

CITY AND COUNTY OF SAN FRANCISCO

AMENDED AND RESTATED LOCAL GOALS AND POLICIES FOR COMMUNITY FACILITIES DISTRICTS AND SPECIAL TAX DISTRICTS (Adopted November 26, 2013)

1. INTRODUCTION. 1.1 Section 53312.7(a) of the California Government Code requires that the City and County of San Francisco (the "City") consider and adopt local goals and policies concerning the use of the Mello-Roos Community Facilities Act of 1982 (the "Act"), prior to the initiation of proceedings on or after January 1, 1994 to establish a new community facilities district ("CFD") under the Act. Under Sections 3, 5 and 7 of Article XI of the Constitution of the State of California and Section 1.01 of the Charter of the City (the "Charter"), the City has adopted a Special Tax Financing Code (the "Code"), which authorizes the formation of special tax districts and incorporates the Act, including Section 53312.7(a), where not inconsistent with the Code.

These Local Goals and Policies for Community Facilities Districts and Special Tax Districts (the "Policies") provide guidance and conditions for the conduct by the City of proceedings for, and the issuance of bonds secured by special taxes levied in, a special tax district (a "Special Tax District") or a community facilities district (collectively with Special Tax Districts, a "CFD") established under the Code or the Act. These Policies are intended to be general in nature; specific details will depend on the nature of each particular financing. These Policies are applicable to financings under the Code or the Act and are intended to comply with Section 53312.7 (a) of the Act. These Policies may be amended or supplemented by resolution of the Board of Supervisors at any time.

2. GOALS. 2.1 The City will consider the use of the Code or the Act for financing of public facilities, privately-owned facilities that serve a public purpose and services only on terms acceptable to the City in furtherance of its policy goals.

3. ELIGIBLE PUBLIC FACILITIES AND SERVICES.

3.1 Eligible Facilities; Priority Facilities. The public improvements eligible to be financed by a CFD must be owned and operated by the City, or, subject to the provisions of the second following paragraph, by a public agency or public utility, and must have a useful life of at least five (5) years, except that up to five percent of the proceeds of an issue may be used for facilities owned and operated by a privately-owned public utility. The development proposed within a CFD must be consistent with the applicable general plan and must have received any required legislative approvals such as zoning or specific plan approvals. A CFD shall not vest any rights to future land use on any properties, including those which are responsible for paying special taxes.

The list of public facilities eligible to be financed by a CFD include, but are not limited to, the following:

- Streets, highways and bridges
- Street lighting
- Traffic signals and safety lighting
- Parks
- Governmental facilities
- Sanitary sewer facilities
- Storm drain facilities
- Flood control facilities
- Potable and reclaimed water facilities
- Libraries
- Public utilities
- Police and fire protection facilities
- Recreation facilities
- Railroad infrastructure improvements
- Public transit facilities

The funding of public facilities to be owned and operated by public agencies other than the City shall be considered on a case-by-case basis. If the proposed financing is consistent with a public facilities financing plan approved by the City, or the proposed facilities are otherwise deemed to be appropriate for financing by a CFD and are consistent with approved land use plans for the property, the City shall consider entering into a joint community facilities agreement or joint powers authority in order to finance these facilities. A joint community facilities agreement with the public agency that will own and operate any such facility must be entered into at the time required by the Act.

Priority for CFD financing of public facilities shall be given to public facilities which: (a) are necessary for development to proceed in an orderly fashion, or (b) are otherwise coordinated to correspond to the phasing of the related private development project.

3.2 Financing of Fees. It is acknowledged that the Act permits the financing of fee obligations imposed by governmental agencies the proceeds of which fees are to be used to fund public capital improvements of the nature listed above. The City will consider an application to finance fee obligations on a case-by-case basis. The City will prioritize financing fees to be paid to the City and its related entities because of the administrative burden associated with financing fees payable to other local agencies.

3.3 Eligible Services; Priority Services. The services eligible to be financed by a CFD (the "Services") are those identified in the Code or the Act. Subject to the conditions set forth in the Code or the Act, as applicable, priority for public services to be financed by a CFD shall be given to Services that are (a) necessary for the public health, safety and welfare and (b) would otherwise be paid from the general fund of the City or its related entities. The City may finance services to be provided by another local agency if it determines the public convenience and necessity require it to do so, although the City prioritizes financing services to be provided by the City and its related entities.

3.4 Eligible Private Facilities. Financed improvements may be privately-owned in the specific circumstances, and subject to the conditions, set forth in the Code or the Act, provided that such privately-owned improvements advance a public purpose. The privately-

owned improvements shall be attached to or on real property and in buildings, whether the real property or buildings are privately- or publicly-owned. Each privately-owned improvement must have a useful life of at least five years and the useful life of each privately-owned improvement shall be at least equal to the term of the special tax levied to finance the privately-owned improvement. For example, if the City finances for a specific property a \$10,000 improvement with a 5-year useful life and a \$20,000 improvement with a 20-year useful life, then the special tax payable with respect to those improvements will amortize the \$10,000 improvement over a period not to exceed 5 years and amortize the \$20,000 improvement over a period not to exceed 20 years.

4. CREDIT QUALITY REQUIREMENTS FOR CFD BOND ISSUES.

4.1 Except as set forth in this Article 4, CFD bond issues should have at least a three to one value of property in the CFD as a whole to public lien ratio after calculating the value of the financed public improvements to be installed. Property value may be based on either an appraisal or on assessed values as indicated on the Assessor's tax roll. The appraiser shall be selected by the City, and the appraisal shall be consistent with Article 7 below. The public lien amount shall include the bond issue currently being sold plus any public indebtedness (including assessments and special taxes) secured by a recorded lien on real property currently existing against the properties to be taxed.

4.2 Except as set forth in this Article 4, the City may engage a consultant to provide an absorption study for any CFD involving major land development and will require that all major land use approvals and governmental permits necessary for development of the public facilities to be financed be substantially in place relative to any such CFD, before bonds may be issued.

4.3 Except as set forth in this Article 4, a reserve fund equal to the least of (i) ten percent of the original proceeds of the bond issue, (ii) the maximum annual debt service on the bonds, or (iii) one hundred twenty-five percent of the average annual debt service on the bonds shall be required for all bond issues for CFDs where less than fifty percent of the buildable acreage has been developed. A smaller reserve fund may be allowed by the City for bond issues in CFDs where development thresholds identified by the City have been met (for example, more than 50% of the buildable acreage has been developed), and no reserve fund may be required when the City has provided or caused to be provided some form of credit enhancement as security for the bonds, including but not limited to a letter of credit described in Section 4.5 or a guarantee by the State of California or the United States of America, or when a reserve fund has been established by a third-party and is reasonably expected by the City to be available to pay debt service on the bonds. The reserve fund may be funded in whole or in part with cash or some other form of security instrument acceptable to the City, such as a surety bond policy or letter of credit, in any case from a financial institution and otherwise in a form acceptable to the City.

4.4 The City may consider exceptions to the above policies for bond issues that do not represent an unusual credit risk, either due to credit enhancement or other reasons specified by the City, or which otherwise provide identified public benefits, to the extent permitted by and subject to any applicable requirements of the Act.

4.5 If the City requires letters of credit or other security, the credit enhancement shall be issued by an institution, in a form and upon terms and conditions satisfactory to the City. Any security required to be provided by the applicant may be discharged by the City upon satisfaction of the applicable credit criteria specified by the City.

4.6 As an alternative to providing other security, the applicant may request that a portion of the bond proceeds be placed in escrow with a corporate trust agent in an amount sufficient to assure the financing will meet the applicable credit criteria, including, but not limited to, meeting a value-to-lien ratio of at least three to one on the outstanding bonds. The portion of any bond proceeds held in escrow shall be subtracted from the principal amount of the bonds outstanding in determining the amount of the lien in respect of the value to lien ratio for the CFD. The escrowed proceeds shall be released from the escrow at such times and in such amounts as may be necessary to assure the applicable credit criteria have been met.

4.7 The City will require that bond financings be structured so that bonds are purchased and owned by suitable investors. For example, the City may require placement of bonds with a limited number of sophisticated investors, large bond denominations and/or transfer restrictions in situations where there is an insufficient value-to-lien ratio, where a substantial amount of the property within a CFD is undeveloped, where tax delinquencies are present in parcels within the CFD, and in any other situation identified by the City.

5. DISCLOSURE REQUIREMENTS. 5.1.1 Disclosure Requirements for Developers. Developers who are selling lots or parcels that are within a CFD shall provide disclosure notice to prospective purchasers that complies with all of the requirements of Section 53341.5 of the Government Code. The City expects to prepare the form of disclosure notice to be provided to purchasers of privately owned residences within the CFD, and, in any event, developers shall submit all prospective CFD disclosure notices to City staff and its special tax consultant for review and comment. Developers shall not use forms of disclosure notices disapproved in writing by City staff.

5.1.2 All such disclosure notices must be provided to prospective purchasers of property at or prior to the time the contract or deposit receipt for the purchase of property is executed. Developers shall keep an executed copy of each disclosure document as evidence that disclosure has been provided to all purchasers of property within a CFD.

5.2. Disclosure Requirements for the Resale of Lots. The Director of Public Finance of the City (or designee) shall provide a notice of special taxes to sellers of property (other than developers) which will enable them to comply with their notice requirements under Section 1102.6 of the Civil Code. This notice shall be provided by the Director of Public Finance of the City (or designee) within five working days of receiving a written request for the notice. A reasonable fee may be charged for providing the notice, not to exceed any maximum fee specified in the Act.

5.3. Compliance With Federal Securities Laws. The City shall use all reasonable means to ensure compliance with applicable federal securities laws in connection with the issuance of debt and the provision of annual information regarding any CFD established by the City with

respect to which bonds have been issued, including requiring any landowner or developer in a CFD who is material to the bond issue to enter into a continuing disclosure agreement or certificate requiring that appropriate information be transmitted periodically to the City or its designee for disclosure to bond investors.

6. EQUITY OF SPECIAL TAX FORMULAS AND MAXIMUM SPECIAL TAXES. 6.1

Except as set forth below, special tax formulas for CFDs shall provide for minimum special tax levels which satisfy the following payment obligations of a CFD: (a) 110 percent gross debt service coverage for all CFD bonded indebtedness (taking into account any sources of revenue, other than special taxes, pledged to the payment of the debt), (b) all administrative expenses of the City related to the CFD, and (c) amounts equal to the differences between expected earnings on any escrow fund and the interest payments due on bonds of the CFD. Additionally, the special tax formula may provide for the following to be included in the special tax: (a) any amounts required to establish or replenish any reserve fund established in association with the indebtedness of the CFD, (b) the accumulation of funds reasonably required for future debt service, (c) amounts equal to projected delinquencies of special tax payments, (d) the costs of remarketing, credit enhancement and liquidity facility fees, (e) the cost of acquisition, construction, furnishing or equipping of authorized facilities, (f) lease payments for existing or future authorized facilities, (g) costs associated with the release of funds from an escrow account, (h) the costs of Services and (i) any other costs or payments permitted by the Code or the Act.

In connection with the financing of improvements on private property, the City may establish a special tax formula that provides for special tax levels that satisfy the following payment obligations of a CFD: (a) 100 percent gross debt service coverage for all applicable CFD bonded indebtedness (taking into account any sources of revenue, other than special taxes, pledged to the payment of the debt), (b) all administrative expenses of the City related to the CFD, and (c) amounts equal to the differences between expected earnings on any escrow fund and the interest payments due on applicable CFD bonded indebtedness.

6.2 Subject to the provisions of Article 4, the special tax formula shall be reasonable in allocating the CFD's payment obligations to parcels within the CFD. Exemptions from the special tax may be given to parcels which are publicly owned, are held by a property owners' association, are used for a public purpose such as open space or wetlands, parcels to be used for affordable housing projects or parcels affected by public utility easements making impractical their utilization for other than the purposes set forth in the easements, or otherwise parcels that have insufficient value to support bonded indebtedness.

6.3 The total projected property tax levels for any CFD shall not exceed any maximum specified in the Act. The annual increase, if any, in the maximum special tax for any parcel shall not exceed any maximum specified in the Act. The increase in the special tax levied on any parcel as a consequence of delinquency or default by the owner of any other parcel shall not exceed any maximum specified in the Act.

Special taxes may be subject to prepayment in whole or in part.

6.4 Special taxes will only be levied on an entire county assessor's parcel, and any allocation of special tax liability of a county assessor's parcel to leasehold or possessory interest in the fee ownership of such county assessor's parcel shall be the responsibility of the fee owner of such parcel and the City shall have no responsibility therefore and has no interest therein. Failure of the owner of any county assessor's parcel to pay or cause to be paid any special taxes in full when due, shall subject the entire parcel to foreclosure in accordance with the Act.

6.5 The City may retain a special tax consultant to prepare a report which: (a) recommends a special tax for the proposed CFD, and (b) evaluates the special tax proposed to determine its ability to adequately fund identified public facilities, City and CFD administrative costs, services (if applicable) and other related expenditures. Such analysis shall also address the resulting aggregate tax burden of all proposed special taxes plus existing special taxes, ad valorem taxes and assessments on the properties within the CFD.

7. APPRAISALS. 7.1 The definitions, standards and assumptions to be used for appraisals shall be determined by City staff on a case-by-case basis, with input from City consultants and CFD proponents, and by reference to relevant materials and information promulgated by the State of California (including, but not limited to, the California Debt Investment and Advisory Commission). The appraisal shall be coordinated by and under the direction of the City. The City may retain a consultant to prepare a report to verify market absorption assumptions and projected sales prices of the properties which may be subject to the maximum special tax in the CFD.

8. TERMS AND CONDITIONS OF BONDS. 8.1 All terms and conditions of any CFD bonded indebtedness shall be approved by the City. The City will control, manage and invest, or cause to be controlled, managed and invested, all CFD bond proceeds. Each bond issue shall be structured to not negatively impact the bonding capacity or credit rating of the City through the special taxes, credit enhancements, foreclosure covenant and reserve funds, as determined by the City but subject to any applicable agreement between the City and the landowners in the CFD.

8.2 All statements and offering materials related to the sale of bonds shall emphasize and state that neither the faith and credit nor the general fund of the City is pledged to the security or repayment of the bonds. The sole source of pledged revenues to repay CFD bonds shall be special taxes, bond proceeds and reserve funds held under the bond document, and the proceeds of foreclosure proceedings and additional security instruments provided at the time of bond issuance, unless otherwise specifically agreed to by the City.

9. USE OF CONSULTANTS. 9.1 The City shall select all consultants necessary for the formation of the CFD and the issuance of bonds, including the underwriter(s), bond counsel, financial advisor(s), appraiser(s), market absorption study consultant and the special tax consultant, after reasonable consultation with the primary proponent for the CFD. While the City will consult with the proponent of a CFD as to the consulting and financing team to be selected for the CFD, prior consent of any such proponent or any land owner within a CFD shall not be required in the determination by the City of the consulting and financing team.

9.2 All City staff and consultant costs incurred in the evaluation of CFD applications and the establishment of the CFD will be paid by the proponents of the CFD or from unencumbered assets of the City. City staff shall use all reasonable efforts not to incur any expenses for processing or administering a CFD that are not eligible to be reimbursed from CFD special taxes, CFD bond proceeds or other identified sources. Expenses incurred by the City that are not chargeable to the CFD shall be borne by the proponents of the CFD to the greatest extent possible.

10. CITY PROCEEDINGS. 10.1 The final schedule of events for any proceeding shall be determined by the City, in consultation with its financing team and the proponent of the CFD. Any changes will require approval by the appropriate City official. Time schedules will (unless specific exceptions are allowed by City staff) observe established City meeting schedules and agenda deadlines. To the extent possible, financings will be scheduled to allow debt service to be placed on the tax rolls with a minimum of capitalized interest.

11. EXCEPTIONS TO THESE POLICIES. 11.1 The City may find in limited instances that a waiver of any of the above stated policies is reasonable given identified benefits to be derived from such waiver. Such waivers only will be granted by action of the Board of Supervisors.