SESSION TWO:
LONG-TERM DEBT FINANCING OPTIONS: UNDERSTANDING BEST PRACTICES

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Long Term Financing Options

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Considerations for Issuing Debt
Funding Infrastructure in California

Three basic options for funding capital projects

• **Pay As You Go: Utilize reserves or ongoing revenues**
  – Requires ample cash reserves and manageable capital program
  – Policy objectives may favor

• **Beg: Secure state or federal grants or low-interest loans**
  – Requires available funding on attractive terms
  – Timing delays and program restrictions can offset subsidy

• **Borrow: Issue debt**
  – Spreads cost over useful life of asset, current and future users pay
  – Can accelerate phased projects, capture cost savings
  – Preserves cash reserves for other things
Key Considerations for Issuing Bonds

• Issuer’s Objectives
  – What kind of projects are planned? When are funds needed?
  – What revenues are available - or could be raised - to repay debt?
  – How much payment flexibility does the issuer need?

• Legal and Policy Constraints
  – What kind of debt can be issued?
  – What kind of approvals by legislative body or electorate are required?
  – Are there any other policy constraints to consider?

• Financing Options
  – How much debt can revenue support? How strong is the credit?
  – Is any other debt outstanding? Any parity debt requirements? Can existing debt be refinanced?
  – What debt option provides the best balance of cost and flexibility?
Financing Tools
Debt Repayment Revenues

• **Typical Revenue Sources**
  – Property tax, general obligation tax override, parcel tax, special tax or assessment
  – Sales tax, utility user tax, hotel occupancy tax
  – Charges for service, development-related impact or connection fees
  – Intergovernmental revenue

• **New taxes require approval by voters**
  – “General purpose” tax = simple majority approval (50+%)
  – “Special purpose” tax = super-majority approval required (67%)

• **New fees must be tied to “cost of service”**
  – Must establish nexus between charge and service
  – Proposition 26 expanded the definition of what constitutes a “tax” versus a “fee”,
    excludes special benefit, governmental service or product, licenses and permits, fines
    and penalties, local governmental property, property development, Proposition 218

• **Rate increases are subject to Proposition 218**
  – Advance notice and public hearing with no majority protest
Limits on Municipal Borrowing

• **California Constitutional Debt limit**
  – No cities, counties or school districts can enter into debt exceeding annual revenue without a 2/3rds voter approval
  – Exceptions
    o Long term leases not long term “debt” if subject to annual appropriation
    o Special “enterprise” funds, such as water or sewer enterprise
    o “Obligation imposed by law”, such as pension liability

• **Federal Tax Law Limitations**
  – Projects must have general public purpose to qualify for tax-exemption
  – Certain uses – student loans, industrial development, housing – must compete for state private activity volume cap allocations (CDLAC in California)
  – Arbitrage restrictions – no “printing press”
  – Taxable bonds are an alternative
## Basic Bond Financing Tools

<table>
<thead>
<tr>
<th>General Obligation</th>
<th>Enterprise Revenue</th>
<th>Lease Revenue</th>
<th>Pension Obligation</th>
<th>Tax Increment</th>
<th>Special Tax/Assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Full faith and credit” of issuer</td>
<td>Net enterprise revenue pledge</td>
<td>General fund appropriations for lease payments</td>
<td>Annual general fund payments to satisfy an obligation imposed by law</td>
<td>Incremental property tax revenues above a base level within a defined project area</td>
<td>Special tax or assessment levied on property tax bill.</td>
</tr>
<tr>
<td>Secured by property taxes – and in rare cases, issuer’s general fund</td>
<td>Rate covenant to charge sufficient rates</td>
<td>Requires a leased asset</td>
<td>Not collateralized</td>
<td>Refundings only</td>
<td>Ultimately, backed by land value through foreclosure</td>
</tr>
<tr>
<td>2/3rds vote threshold</td>
<td>Approved by legislative body</td>
<td>Approved by legislative body</td>
<td>Approved by legislative body</td>
<td>No new project areas</td>
<td>Property owners consent or vote</td>
</tr>
<tr>
<td>55% for some school GO bonds</td>
<td></td>
<td></td>
<td>Judicial validation for debt-limited entities</td>
<td>Oversight board and State DOF approvals</td>
<td></td>
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</tbody>
</table>
General Obligation Bonds
General Obligation Bonds

• Overview
  – Annual tax levied on property tax roll in proportion to total assessed property values
  – Requires a 2/3rds voter approval, 55% approval for school G.O. bonds approved pursuant to Proposition 39 of November 2000
  – Voters approve total bond authorization and use of proceeds, not tax rate or annual payment

• Advantages
  – Broad-based tax support for public improvements
  – Lowest interest cost due to ad valorem security and unlimited tax pledge
  – Generates new revenue source to repay debt

• Disadvantages
  – Time, expense and uncertain outcome of election
  – Property tax increase

• When Used?
  – Typically for projects with broad political support – varies by community
General Obligation Debt Considerations

• Considerations
  – Election: timing, politics, competing items

• Capacity Constraints
  – Statutory debt limits
    o Varies by type of issuers, i.e. 1.25% of assessed value for elementary or high school districts
  – Maximum authorized principal
    o Voter approved
  – Assessed property values and target tax rates
    o Growth trends and forecast
    o Tax base diversity
    o Level or descending tax rate
  – Debt structure
    o Level or escalating debt service
    o Repayment term and principal amortization
    o Current interest or capital appreciation bonds

General Obligation Credits

- Economic and demographic
  – Size and strength of local economy
  – Wealth levels
  – Diversity of tax base

- Management

- Financial measures
  – Liquidity
  – Budgetary performance
  – Budgetary flexibility

- Debt and contingent liabilities

- Institutional framework
  – Statewide legal context
G.O. Bond Variations for Education

• Proposition 39 Overview
  – Approved by voters in November 2000 and effective January 1, 2001
  – Provided an alternative lower voter approval of 55% for school GO bonds
  – Limits on total tax rate
    o Community college districts: $25 per $100,000 of AV
    o Elementary and high school districts: $30 per $100,000 of AV
    o Unified school districts: $60 per $100,000 of AV
  – Limits on election dates
  – Citizen’s Oversight Committee required
  – School furnishings allowed as eligible cost

• School Facilities Improvement Districts
  – Enables tailored geographic boundary for certain GO bonds

• Impact of AB1200 for school districts in financial stress
  – State oversight program created in 1991 after Richmond USD bankruptcy
  – No California school district has filed for bankruptcy since
School District Use of Capital Appreciation Bonds

• What are Capital Appreciation Bonds (CABs)?
  – Bonds that defer interest payments to investors until maturity of the bond
  – Interest compounds semi-annually at a specified rate
  – CAB rates tend to be higher than bonds that pay interest semi-annually (current interest) because of the delayed repayment to investors

• Why are CABs used?
  – Leverages future revenue capacity without increasing current payments
  – Used by school districts to achieve lower tax rates in early years of bond repayment
    o i.e. To comply with Proposition 39 tax rate limits
    o i.e. To fulfill political expectations such as “tax rate extension” bond measure
  – Increased use of CABs during recession when slower growing or declining assessed values would have otherwise resulted in higher tax rates
AV Growth, Tax Rate Caps and GO Bond Capacity

• Tax Rate based on Outstanding debt service ÷ District assessed valuation
  – Requires projection of future assessed value trends
  – AV growth rate > expectations => lower than forecast tax rate
  – AV growth rate < expectations => higher than forecast tax rate

• Tax Rate Limits
  – Constraint on bond capacity and sensitive to future growth estimates

* Tax Rates presented per $100,000 of AV
Legislative Limits on School District Bonds

• **AB 182 limits use of CABs by school districts**
  – Effective January 1, 2014

• **Final maturity of CABs shortened from 40 years to 25 years**
  – No change in 40 year final maturity for school current interest bonds

• **Debt repayment ratio limit**
  – Caps the ratio of GO bond debt payments to principal at 4-to-1 per series

• **Optional redemption**
  – Requires that issuers can refinance CABs no later than 10 years after initial issuance

• **Maximum interest rate reduced from 12% to 8%**

• **Board resolution**
  – Requires a district’s Board to acknowledge intent to issue CABs, compare costs of issuing CABs to current interest bonds, and provide reasons for using CABs

• **Exemption**
  – Allows a school district who issued Bond Anticipation Notes (BANs) prior to 12/31/13 to seek a one-time waiver from the debt repayment ratio limit, optional redemption requirement and Board resolution for the BAN take-out
Illustrative High School District Example

• ~$400 million of Prop. 39 GO bonds
  – Authorized by voters in 2008
  – 56.65% voter approval
• Original assumptions
  – Tax rate of $27.90 per $100,000 of AV
  – Phased issuances over 8 years
  – $40 million annually, with larger final sale
  – Use of both CIBs and CABs
• Actual bond issuances
  – $60 million in April 2009
  – $80 million in August 2010
  – $40 million in May 2011
• Expected future issuances
  – Affected by AV growth and AB182
  – Smaller, more frequent issuances over a longer time horizon
General Fund Borrowings
General Fund Lease Financings

• **Lease Financing**
  – Uses lease-leaseback structure with third-party entity
  – Issuer covenants to appropriate annual lease payments from general fund
  – May be structured as lease revenue bonds or “certificates of participation” (“COPs”)
  – Not subject to constitutional debt limits per lease exception

• **Advantages**
  – No voter approval required

• **Disadvantages**
  – Requires unencumbered leasable assets
  – Debt payments compete with other general fund priorities

• **When Used?**
  – For projects of general community benefit
  – To indirectly leverage a general fund revenue stream (i.e. sales tax increase)
  – To provide “credit enhancement” for less credit-worthy borrowing for desired “risk-sharing”
Lease-Leaseback Structure

1. Issuer leases an asset to a third party for nominal amount (~$1)
2. Issuer then “rents” asset back, with value amortized over time
3. Lease payments for “rental” used to pay debt service
4. Requires issuer “use and occupancy” of leased asset
5. Trustee can re-enter and re-let asset if issuer doesn’t make payments
General Fund Lease Considerations

• **Considerations**
  - Nature of general fund revenues
    - Type and diversity
  - Current and historic revenue trends
  - General fund debt burden
  - Pension and health care liabilities
  - Value and “essentiality” of leased assets

• **Capacity Constraints**
  - Requires available assets for lease
  - Value of leased asset must exceed borrowing
  - New project funded by bonds can be leased but requires either capitalized interest or asset transfer

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General Fund Lease Credits

- General obligation factors
  - Economic and demographic
  - Management
  - Liquidity
  - Budget performance
  - Budget flexibility
  - Debt and contingent liabilities
  - Institutional framework

- Essentiaility and Project Risk
  - Nature of pledged asset
  - Seismic considerations
  - Insurance coverage

- Security Features
  - Construction risk
  - Value and useful life of asset
  - Reserve fund
Pension Obligation Bonds

• **Overview**
  – *Taxable* bond proceeds used to pre-pay a portion of unfunded pension liability
  – Assumes return on pension investment greater than taxable borrowing rate
  – Bonds may require judicial validation to fund “obligation imposed by law” outside of Constitutional debt limits

• **‘Side Fund’ Financings**
  – Certain CalPERs pension “side funds”, amortized at a fixed interest rate, could potentially be financed at a lower rate through issuance of taxable bonds
  – Recent uncertainty about fixed amortization schedule and pension liability calculations would undermine benefit of such refundings

• **Considerations**
  – Credit characteristics comparable to general fund lease but no leased asset
  – Rating agencies and investors no longer consider POBs better than lease credits
  – Stockton and San Bernardino bankruptcies change perceptions of credit risks
  – Pension bonds *could* be structured as taxable lease financing instead
Revenue Bonds
Revenue Bond Overview

• **Basic Premise**
  – Specific revenue stream pledged to bonds, often for a separate enterprise fund or separate agency supported by user fees

• **Enterprise Revenue Pledge**
  – Used by electric, water or sewer utilities, airports, ports, bridges, parking garages, stadiums or convention centers
  – **Net Revenue Pledge**: all fees and charges of enterprise after payment of operations and maintenance (excluding depreciation)
  – **Rate Covenant**: issuer commits to charge rates sufficient to pay debt service with a coverage cushion; may require rate increases in future with Proposition 218 process
  – **Additional Bonds Test**: limits subsequent financings secured by same revenues

• **Limited Revenue Pledge**
  – Used for sales tax or certain other revenue streams – with statutory authorization
  – **Debt service coverage** relative to volatility of revenues
  – Flow of funds, reserve funds and issuer liquidity
Enterprise Revenue Based Pledge

Rates & Charges -> Interest Earnings -> Revenues -> Operating & Maintenance -> Net Revenues

Connection Fees

Customer Deposits

Depreciation

Surplus = Coverage

Debt Service

Capital project costs paid after debt service
Revenue Bond Considerations

- **Credit considerations**
  - Breadth and depth of revenue base
  - Stability and predictability of revenues
  - Essentiality of service, elasticity of demand
  - Ability to raise rates as necessary
  - Local economic factors
  - Liquidity

- **Capacity constraints**
  - Current and projected revenues and expenses
  - Current or planned rate increases
  - Cash flow for capital, reserves
  - Debt service coverage cushion
  - Other outstanding debt and parity debt limits

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Enterprise Credit Criteria

- **Customer Profile**
  - Customer mix and concentration
  - Current and future demand

- **Operational Factors**
  - Management ability
  - Capacity and condition of assets
  - Regulatory compliance

- **Rate Criteria**
  - Rate-setting process
  - Affordability of rates
  - Price elasticity of rates

- **Financial Data**
  - Stability and consistency
  - Debt service coverage
  - Liquidity
  - Collections history
Land Secured Bonds
Land Secured Finance Overview

• **Basic premise**
  – Public agency sponsors creation of special district
  – Property owners agree to put lien on property
  – District boundaries can be tailored to project support

• **Bond financing**
  – Bonds generate up-front funds for capital projects
  – Repaid with special taxes levied on property tax bill
  – Issuer promises to foreclose on delinquent parcels
  – Upon foreclosure if taxes aren’t paid, land value becomes ultimate collateral

• **Advantages**
  – New revenue stream created for projects
  – No payment obligation for public agency

• **Disadvantages**
  – Development projects can be risky in early stages

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**Two Types of Districts**

**Community Facilities District**
- Mello Roos
- 2/3rds approval
- Flexible tax spread

**Assessment District**
- 1915 Act
- 50+% support
- Proportional allocation of “special benefit”
Land-Secured Considerations

• Bond capacity constraints
  – Eligible public facilities identified
  – Land value relative to debt
    ○ Minimum 3-to-1 value-to-debt standard
  – Tax burden on end-user
    ○ All-in effective tax of 2% for residential

• Considerations
  – Issuer goals and policies
  – Developer may post letter of credit
  – Capitalized interest up to 2 years
  – Phased bond issuances
  – Land use entitlements and development momentum at issuance
  – Ability to refinance debt at lower rates once development is complete

<table>
<thead>
<tr>
<th>Land Secured Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer:</strong> reputation and experience</td>
</tr>
<tr>
<td><strong>Local Economy:</strong> real estate cycle, sales activity</td>
</tr>
<tr>
<td><strong>Property:</strong> location, attractiveness, environmental condition, value</td>
</tr>
<tr>
<td><strong>Strength of the Developer(s):</strong> financial resources, equity invested, development experience</td>
</tr>
<tr>
<td><strong>Development Plan:</strong> entitlements, development schedule, approvals, absorption schedule, product mix</td>
</tr>
<tr>
<td><strong>Product Demand:</strong> demographics of competing projects</td>
</tr>
<tr>
<td><strong>Special Tax:</strong> burden on property, debt service coverage, value-to-lien</td>
</tr>
<tr>
<td><strong>Legal Structure and Covenants:</strong> foreclosure provisions, reserve fund, type of debt</td>
</tr>
</tbody>
</table>
## Comparison of Land-Secured Districts

<table>
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<tr>
<th></th>
<th>Community Facilities District (CFD)</th>
<th>Assessment District (AD)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statute:</strong></td>
<td>Mello Roos</td>
<td>1915 Act/1913 Act</td>
</tr>
<tr>
<td><strong>Security:</strong></td>
<td>Annual special tax on property tax roll</td>
<td>Annual assessment on property tax roll</td>
</tr>
<tr>
<td><strong>Vote:</strong></td>
<td>2/3rds vote *</td>
<td>50%+ weighted by assessment</td>
</tr>
<tr>
<td><strong>Scope:</strong></td>
<td>Capital projects and maintenance</td>
<td>Capital projects with “specific benefit” only</td>
</tr>
<tr>
<td><strong>Tax spread:</strong></td>
<td>“Reasonable” spread of costs</td>
<td>Spread must be proportional based on benefit</td>
</tr>
<tr>
<td><strong>Lien on Land:</strong></td>
<td>Dynamic, can change as development proceeds</td>
<td>Fixed Assessment Lien</td>
</tr>
</tbody>
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* By electorate if 12 or more registered voters; otherwise, by landowners weighted by acreage.
Redevelopment Successor Agency Bonds
Redevelopment in California

• Overview
  – About 400 redevelopment agencies (RDAs) in state; abolished in 2011 (ABx1 26)
  – Successor agencies tasked with winding down redevelopment activity

• Completed transactions
  – 104 post-dissolution refunding issues totaling over $2.9 billion sold through 12/31/14
    o About 65% of principal has been due within 10 years, strongest area of general demand
  – S&P has been the primary rating agency reviewing credits (103 out of 104 series)
  – About half on principal has been wrapped with AA-rated bond insurance
  – Surety reserves used often to enhance cash flow savings

Underlying S&P Ratings

<table>
<thead>
<tr>
<th>Rating</th>
<th>Series</th>
<th>Cash Funded</th>
<th>Full or Partial Surety</th>
</tr>
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<tbody>
<tr>
<td>AA-</td>
<td>12</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>A+</td>
<td>29</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A</td>
<td>23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A-</td>
<td>27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB+</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BBB-</td>
<td>3</td>
<td></td>
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<tr>
<td>NR</td>
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</table>

76% of Issuance has been "A" category

Bond Insurance Volume (By Insured Par)

- Uninsured
  - $1,466,510,000 (52%)

- BAM
  - $361,095,000 (13%)

- AGM
  - $969,581,600 (35%)

DSRF Surety Usage (By Series)

- Cash Funded DSRF: 39 Series (38%)
- Full or Partial Surety: 65 Series (62%)

Source: SDC & Bloomberg; As of 12/31/2014.
Redevelopment Considerations

• Credit considerations
  – Nature and concentration of tax base
  – Pooling among credits, with housing set-aside?
  – Debt service coverage
  – Post-dissolution ROPs process
  – Political climate of successor agency

• Refunding Constraints
  – Call dates on outstanding bonds
  – Credit deterioration in many project areas
  – Parity debt requirements on unrefunded bonds
  – Plan limits on collection of tax increment

• Required review and approvals
  – Oversight Board must approve refunding and can direct a refunding to occur
  – DOF may review and approve within 5 days – or can request a review period of up to 60 days

Redevelopment Credits

- Project area size and location
- Assessed valuation
  - Base year value as % of total Assessed value
  - Growth trends and potential
- Taxpayer diversity
  - Residential, commercial, etc.
  - Concentration of revenues
  - Stability
- Project area limits
- Local economy
  - Employment and wealth
- Legal structure
  - Debt service coverage
  - Flow of funds
- Post-dissolution process
Enhanced Infrastructure Financing Districts
Infrastructure Financing Districts (IFDs)

• Conceptually similar to RDAs
  – IFDs can receive/securitize a portion of incremental tax growth within district
  – Statutory authority since 1990
    o Limited use: Carlsbad and San Francisco
  – Recent SB 628 “Enhanced IFDs” expands powers and lowers voter approval for bonds

• Limited revenue stream
  – Limited to share of base 1% property tax revenues of city, county or special district that opts in; excludes amounts due to schools
  – No revenue until growth occurs
  – May be limited geographic area with concentrated tax base

• Most likely applicability
  – In combination with other tools, like a CFD
  – By issuers with a large share of 1% property tax rate
Case Studies
Case Study: Town of Moraga COPs

• Background
  – Town had significant road and storm drain repair and maintenance needs
  – Explored a variety of financing options – GO bond, CFD, general fund lease
  – Proposed a “general” 1% sales tax for 20 years targeting 50+% approval threshold
  – Measure K approved on November 2012 ballot with over 70% support

• Financing results
  – Estimated $1 million in annual Measure K sales tax revenues into general fund
  – Borrowing leverages $600,000 per year for 20 years to accelerate road repairs
    o Balance available for pay-as-you-go projects, early debt pay off or other general fund purposes
  – Town sold $7.7 million of Certificates of Participation in August 2013
    o Backed by general fund appropriations
    o Moraga Commons Park serves as lease collateral
    o Rated AA+ by S&P
    o True interest cost of 4.34%
Case Study: San Francisco Mission Bay

• Background
  – Urban mixed-use in-fill project anchored by UCSF medical research campus
  – 237 gross acres, 62 taxable acres
  – 1 mile south of San Francisco downtown

• Financing tools
  – Created CFD and redevelopment project area
  – Multiple financings since 2000

• Results
  – Multiple financings totaling more than $280 million since 2000
  – Financings timed to project needs and bond capacity as development progressed and property values increased
Case Study: San Francisco Mint Plaza

• Project Need
  – Convert two alleys into a 20,000 square foot landscaped pedestrian plaza adjacent to the Old US Mint in downtown San Francisco, across from Westfield Centre mall

• Financing Tool
  – Small CFD created to tax neighboring property owners to fund project
  – 5 renovated historic buildings with mix of residential condominium, rental apartments, commercial space and retail uses

• Financing Results
  – $3.3 million Special Tax Bonds
  – Developer responsible for 66% of initial special tax burden
  – Initial tax rates range from $1.02 to $1.785 per square foot
Case Study: Orange County Sanitation District

• **Background**
  – $1.9 billion 20-year Capital Improvement Program
  – Primary revenues: sewer service charges on residential and commercial customers

• **Legal Framework**
  – Master Agreement provides for: (a) pledge of Net Revenues (b) rate covenant and (c) additional debt test
  – Existing debt consists of Certificates of Participation (or Revenue Obligations) evidencing direct, fractional, undivided interests in installment payments made by the District under an Installment Purchase Agreement
  – District’s obligation to make installment payments is a Senior Obligation secured by pledge of Net Revenues
  – Installment payments are assigned to Trustee which executes and delivers Certificates of Participation pursuant to Trust Agreement

• **Results**
  – Approximately half a billion dollars in principal amount of new money Senior Obligation COPs sold over a four-year period
  – AAA unenhanced ratings from S&P and Fitch
Bond Financing Process
## The Bond Financing Process

- **Timing depends on complexity & certainty of financing plan**
  - Simple, straightforward financing can be completed in 3 months
  - Most financings are completed within 4 to 6 months
  - Infrequent issuers may need more time for analysis & board approvals
  - Some financings can take years

<table>
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<tr>
<th>Financing Plan</th>
<th>Preparing Bond Sale</th>
<th>Pricing and Closing</th>
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<tbody>
<tr>
<td>(Month 1)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Engage financing team</td>
<td>• Draft legal documents • Draft investor disclosure (Official Statement) • Review prior continuing disclosure compliance • Seek credit rating • Secure Council/Board financing approvals</td>
<td>• Market bonds to investors • Set interest rates • Finalize all documentation • Deliver funds at closing</td>
</tr>
<tr>
<td>• Clarify project list</td>
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<td>• Analyze financing options</td>
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- **Post-closing obligations**
  - Debt payment, continuing disclosure, tax compliance, additional covenants
Who’s Who on the Financing Team

**Bond Counsel**
- Prepares legal documents
- Assures financing conforms to statutes
- Provides tax opinion

**Underwriter**
- Assists in organizing financing process
- Structures financing
- Markets and sells bonds
- Makes secondary market

**Financial Consultants**
- i.e. Financial advisor, fiscal analysis, rate consultant
- Roles and inclusion varies by issue

**Bond Insurer**
- Assumes bond payment risk in exchange for insurance premium
- Lowers financing cost
- May offer surety reserve

**Disclosure Counsel**
- May draft the Official Statement for investors

**Issuer**

**Underwriter’s Counsel**
- Represents the underwriter
- May draft the Official Statement if there is no Disclosure Counsel

**Rating Agency**
- Assesses bond risks at issuance and through ongoing surveillance
- Investors use ratings as a guide to value bonds

**Trustee or Fiscal Agent**
- Holds funds
- Tracks payments
- Involved with defaults

**Financial Consultants**
- i.e. Financial advisor, fiscal analysis, rate consultant
- Roles and inclusion varies by issue

**Bond Insurer**
- Assumes bond payment risk in exchange for insurance premium
- Lowers financing cost
- May offer surety reserve
Questions to Ask Before Issuing Bonds

• Can you afford the debt?
  – Adequate revenues?
  – Adequate reserves?
  – Adequate coverage cushion?
  – What could go wrong?

• Who’s helping you?
  – Get good advice from respected professionals

• Is disclosure adequate?
  – Official Statement (“OS”) is the issuer’s document
  – Have you told investors everything they need to know in the OS?
  – Have you kept up with continuing disclosure obligations?

Securities Exchange Act of 1934 Rule 10b-5:

“It shall be unlawful for any person.
  . .
(a) to employ any device, scheme or artifice to defraud,
(b) 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 light of the circumstances under which they were made, not misleading. . .”
Current Bond Market Conditions

Long term rates are near historic lows while short term rates are close to zero

Securities Industry & Financial Markets Association (SIFMA) Index vs. Revenue Bond Index (RBI)

Source: SIFMA. All bonds in SIFMA Index must be tax-exempt, non-AMT, have $10mm or more outstanding and the highest short-term rating by Moody’s or S&P, and pay interest monthly with interest rate resets occurring on Wednesdays. RBI includes tax-exempt bonds maturing in 30 years with average rating of A1/A+. As of 02/26/2015.
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