

**Board of Directors of the
East Garrison Public Financing Authority
County of Monterey, State of California**

Resolution No: E/G 06-010

Adopting local goals and policies for Mello-)
Roos Community Facility District financing.)

WHEREAS, the Board of Directors ("this Board") of the East Garrison Public Financing Authority (the "Authority") wishes and intends to undertake legal proceedings for establishment of a community facilities district ("CFD") pursuant to the Mello-Roos Community Facilities Act of 1982 (the Act) and, subject to such proceedings and to thereafter obtaining the approval of the qualified electors of the CFD as required by the Act, to undertake legal proceedings for the authorization, issuance and sale of special tax bonds of the Authority by and through its CFD; and

WHEREAS, in connection with such intention and in compliance with the requirements of Sections 53312.7 and 53345.8 of the Act, this Board wishes to adopt local goals and policies applicable to the Authority's use of the Act, its establishment of CFDs pursuant to the Act, its levy of special taxes of the CFD to finance authorized capital facilities and public services, and its authorization, issuance and sale of special tax bonds by and through its CFDs; and

WHEREAS, the County of Monterey (the "County") is a member of the Authority, and has previously adopted its own local goals and policies for implementation of the Act; and

WHEREAS, this Board finds that any use of the Act by the Authority will necessarily involve the participation, to one degree or another, of the County, and that the County has more experience in public finance and in managing new development than the Authority; and

WHEREAS, this Board wishes, for convenience and to facilitate cooperation with the County, to conform its local goals and policies as closely as possible to those of the County; and

WHEREAS, a copy of the County's Mello-Roos Community Facilities District Financing Policy (the "Local Goals and Policies") has been filed with the Secretary of the Authority (the "Secretary") for consideration and adoption by this Board, and a copy of the Local Goals and Policies is attached hereto as Exhibit A and by this reference incorporated herein; and

WHEREAS, in connection with this Board's intention and in compliance with the requirements of Sections 53312.7 and 53345.8 of the Act, this Board wishes to adopt the Local Goals and Policies applicable to the establishment of CFDs pursuant to the Act and the authorization, issuance and sale of special tax bonds by the Authority by and through such CFDs;

NOW, THEREFORE, the Board Directors of the East Garrison Public Financing Authority hereby finds, determines and resolves as follows:

Section 1. The foregoing recitals are true and correct, and this Board hereby so finds and determines.

Section 2. This Board hereby finds and determines that the Local Goals and Policies contain the matters required for compliance with Sections 53312.7 and 53345.8 of the Act.

Section 3. This Board hereby adopts the Local Goals and Policies in the form on file with the Secretary, a copy of which is attached hereto as Exhibit A, with such changes as the context may require. Without limiting the foregoing, references to the County in the Local Goals and Policies should generally be read, unless the context otherwise requires, to refer to the Authority, and references to the Board of Supervisors should be read, unless the context otherwise requires, to refer to the Governing Board of the Authority. The Authority will likely rely upon the County's staff and the County's Budget Committee where they are mentioned in the Local Goals and Policies, but reserves the right to designate otherwise in any particular case.

Section 4. While this Board reserves the right to modify, amend or readopt its Local Goals and Policies at any time, and to depart from the County's Local Goals and Policies, in the absence of any such action, any modification, amendment or re-adoption of the County's Local Goals and Policies by the County's Board of Supervisors shall be considered to be, and is hereby declared to be, the concurrent modification, amendment or re-adoption of the Authority's Local Goals and Policies, with such adjustments as are appropriate as described in Section 3 of this Resolution.

Section 5. This resolution shall take effect immediately upon its adoption.

PASSED AND ADOPTED this 11th day of April, 2006, by the following vote, to wit:

AYES: Supervisors Armenta, Calcagno, Lindley, Potter and Smith

NOES: None

ABSENT: None

I, Lew C. Bauman, Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof in Minute Book 73, on April 11, 2006.

Dated: April 12, 2006

Lew C. Bauman, Clerk of the Board of Supervisors,
County of Monterey, State of California

By  _____
Darlene Drain, Deputy

Exhibit A

MELLO-ROOS COMMUNITY FACILITIES DISTRICT FINANCING POLICY

Section 53312.7(a) of the California Government Code requires that the County 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 Community Facilities District (also known as Mello-Roos district) under the Act. This policy is intended to satisfy the requirements of the Act and provides specific guidance for approval of public financing for provision of public facilities and services in proposed development projects through Community Facilities Districts. In addition, this policy establishes the standards and guidelines for the review of these proposed development financings by County staff and its designated agent(s) and County's Budget Committee (hereinafter "Committee"), and ultimately the Board of Supervisors. In those cases in which fixed lien special assessment or other types of land based financing is substituted for Community Facilities Districts, the County will apply applicable provisions of this policy.

1. Consideration of Community Facilities Districts. The Board of Supervisors will consider the use of community facilities districts (hereinafter "CFD's") as well as other financing methods to assist certain types of residential, and/or non-residential development, where, in the County's opinion, the financing of public facilities satisfies a public need and represents a significant public benefit, while having the financial security to reasonably assure a sound investment for potential bondholders and minimize any County exposure to liability for actions taken on behalf of public financing projects.

While recognizing that public facilities proposed to be financed must meet a public need and must benefit properties within the proposed development project, public benefit implies that a significant public benefit will also result to the community at large. An example of significant public benefit is a public facility having regional impact such as an all-weather bridge, a freeway overpass, or a regional water or wastewater treatment plant. In respect of the foregoing, the County will give priority to the financing of backbone regional public infrastructure improvements that produce significant public benefit. Significant public benefit can also take the form of the provision of affordable housing through reduced housing costs.

CFD financing will be permitted for public improvements that will benefit the expected long-term property owners, and whose useful life will be equal to or greater than the longer of (a) five (5) years or (b) the term of the bonds.

2. Consistency with Comprehensive General Plan. The proposed development project must be consistent with the County's Comprehensive General Plan and have secured appropriate land use approvals from the County to allow for the implementation of the development of the area as contemplated.

3. Ownership of Facilities. Facilities, upon completion, are to be owned, operated or maintained public agencies shall be considered public facilities. Limited exceptions will be made for certain facilities that are to be owned, operated or maintained by private utilities and homeowner associations.
4. Appraisal. An appraisal of the property subject to any lien required to secure any public financing shall be required. A minimum property value to lien/debt ratio of 4:1 (including any overlapping assessment or community facilities districts) must be present pursuant to Premise D.3 entitled "Bulk Land Value" as set forth in Attachment A as determined by an M.A.I. appraisal. The appraisal shall be reviewed by the County and shall be prepared as set forth in Attachment A hereto.
5. Absorption Study. Unless waived by the County, an absorption study of the proposed development project shall be required for CFD financings. The absorption study shall be used as a basis for verification that sufficient revenues can be produced to fully and timely satisfy debt service requirements and costs of services and to determine if the financing of the public facilities and services is appropriate given the timing of the development. Additionally, the projected absorption rates will be provided to the appraiser for use in the appraisal required in Section 4 above.
6. Rate and Apportionment of Special Tax. With regard to CFD's, the proposed rate and method of apportionment of the special tax shall comply with the following criteria:
 - a. The rate and method of apportionment shall not provide for an annually increasing maximum special tax for any classification. However, subject to County approval in its sole discretion, under appropriate circumstances, as determined by the County, an increase in the maximum special tax may be permitted, not to exceed two percent (2%) annually.
 - b. The total projected annual special tax revenues must exceed the projected annual gross debt service on the bonds by at least ten percent (10%). In structuring the special tax, projected annual interest earnings on bond reserve funds shall not be included as revenue for the purpose of this calculation.
 - c. In limited cases, as determined by the County in its sole discretion, a special tax for services may be permitted and the annual special tax may increase to reflect projected increases in costs to provide the applicable services in an amount to be determined by the County, in its sole discretion.
 - d. The projected annual special tax revenues shall include amounts projected to be sufficient to pay reasonable annual administrative expenses and other direct costs to the CFD.
 - e. All property not otherwise statutorily exempted or owned (or to be owned) by a public entity shall bear its appropriate share of the special tax liability.
 - f. The special tax shall be apportioned on a reasonable basis to categories and classes of property within the CFD subject to the special tax.
 - g. A formula to prepay the special tax may be permitted.
 - h. The projected ad valorem property tax and other direct and overlapping debt for the proposed development project (including estimated CSA charges, projected benefit assessments, levies for authorized but unissued debt and any other anticipated municipal

charges which may be included on a property owners annual tax bill), including the proposed maximum special tax, may not exceed two percent (2%) of the anticipated Assessor's full cash value of each improved parcel upon completion of the bond financed improvements and the reasonably anticipated private improvements.

- i. A backup special tax or other security device to protect against changes in densities resulting in insufficient annual special tax revenues to pay annual debt service and administrative expenses may be required at the sole discretion of the County.
7. Credit and Structure for Bond Issues. Each bond issue shall be structured to adequately protect bondholders and to not negatively impact the bonding capacity or credit rating of the County through a combination of credit enhancements, foreclosure covenants, and special reserve funds. Specifically:
- a. A credit enhancement will be required whenever one entity or related entities are responsible for twenty percent (20%) or more of the debt service obligation of the proposed debt issue. The required credit enhancement shall take the form of, and shall be provided as set forth in Attachment B, hereto.
 - b. A foreclosure covenant will be required and shall be included in any applicable bond indenture or fiscal agent agreement.
 - c. The County will require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Capitalized interest shall not exceed twenty-four (24) months, and shall be for a shorter period if (i) further restricted by statute or (ii) determined by the County, in its sole discretion. Interest earnings may, at the County's discretion be applied to extend the initial term on capitalized interest but in no event beyond the term statutorily authorized. The inclusion of capitalized interest in subsequent series of bonds will be at the County's discretion and will only be permitted if a direct benefit inures to the ultimate property owners.
 - d. A reserve fund equal to the lesser of ten percent (10%) of the original principal amount of the bonds, maximum annual debt service or one hundred twenty five percent (125%) of average annual debt service (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds. A reserve fund surety bond or letter of credit, provided by a municipal bond insurer, a major banking institution or other equivalent source, may be substituted, at the County's sole discretion.
8. Level Debt Service Requirement. Bond issues will be structured with approximately level debt service. To the extent that bonds are issued in series, individual series of bonds may have uneven debt service if the intent is to create level debt service at such time as all series of bonds are issued and to minimize the potential of fluctuating annual special taxes.
9. Maximum Term of Bonds. If a single series of bonds is contemplated, the term of the bonds shall not exceed thirty (30) years. If multiple series of bond issue are contemplated, in no instance should an individual residential parcel be encumbered for debt service beyond a thirty-five (35) year period.
10. Disclosure. Disclosure of the special tax lien shall be in compliance with applicable statutory authority. The County, in its sole judgment, may require additional property owner

notification if it deems such disclosure will assist subsequent property owners to be made aware of the lien obligation. In addition, applicants for CFD financings and all major landowners will be required to cooperate prior to and subsequent to all bond sales with initial and continuing disclosure to bondholders and the financial markets. Applicants and landowners will cooperate in the preparation, verification and dissemination of the identity of land owners, development project plans, timetables and statistics, and financial pro-forma information, and any other information the County and its financing team deem appropriate.

11. Payment of Initial Fees and Costs by Applicant. No proposal to initiate the formation of a CFD financing will be considered valid without the payment of a fee to compensate the County for all costs incurred to perform its analysis of the proposal and to pay for the costs of conducting the proceedings. Applicants for public financing projects shall submit proposals to the Clerk to the Board of Supervisors. The County will review the proposal within 60 days after it is deemed complete and make its determination whether or not to formally consider the proposed district. The applicant(s) shall deposit a minimum \$10,000 estimated fee amount with the Clerk to the Board of Supervisors at the time the proposal is submitted. The minimum fee will be increased to an amount determined by the County in its sole discretion to be appropriate given the size and scope of the proposed project or financing. The estimated fee amount shall be in the form of cash or other negotiable instrument. Failure to submit any requested increase in the deposit will result in a suspension of the processing of the financing.
12. Independent Review by County. The County will perform an independent review of the proposed public financing and may take recommendations to the Board of Supervisors regarding the financial risk, impact on the County's bonding capacity, economic feasibility and related issues. The applicant(s) shall be required to provide current and two prior years financial statements, preferably audited, of the entity responsible for the development and initial payment of special taxes and other materials to assist the County or its agent in its fiscal review.
13. County to Select Professionals. The County shall select the bond counsel, underwriter, financial advisor, appraiser, absorption consultant, special tax consultant and other professionals and consultants it deems appropriate.
14. Cooperation by County Departments. All appropriate County departments will cooperate with the initiating department, the Administrative Office and the Committee in conducting the necessary reviews and proceedings.
15. Limited Security for Bonds. All statements and materials related to the sale of CFD bonds shall emphasize and state that neither the faith, credit nor the taxing power of the County of Monterey is pledged to the repayment of the bonds, nor is there an obligation of the County to replenish the reserve fund from revenue sources other than special taxes or proceeds of foreclosure proceedings.
16. County to Acquire Completed Facilities. It is the desire of the County that it incur no liability for the design, engineering and maintenance of the public improvements to be

financed through bond proceeds. It is the preference of the County to use the "acquisition district" approach to pay for CFD financed public infrastructure, under which bond proceeds will be released only upon completion of the financed improvement or approved components thereof and acceptance by the entity which is to own, operate and maintain the improvement. All contracts for public improvements to be owned, operated or maintained by the County (including the Water Resources Agency) shall be consistent with the requirements set forth in Attachment C, hereto.

17. County's Use of Financial Consultant. The County may, at its sole discretion, employ a financial consultant to assist the County during its fiscal review period (noted in Section 12) and all costs for consulting services will be borne by the applicant(s) as provided in Section 11 hereof.
18. Disbursement of Bond Proceeds. The financing documents will provide that bond proceeds will be used and disbursed at times and in the manner as specified in the resolutions forming the CFD and other such agreements entered into with the County with respect thereto.
19. Reports in Event of Default. For outstanding bond issues, all County departments and agencies with administrative responsibilities will notify the Board of Supervisors and file a written report of the circumstances if an event of default under the financing documents has occurred.
20. Refunding of CFD Bonds. All proposed refunding or refinancing issues will be submitted to the County for review with complete disclosure of the benefits and costs of the proposed refinancing. A preliminary and final official statement or disclosure statement for any bonds to be refunded shall be filed with the County Treasurer, County Counsel and Clerk to the Board of Supervisors.
21. Right to Modify or Waive Policies. The County has the right to waive or modify any of the policies included herein if, in the County's judgment, benefit inures to the ultimate property owners, the CFD and/or to the County.

Attachment A

CRITERIA FOR APPRAISALS

- (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 depend on the complexity of the appraisal problem. A detailed appraisal shall be prepared for complex appraisal problems. A detailed appraisal shall reflect nationally recognized appraisal standards, including, to the extent appropriate, the uniform Appraisal Standards for Federal Land Acquisition, as well as appraisal standards promulgated by the California Debt and Investment Advisory Commission, and shall specifically identify any departure from such standards. An appraisal must contain sufficient documentation, including valuation data and the appraiser's analysis of the data, to support the appraiser's opinion of value. At a minimum, the appraisal shall contain the following items:
 - (1) The purpose and/or the function of the appraisal; a definition of the estate being appraised, and a statement of the assumption and limiting conditions affecting the appraisal.
 - (2) An adequate description of the physical characteristics of the property being appraised; location, zoning, present use, end analysis of the highest and best use.
 - (3) All relevant and reliable approaches to value consistent with Section D below, as well as commonly accepted professional appraisal practices and the standards of the California Debt and Investment Advisory Commission. 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 utilized, there shall be an analysis and reconciliation of approaches to value that are 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 the real property.
 - (6) The effective data of valuation, date of appraisal, signature and certification of the appraiser.
- (C) Conflict of Interest. No appraiser or review appraiser shall have any interest direct or indirect in the real property being appraised for the County that would in any way conflict with the preparation or review of the appraisal. Compensation for making the appraisal shall not be based on the amount of the valuation.
- (D) Community Facilities District Appraisal Premises. The valuation of proposed special tax districts should be based on all of the following three premises:
 - (1) Raw Land Value. (Premise #1). The total land within the project shall be valued "as is":
 - (a) Without proposed infrastructure being financed or any future private improvements;
 - (b) With existing parcel configuration and existing land use entitlements; and

- (c) Considering planned densities allowed by the specific plan or other project approvals then in effect.

This is a typical type of land valuation.

- (2) Project Build-out value. (Premise #2). The total land within the project is valued under projected conditions:

- (a) With proposed infrastructure being financed completed;
- (b) At the planned densities allowed by the specific plan or other approvals then in effect; and
- (c) Land development is at the stage of being marketed to merchant builders or tentative tract maps ready to be filed.

This is a projected value based on project plans predicated on market conditions continuing as projected.

- (3) Bulk Land Value. (Premise #3). The total land within the project is valued under projected conditions:

- (a) With proposed infrastructure being financed completed;
- (b) With existing parcel configuration; and
- (c) Considering planned densities allowed by the specific plan or other project approvals then in effect.

This premise should consider a discounted or "quick sale" valuation considering time, costs and the possibility of a per unit value based on the total size of the project.

Attachment B

POLICY ON CREDIT ENHANCEMENT

If property within the proposed boundaries of a CFD, owned by one entity or related entities, their successors and assigns, is responsible for twenty percent (20%) or more of the debt service obligation of the proposed debt issue, an irrevocable credit facility having the following terms will be required:

- A. The credit facility will name the bond trustee or fiscal agent as beneficiary.
- B. The face amount of the credit facility will be equal to three (3) times the amount of the annual debt service obligation for which the property so owned is responsible.
- C. The credit facility will have a term of at least one year and be subject to annual renewal or call prior to expiration.
- D. The credit facility may be drawn upon should there be a default by the property owner in the timely payment of the special tax obligation for the subject property.
- E. The credit facility must be issued by a financial institution acceptable to the County that is rated "A" or better by Standard and Poor's Corporation, Moody's Investors Service or Fitch Investors Service, Inc.
- F. The face amount of the credit facility may be drawn should the credit facility not be timely renewed or a substitute credit facility acceptable to the County not be timely provided, or if the rating or the capitalization of the provider falls to a level not acceptable to the County in its sole discretion.
- G. The face amount of the credit facility will be subject to periodic adjustments should the property owner sell or transfer portions of the property to unrelated third parties.

For purposes of this Policy, parties will be considered to be related should they be so deemed by the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder. However, the County does reserve the right to apply a stricter standard than that provided by the Code in determining parties that are related.

The County may, in its sole discretion, require additional credit enhancements for a particular CFD financing if it is determined that they are needed to bring the credit worthiness of the proposed debt issue up to a level that is acceptable to the County in its sole discretion.

Attachment C

CONSTRUCTION CONTRACTS FOR COMMUNITY FACILITIES
WITHIN MELLO-ROOS DISTRICTS

With regard to the construction of public facilities that are to be financed from the proceeds of bonds sold pursuant to the Act, the following policies are to be applied:

- (A) The appropriate County department will be specified as the CFD's representative to administer the construction of each of the facilities to be owned and maintained by the County.
- (B) Unless otherwise agreed by the County, the facilities to be owned and maintained by the County are to be acquired by the CFD.
- (C) Consistent with this policy, the County finds, pursuant to Section 53329.5(c) of the Act, that it will not serve the public interest to allow the property owners(s) to elect to perform the construction of the facilities after the publication of the notice of the award of the contract and declaration to this effect is to be included in each resolution of intention submitted to the Board of Supervisors pursuant to Section 53321 of the Act.
- (D) The entity that constructs the improvements must comply with all applicable prevailing wage and bidding requirements, and so certify such compliance to the County prior to the use of bond proceeds to pay costs of any improvement constructed by an entity other than the County.