consultants

1. All municipal ~~financial~~ advisors, bond counsel, ~~and~~ underwriters, and other as needed market participants (i.e. trustees and arbitrage consultants) will be selected through a RFP or Request for Qualifications (RFQ) process, whichever is most appropriate given the circumstances.

2. In isolated instances, contracts may be awarded on a sole source basis if it is clear that a RFP/RFQ process would not be feasible or in the City's interests.

3. The City's contracting policies, ~~including Affirmative Action, Child Care, Minority/Women/Other Business Enterprise (MBE/WBE/OBE) participation, Living Wage, and any other policies~~ in effect at the time, will apply to all contracts with public finance professionals, as permitted by federal and state laws.

4. Generally, ~~the terms of the contracts for financial~~ municipal advisors, ~~and~~ bond counsel teams, and underwriters who participate in City contracts should, but are not required to have an office in the County of Los Angeles. Exceptions may be made for small firms serving as co-bond counsel or co-municipal ~~financial~~ advisor, and who are seeking to expand their client base and open new offices. Additionally, exceptions will be made when specialized expertise is required and such expertise is best provided by a firm located outside of the County.

5. Depending on particular expertise and consultant availability, some firms may be used on more than one program. Efforts will be made to establish different teams to provide a number of firms the opportunity to participate in City contracts.

6. In the event that the City issues bonds through a negotiated sale, the selection of underwriters will generally be for a single transaction. However, underwriters may be selected for multiple transactions if multiple issuances are planned for the same project.

7. All municipal advisors or firms acting as municipal advisors must be registered with the Municipal Securities Rulemaking Board (MSRB).

General Municipal ~~Financial~~ Advisor

8. The City will retain a general municipal ~~financial~~ advisory team to provide general advice on the City's debt management program, financial condition, budget options and rating agency relations.

9. ~~Additionally,~~ The general municipal ~~financial~~ advisors will structure the City's General Obligation Bond issuances and may be used on an as-needed basis to structure bond issuances that do not fall into the other categories of City debt obligations.

~~Financial~~ Municipal Advisors

10. The City will retain ~~financial~~ municipal advisors for each of the City's various bond financing programs. The CAO will issue either a RFP or RFQ depending on the needs of the City.

11. The CAO will usually recommend ~~one or~~ two municipal advisors for each transaction ~~financing~~ depending on the size, complexity, and timing of the bond sale or transaction.

Legal ~~Bond~~ Counsel Services

12. A Legal C~~The City will select bond c~~ounsel team may consist of separate ~~for its current bond programs. As needed bond counsel teams will be selected for those issuances that do not fall into any other categories of City debt obligations. Firms chosen to serve on teams may be called upon to provide general legal advice on a debt financing matter arising after the close of a transaction. A Bond Council team will consist of~~ Bond Counsel, Special Tax Counsel and Disclosure Counsel depending on the specifics of the financing ~~and may involve up to three different firms~~.

13. The City Attorney has Charter authority to hire outside counsel and will work with the CAO to hire appropriate legal counsel for each transaction.

~~City Financing Teams: Financial advisors, bond counsel, and underwriters, where applicable, will be selected through a competitive process for the City's General Fund lease financings, Wastewater System Revenue Bond Program, Special Parking Revenue Fund Program, Sanitation Equipment Charge Revenue Bond Program, Mello-Roos and special assessment bonds, and any other bond program that may be created. Depending on particular expertise and consultant availability, some firms may be used on more than one program. However, efforts will be made to establish different teams to provide a number of firms the opportunity to participate in City contracts.~~

Use of Independent ~~Financial~~Municipal Advisors on Competitive Sales

14. The City will hire ~~financial~~municipal advisors who are independent and do not participate in the underwriting or trading of bonds or other securities.

15. Under certain circumstances it may be in the City's best interests to hire an investment banking firm to act as co-~~financial~~municipal advisor on a specific

bond issue. These may be retained as sell-side advisors. In these instances event that a financial advisor working for the City does underwrite, the firm will not , under no circumstances, be permitted to lead a syndicate that is bidding on the bonds project for which the firm is acting as financialmunicipal advisor.

In some circumstances, such as very routine financings and financings for which the financial advisor did not play a lead role in structuring the transaction and upon request of the firm, the City may allow the firm to participate in a bidding syndicate in a non-book running role.

Use of Independent FinancialMunicipal Advisors on Negotiated Sales

In recognition of the fact that in a negotiated sale the goals of the underwriters and the issuer are inherently in conflict,

16. In a negotiated sale, the City will hire financialmunicipal advisors who do not participate in the underwriting or trading of bonds or other securities to represent the City.

17. The City may hire an underwriter to act as The only exception to this policy would be that all independent financialmunicipal advisor to the City as part of a negotiated sale only if all municipal advisory firms, which responded to the RFP, are found to be unqualified.

18. If no independent municipal advisory firms were found to be qualified, this event, the City may hire an underwriter could be the to act as financial advisormunicipal advisor to the City. However, The firm underwriter would be prevented from participating in the underwriting of the transaction, and no firm that hasincluding any profit sharing or other type of agreement with any member of the underwriting team for the transaction in question or any other transaction for any issuer will be allowed to serve as financial advisor.

Use of FinancialMunicipal Advisors for Investment Advice

19. Although the City Treasurer makes all investment decisions relative to temporary investments pending the expenditure of bond proceeds, the financialmunicipal advisor may provide investment advice on refundings and other transactions with specialized investment needs.

20. Under no circumstances will the City enter into any investments for which the financialmunicipal advisor receives any fee or compensation from the investment provider or any outside party.

Disclosure by Financing Team Members

21. All financing team members will be required to provide full and complete disclosure, as required under MSRB rules ~~penalty of perjury~~, relative to any and all agreements with other financing team members and outside parties. The extent of the disclosure may vary depending on the nature of the transaction.

22. ~~However, in general terms, n~~No agreements will be permitted that would compromise any firm's ability to provide independent advice that is solely in the best interests of the City, or that could reasonably be perceived as a conflict of interest.

POST-ISSUANCE TAX COMPLIANCE

The CAO is responsible for the development and implementation of procedures to ensure the compliance with applicable federal tax laws to maintain the tax-exempt status of its debt obligations. The CAO will have primary responsibility to coordinate with the applicable City departments and monitor the use of tax-exempt bond proceeds.

~~Continuing~~ DISCLOSURE

Purpose

1. It is the policy of the City to comply with applicable federal and state securities law, and with the terms of its contractual agreements executed pursuant to Rule 15(c)2-12, adopted by the Securities and Exchange Commission, to provide financial and operating data periodically and timely notices to certain events or other reporting requirements.

Objectives

2. To ensure compliance with applicable federal and state securities law with respect to the securities it issues, including with respect to any statement or other communication that is intended (or reasonably can be expected) to be accessible to and reasonably relied upon by investors in the City's securities, in order to:

   a. Reduce and manage the City's (and its officials' and employees') exposure to liability for damages and enforcement actions based on misstatements or omissions;
   b. Demonstrate that the City has taken reasonable care to avoid, to the best extent possible, the occurrence of misstatements or omissions;
   c. Promote best practices regarding the preparation of disclosure documents;
   d. Avoid damage to residents of the City and other third parties stemming from misstatements or omissions; and
   e. Potentially reduce borrowing costs by establishing a reputation for providing good disclosure and thereby promoting good investor relations.

Procedures

3. The CAO is responsible for the development and implementation of procedures to ensure compliance with this Disclosure Policy. The procedures promulgated by the CAO will establish a framework for compliance with, and adherence to, applicable state and federal securities laws relating to disclosure with respect to the City's primary offering documents, continuing disclosure certificate and filings, required state reporting, audited financial statements, websites and social media, and any public statements, among other things as determined by the CAO.

CONDUIT FINANCING

General

~~Federal Tax Law: Federal tax law allows for state and local governments to issue tax-exempt securities on behalf of nonprofit corporations exempt from taxes under Section 501(C)(3) of the Internal Revenue Service (IRS) Code.~~

1. Conduit Finance and City Liability: A "conduit financing" is the issuance of municipal securities by a governmental unit such as the City (referred to as the "issuer" or the "conduit issuer") to finance a project to be used primarily by a third party, which may be a for-profit entity engaged in private enterprise, a 501(c)(3) organization, or another government entity, which are all referred to as "conduit borrowers." In a conduit financing, the conduit borrower is responsible for making debt service payments on the bonds. If the project fails and the security goes into default, it is the conduit borrower's financial obligation, and not the City's obligation as the conduit issuer.

   ~~While the City issues Certificates of Participation (COPs) on behalf of these organizations, repayment of the debt is secured solely by the nonprofit corporation. No City funds are pledged to support the COPs and no appropriation will be made in the event of default. As such, these financings are referred to as "conduit" financings.~~

2. Applicability and Administration: This Conduit Financing Policy applies where the City acts as a conduit issuer for a 501(c)(3) organization to finance projects such as hospitals, retirement facilities, museums, and community centers. The CAO will be responsible for managing these conduit financings. Conduit financings associated with affordable housing shall be undertaken in accordance with HCID's debt policy. The CAO, however, has oversight responsibilities to review all bond transactions conducted by the HCID.

   ~~Until Fiscal Year 1995-96, the CAO was the agency that structured conduit financings and was responsible for ongoing administration. The CAO will continue to administer conduit financings completed prior to 1995-96. However, beginning in 1995-96, the Industrial Development Authority (IDA) assumed the responsibility for conduit financings for the City. All future issuances will be structured and administered by the IDA. These policies will apply generally to conduit financings through the IDA and will apply to all future conduit issuances through the CAO, if any.~~

~~California Statewide Community Development Authority (CSCDA): The State has established the CSCDA to, among other things, act as the conduit for 501(C)(3) financings. The City's only involvement when the CSCDA acts as the conduit is to hold the public hearing as explained more fully below. These policies, therefore, apply only to those financings for which the City acts as the conduit.~~

~~Qualified Organizations~~

~~Charter Provisions: The City's legal ability to participate in conduit financings is derived primarily from Charter Section 102(b), which empowers the City to "participate in the financing efforts...with...other governmental bodies."~~

~~Tax Exemption: Organizations for which the City acts as a conduit must be nonprofit corporations exempt from federal taxes under section 501(C)(3). The types of projects that have been financed in the past include hospitals, retirement facilities, museums and community centers.~~

Conduit Procedures

3. Pre-application Meetings: Early communication with Council Office staff and the CAO is recommended.~~strongly encouraged~~. In most cases, a meeting of the conduit borrower, herein as the applicant, the CAO, and the Council District staff, in which the project is located, will be required prior to submission of the formal application for funding.

4. Selection of Financing Team: The applicant will select its own financing team (e.g. underwriters and bond counsel), subject to the approval of the City.

5. Form of Application: Applications will be in the form of a letter request, to be submitted to the Council Office in which the project is located. The letter will request that the matter be forwarded to the ~~IDA or~~ CAO Debt Management Group for processing and ~~who will~~ reporting ~~back~~ to the Mayor and Council with a review of the project, identifications of any potential impact ot the City, and recommendations relative to proceeding with the conduit financing. ~~A copy of this letter will be sent to the City Administrative Officer, attention: Debt Management Group.~~

6. Application Information: The application letter should include the name, address and telephone number of all principals, including underwriter and bond counsel; a history of the applicant and its facilities; the population served by the facilities, including, if applicable, the percentages that receive some form of public assistance such as Medicare or Medical and the percentages that are residents of the City of Los Angeles; the population employed at the facilities; a complete description of the proposed project(s) to be financed; the sources and uses of funds; and, a complete statement of the public purpose served through the conduit financing.

7. Application Review: City staff will review the application and obtain other information as required. A report will be made to the Mayor and City Council recommending whether or not the City should initiate financing activities. This action may include inducement of the project for federal tax purposes.

Subsequently, assigned departmental staff will coordinate the completion of documents with the applicant, which will be submitted to the City Council for approval.

8. Public Hearing: The Tax Equity and Fiscal Responsibility Act of 1982 (the "TEFRA") ~~Code~~ requires that a public hearing be held to allow for the public to voice any objections to the project (the "TEFRA hearing"). If ~~the CSCDA or~~ any entity other than the City (e.g. joint power authority), is acting as the conduit issuer, the City's involvement begins and ends with the TEFRA hearing. In cases where the City is acting as the conduit issuer, the TEFRA hearing will be held in conjunction with consideration of the resolution authorizing the sale of the bonds.

Conditions for Consideration

9. Minimum Credit Ratings: Generally, all conduit financings should ~~must~~ have a minimum credit rating of AA from ~~Fitch, Aa from Moody's, or AA from Standard & Poor's~~ any of the recognizred rating agencies, and must be rated by at least two of the rating agencies. If the underlying rating of the borrower is not sufficient to provide the minimum rating, the financing must have credit support that will result in the minimum rating.

10. Public Benefit: The proposed conduit financing must have a public benefit to the residents of the City of Los Angeles that is sufficient to merit the City's participation in the financing.

11. Non-Sectarian Nature: While religious ownership and sponsorship of a project are acceptable, the project for which bond proceeds will be utilized cannot be used for any sectarian purpose. In analyzing the sectarian nature of a project, the City may rely on an opinion issued by the California State Attorney General on this matter, which addresses both federal and state constitutional prohibitions against public support for religious institutions.

12. Fees: The City will charge a fee, payable from bond proceeds, to pay ~~finance~~ all of its costs in undertaking a conduit financing. The fee will vary depending on the complexity of the project and will be determined prior to adoption of the resolution authorizing the sale of the bonds.

~~Opinions of Counsel: Bond Counsel, underwriters counsel and the borrower's counsel will be required to provide the City with opinions as to the adequacy of the official statement as specified in Securities and Exchange Commission (SEC) Rule 10b-5 (a "10b-5 Opinion").~~

13. Document Requirements: The following will be applicable to all documents related to conduit financings:

a. All contracts to which the City is a party will comply with all City contracting provisions in effect at the time the contracts are executed.

b. The transaction will be clearly structured as a limited obligation payable strictly from revenues from the ~~nonprofit organization~~ conduit borrower, and the City will in no way be obligated to make payments on the bonds ~~or foreclose on any organization~~ as a result of default.

c. The nonprofit organization will fully indemnify the City.

d. The ~~nonprofit corporation~~ conduit borrower will provide annual financial statements to the City and a statement that there has been no default or other material event that requires disclosure. Additionally, the nonprofit corporation will covenant to expeditiously provide additional information to the City and investors as may reasonably be requested. The conduit borrower ~~nonprofit corporation~~ will covenant to immediately inform the City of any event that materially affects the organization and may require disclosure and be liable for any costs incurred in connection with providing additional disclosure to investors, bond rating agencies or other parties.

e. In addition to monthly statements and other information provided for in the trust indenture, the Trustee will covenant to provide information to the City and investors as may reasonably be requested.

f. Closing documents will include a contract with an arbitrage consultant.

g. The ~~nonprofit corporation~~ conduit borrower will deem the preliminary official statement final for SEC purposes and will sign the final official statement.

h. The name of the City of Los Angeles in the masthead of the official statement will be in the smallest type size used in that location and the name of the conduit borrower ~~nonprofit corporation~~ will be larger and more prominently displayed than that of the City.

i. Throughout the official statement, the limited obligation of the City will be clearly disclosed.

j. Private placements may not require marketing or disclosure documents such as an official statement or credit ratings.

GLOSSARY OF KEY TERMS

Amortize: To retire the principal of an issue by periodic payments either directly to bondholders or first to a Sinking Fund and then to bondholders.

Arbitrage: The difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the bonds in higher yielding taxable securities. Federal tax laws generally restrict the ability to retain any arbitrage in connection with tax-exempt bonds.

Bond: A bond is a debt instrument issued for a period of more than one year, which allows the issuer to finance capital needs or refinance prior debt. The issuer is obligated to repay the investor a specified principal amount on a certain date, together with interest. The bond bears a stated rate(s) of interest or states a formula for determining that rate and matures on a date certain.

Bond Anticipation Notes: Short-term notes issued by a state or municipality, usually for capital projects, to borrow funds that are expected to be refinanced by a future long-term bond issue.

Bond Counsel: An attorney (or firm of attorneys) retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal income taxation and, where applicable, from state and local taxation.

Bond Proceeds: The money paid to the issuer by the purchaser or underwriter of a new issue of bonds. These moneys are used to finance the project or purpose for which these bonds were issued and to pay certain costs of issuance as may be provided in the bond documents.

Call Option: Redemption provisions in the bond contract for a security may provide the issuer the right to retire the debt fully or partially before the scheduled maturity date.

Capitalized Interest: Interest is commonly capitalized for the construction period of a revenue-producing project or a project financed with a lease, and sometimes for a period thereafter, so that the debt service expense does not begin until the project is expected to be operational and producing revenues.

Commercial Paper: Short-term notes with maturities ranging from one to 270 days, usually backed by a letter of credit with a bank, which are intended to be "rolled over" in a series of current refinancing as portions of the issue mature from time to time. Generally, the maturity of the commercial paper sold on each rollover is determined by market conditions at the time of rollover.

Competitive Sale: The sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale.

Conduit Financing: The issuance of municipal securities by a governmental unit (the "conduit issuer") to finance a project to be used primarily by a third party (the "conduit borrower"), which may be a for-profit entity engaged in private enterprise, a 501(c)(3) organization, or another governmental entity. The security for this type of bond issue is the credit of the conduit borrower or pledged revenues from the project financed, rather than the credit of the conduit issuer.

Continuing Disclosure: Disclosure of material information relating to municipal securities provided to the marketplace, after the initial issuance of municipal securities, by the issuer. Such disclosures include, but not limited to, annual financial information and material event notices provided by the issuer or obligor to various information repositories for the bondholders, as contemplated under SEC Rule 15(c)2-12 or on a voluntary basis.

Costs of Issuance: The expenses associated with the sale of a new issue of municipal securities. These expenses may include, but are not limited to, legal fees, trustee fees, municipal advisor fees, printing, and rating agency fees. These fees are typically reported separately from underwriter's discount, defined below.

Credit Enhancement: The use of the credit of an entity other than the issuer to provide additional security in a bond or note financing to improve an issuer's credit standing. Examples include bond insurance and bank letters of credit, but also may refer more broadly to the use of any form of guaranty, secondary source of payment or similar additional credit-improving instruments.

Credit Ratings: Evaluations of the credit quality of notes and bonds usually made by independent rating services such as Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service, and S~~tandard~~ & P~~oor's~~ Global Rating~~ Service~~s. Credit ratings are intended to measure the probability of the full and timely repayment of principal and interest on municipal securities. Ratings are initially made before issuance, are periodically reviewed and are subject to change over time to reflect changes in an issuer's credit profile.

Debt Limit: The maximum principal amount of certain forms of debt that a municipal government is permitted to incur under constitutional, statutory or charter provisions.

Debt Ratio: Comparative statistics showing the relationship between a bond issuer's outstanding debt and factors affecting repayment. Such ratios are often used in the process of determining credit quality of an issue.

Debt Service: The amount of money necessary to pay interest on the outstanding bonds, the principal of maturing or redeemed bonds, and the required contributions to a sinking fund for term bonds.

Disclosure Counsel: An attorney or law firm retained by the issuer to provide advice on issuer disclosure obligations, to prepare the Official Statement and Continuing Disclosure Agreement, and to provide a 10b-5 Opinion.

Discount: Generally, the amount by which the par value of a Bond exceeds the sale price.

Electronic Municipal Market Access (EMMA): EMMA, a service provided by the Municipal Securities Rulemaking Board (MSRB), is a comprehensive, centralized online source for free access to municipal disclosures, market transparency data, and educational materials about the municipal securities market.

General Obligation Bond: A bond that is secured by the taxing power of an issuer. General Obligation Bonds issued by local governments are secured by a pledge of the issuer's ad valorem taxing power. Such bonds constitute debts of the issuer and, in California, require approval by two-thirds vote, prior to a City's issuance.

Generally Accepted Accounting Principles (GAAP): Rules adopted by the Governmental Accounting Standards Board that establish standards for preparing financial statements of an enterprise, and by the Governmental Accounting Standards Board for preparing financial statements of state and local governments.

Governmental Accounting Standards Board (GASB): A standard-setting body, associated with the Financial Accounting Foundation. GASB prescribes standard accounting practices for governmental units in maintaining their financial records and releasing financial data to the public.

Grant Anticipation Note (GAN): A short-term note issued on the expectation of receiving grant moneys, usually from the federal government. The notes are payable from the grant funds, when received.

Green Bonds: Any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance projects with clear environmental benefits including, but not limited to, renewable energy, energy efficiency, pollution prevention and control, Green buildings, terrestrial and aquatic biodiversity conservation, and clean transportation.

Interest Rate: The annual rate, expressed as a percentage of principal, payable for use of borrowed money.

Interest Rate Risk: The risk associated with changes in general interest rate levels or Yield Curves (see Yield Curves below).

Judgment Obligation Bond: A bond issued to finance obligations arising from unusual and non-recurring court judgments.

Lease Revenue Bond: A bond from an issue that is secured by lease payments made for the use of capital equipment or facilities, either by leasing the facilities financed by the issue or the lease-leaseback of existing facilities (an "asset transfer"). Typically, lease revenue bonds are used to finance construction of facilities used by a state or municipality, which leased the facilities from a financing authority. Under California case law, the state or municipality is generally obligated to appropriate funds from its

general tax revenues to make lease payments as long as it has beneficial use or occupancy of the leased property.

Mello-Roos Bond: A bond issued by a Mello-Roos Community Facilities District (a "CFD") to finance public improvements and services. Bonds issued by a CFD are secured by the levy of specified special taxes, which must be approved by a two-thirds vote of the registered voters or landowners within the proposed district. Pursuant to the Mello-Roos Community Facilities Act of 1982, any county, city, special district, school district, or joint powers authority can establish a CFD.

Municipal Advisor: A consultant who advises the issuer on matters related to a new issue, such as structure, timing, marketing, fairness of pricing, terms and credit ratings. A municipal advisor can also provide financial advice on matters unrelated to a new issue such as cash flow and investments. All municipal advisors must be registered with the MSRB.

Municipal Securities Rulemaking Board (MSRB): An independent self-regulatory organization, established by the Securities Acts Amendments of 1975, consisting of representatives of securities firms, bank dealers, municipal advisors, issuers, investors and the public, that is charged with primary rulemaking authority over municipal securities dealers and municipal advisors in connection with their municipal securities and municipal advisory activities. MSRB rules are approved by the SEC, and enforced by the SEC and the federal banking regulators depending on the regulated entity.
Negotiated Sale: The sale of new issue of bonds by an issuer directly to a selected underwriter or underwriting syndicate in which the terms and price are negotiated.

Official Statement: A document prepared by or on behalf of the issuer of bonds which discloses material information on the new bonds such as the purpose of the issue, how the bonds will be repaid, and the financial and economic characteristics of the issuer, conduit borrower, or other obligated person with respect to the offered securities. Investors may use this document to evaluate the credit quality of the bond issue.

Remarketing Agent: A broker-dealer who is responsible for reselling variable rate bonds that have been tendered for purchase by the issuer.

Request for Proposal (RFP): A formal process by which an issuer gathers written information, such as qualifications, experience, and proposed compensation arrangements, from professionals for the purpose of selecting underwriters, ~~financial~~ municipal advisors, and attorneys.

Request for Qualifications (RFQ): A more general form of "Request for Proposals."

Revenue Bond: A bond that is payable from a specific source of revenue and to which an issuer's taxing power or general fund revenues are not pledged.

Par Value: Refers to the principal amount of the bond that must be paid at maturity. A bond may be purchased "at par" meaning the price of the bond is equal to its principal amount. Par value is also referred to as "face amount" or "face value" of a bond.

Private Placement: A private placement is a type of negotiated sale in which the issuer sells bonds or places another form of loan directly to a private investor, generally a bank.

Rating Agency: An organization that provides ratings that indicate the relative credit quality of liquidity characteristics of bonds. The nationally recognized rating agencies by the SEC are Fitch Ratings, Kroll Bond Rating Agency, Moody's Investors Service and S~~tandard~~ & P~~oor's~~ Rating ~~Service~~s.

Redemption: The payment of principal of a bond at maturity or prior to maturity pursuant to redemption provisions in the bond documents.

SEC Rule 10b-5: A SEC rule that makes it unlawful for any person, in connection with the purchase or sale of any security, to employ an device, scheme, or artifice to defraud; to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or to engage in any act, practice, or course of business which operates or would operate as a fraud or deceit upon any person.

SEC Rule 15(c)2-12: A SEC rule setting forth certain obligations of the underwriters to receive, review and disseminate official statements prepared by the issuers of most primary offerings of bonds and to obtain continuing disclosure agreements from issuers and provide material event notices and annual financial information on a continuing basis. In addition, the rule requires broker-dealers to have access to such continuing disclosure information in order to make recommendations of the bonds in the secondary market.

Securities Exchange Commission (SEC): The federal agency responsible for the supervising and regulating the securities industry. Generally, municipal securities are exempt from the SEC's registration and reporting requirements. Broker-dealers involved with municipal securities are subject to SEC regulation and oversight. The SEC also has responsibility for the approval of MSRB rules and has jurisdiction, pursuant to SEC Rule 10b-5, over fraud in the sale of municipal securities.

Social Bonds: Any type of bond instrument where the proceeds will finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population(s). Social Project categories include providing and/or promoting: affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, or socioeconomic advancement and empowerment.

Special Assessment Bonds: an obligation payable from revenues of a special assessment. A special assessment is a charge imposed against a property in a particular locality because that property receives a special benefit by virtue of some public improvement, separate and apart from the general benefits accruing to the public at large.

Sustainability Bonds: Any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance a combination of Green and Social Projects.

Tax and Revenue Anticipation Notes ("TRANs"): Short-term notes issued in anticipation of receiving tax receipts or other revenues at a future date.

Tax Equity and Fiscal Responsibility (TEFRA) Act of 1982: A federal tax law which requires, among other things, as a pre-condition for the exclusion from gross income for federal income tax purposes of interest on all qualified private activity bonds, that the issue be approved either by an elected official or body of elected officials of the applicable governmental entity after a public hearing following reasonable public notice.

TEFRA Hearing: A public accountability procedure involving the legislative body of the local agency in which the proposed project is located. During such process, the legislative body conducts a public hearing providing members of the community the opportunity to speak on behalf of or again the nature and location of the proposed project to be financed with tax-exempt bonds.

True Interest Cost: The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

Trust Indenture: A contract between the issuer and a trustee for the benefit of the bondholders.

Trustee: A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the trust indenture.

Underwriter: A broker-dealer that purchases a new issue of municipal bonds from the issuer for resale in a primary offering.

Underwriter's Counsel: An attorney or law firm retained to represent the interests of the underwriter in connection with the purchase of a new issue of bonds.

Underwriter's Discount: The fee, expressed in dollars per $1,000 of bonds, paid to underwriters in connection with an issuance of bonds. The Underwriter's Discount typically includes the takedown, which is the sales commission associated with the placement of bonds with investors, and expenses, which are the reimbursable expenses of the underwriters related to the financing. Less typically and usually for longer term and highly complex financings, Underwriter's Discount may also include a management fee.

Underwriting Syndicate: A group of underwriters formed to purchase a new issue of municipal bonds from the issuer and offer it for resale to the general public.

Yield Curve: Refers to the graphical or tabular representation of interest rates across different maturities. The presentation often starts with the shortest-term rates and

extends towards longer maturities. It reflects the market's views about implied inflation/deflation, liquidity, economic and financial activity, and other market forces.

ATTACHMENT 3

GOVERNMENT FINANCE ASSOCIATION'S DEBT MANAGEMENT BEST PRACTICE AND SB 1029 REQUIREMENTS

"Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments, including the issuance process, management of debt portfolio, and adherence to various laws and regulations." - GFOA

	GFOA Best Practice Category	GFOA Best Practice Subcategory	Found in City's Debt Policy
DEBT LIMITS	The policy should consider setting specific limits or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial reasons.	Purpose for which debt may be issued (Purpose Limits)	Pgs. 8-23
		Legal debt limitations, or limitations established by state, local policy	Pgs. 8-18
		Types of debt permitted to be issued and criteria for issuance	Pgs. 8-12, 19
DEBT STRUCTURING	The policy should include specific guidelines regarding the debt structuring practices for each type of bond.	Structural features considered (e.g call features and maturity)	Pgs. 4, 8-18
DEBT ISSUANCE	The policy should provide guidance regarding the issuance process which may differ for each type of debt	Credit Objectives	Pgs. 2, 4-7, 13, 15, 20
		Method of Sale	Pgs. 3-4
		Selection of external financial professionals	Pgs. 24-26
		Refunding of debt	Pg. 6
DEBT MANAGEMENT	The policy should provide guidance for ongoing adminsitrative activities	Compliance with federal tax laws	Pgs. 27
		Disclosure (primary and secondary market)	Pg. 28

On September 12, 2016, the State passed SB1029 that requires issuers to certify the adoption of debt policies that include the following elements:

Required Elements of Issuer's Debt Policy (Government Code Section 8855)	Found in City's Debt Policy
Purpose for which the debt proceeds may be used	Pgs. 8-18, 20-23
Types of debt that may be issued	Pgs. 8-12,19
Relationship of debt to the issuer's capital improvement program or budget	Pgs. 1, 4, 11, 13, 15, 20-23
Policy goals related to issuer's planning goals and objectives	Pgs. 1-2
Internal control procedures to ensure bond proceeds will be directed to their intended use	Pgs. 25, 27