

RESOLUTION NO. 2014-15

RESOLUTION OF THE BOARD OF DIRECTORS OF THE RANCHO MURIETA COMMUNITY SERVICES DISTRICT ADOPTING GOALS AND POLICIES PURSUANT TO THE MELLO-ROOS COMMUNITY FACILITIES ACT OF 1982

WHEREAS, the Mello-Roos Community Facilities Act of 1982, as amended, commencing with Section 53311 of the Government Code of the State of California (the "Act") provides that on and after January 1, 1994, a local agency may initiate proceedings to establish a district pursuant to the Act only if it has first considered and adopted local goals and policies concerning the use of the Act; and

WHEREAS, the Board of Directors (the "Board") of the Ranch Murieta Community Services District desires to initiate proceedings to form community facilities districts to finance certain public capital improvements;

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE RANCHO MURIETA COMMUNITY SERVICES DISTRICT DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. The Board adopts the "Rancho Murieta Community Services District Comprehensive Mello-Roos Goals and Policies" in the form attached as "Exhibit A" and a copy of which shall be kept on file with the District Secretary.

Section 2. This Resolution shall take effect from and after the date of its passage and adoption.

PASSED, APPROVED AND ADOPTED this 1st day of August 2014, by the following vote:

Ayes: Pasek, Belton, Ferraro, Gumbinger, Martel
Noes: None
Abstain: None
Absent: None



**Gerald Pasek, President of the Board
Rancho Murieta Community Services District**

ATTEST:



**Suzanne Lindenfeld
District Secretary**

Exhibit A

Rancho Murieta Community Services District Comprehensive Mello-Roos Goals and Policies

1. Introduction

The Rancho Murieta Community Services District (Services District) has developed the following Goals and Policies on debt financing as guidelines to assist concerned parties in following the Services District's approach to and policies concerning community facilities district debt financing under the Mello-Roos Community Facilities Act of 1982. It is the Services District's goal to support CFD projects that address a public need and provide a public benefit. Proposed projects requesting community facility district debt financing will be evaluated to determine if such financing is financially viable and in the best interest of the Services District and current and future Services District and project residents, property owners and ratepayers. These Goals and Policies are designed to comply with Section 53312.7 of the Government Code.

The Services District will consider applications requesting formation of community facilities districts and the issuance of bonds to finance eligible public facilities pursuant to the Mello-Roos Act. The Services District reserves the right to request any additional reports, information, or studies reasonably necessary in evaluating these applications.

All Services District costs and any consultant costs incurred in evaluating applications requesting the establishment of community facilities districts will be paid by the Landowner by advance deposit increments or as otherwise agreed in writing by the Services District. The Services District shall not incur any non-reimbursable expense for processing such applications. Expenses not chargeable to the community facilities districts shall be borne by the Landowner.

2. Definitions

"Bonds" means bonds authorized and issued under the Mello-Roos Act.

"CFD" means a community facilities district formed or proposed to be formed under the Mello-Roos Act.

"Landowner" means the owner or owners of the real property within the CFD or a real estate developer designated by the owner or owners.

"Mello-Roos Act" means the Mello-Roos Community Facilities Act of 1982, as amended.

"Public Facilities" means improvements authorized to be constructed or acquired under the Mello-Roos Act, including fees for capital facilities imposed by public agencies as a condition to approval of the development encompassed by the CFD or as a condition to service the CFD.

"Services District" means the Rancho Murieta Community Services District.

"Value" means the amount of cash or its equivalent a seller would receive concerning real property exposed for sale in the open market under conditions in which neither buyer nor seller

could take advantage of a difficulty of the other and both have knowledge of all uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on uses and purposes.

3. Eligible Public Facilities and Priorities

The improvements eligible to be financed must be owned by a public agency or public utility, must have a useful life of at least five (5) years, and must be authorized by the Mello-Roos Act. In any event, no bonds shall be issued with a maturity date greater than the useful life of the facilities or improvements being financed. The development proposed within the CFD must be consistent with the Services District's general plan, if any, and must have obtained all discretionary land use entitlements required for development into their intended uses.

The list of public facilities eligible to be financed by a Services District CFD may include these:

- Governmental facilities
- Security facilities
- Storm drain facilities
- Sanitary sewer facilities
- Potable and reclaimed water facilities
- Flood control facilities
- Public utilities
- Biological mitigation measures involving land acquisition, dedication, and re-vegetation

In general, none of these types of facilities will have priority over the others; however, the Services District has final determination as to any facility's eligibility for financing, as well as the prioritization of facilities to be included in a CFD.

4. Credit Quality Required of Bond Issues

To qualify for bond financing, a project must satisfy certain minimum credit quality requirements as described in this section 4. The Services District may apply other credit criteria in determining whether to issue bonds, and the Services District may disregard certain of the criteria by resolution of the Board of Directors if it is determined that such action would not significantly affect the security of the bonds or that the issuance of the bonds would accomplish a specified public policy goal. The Services District retains its discretion to decline to issue bonds even if a project satisfies all the requirements described below:

- A. Value-to-Lien Ratio. The value of all taxable CFD property is at least three (3) times the principal amount of the bonds to be sold and the principal amount of all other bonds outstanding that are secured by special taxes or assessments levied on the property. The value of taxable property will be established on the basis of (1) an appraisal made by a real estate appraiser with a California-certified general license obtained from the State Bureau of Real Estate Appraisers under the Real Estate Appraisers Licensing and Certification Law and related regulations; or (2) the full cash value of such taxable property as shown on the assessment roll of the Sacramento County Assessor. If property value is determined by an appraisal, the appraiser shall be selected by the Services District, and the appraisal shall be based on criteria as

described below under **Section 7** of these goals and policies. The appraisal must be dated within 4 months of the date the bonds are issued. Although it is not required that the value-to-lien ratio be 3:1 on a parcel-by-parcel basis, consideration will be given to this ratio when apportioning special taxes to different parcels.

B. Developer Capability. The Landowner must demonstrate the feasibility of its financial plan and its ability to pay all special taxes before full buildout has taken place. Before the Board of Directors' approval of CFD formation, any property owner that will be responsible for more than 10 percent of the aggregate special taxes in the CFD will, at Services District staff's request, provide detailed information regarding these matters:

1. Legal structure of the title-holding entity and legal structure of the entity's owners or partners.
2. Detailed, audited financial statements of the property-owning entity and, if the owning entity is a subsidiary or affiliate of another entity, detailed audited financial statements of such parent or affiliate. Three years of statements are required. The Services District shall immediately advise the property-owning entity of any request for the audited financial statements pursuant to California Public Records Act (Government Code section 6250 et seq.). The Services District shall allow the property-owning entity to defend against any proposed disclosure of the audited financial statements. All costs incurred by the Services District under this paragraph shall be the responsibility of the property-owning entity. The Services District shall incur no liability for the inadvertent disclosure of the audited financial statements.
3. A list of bank, credit, or investment references that the Services District may contact.
4. A list of other public agencies with which the developer or its parent or affiliate company has participated in forming CFDs and selling bonds, including a history of special tax payments in such CFDs.
5. A comprehensive property development pro forma financial statement detailing development costs and funding sources, whether from equity, bank, investor, or bond proceeds sources. The pro forma must clearly identify timing and amount of private funds required to develop the project and pay the special taxes pending project completion and sale. The developer will be expected to demonstrate the level of certainty of obtaining such private funds and the sources thereof.
6. Any tax delinquencies, defaults, or bankruptcies of the developer or its parent or affiliate company.
7. Developer's (and parent or affiliate company's) compliance with prior continuing disclosure requirements.

- C. Credit Enhancement. The Services District, in certain instances, may require additional security for the issuance of bonds in the form of credit enhancement (such as a letter of credit). If the Services District requires letters of credit or other security, the credit enhancement will be issued by an institution in a form and based on terms and conditions satisfactory to the Services District. To the extent permitted by law, all fees payable on the letter of credit or other security may be reimbursed from revenues derived from the specific CFD for which the security was required. Any security required to be provided by the Landowner may be discharged by the Services District upon the opinion of a State-certified appraiser (as described in section 4.A) retained by the Services District demonstrating that a value-to-lien ratio of 3:1 has been attained.
- D. Reserve Fund. A reserve fund equal to the least of (1) 10 percent of the stated principal amount of the bond issue; (2) the maximum annual debt service on the bond issue; and (3) 125 percent of the average annual debt service on the bond issue shall be required for all CFD bonds, where 60 percent or more of the special tax revenues generated in the CFD will be generated from undeveloped property. A smaller reserve fund as determined by the Services District may be permitted for bond issues in a CFD where 40 percent or more of the special tax revenues will be generated from developed property. In lieu of satisfying this requirement for a reserve fund, the Services District may allow the Landowner to substitute a surety bond or a letter of credit for all or a portion of the amount of the reserve fund. Earnings on a reserve fund not needed to be retained in the fund to maintain it at the required amount shall be transferred to the acquisition and construction fund or to the debt service fund or other fund, as appropriate, or shall be used to pay rebate obligations under federal tax law. The Services District, with the advice of its financing consultants, will decide the amount of the reserve requirement, the method by which it will be satisfied, and the use of any earnings on investment of a reserve fund.
- E. Capitalized Interest. The Services District, with the advice of its financing consultants, will determine, on a case-by-case basis, the amount of interest to be funded from bond proceeds (capitalized interest) for a particular financing. The amount of capitalized interest ordinarily will be limited to the amount of interest payable on the bonds before receipt of the first tax collections; however, it may be set at a higher amount, based on other factors, such as the length of the construction period and taking into consideration the overall effect of such additional borrowing on the financing, including on the value-to-lien ratio, the total tax burden, and the ability of the property owner(s) to pay the taxes.
- F. Foreclosure Covenants. Documentation for every bond issuance shall include a covenant for judicial foreclosure of liens securing special tax delinquencies. Such covenants may vary with each financing but shall at a minimum provide for the institution of foreclosure proceedings within a reasonable time and shall authorize the General Manager or his delegate to commence foreclosure without further Board of Directors' action on notification of a delinquency. The requirement in the covenant to institute foreclosure proceedings may be subject to reasonable threshold delinquency amounts, either by individual parcels or in the aggregate.

- G. Absorption Studies. The Services District may require a development absorption study for property in the CFD as a condition of the issuance of bonds if the Services District determines that such objective information is necessary to analyze the development feasibility of the property proposed for the CFD. This study must be prepared by a qualified consultant concurrently with preparation of the appraisal, so the absorption conclusions may be reflected in the appraisal. The consultant must be hired by the Services District and must not have a personal or professional interest in the property in the CFD. The market-absorption study will be funded by the Landowner; however, the cost of this study may be reimbursed from bond proceeds with the Services District's approval, provided such reimbursement is consistent with applicable law.
- H. Land Use Entitlements. Before issuing bonds, the properties to be included in the CFD must have obtained all discretionary land use entitlements required for development into their intended uses.
- I. Financing Team. The Services District shall select and employ the members of its financing team, including bond counsel, disclosure counsel, special tax consultant, financial advisor, underwriter, appraiser, and, if the Services District determines the need therefore, an absorption or marketing consultant. Costs incurred by the Services District for these services shall be paid by the Landowner; however, the Services District may allow for the Landowner to be reimbursed from bond proceeds, provided such reimbursement is consistent with applicable law.
- J. Exceptions. The Services District Board of Directors may consider exceptions to the above policies for bond issues that do not represent an unusual credit risk, either because of credit enhancement, the escrowing of bond proceeds pending satisfaction of credit requirements, or other reasons specified by the Services District. Further, the credit criteria may be disregarded if the Services District determines, by a four-fifths vote of the Board of Directors, that a bond issue should proceed for specified public policy reasons.

The Landowner has the responsibility and burden of demonstrating to the Services District that the proposed CFD transaction has sufficient credit quality and strength consistent with the standards of these Goals and Policies.

5. Disclosure Requirements

- A. Disclosure Requirement for Developers. The Landowner will be required to demonstrate, to the satisfaction of the Services District, that there will be full disclosure of the Mello-Roos special taxes and any other special tax, assessment, overlapping special taxes or assessment of other districts, other liens on individual parcels to existing and future property owners, and to prospective purchasers of property including interim purchasers and sales to merchant builders (Section 53341.5 of the Government Code). In addition to all requirements of law, the Services District shall require the Landowner to provide disclosure of such information as the Services District deems appropriate to the purchasers of property in the CFD, with respect to the existence of the CFD, maximum or backup special taxes to be levied in the CFD, facilities to be constructed, the foreclosure process, and the terms and conditions of bond issues on behalf of the CFD. Such disclosure shall include

home buyer notifications requiring signature before home purchases, as well as methods to notify subsequent home purchasers.

- B. Compliance with Federal Securities Laws. The Services District 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 Services District with respect to which bonds have been issued, including requiring any developer in a CFD who is material to the bond issue to transmit appropriate information to the Services District or its designee for disclosure to bond investors.

6. Equity of Tax Allocation Formulas

- A. The rate and method of apportionment of the special tax must be both reasonable and equitable in apportioning the costs of the public facilities to be financed to each of the parcels within the boundaries of the proposed CFD and otherwise consistent with the policies in this section 6. The Services District prefers this apportionment of costs to be based on the benefit that each parcel is to receive from the public facilities.
- B. The rate and method of apportionment of the special tax is to provide for the administrative expenses of the proposed CFD, including those expenses necessary for enrollment and collection of the special tax and bond administration.
- C. All property in the CFD not otherwise exempted by the Mello-Roos Act from taxation shall be subject to the special tax. The rate and method of apportionment may provide for exemptions to be extended to parcels that are to be reserved or dedicated at a future date to public entities, held by a homeowner's association, or designated open space.
- D. The annual special tax levy on each residential parcel developed to its final land use shall be approximately equal each year, except that a variation for administrative expenses will be allowed. The Services District will allow an annual escalation factor on parcels in a CFD.
- E. The maximum annual special tax, together with ad valorem property taxes; special assessments or taxes for an overlapping financing district; or any other charges, taxes, or fees payable from and secured by the property, including potential charges, taxes, or fees relating to authorized but unissued debt of public entities other than the Services District, in relation to the expected assessed value of each parcel, upon completion of the private improvements to the parcel, is of great importance to the Services District in evaluating the proposed financing. The objective of the Services District is to limit the "overlapping" tax/assessment/property-related service charge burden on any parcel to no more than 2 percent of the expected assessed value of the parcel upon completion of the development project infrastructure and improvements. In evaluating whether this objective can be met, the Services District will consider the aggregate public service needs for the proposed project. It will consider what public improvements the Landowner is proposing to be financed in relation to these aggregate needs, and it will decide what is an appropriate amount to extend in public financing to the identified public improvements.

- F. This evaluation will be based on information obtained from other affected taxing entities that have jurisdiction to impose a tax, assessment or property-related service charge levy on the proposed CFD land.
- G. The total maximum annual special taxes that can be collected from taxable property in a CFD, taking into account any potential changes in land use or development density or rate, and less all projected administrative expenses, must be equal to at least 110 percent of the gross annual debt service on any bonds issued by or on behalf of the CFD in each year that the bonds will remain outstanding.
- H. The rate and method of apportionment of the special tax shall include a provision or a backup tax to protect against any changes in development that would result in insufficient special tax revenues to meet the debt service requirements of the CFD. Such backup tax shall be structured in such a manner that it shall not violate any provisions of the Mello-Roos Act regarding cross-collateralization limitations for residential properties.
- I. A formula to provide for the prepayment of the special tax may be provided; however, neither the Services District nor the CFD shall be obligated to pay for the cost of determining the prepayment amount, which is to be paid by the Landowner.

7. Appraisals

As stated in **Section 4.A**, all CFD bond issues shall require a minimum 3:1 value-to-lien ratio. To establish the value-to-lien ratio, the Services District may elect to have an appraisal performed. Any appraiser selected by the Services District must be a State-certified appraiser as described at section 4.A.

- A. Definition of Appraisal. An appraisal is a written statement independently and impartially prepared by a qualified appraiser setting forth an opinion of defined value of an adequately described property as of a specific date, supported by the presentation and analysis of relevant market information.
- B. Standards of Appraisal. The format and level of documentation for an appraisal shall depend on the complexity of the appraisal problem. A detailed appraisal shall be prepared for complex appraisal problems. A detailed appraisal shall reflect recognized appraisal standards, including, to the extent appropriate, the Uniform Standards of Professional Appraisal Practice and the California Debt and Investment Advisory Commission's "Appraisal Standards for Land-Secured Financings," as they may be amended from time to time.
- C. Content of Appraisal. An appraisal must contain sufficient documentation, including valuation data and the appraiser's analysis of the data to support his or her opinion of value. At a minimum, the appraisal shall contain the following items:
 - 1. The purpose or function of the appraisal, a definition of the property being appraised, and a statement of the assumptions and limiting conditions affecting the appraisal.
 - 2. An adequate description of the physical characteristics of the property being appraised, its location, zoning, present use, and an analysis of highest and best use.

3. All relevant and reliable approaches to value consistent with commonly accepted professional appraisal practices. If a discounted cash flow analysis is used, it should be supported with at least one other valuation method, such as a market approach using sales that are at the same stage of land development. If more than one approach is used, there shall be an analysis and reconciliation of approaches to value sufficient to support the appraiser's opinion of value.
4. A description of comparable sales, including a description of all relevant physical, legal, and economic factors such as parties to the transaction, source and method of financing, and verification by a party involved in the transaction.
5. A statement of the value of real property.
6. The effective date of valuation, date of appraisal, signature, and certification of the appraiser.
7. No appraiser or review appraiser shall have any interest direct or indirect in the real property being appraised for the Services District that would in any way conflict with the preparation or review of the appraiser. Compensation for making an appraisal shall not be based on the amount of the valuation.

8. Acquisition Provisions

- A. The Services District will consider authorizing the use of bond proceeds to acquire completed improvements from the Landowner (as well as to construct improvements directly). The Services District, in its sole and unlimited discretion, shall have final determination as to whether, under what conditions, and to what extent it will allow the financing of public facilities through acquisition. An acquisition agreement shall be required and approved by the Board of Directors before closing the bond sale for the subject CFD.
- B. The Services District shall have approval authority over the plans and specifications for all improvements to be acquired and shall have the right to inspect the improvements during construction.
- C. Specification and contracts for improvements to be acquired by the CFD must require payment of "prevailing wages" and compliance with other public works project requirements as set forth in Sections 1720-1861 of the California Labor Code.
- D. For improvements completed after passage of the resolution of formation, sealed competitive bids must be taken on Services District approved plans and specifications. Services District staff shall be in attendance at the bid opening, and a copy of the engineer's estimate of cost shall be furnished to Services District staff before the date for receiving bids. The minimum advertising acceptable is the distribution of approved plans and specifications to the Builders Exchanges and Construction Services shown on the distribution list obtainable from Services District staff, and the time fixed for opening bids shall be a reasonable time not less than 14 days after distribution of plans and specifications to the Builders Exchanges and Construction Services.

- E. Upon completion of construction, the following items shall be submitted to Services District staff:
- i. An itemized list of the improvements proposed for acquisition that gives a description of the individual items, the final quantity for each item, the unit price bid for the item, and the total cost for each item.
 - ii. Basis and billing for all engineering fees paid and claimed for reimbursement.
 - iii. Description of any Services District fees paid and claimed for reimbursement.
 - iv. Release from contractor, subcontractors, and suppliers indicating payment in full.
 - v. Certification from the Landowner or its engineer that the improvements have been completed in accordance with the professional standards applicable to the improvements.
 - vi. Guaranty there are no liens on the improvements to be acquired together with an agreement indemnifying the Services District regarding unknown or future claims.

The Landowner shall defend and indemnify the Services District from and against all claims, demands, and liabilities arising from any failure to construct such improvements in accordance with applicable laws, rules, and regulations.

9. District Deposits and Reimbursements

- A. All Services District and consultant costs incurred in the evaluation of requests to form CFDs, the establishment of CFDs, and CFD bond issuance shall be paid by the requesting Landowner by advance deposit increments. The Services District shall not incur any expenses for processing and administering CFDs. Expenses not chargeable to the CFD shall be borne directly by the Landowner.
- B. The deposits shall be used by the Services District to pay for costs and expenses incurred by the Services District incident to the proceedings, including engineering, appraisal, special tax consultant, financial advisor, legal, and other consultant expenses; administrative costs and expenses; required notifications; and printing and publication of transaction related documents.
- C. The Services District shall refund any unexpended portion of the deposits if the CFD is not formed, the issuance of bonds is not approved by the Services District, or the proceedings for formation of the CFD or issuance of bonds is abandoned in writing by the Landowner.
- D. The Landowner shall be entitled to reimbursement from bond proceeds for all reasonable costs and expenses incident to the proceedings and construction of the public facilities as provided and allowed under the Mello-Roos Act and other applicable law. All such costs and expenses will be limited to those CFD-related consultants hired or authorized by the Services District, invoices shall be verified by the Services District as a condition of reimbursement, and the Services District shall have sole

- discretion as to what costs and expenses are reimbursable and as to their reasonableness.
- E. The Landowner shall not be entitled to reimbursement from bond proceeds for (A) in-house administrative and overhead expenses incurred by the Landowner, (B) interest expense incurred by the Landowner during construction of public facilities, or (C) any other costs and expenses incurred by the Landowner that are not otherwise authorized for reimbursement under the Mello-Roos Act or other applicable law.

10. Exceptions to these Policies

The Services District may find in limited and exceptional instances that a waiver of any of the above-stated policies is reasonable, given identified special Services District benefits to be derived from such waiver. Such waivers may be granted only by action of the Board of Directors of the Services District, based on specific public purpose or public health, safety or welfare findings.