

BOND DOCUMENTS, DEBT SERVICE AND WHO IS RESPONSIBLE FOR WHAT?

Rudy S. Salo, Partner
Nixon Peabody LLP

Brian Wong, Debt Manager
City of Sacramento, California

September 6, 2017



BOND DOCUMENTS AND DEBT SERVICE

- What we will cover?
- Who is involved in a “typical” financing and some variations?
- What are some practical tips for issuers?
- What are the ongoing debt activities performed by an issuer and a trustee?
- How does the City of Sacramento handle its financing program and division of responsibilities?

FINANCING TEAM

- Issuer
- Issuer's Counsel
- Bond Counsel
- Disclosure Counsel
- Underwriter
- Municipal Advisor
- Trustee / Paying Agent / Fiscal Agent
- Trustee's Counsel
- Underwriter's Counsel
- Securities Repository
- Auditor
- Credit Enhancer
- Feasibility Consultant
- Rebate Consultant
- Dissemination Agent
- Borrower and Borrower's Counsel (Conduit Transaction)
- Verification Agent (Refundings)
- Remarketing Agent (Variable Rate Transaction)
- Letter of Credit Bank (Variable Rate Transaction)
- Title Insurer/Property Insurer (any deal involving real estate]

PRELIMINARY CONSIDERATIONS

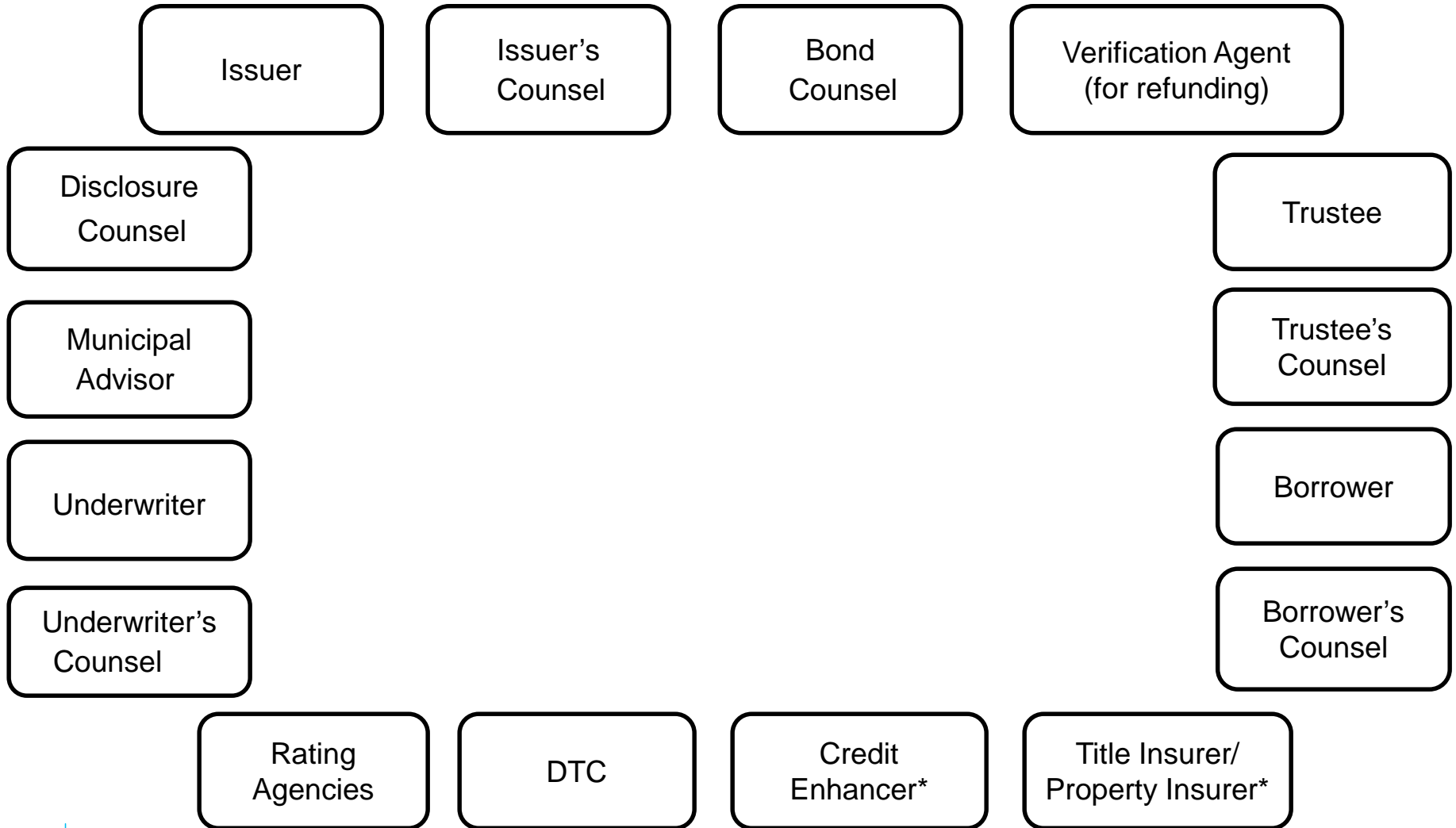
- What is being financed?
- What law authorizes the borrowing (Note: Depending on the law/purpose of issuance there may be additional reporting requirements, i.e., CFD)?
- What will be the structure of the financing?
- What is the source of funds for repayment of the borrowing?
- Who at the Issuer will be responsible for ongoing compliance of the bond issue?

BASIC DOCUMENTS

- Trust Agreement / Indenture
- Authorizing Resolution
- Preliminary Official Statement / Official Statement*
- Real Estate documents (or CFD formation documents)
- Bond Purchase Agreement*
- Continuing Disclosure Agreement*
- Tax Certificate
- Closing Documents and Certificates

* For public deals, direct purchases have different requirements

NEGOTIATED (PRIVATE SALE) BOND TRANSACTION



INDENTURE OF TRUST / TRUST AGREEMENT / BOND RESOLUTION / BOND ORDINANCE

Key Provisions:

- **Definitions**
- **Permitted Investments**
- **Pledge of Collateral**
- **Reserve Fund**
- **Flow of Funds**
- **Additional Debt**
- Interest Rates
- **Principal and Interest Payment Dates**
- Maturity Dates
- **Redemption / Prepayment**
- **Defeasance Provisions**
- **Representations, Warranties and Covenants of the Issuer**
 - Maintenance of Rates, Fees & Charges
 - Continuing Disclosure
- Rights and Responsibilities of the Trustee
- **Events of Default and Remedies**
- **Insurance Provision** (Bold text = Indicates provisions that require critical review)

Parties:

- Issuer
- Trustee
- For Ordinances and Resolutions, only the Issuer

AUTHORIZING RESOLUTION

Purpose:

- Authorizes the sale of the bonds by the Issuer and establishes the parameters for the issuance of the bonds, authorizes the execution and delivery of each of the financing documents, directs staff to take other actions necessary to complete the transactions, delegates officers to approve revisions to financing documents consistent with the parameters

Key Provisions:

- Maximum principal amount of bonds to be issue
- Maximum interest rate
- Maximum underwriter's discount
- Maximum term
- For refundings, the minimum savings to be achieved
- Delegation of Authority to Officers

Parties:

- Issuer
- Borrower



LOAN AGREEMENT / LEASE AGREEMENT / PROJECT OR FACILITIES LEASE / INSTALLMENT SALE AGREEMENT

Purpose:

- Evidences the loan of bond proceeds by the Issuer to finance the project(s) and for user (borrower) of the project(s) to make payments sufficient in time and amount to repay the bonds
- For Installment Sale Agreements and Leases, the title to the project will transfer at the end of the term and maturity of the bonds

Key Provisions:

- Pledge of Revenues
- Lease Payments
- Additional Payments
- Representations & Warranties
- Covenants
- Prepayment Provisions
- Abatement

Parties:

- Issuer
- Borrower



PRELIMINARY AND FINAL OFFICIAL STATEMENT

Purpose:

- Provides disclosure to investors and potential investors; terms of the bonds; description of project(s) being financed or bonds being refunded; security and sources for repayment; risk factors; issuer financial and operating information; description of obligated party; outstanding material litigation
- The Issuer is required under securities laws to disclose all information a “reasonable investor” would consider to be important in making an investment decision to purchase the bonds
- The Preliminary Official Statement is deemed substantially final except for pricing information and is used by the underwriter to pre-sell the bonds
- The Official Statement is dated the date the bonds are sold to the underwriter

Key Provisions:

- Securities and Sources of Payment
- Risk Factors
- Absence of Material Litigation
- Financial and Operating Information
- Continuing Disclosure

Parties:

- Issuer
- Borrower



BOND PURCHASE AGREEMENT / BOND PURCHASE CONTRACT

Purpose:

- Provides for the sale of the bonds by the Issuer to the Underwriter
- Specifies (i) the terms of the bonds; (ii) conditions precedent to the obligation of the underwriter to purchase of the bonds; and (iii) the delivery date of the bonds;
- This agreement is bilaterally executed by the Underwriter and the Issuer after the bonds have been priced by the Underwriter

CONTINUING DISCLOSURE UNDERTAKING

Purpose:

- Contains the undertakings of the Issuer (and each Obligated Party) to provide annual updates of specified information (Annual Reports) by a specified date certain and notices of the occurrence of significant events, generally within 10 business days following occurrence, pursuant to Rule 15c2-12
- Remains in effect during the lifetime of the bonds

Key Provisions:

- Content of the Annual Report
- Filing Date for the Annual Report
- Listing of Significant Events
- Filing Date for Filing Notices of the Occurrence of Significant Events
- Amendment Procedures

Parties:

- Issuer
- Obligated Party
- Trustee
- Dissemination Agent



TAX CERTIFICATE / TAX AND NON-ARBITRAGE CERTIFICATE

Purpose:

- Sets forth the certifications and covenants of the Issuer (and the Borrower) necessary to maintain the tax-exempt status of the bonds
- Includes rules for investment of the bond proceeds, compliance with arbitrage and rebate requirements

Key Provisions:

- Sources and Uses of Proceeds
- Investment of Proceeds
- Representations and Warranties
- Tax Compliance Program
- Others – depending upon the purpose of the financing

Parties:

- Issuer
- Borrower (Conduit Transaction)



CLOSING CERTIFICATES, DOCUMENTS & OPINIONS

Key Provisions:

- Issuer Certificates
- Receipts
- Requisitions
- Documents for Deposit of Funds
- Opinions

Parties:

- All

OTHER FINANCINGS

Refundings:

- Basic Documents
- Escrow Agreement
- Verification Report

Variable Rate:

- Basic Documents
- Remarketing Agreement
- Paying Agent Agreement
- Letter of Credit or Standby Bond Purchase Agreement
 - A Letter of Credit is issued by a bank to the Trustee on behalf of the Issuer to provide sufficient money to pay the principal and accrued interest (the "purchase price") on the bonds when tendered by the bondholders
 - A Standby Bond Purchase Agreement serves essentially the same purpose as the letter of credit, but instead of automatically paying the purchase price of the bonds when tendered by the bondholders, the bank purchases only those bonds that are not successfully remarketed by the remarketing agent to new purchasers. The remarketing agent then remarkets the bank's bonds
- Reimbursement Agreement
 - An agreement between the Issuer or the Conduit Borrower to reimburse the bank for all draws made on the letter of credit



OTHER FINANCINGS – LEASE REVENUE TRANSACTIONS

- Lease-revenue bonds rely for their validity on the fact that bond payments are limited to lease payments made by the City/Financing Authority.
 - Lease payments are made by the City/Financing Authority each year in consideration of the use and occupancy of the leased facility in that year
 - Lease exception to constitutional debt limit

“Beneficial use and occupancy” is a required element for lease payments

- If the facility is not available for use and occupancy, the abatement of rental process would be triggered as rental abatement is a required element of the facility lease
- Bond payments due prior to completion and occupancy are paid from capitalized interest only

Any facts that bear on availability for use and occupancy are material and should be immediately discussed with your Bond Counsel

PRACTICAL TIP: Keep a list of properties that you have encumbered and make sure to terminate your leases from title.

PRACTICAL TIP: Make sure to read the insurance provisions and order your certificates of insurance in time for closing

PRACTICAL TIP: Order a Preliminary Title Report EARLY!!!



OTHER FINANCING (CONTINUED)

Private Placements/Direct Purchase:

- A direct negotiation by the Issuer with a limited number of commercial banks, private financial institutions or investors with a high degree of sophistication; essentially a loan that is evidenced by a “bond”; exempt from registration with the SEC and doesn’t require many of the disclosure requirements of a public offering
- Master Loan Agreement –
 - Similar to an Indenture
- Private Placement Agreement –
 - Similar to the BPA, but is an agreement between the Issuer (and the Borrower) and the placement agent

OTHER FINANCING *(CONTINUED)*

Private Placements:

— Continuing Covenant Agreement —

- an agreement between the Issuer (and the Borrower) and the financial institution purchasing the Bonds

— Investor Letter/Lender's Letter —

- Executed by the investors or a commercial bank agreeing to certain restrictions on resale and certifying that they have the degree of sophistication necessary to make an investment in the bonds or a loan to the issuer as evidenced by the bonds

PRACTICAL TIP: Know your commercial banker, build on the relationship and keep them in the loop

ADDITIONAL RESOURCES

- California Debt and Investment Advisory Commission
- Government Finance Officers Association
- Bond Buyer
- California Society of Municipal Finance Officers
- Municipal Securities Rulemaking Board
- National Association of State Auditors, Comptrollers and Treasurers
- National Federation of Municipal Analysts
- Securities Industry and Financial Markets Association

DEBT SERVICE

- Overview of City of Sacramento
- What is Debt Service?
- The (Not So) Basics of Paying Debt Service
 - How much do I owe?
 - How am I going to pay?
- Responsible Parties for Paying Debt Service
- Budget and Debt Service Planning
- Treasury and Cash Management

THE CITY OF SACRAMENTO

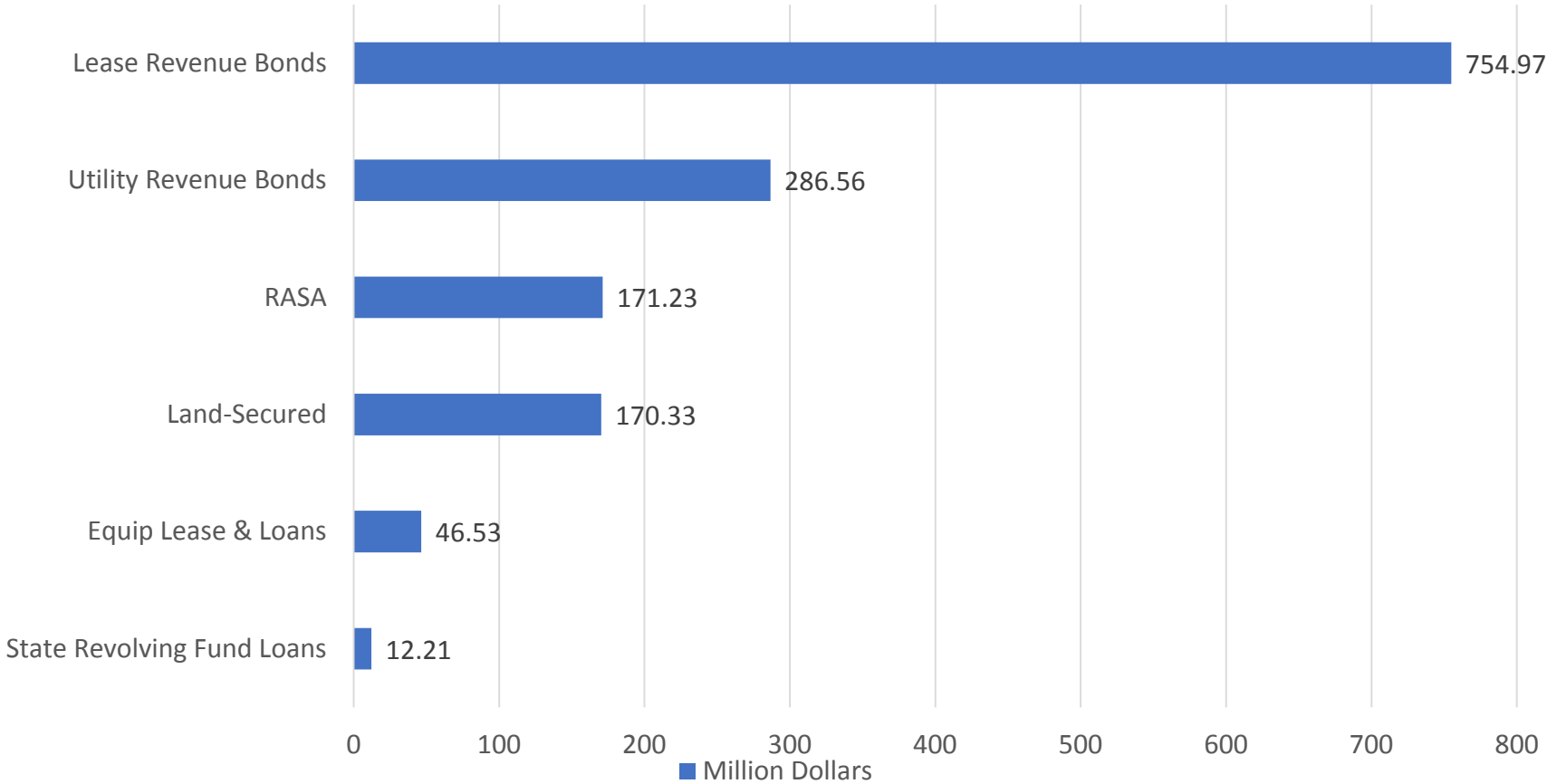


- \$1.4+ billion outstanding
- Notable financed projects:
 - Golden 1 Center (City's portion)
 - Sacramento River Water Treatment Plant improvements
 - Construction of New City Hall building and remodel of Historic City Hall

CITY OF SACRAMENTO'S DEBT PROGRAM

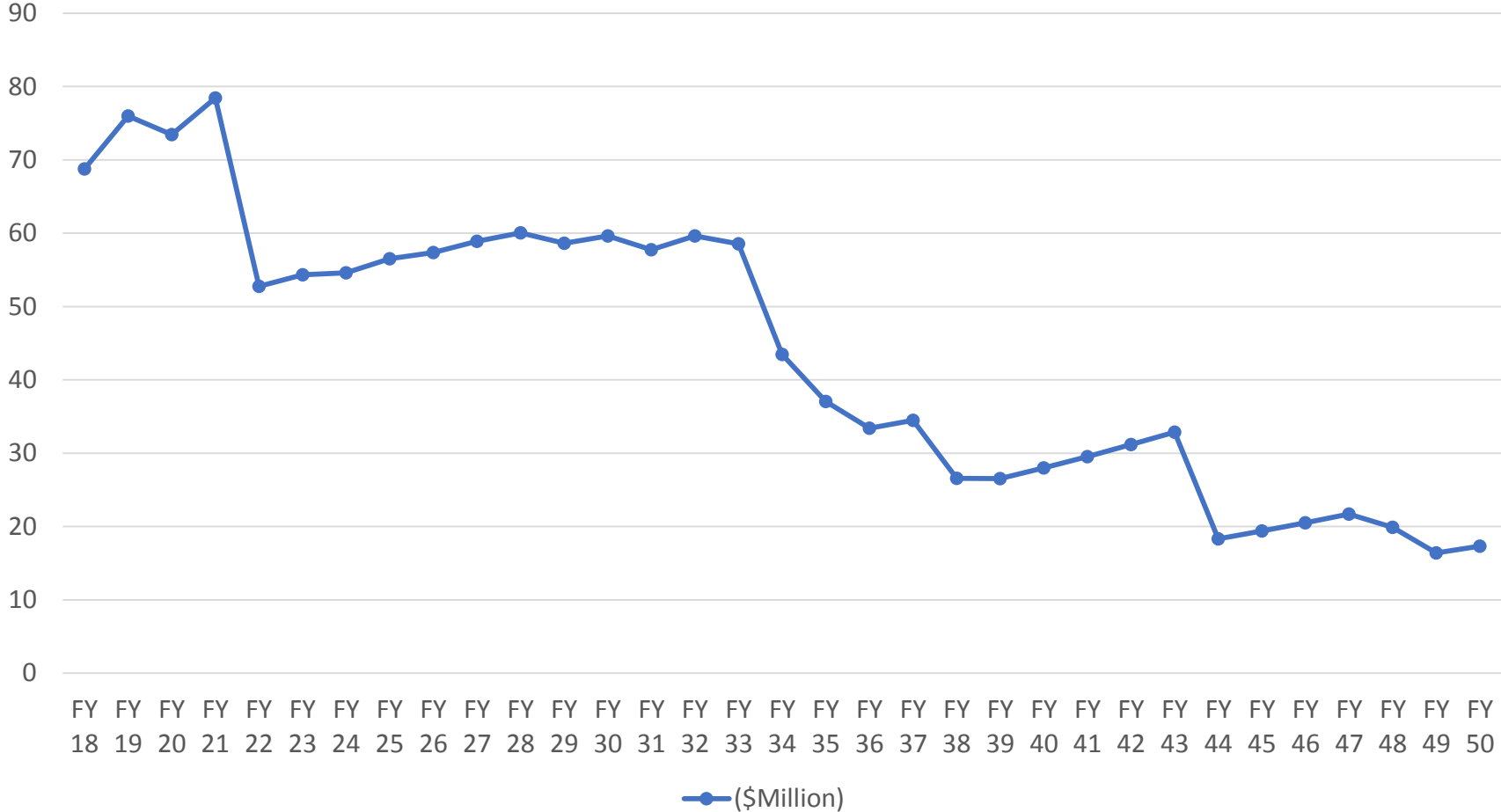
(AS OF SEP 2017)

Outstanding Principal by Debt Type



CITY OF SACRAMENTO'S DEBT PROGRAM (AS OF SEP 2017)

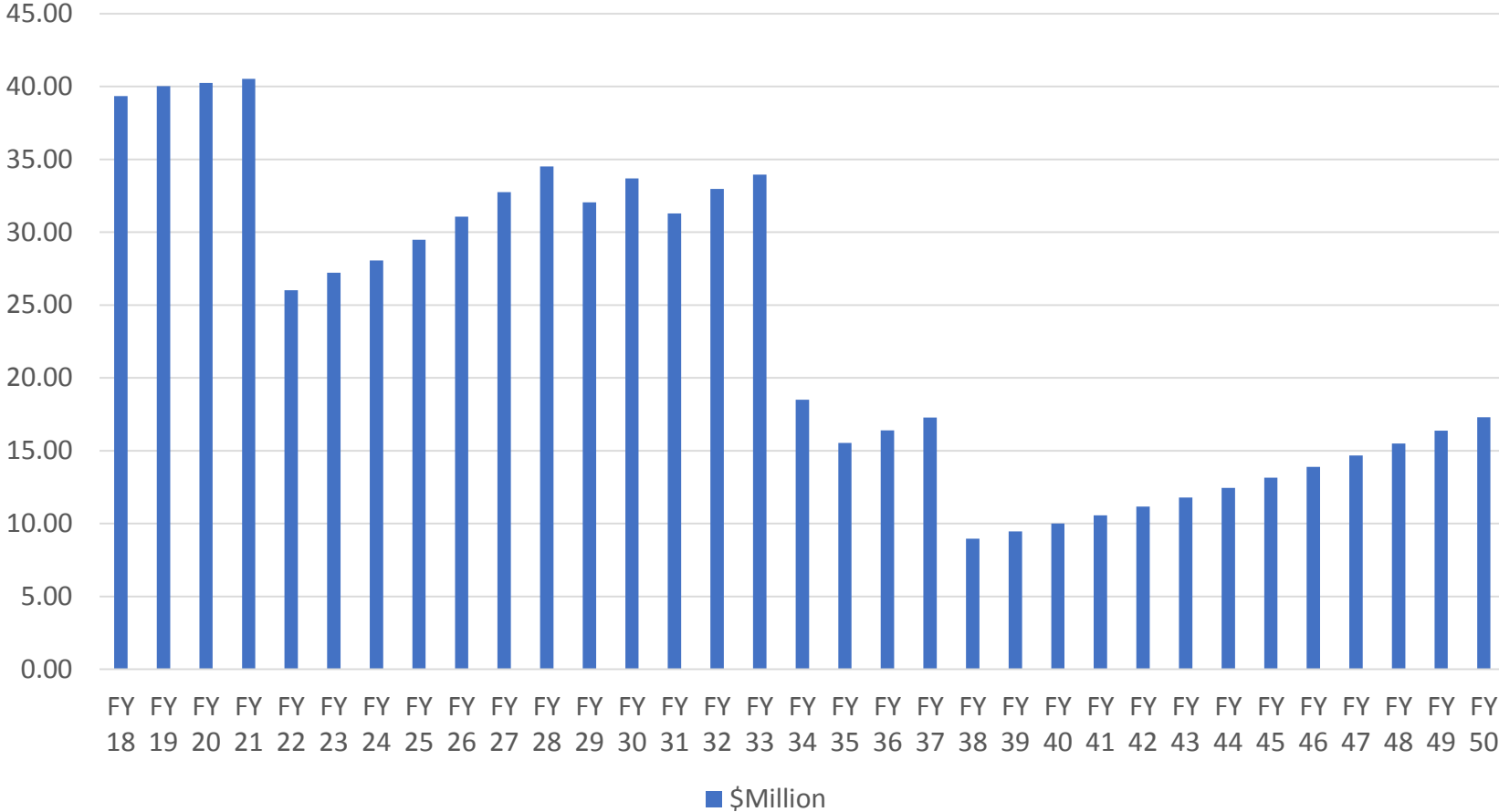
Principal Maturing by Fiscal Year



CITY OF SACRAMENTO'S DEBT PROGRAM

(AS OF SEP 2017)

General Fund Backed Principal Maturity by Fiscal Year



WHAT IS DEBT SERVICE?

- Payment of principal and interest on debt obligations
- More broadly, may also include other fees necessary to maintain the debt such as:
 - Trustee/Fiscal Agent Fees
 - Arbitrage Rebate Consultant Fees
 - Special Tax Administrator Fees (Mello-Roos financings)

THE (NOT SO) BASICS OF PAYING DEBT SERVICE

- How much do I owe?
- How am I going to pay?

HOW MUCH DO I OWE?

— Gross Debt Service

- Internal Allocations/Schedules (up to date)
- Trustee Records (up to date)
- Bond Documents (as of date of issue)
- Final Cash Flows

— Net Debt Service = Gross Debt Service less Other Sources of Funds, which may include:

- Capitalized Interest
- Excess from the Reserve Fund
- Interest Earnings
- Other Available Sources (funds, accounts, or external)

HOW AM I GOING TO PAY?

- Set rates and charges as appropriate (*can be political!*)
- Budget for expenditure
- Establish an appropriation
- Generate Sufficient Liquidity
- Verify Debt Service Amounts
- Transfer Funds to Trustee

RESPONSIBLE PARTIES FOR DEBT SERVICE

- Accounting
- Budget
- Treasury/Cash Management
- Project Staff

ACCOUNTING'S RESPONSIBILITIES

Role before the closing

- Review funds and accounts and establish them in the organization's financial system
- Review the flow of funds and establish procedures to ensure compliance with flow of funds

Documentation at closing

- Indenture
- Official Statement
- Final Number Run from the Underwriter
- Staff reports related to the financing

ACCOUNTING'S RESPONSIBILITIES *(CONTINUED)*

Ongoing role

- Record the entries for payment of debt service
- Review trustee account statements to:
 - Verify flow of funds and application of transferred funds
 - Record entries into the organization's financial system
- Establish debt service budget for the subsequent year
- Close collaboration with Treasury/Cash Management and Budget staff

TREASURY/CASH MANAGEMENT'S RESPONSIBILITIES

Role before the closing:

- Review the flow of funds and establish procedures to ensure compliance with flow of funds
- Plan for the investment of proceeds in anticipation of closing

Documentation at closing

- Indenture
- Official Statement
- Final Number Run from the Underwriter
- Tax Certificate

TREASURY/CASH MANAGEMENT'S RESPONSIBILITIES *(CONTINUED)*

Ongoing role

- Maintain up-to-date debt service schedules
- Maintain and manage cash flow projections – City's Pool A
- Manage the purchase and settlement of investments
- Provide liquidity for timely and complete principal and interest payments
- Receive, review, and reconcile debt service invoices from the trustees
- Wire funds to the trustees on the correct dates in the correct amounts
- Review accuracy of trustee statements
- Close collaboration with Accounting and Budget staff

TREASURY/CASH MANAGEMENT'S RESPONSIBILITIES (CONTINUED)

Combined Schedule - 2017-08-24.xlsx - COMBINED SCHEDULE BY DATE

COMBINED SCHEDULE BY WIRE MONTH (18 MONTHS EXPANDED)

Sum of Total				Column Labels			
Wire Month	Wire Date	Trustee / Payee	Issue Short Name	SCHEDULED WIRES	NO WIRE EXPECTED - CONFIRM OR JOURNAL ONLY	WIRED JAN/JUN AFTER RECEIPT	TOTAL PAYMENT
2017 08 August	8/16/2017	USBANK	Loan - ARRA - DOU	351,191.13			351,191.13
	8/16/2017 Total			351,191.13			351,191.13
	8/16/2017 12:00	BONY	2016 Refunding Rev H Street (CMT)		333,996.00		333,996.00
	8/16/2017 12:00 Total				333,996.00		333,996.00
	8/28/2017 6:00	USBANK	CFD - NN 97-01	1,527,012.50			1,527,012.50
	8/28/2017 6:00 Total			1,527,012.50			1,527,012.50
	8/30/2017	BONY	CFD - 2013 Refunding	1,568,900.00			1,568,900.00
		BONY	CFD - College Square	458,615.00			458,615.00
		BONY	CFD - NN 4E	2,516,562.50			2,516,562.50
		BONY	CFD - NN 4F	1,098,156.25			1,098,156.25
		USBANK	2013 Wastewater Rev	1,286,915.63			1,286,915.63
		USBANK	2013 Water Rev	9,035,750.00			9,035,750.00
		USBANK	CFD - Dev Fee C	341,210.00			341,210.00
		USBANK	CFD - Granite Park	197,463.75			197,463.75
		USBANK	CFD - NN 2A	277,968.75			277,968.75
		USBANK	CFD - NN Central	2,168,328.13			2,168,328.13
		USBANK	2017 Water Rev	500,329.06			500,329.06
		USBANK	CFD - Natomas Meadows	68,703.47			68,703.47
		USBANK	CFD - NN 2B	210,625.00			210,625.00
		8/30/2017 Total			19,729,527.54		
	8/30/2017 12:00	BONY	CFD - NN 8C C	181,281.25			181,281.25
	USBANK	CFD - 2016 McKinley Village	186,732.50			186,732.50	
	8/30/2017 12:00 Total			368,013.75			368,013.75
	8/31/2017	USBANK	AD - Midtown	21,207.50			21,207.50
		USBANK	AD - RAD I	85,362.50			85,362.50
		USBANK	AD - RAD II	753,800.00			753,800.00
		USBANK	AD - Tahoe Park	16,300.00			16,300.00
8/31/2017 Total			876,670.00			876,670.00	
2017 08 August Total			22,852,414.92	333,996.00		23,186,410.92	
2017 09 September	9/15/2017	CapitalOne	EQ Lease #15 Fire IV	283,946.30			283,946.30
	9/15/2017 Total			283,946.30			283,946.30
	9/25/2017 12:00	Wells Fargo	2015 Golden 1 Center LRB	-			-
	9/25/2017 12:00 Total			-			-
	9/29/2017	BONY	2016 Refunding Rev H Street (CMT)		66,000.00		66,000.00
9/29/2017 Total				66,000.00		66,000.00	



TREASURY/CASH MANAGEMENT'S RESPONSIBILITIES (CONTINUED)

GENERAL FUND OBLIGATION DEBT SERVICE, AS OF JUNE 30, 2017

Forecasted Fiscal Year General Fund Revenues (FY2017-18) 432,118,000

Fiscal Year	1992 Lease Revenue Bonds, Series A&B ¹	1997 Lease Revenue Bonds (2007 Remarketing) ¹	2016 Refunding H Street Complex ¹	2006 Capital Improvement Revenue Bonds, Series B ⁶	2006 Capital Improvement Revenue Bonds, Series D,E ⁶	2015 Golden 1 Center Bonds ⁶	2015 Revenue Refunding Bonds ²	Total Equipment Leases & Loans Amount ²	Total Debt Service Obligations Amount	Percentage of Budgeted Fiscal Year General Fund Revenues ³	Total Offset Debt Service Amount	Total General Fund Debt Service Amount	Percentage of Budgeted Fiscal Year General Fund Revenues
FY18	15,408,975	5,953,976	669,939	3,954,413	9,086,700	18,296,842	23,714,463	4,343,016	81,428,324	18.8%	52,668,399	28,759,924	6.7%
FY19	15,391,035	6,086,638	672,443	3,956,138	9,534,625	18,255,874	22,218,713	2,860,865	79,018,330	18.3%	43,799,922	35,218,408	8.2%
FY20	15,369,890	6,209,110	674,592	3,959,298	9,568,900	18,209,225	21,259,138	2,121,686	77,454,838	17.9%	43,989,093	33,465,745	7.8%
FY21	15,348,515	6,400,018	671,315	3,949,040	9,055,250	18,378,689	21,082,763	1,121,975	75,980,565	17.6%	43,950,860	32,779,704	7.6%
FY22	-	6,446,610	672,683	3,941,923	10,749,050	18,378,701	19,845,288	138,859	59,972,913	13.9%	32,367,089	27,605,825	6.4%
FY23	-	6,648,342	673,636	3,940,606	20,588,900	18,289,067	9,926,813	69,330	60,138,753	13.9%	32,273,893	27,864,860	6.4%
FY24	-	6,796,091	669,283	3,937,760	20,121,670	18,269,067	9,922,438	-	59,736,298	13.8%	32,349,324	27,186,934	6.3%
FY25	-	6,956,041	674,515	3,935,765	20,020,610	18,283,286	9,925,088	-	59,799,964	13.8%	32,313,005	26,885,959	6.2%
FY26	-	7,124,005	669,250	3,928,351	20,036,857	18,286,298	9,898,313	-	59,343,094	13.9%	33,309,108	26,633,326	6.2%
FY27	-	7,305,017	673,630	3,926,060	20,030,900	18,289,420	9,904,438	-	60,129,463	13.9%	33,341,024	26,387,539	6.1%
FY28	-	7,461,356	672,447	3,926,294	20,031,226	18,287,643	9,909,388	-	60,288,348	14.0%	34,167,586	26,120,762	6.0%
FY29	-	-	670,899	3,923,804	20,127,978	18,285,264	9,898,838	-	59,904,681	12.7%	26,990,639	25,914,046	6.0%
FY30	-	-	673,859	3,917,602	20,126,788	18,286,730	9,897,256	-	59,904,334	12.2%	27,256,823	25,647,511	5.9%
FY31	-	-	676,251	3,906,259	20,128,795	18,286,638	9,894,175	-	48,853,117	11.3%	24,516,853	24,136,265	5.6%
FY32	-	-	668,146	3,909,556	20,130,500	18,286,217	9,844,050	-	48,838,469	11.3%	24,900,187	24,038,282	5.6%
FY33	-	-	334,686	3,900,987	20,136,150	18,282,349	9,894,175	-	48,048,347	11.1%	24,760,001	23,285,346	5.4%
FY34	-	-	-	3,892,291	3,632,925	18,281,188	9,894,050	-	31,192,914	7.2%	13,359,769	12,833,204	4.1%
FY35	-	-	-	3,892,453	-	18,282,324	9,894,175	-	27,304,951	6.3%	12,165,390	15,139,561	3.5%
FY36	-	-	-	3,883,630	-	18,283,630	9,894,175	-	27,285,423	6.3%	12,493,832	14,791,591	3.4%
FY37	-	-	-	3,872,424	-	18,280,697	9,894,175	-	27,273,521	6.3%	12,831,792	14,439,729	3.3%
FY38	-	-	-	-	-	18,282,337	-	-	18,282,337	4.2%	12,089,056	6,193,341	1.4%
FY39	-	-	-	-	-	18,282,040	-	-	18,282,040	4.2%	12,451,728	5,850,312	1.3%
FY40	-	-	-	-	-	18,278,216	-	-	18,278,216	4.2%	12,825,279	5,452,937	1.3%
FY41	-	-	-	-	-	18,279,516	-	-	18,279,516	4.2%	13,210,038	5,069,478	1.2%
FY42	-	-	-	-	-	18,278,967	-	-	18,278,967	4.2%	13,606,339	4,672,628	1.1%
FY43	-	-	-	-	-	18,279,878	-	-	18,279,878	4.2%	14,014,829	4,265,349	1.0%
FY44	-	-	-	-	-	18,275,276	-	-	18,275,276	4.2%	14,434,965	3,840,311	0.9%
FY45	-	-	-	-	-	18,273,469	-	-	18,273,469	4.2%	14,868,014	3,409,455	0.8%
FY46	-	-	-	-	-	18,272,204	-	-	18,272,204	4.2%	15,314,094	2,965,150	0.7%
FY47	-	-	-	-	-	18,273,943	-	-	18,273,943	4.2%	15,773,476	2,550,467	0.6%
FY48	-	-	-	-	-	18,271,713	-	-	18,271,713	4.2%	16,246,680	2,029,033	0.5%
FY49	-	-	-	-	-	18,272,978	-	-	18,272,978	4.2%	16,734,081	1,538,897	0.4%
FY50	-	-	-	-	-	18,269,919	-	-	18,269,919	4.2%	17,236,103	1,033,816	0.2%
Total	61,518,415	73,387,164	10,417,629	78,439,853	273,089,882	692,531,732	226,051,856	10,655,521	1,336,092,064		782,613,767	553,480,297	
Offset	73.7%	100.0%	100.0%	78.3%	63.3%	62.0%	34.4%	63.1%					



BUDGET'S RESPONSIBILITIES

- Budgeting the correct funds
 - Identify primary source of repayment
 - Other available funds (grants, etc.)
- Budgeting the correct amounts
 - Gross Debt Service vs. Net Debt Service
- Establishing an Appropriation
 - Identify funds available by the correct date
 - Ensure correct appropriation type
- Address Carryover Balances
- Close collaboration with Accounting and Treasury/Cash Management staff



PROJECT STAFF'S RESPONSIBILITIES

- Set necessary rates and charges so that debt service can be paid and all required coverage ratios are met
- Ongoing coordination with Treasury, Accounting, and Budget staff to ensure sufficiency due to compelling factors – need for support of increasing rates or revenue base?
- Coordinate with City staff on sources of funds for the allocation of repayment of debt (i.e., general revenues, other funds, etc.)
- Notify appropriate staff when construction is completed and organization has beneficial use of the project

PRACTICAL APPLICATIONS WITH BOND DOCUMENTS

- What are the redemption provisions?
- What is the method that excess debt service reserve funds can be applied towards debt service?
- What is the timing of when the sufficiency of the reserve fund will be determined by the trustee?
- Is the reserve requirement adequately funded? If there is a deficiency, how soon does the reserve fund balance need to be supplanted?
- What funds and accounts are related to a specific financing, who holds the funds, and who is responsible for them? What is the flow of funds?

CITY OF SACRAMENTO

WATER SYSTEM REVENUE BONDS

- Inaugural issuance of Water System Revenue Bonds (Enterprise Revenue, \$215.2mm) occurred in March 2013
 - Master Indenture dated March 1, 2013
- Subsequent issuance of Water System Revenue Bonds (\$52.6mm) occurred in June 2017

MASTER INDENTURE WATER SYSTEM REVENUE BONDS

- Primary document establishing security provisions for revenue bonds
 - Issuer's contract with bondholders
 - Defined terms
- Key security provisions
 - Security Pledge and Flow of Funds
 - Rate Covenant
 - Required Coverage Ratios – Parity Obligations vs. Parity, Subordinate, and Unsecured Obligations
 - Additional Bonds Test

MASTER INDENTURE WATER SYSTEM REVENUE BONDS *(CONTINUED)*

- Defines Pledged Revenues for Repayment of Bonds
- Establishment of Funds and Accounts
 - Interest Fund, Principal Fund, Reserve Fund, Subordinate Obligations Fund, Fees and Expenses Fund, Redemption Fund, and Rebate Fund
- Allocation of Money in the Revenue Fund
 - Interest Fund
 - Principal Fund; Sinking Accounts
 - Reserve Fund
 - Subordinate Obligations Fund
 - Fees and Expenses Fund

MASTER INDENTURE WATER SYSTEM REVENUE BONDS – *FLOW OF FUNDS*

Water Revenue Fund

Interest Fund

Principal Fund

Reserve Fund

Subordinate Obligations Fund

Fees and Expenses Fund

MASTER INDENTURE

WATER SYSTEM REVENUE BONDS – *RATE COVENANT*

- Very important covenant
- Measures ability to pay annual debt service
 - Issuer pledges to set “rates and charges”
 - 1.20x for Parity Obligations
 - 1.00x for the sum of Parity, Subordinate, and Unsecured Obligations
- The rate covenant is a minimum
- Expected to be exceeded

MASTER INDENTURE WATER SYSTEM REVENUE BONDS – *ADDITIONAL BONDS TEST*

- Must be met for new bonds to be issued
- Test of adjusted Pledged Revenues to cover Maximum Annual Debt Service by some multiple
- Maximum Annual Debt Service – “MADS”
 - MADS includes debt service on new bonds
 - Subject to adjustments
- Pledged Revenues – subject to adjustments
 - New revenues from funded projects
 - New revenues from adopted rates

CITY OF SACRAMENTO

NATOMAS MEADOWS CFD NO. 2007-01, SRS 2017



- \$12.3mm financing of infrastructure and development fees
- Value-to-lien 3:1
- 73% of special tax levy/debt service paid from Undeveloped Property

MASTER INDENTURE

NATOMAS MEADOWS CFD NO. 2007-01, SERIES 2017

Primary document establishing security provisions for revenue bonds

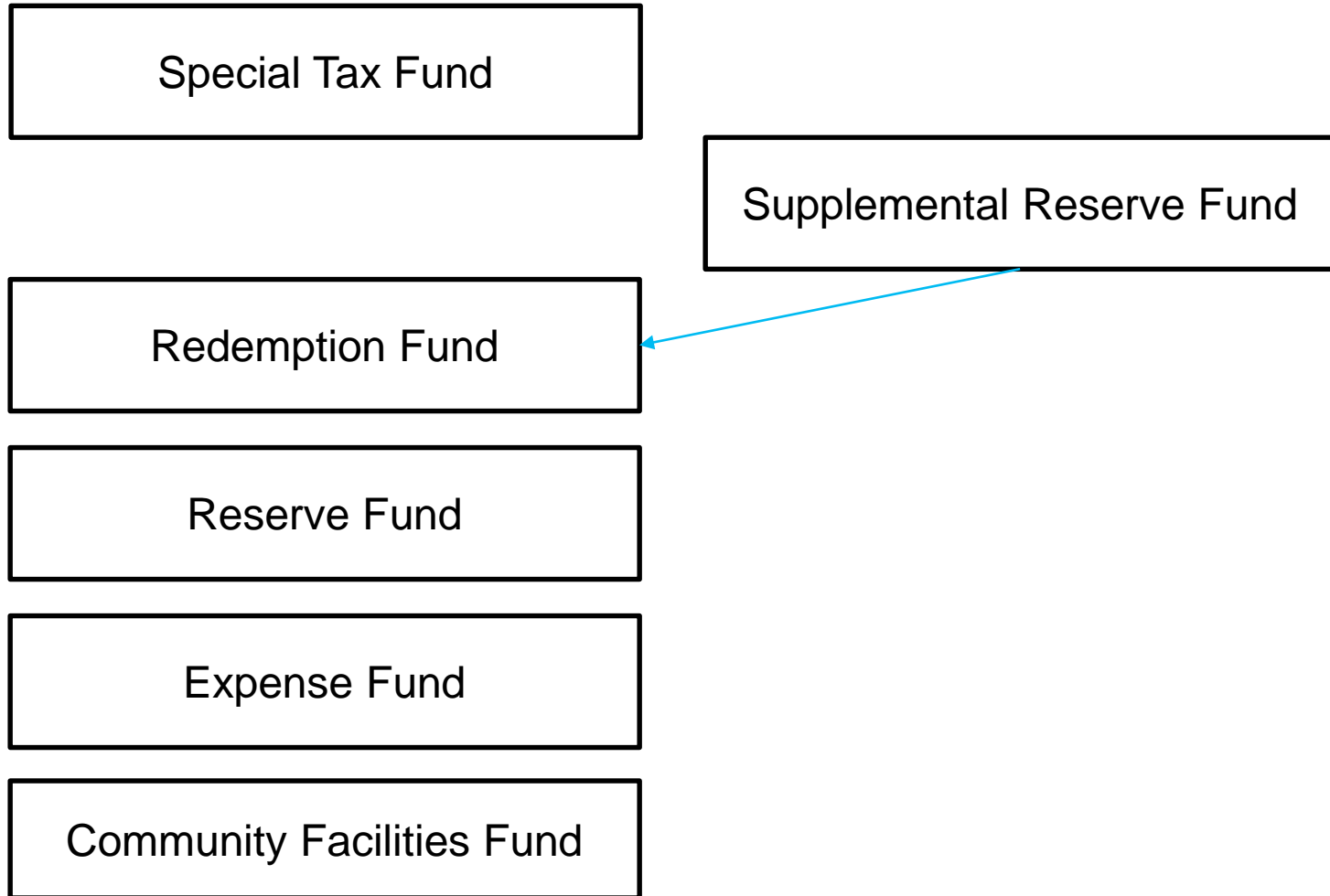
- Issuer's contract with bondholders
- Defined terms

Key security provisions

- Security Pledge and Flow of Funds
- Supplemental Reserve Fund
- Foreclosure of Delinquent Special Tax Liens

MASTER INDENTURE

NATOMAS MEADOWS CFD – *FLOW OF FUNDS*



MASTER INDENTURE

NATOMAS MEADOWS CFD – *SUPPLEMENTAL RESERVE*

- Established to cover insufficient special taxes collected from Undeveloped Properties in the CFD
- In addition to the Bond Reserve; provides greater security to bondholders of timely and full payments



MASTER INDENTURE

NATOMAS MEADOWS CFD – *FORECLOSURE OF SPECIAL TAX LIENS*

Initiate foreclosure proceedings if any of the following occurs:

- if any parcel in the CFD has more than \$5,000 in delinquent special taxes
- If the CFD as whole has a delinquency rate of more than 5%

Removal of the parcel(s) from the County's Secured Roll process and Teeter Program

SCOPE OF SERVICES FOR BOND TRUSTEE AND FISCAL AGENT

Participate as a member of the Issuer's financing team including financial advisors, underwriters and all their respective counsels:

- Trustee and Trustee's counsel review and comment on all governing documents inclusive of all closing documents. Attend pre-closing meetings and regularly scheduled conference calls.

Participate in all Pre-closing/Closing activity:

- Finalize Trustee closing documents, closing memorandum, receipt of bond proceeds and release of bonds on the date of Closing.

SCOPE OF SERVICES FOR BOND TRUSTEE AND FISCAL AGENT *(CONTINUED)*

Establish funds and accounts as required by Indentures, Fiscal Agent Agreements and Paying Agent Agreements:

- Deposit of bond proceeds to funds and accounts; payment of Costs of Issuance; invest account balances at the direction of the Issuer; and establish account memo ticklers to monitor account activity as well as mutual duties and responsibilities of the Trustee and the Issuer.

SCOPE OF SERVICES FOR BOND TRUSTEE AND FISCAL AGENT *(CONTINUED)*

Ongoing administration of funds and accounts in accordance with the provisions of the governing documents

- Disburse funds upon receipt of payment requisitions
- Invest funds in permitted investments in accordance with written direction by the Issuer
- Process cash flows (such as debt service payments to DTC)
- Determine the ongoing reserve requirement and reserve fund valuation for compliance
- Prepare, send and file with EMMA redemption notices for both optional and mandatory redemptions

SCOPE OF SERVICES FOR BOND TRUSTEE AND FISCAL AGENT *(CONTINUED)*

Trustee and Issuer compliance

- Request and receive ongoing compliance documentation as required by the bond covenants such as budget certifications; insurance certifications; debt service coverage ratio certifications, balance sheets, income statements, no default certifications, audited financials; applicable IRS and State filings

SCOPE OF SERVICES FOR BOND TRUSTEE AND FISCAL AGENT *(CONTINUED)*

Financial accounting

- Provide periodic trust accounting activity statements to the issuer and their auditors; provide annual trust account activity to issuer's rebate analyst as requested

Other Trustee related services

- Issuer dissemination agent; developer dissemination agent; capital market services for secondary market investment purposes