Culver CITY

DAN PATACCHIA MEETING ROOM
9770 CULVER BOULEVARD
CULVER CITY, CALIFORNIA 90232-0507
CITY HALL Tel. (310) 253-6000
FAX (310) 253-6010

FINANCE ADVISORY COMMITTEE
Wednesday, April 09, 2014

PUBLIC COMMENT
The Finance Advisory Committee will listen to the public on any item on the agenda or item of interest that is not on the agenda. The Finance Advisory Committee cannot take action on any item not scheduled on the agenda. Such items may be referred for administrative action or scheduled on a future agenda.

If you wish to speak to the Committee, please complete a Speaker's Card and present it to the staff liaison before the agenda item is called. You will be called by name when it is your turn to speak to the Committee.

PUBLIC COMMENT FOR ITEMS ON THE AGENDA
Persons wishing to speak on agenda items will be called at the time the agenda item is brought forward. Comments will generally be limited to five minutes per speaker; however, a three-minute limit may be declared by the Chair for agenda items for which many Speaker Cards have been submitted.

PUBLIC COMMENT FOR ITEMS NOT ON THE AGENDA
A total of twenty minutes shall be devoted to audience participation at the beginning of the agenda. Speakers will be called on in the order cards were received by City staff. If additional time is needed, the committee chair will allow for same at the end of the agenda.

When your name is called, please stand and state your name and city of residence. Speakers must limit their comments to five minutes. A three-minute limit may be declared by the Chair if there are a large number of individuals desiring to address the Council.

AUTHORITY OF PRESIDING OFFICER
Section 611 of the City Charter provides that during any public meeting, all persons shall have the right to address the City Council, and any City commission, board or committee, subject to reasonable rules of decorum and time limits established by ordinance or the presiding officer. Therefore the presiding officer may, from time to time, establish different time limits than those listed in this Agenda in order to effectively conduct Committee business.

CELL PHONES AND OTHER DISTRACTIONS
Use of cell phones, pagers, and other communication devices is prohibited while the Committee meeting is in session. Please turn all devices off or place on silent alert and leave the meeting area to use. During the meeting, please refrain from applause or other actions that may be disruptive to the speakers or the conduct of City business.

MEETING INFORMATION
Finance Advisory Committee Meetings are regularly scheduled for the second Wednesday of every month. Committee Agenda information is available at least 72 hours before each meeting via posting at City Hall, and on the City website. Information may also be accessed by calling the Finance Department at (310) 253-5865.

Agendas are
Available on the web at
www.culvercity.org

Finance Advisory Committee
REGULAR MEETING AGENDA

Wednesday, April 9, 2014
7:00 PM
Dan Patacchia Meeting Room

CALL TO ORDER & ROLL CALL:

Goran Eriksson, Chair
Allan Azran, Member
Richard Hibbs, Member
Alejandro Lara, Member
David Trovato, Member
Crystal Alexander, Vice-Chair
Desmond Burns, Member
Sean Kearney, Member
Steven Reitzfeld, Member

PLEDGE OF ALLEGIANCE

PUBLIC COMMENT – Items Not on the Agenda

CONSENT CALENDAR *(Consent Calendar items are considered to be routine in nature and may be approved by one motion. Public requests to discuss Consent Calendar items must be filed with the Secretary before the Consent Calendar is called.)*

C-1. Minutes of the March 12, 2014 Regular Meeting.

ACTION ITEMS *(Public requests to discuss Action Items must be filed with the Secretary before the item is called)*

A-1. Presentation from NBS on Special Financing Districts.

A-2. Approval of Measure Y Status Report for Transmittal to City Council.

A-3. Discussion of Draft Financial Policies – Debt Management Policy and Investment Policy.

A-4. Invitation to Commissions, Committees, and Board to Provide Comment during the City's Fiscal Year 2014/2015 Budget Process.

ITEMS FROM STAFF

S-1. Discussion of May Agenda.

ITEMS FROM COMMITTEE MEMBERS

ADJOURN

THESE MINUTES ARE NOT OFFICIAL UNTIL APPROVED BY THE
CULVER CITY FINANCE ADVISORY COMMITTEE

REGULAR MEETING OF THE CULVER CITY FINANCE ADVISORY COMMITTEE CULVER CITY, CALIFORNIA	March 12, 2014 7:00 p.m.

CALL TO ORDER & ROLL CALL

Chair Eriksson called the meeting of the Finance Advisory Committee to order at 7:00 p.m. in the Dan Patacchia Meeting Room.

Members Present:	**GORAN ERIKSSON**, Chair **CRYSTAL ALEXANDER**, Vice Chair **RICHARD HIBBS**, Member **ALEJANDRO LARA,** Member **STEVEN REITZFELD**, Member
Members Absent:	**ALLAN AZRAN**, Member (Excused) **DESMOND BURNS**, Member (Excused) **SEAN KEARNEY**, Member (Excused) **DAVID TROVATO**, Member (Excused)
Staff Present:	**Jeff Muir**, Chief Financial Officer **Gracie Hasan**, Secretary **Erica McAdoo**, Sr. Budget Management Analyst

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Pledge of Allegiance

The Pledge of Allegiance was led by Richard Hibbs.

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Public Comment for Items NOT On the Agenda

Chair Eriksson invited public comment.

No cards were received and no speakers came forward.

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<u>Consent Calendar</u>

<u>Item C-1</u>

Meeting Minutes

THE FAC PASSED A MOTION APPROVING THE MINUTES FOR THE REGULAR MEETING OF FEBRUARY 12, 2014 (ABSENT MEMBERS AZRAN, BURNS, KEARNEY AND TROVATO).

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<u>Action Items</u>

<u>Item A-1</u>

Approval of Measure Y Status Report for Transmittal to City Council

Jeff Muir, Chief Financial Officer, presented the material of record.

Discussion ensued between Members and staff regarding a suggestion to prorate figures according to the amount of months represented by actual revenue; the changing scale throughout the year; transmittal of the report through March to the City Council; receipt of the first payment; adding clarifying dates; the March remittance; quarterly reports; Committee review before City Council submittal; and the process.

THE FAC PASSED A MOTION: (1) APPROVING THE DRAFT MEASURE Y STATUS REPORT WITH RECOMMENDED CHANGES; AND (2) REQUESTING THE MATTER TO BE RE-AGENDIZED FOR APRIL TO AUTHORIZE SUBMISSION TO THE CITY COUNCIL. (ABSENT MEMBERS AZRAN, BURNS, KEARNEY AND TROVATO.)

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<u>Item A-2</u>

Presentation and Discussion of Draft Financial Policies

Jeff Muir, Chief Financial Officer, provided a summary of the material of record.

Vice Chair Alexander discussed subcommittee review of the item; inclusion in the budget document; and she expressed appreciation for the work that went into the item.

Discussion ensued between staff and Members regarding best business practices; variances; budget development; alteration of assumptions; internal service fund charges; community priorities; budget process; items that stay at the bottom of the work plan; comparisons with the previous year's work plan; upcoming fiscal year work plans

Item A-2

Presentation and Discussion of Draft Financial Policies (Cont'd)

that are carryovers; redevelopment; administration of the annual budget; appropriations and transfers; City Manager Authority; appropriation level; line items; the annual budget resolution; adjustments; typographical errors; the Equipment Replacement Fund; general tenets of long-term financial planning; property value protection; the Fees and Charges study; identifying true costs; the role of staff; exceptions to competitive proposals; extraordinary circumstances; changes to wording; the time period to respond to findings; centralizing accounts receivable and collection activities; parking citations; ambulance billing; the Fire Department; uncollectable accounts; the write-off policy; emphasis to illustrate that best efforts would be made to collect monies; vetting of collection agencies and turnover; a suggestion to add language to include periodically evaluating the efficiency of the collection agency; the contingency reserve; grants administration; automating processes; grant checks vs. electronic payments; the need for subcommittee review of debt management and investment policies; process and timing; the investment policy; Cutwater Asset Management; consistency with the government code; proposed changes; color coding; and new programming.

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Item A-3

Invitation to Commissions, Committees, and Board to Provide Comment during the City's Fiscal Year 2014/2015 Budget Process

Jeff Muir, Chief Financial Officer, provided a summary of the material of record.

Discussion ensued between Members and staff regarding addressing the budget calendar.

THE FINANCE ADVISORY COMMITTEE PASSED A MOTION TO ACKNOWLEDGE THE INVITATION FROM THE CITY COUNCIL TO PROVIDE COMMENTS DURING THE CITY'S FISCAL YEAR 2014/2015 BUDGET PROCESS AND RECEIVE AND FILE THE REPORT (ABSENT MEMBERS AZRAN, BURNS, KEARNEY AND TROVATO.)

Chair Erikkson reported receipt of an email from a Commission Chair expressing concern that they had not been invited to provide a presentation to the Committee.

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Items from Staff

Item S-1

Discussion of April Agenda

Jeff Muir, Chief Financial Officer, discussed upcoming agenda items.

Discussion ensued between staff and Members regarding the new financial transparency tool; notification to employee bargaining groups; and the storm water issue.

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Items from Committee Members

None.

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Adjournment

There being no further business, at 8:22 p.m., the Finance Advisory Committee adjourned its meeting to Wednesday, April 10, 2014 at 7:00 p.m. in the Dan Patacchia Meeting Room.

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Gracie Hasan
SECRETARY of the Culver City Finance Advisory Committee
Culver City, California

APPROVED

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Goran Eriksson
CHAIR of the Finance Advisory Committee, Culver City, California

City of Culver City, California

Finance Advisory Committee Agenda Item Report

Meeting Date: 04/09/14	Item Number: A-1
AGENDA ITEM: Presentation and Discussion on Special Assessment Districts	
Contact Person/Dept.: Jeff S. Muir/Finance	Phone Number: 310/253-5865
Public Notification: (E-Mail) Meetings and Agendas – Finance Advisory Committee (04/02/14)	
Department Approval: Jeff Muir (04/02/14)	

RECOMMENDATION:

Receive a presentation on Special Financing Districts

DISCUSSION:

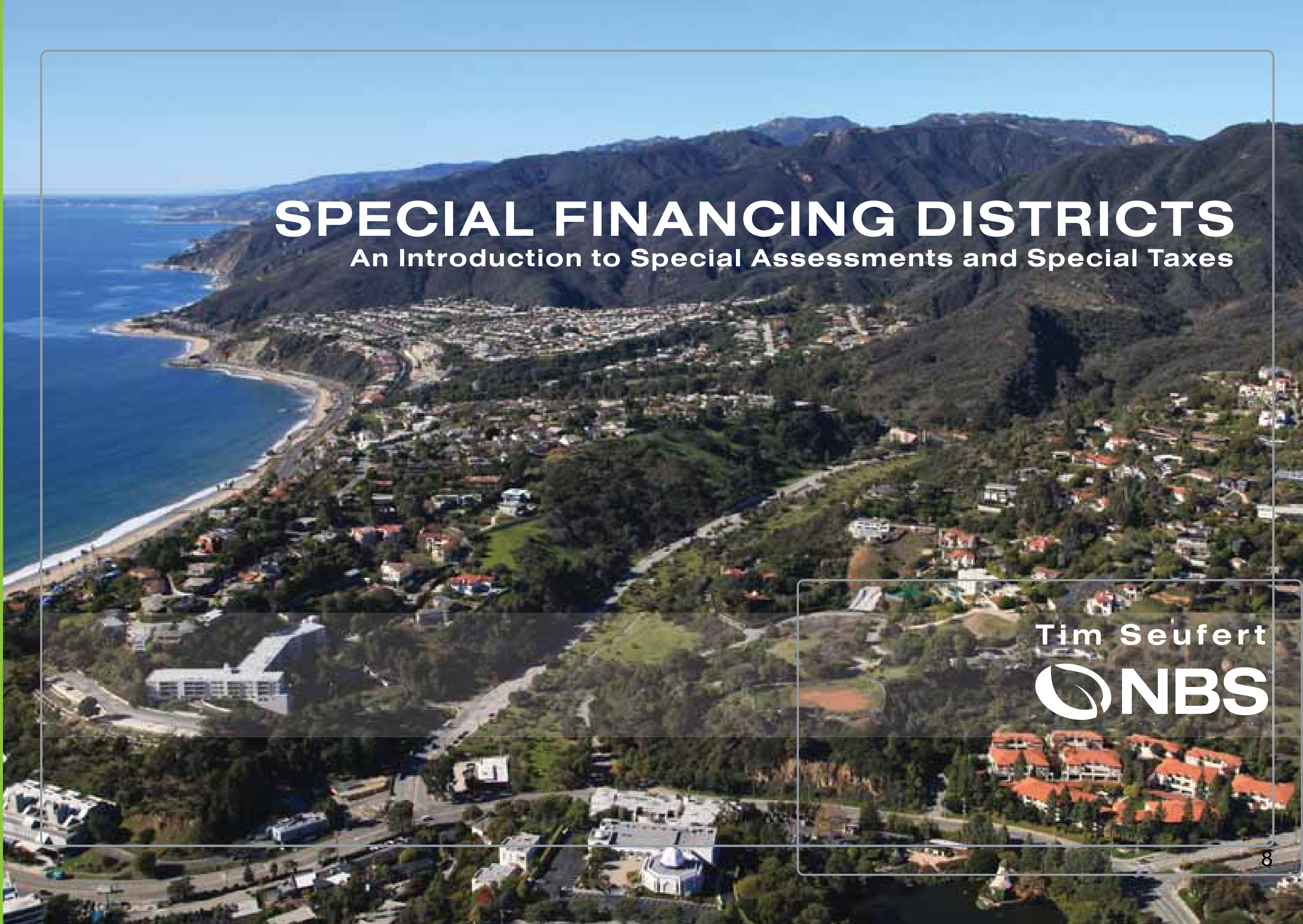
Item 8 on the FAC Work Plan is to 'Review current and potential utilization of assessment districts.' In preparation for the completion of this objective, NBS will conduct an informational presentation on special financing districts to assist in the Committee's understanding of the local-property based revenue mechanisms which fall under this heading. The attached primer was provided in advance of the meeting to provide further background on this topic.

ATTACHMENTS:

NBS Primer on Special Financing Districts - An Introduction to Special Assessments and Taxes

SPECIAL FINANCING DISTRICTS

An Introduction to Special Assessments and Special Taxes



Tim Seufert

NBS

“But in this world nothing can be said to be certain, except death and taxes.”
- Benjamin Franklin (1789)

“The wages of sin are death, but by the time taxes are taken out, it’s just sort of a tired feeling.”
- Paula Poundstone (1990)

Published by NBS

Revised and reprinted January 2011

WHAT IT IS

This book intends to serve as a primer on local property-based revenue mechanisms in the State of California. The intended audience is local public agency staff, community leaders, property owners, and other interested parties.

The book provides a general review and discussion of these revenue sources, which fall under the basic heading of "Special Taxes and Special Assessments" as provided by California statutes, and which are collectively termed "Special Financing Districts." (Note that this book was first published in 2006 and updated for reprinting early in 2011, and the information contained herein is subject to change.)

Examples of property-based revenue mechanisms in California are: a Landscape & Lighting District assessment that finances the maintenance of parks and parkways within a specific area (Special Assessment), and a tax levied on all properties within a city to fund police services (Special Tax). Most other states in the U.S. maintain similar revenue systems, albeit through different processes (and employing different terminology).

WHAT IT IS NOT (the disclaimer)

This publication is not a technical how-to guide, and is not to be construed as legal or technical advice. This book is to be used for general informational purposes, and is not meant to replace the services of experienced attorneys, engineers, finance professionals, or consultants with expertise in this field.

Note that Proposition 26, known as the "Stop Hidden Taxes Initiative," was approved in the November 2010 election by the voters of California. Proposition 26 was aimed at a certain class of government "regulatory fees," but it contained broad local government revenue language. In summary, there are seven categories of exceptions, and it is the current understanding that Special Assessments and Special Taxes (and generally Property-related Fees) as covered under Proposition 218 constitute one category of these exceptions. Proposition 218 is discussed further within this book.

LIST OF DEFINITIONS

The following definitions must be understood within the world of local government public finance and the context of this book; they are not intended to serve as all-encompassing dictionary definitions. In fact, general definitions will only confuse the layperson. For example, Merriam-Webster defines a Special Assessment as "a special tax levied on private property…" However, the lexicon of California local public finance makes a distinction between a "Special Assessment" and a "Special Tax."

SPECIAL FINANCING DISTRICT

The term "Special Financing District" (SFD) was coined by NBS to refer to all Special Assessments and Special Taxes (see definitions). The term continues to be used more frequently in California local public finance.

KEY DEFINITIONS

Special Financing District (SFD) – This term, while not part of the legal lexicon or State statutes, refers to all Special Assessments and Special Taxes that are levied by local public agencies on parcels of land. An SFD is nearly always a dependent entity, tied to a city, county, school, or special district. An SFD is not to be confused with a Special District, as defined below.

Special Assessment – Also known as a "Special Benefit Assessment" (or simply "Benefit Assessment"), this is a financial charge levied on parcels of land or businesses, based on the special benefit received from the service or capital improvement. The benefit criteria and formula are typically called a "Method of Assessment."

Special Tax – This is a financial charge that is calculated via some type of special tax formula (or Rate and Method of Apportionment, in the case of a Community Facilities District), and is levied annually on property (or other basis in the case of a transient occupancy or utility tax) for a defined period of years.

Assessment – This is a charge levied against a parcel of land for the Benefit that is generated by the underlying public service or improvement project. The governing body of the entity levying the Assessment must make a finding of Special Benefit in order to validate this process.

Assessment Engineering – This is the process of defining and calculating an Assessment, managing it from initial conception to the final levy of an Assessment. The process originated in the world of civil engineering, but has become more financial in nature.

Ballot Process – Not to be confused with an actual election subject to the Elections Code, a Ballot Process is the process used in the formation of an Assessment District (and certain Special Taxes) to validate a proposed Assessment. It usually consists of a mailed ballot sent to property owners with instructions for the course of action and return of the ballot.

Benefit – The notion of Benefit is extremely important in the case of a Special Assessment. There must be demonstrated Special Benefit to a parcel of land to validate a Special Assessment. Proposition 218 defines Special Benefit as "a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large. General enhancement of property value does not constitute special benefit." General benefit is available to the public, and therefore cannot be charged to property owners.

Bond – A Bond is an interest-bearing certificate of indebtedness. A so-called Municipal Bond (or "Muni Bond") is issued by a local governmental agency, and the interest paid is typically tax-free to the individual bondholders. The offering statement for such a bond is called an Official Statement, referred to in abbreviated form as an "O/S." The O/S contains all of the bond information, as well as extensive background information including the description of any underlying SFD.

Brown Act – The Ralph M. Brown Act is part of California Government Code Section 54950 et seq. Its primary purposes are to encourage public participation in local government and to ensure free and open meetings of the governing bodies of local agencies. Some specific public noticing provisions also relate to the implementation of SFDs.

Capital Project Financing – This is an effort that involves a significant investment in infrastructure that must be paid back over a number of years, but no longer than the expected lifespan of the improvement. (See the "Pay-as-you-go Financing" definition for comparison.)

BENEFIT

The notion of Benefit is extremely important in the case of a Special Assessment

Charter City – A Charter City has unique abilities over a general law city. In essence, a Charter City has its own constitution, and may tailor its organization and laws with regard to "municipal affairs" (although the specific definition of municipal affairs is legally complex). There are now 120 (in 2010) charter cities in California, from Adelanto to Woodlake, which may promulgate their own unique assessment and tax laws, as long as they do not violate California State law.

Community Facilities District ("CFD") – This is a common and popular type of Special Tax district that can fund ongoing maintenance services, capital projects, or both. It is allowed under the Mello-Roos Community Facilities Act of 1982, and is found in California Government Code Section 53311 et seq.

CHARTER CITY

There are now 120 (in 2010) charter cities in California, from Adelanto to Woodlake.

Local Governmental Agency – This refers to any local political entity with typical local or regional governmental powers, including cities and towns, counties, school districts, community college districts, and special districts, and excluding any State or federal governmental agency. The governing body of an Agency is commonly the city or town council, board of supervisors, board of directors, or similar.

Mello-Roos District – Henry Mello and Mike Roos were the two California legislators who wrote the Community Facilities Act of 1982; thus, a Community Facilities District (see definition above) is often termed a "Mello-Roos District."

Official Statement – See "Bond."

Pay-as-you-go Financing – This type of effort involves raising revenues each year for commensurate annual costs, and is sometimes referred to as a "non-bonded financing" in that no initial outlay is paid back over time. An example is a annual Special Assessment levied under a Landscape and Lighting District to pay for annual maintenance costs of a park. (See "Capital Project Financing" description for comparison.)

Proposition 13 – The historic "property tax revolt" measure passed by California voters in 1978 added Article XIIIA to the California Constitution, which rolled back property taxes to 1 percent of the "assessed value" of a parcel of land, and required any new Special Taxes to be approved by two-thirds of the voters. [Note: This Proposition reduced local governmental tax revenues, a chief component of all local revenue sources, by 57 percent, and ultimately spawned a renewed interest in SFDs, certain fees and general taxes, and other financing mechanisms.]

Proposition 218 – The so-called "Right to Vote on Taxes Act" was approved by California voters in 1996. It added Articles XIIIC and XIIID to the California State Constitution, and thus affects the over 6,000 Local Governmental Agencies across the state. The primary results were stricter definitions of assessments, special taxes, fees (including the addition of the new and contested term "property related fees") and charges, and a general mandate for some type of voter approval for any new or increased tax, assessment, or property-related fee.

Public Meeting – This meeting is held by the Local Governmental Agency to discuss an SFD and receive public comments. Typically, no definitive actions are taken at such a meeting.

Public Hearing – A Public Hearing is held by the Local Governmental Agency for public input and comments, and typically marks the deadline for submission of Ballots.

Special Benefit – See "Benefit."

Special District – This is a local governmental body formed under the laws of the State. A Special District may be independent or dependent (upon another local governmental agency such as a County). Examples of a Special District are water districts, sewer districts, and community services districts (CSDs). Note that this is distinct from a Special Financing District, which is not a government entity but rather a financing mechanism.

Special Tax Consulting – This is the process of analyzing and defining the parameters of a proposed Special Tax, and of developing a formula for levying the charge.

PROPOSITION 218

Right to Vote on Taxes Act

[1] This includes 481 cities and towns, 2,300 independent special districts, 2,200 dependent special districts, 58 counties, 1,059 school districts, 72 community college districts, and other similar local and regional entities.

THIS BOOK INTENDS TO SERVE AS A PRIMER

on local property-based revenue mechanisms in the State of California

A BRIEF HISTORY

The basic concept of an assessment purportedly dates back to "merry olde England," when the local powers assessed at will for funds to provide improvements or services. Assessments were first applied in the U.S. in New York City in 1691. Assessments became rather widespread in the U.S. in the early part of the 20th century; they became a significant revenue source for some municipalities, including Los Angeles and Oakland, as well as for irrigation districts in the Central Valley. In burgeoning California, a number of assessment laws were established after 1910, and many more have been added since then. Assessments fell out of favor during the Great Depression, and were less commonly used until the passage of Proposition 13 in California in 1978.

In the California of today, significant assessment activity exists. The State maintains a lengthy list of statutes and Charter City ordinances that authorize SFDs, and an economic necessity for them to be utilized. The current system is complicated, and requires community leadership, public outreach, political will, a myriad of approval processes, many expert consultants, and an ongoing administration process to ensure its smooth application.

THE FUTURE

Unless a drastic change occurs in either the financial or political landscape, the use of SFDs in California will increase, as the population (and the resultant desire for additional services and infrastructure) increases in many communities throughout the state. However, the funding for such services and projects is typically unavailable. Occasionally, statewide bond initiatives or one-time funding sources emerge; however, in most cases, these needs must be funded locally.

It is worthy to note that California's basic infrastructure is in serious jeopardy. Since the post-World War II building boom, in many cases, maintenance and replacement of infrastructure has been erratic and even non-existent. For example, the American Society of Civil Engineers (ASCE) released a report in March 2005 that gave failing grades to the collective infrastructure of California. The report cited the following facts:

- 222 million gallons per day of drinking water are lost due to leaking pipes
- A $17.5 billion investment is required to maintain the drinking water infrastructure over the next 20 years
- The wastewater infrastructure currently requires $14.4 billion
- 87 percent of California's schools have at least one unsatisfactory environmental condition
- There is a strong need for more investment in parks and open spaces

[2] In the November 2004 State election, only 5 of 58 counties reported no local bond or tax measures. Those counties are Alpine, Amador, Glenn, Plumas, and Sierra. (Source: CDIAC election report.)

LEGAL LANDSCAPE

Attempting to understand the nuances behind the discussion of Special Assessments and Special Taxes involves an awareness of two major initiatives that affect the California landscape: Proposition 13 and Proposition 218.

Proposition 13, known to many as the "property tax revolt of 1978," basically mandated a roll back to a 1 percent property tax rate at the commensurate assessed value (ad valorem) of the property. For this discussion, the important point is that local governments are now severely limited from raising additional revenues for various efforts by the basic property tax system. (Some states have ad valorem property tax rates that range from 3 percent to as high as 6 percent to fund local government services.)

Proposition 218, the "Right to Vote on Taxes," was approved by voters in 1996. This in effect created a complicated categorization of assessments, taxes, fees, and charges, with a commensurately complicated approval process for each category, many with conditions that affect the process itself. The implementation and understanding of Proposition 218 has been long and arduous, and continues today. For the purposes of this publication, the key point to consider is that Special Assessments and Special Taxes are two distinct groupings that require differing methods of approval and start-up, as well as ongoing administration. The terms "Special Assessment" and "Special Tax" are confusing to many, even to experts in the field (and are often mistakenly used interchangeably), but there is a difference. Proposition 26 was approved by the voters in 2010. The emphasis for this measure was on "fees" and the assumption (at the time of the reprinting of this book) is that there will not be direct effects to SFD's.

An SFD can fund large capital improvements for infrastructure that has a long useful life, or ongoing "pay-as-you-go" services and maintenance, or both.

SFDs can provide funding for a myriad of services and capital improvements. Although they have been in application for many years, the economic and political trends over the past few decades have bolstered their use and popularity.

In terms of newly developing areas, the trend has been toward a national consensus that "new development must pay its own way." This trend has been fostered by a number of factors, chiefly the downturn in federal and State spending. Such spending peaked in the 1960s and again in the 1980s, but has declined significantly since then. Exacerbating this trend has been the numerous efforts to limit taxes by the voters. The most notable milestones were Proposition 13 and Proposition 218, as mentioned above. SFDs can provide the necessary funding for new development.

In developed areas, the requests for replacement and additional facilities, as well as increased and enhanced services, continue. Added to these demands are the additional requirements with which local governments must comply, such as the National Pollutant Discharge Elimination System (NPDES).

NPDES

The NPDES arose from the Federal Clean Water Act regulations originally promulgated in the 1970s. In the 1990s, the U.S. Environmental Protection Agency (EPA) adopted regulations that required a permitting system for stormwater discharges at certain industrial and construction sites. The California State Water Resources Control Board administers the State's stormwater management programs, which are broken down into nine regional Water Boards. The State's regulations are complex. In general, all construction sites disturbing more than one acre, many industrial sites, and all designated Municipal Separate Storm Sewer Systems (MS4s) are required to obtain and meet the requirements of NPDES permit coverage. There are costs involved with compliance.

As mentioned above, all of these demands come at a time of shrinking revenue sources and voter-backed tax limitations and reforms. That makes a strong case for the creative, but well crafted, use of SFDs.

Whether the need is in a developing area or a well-seasoned community, there is a trend for focused local sources of funding with direct accountability. Many recent initiatives have focused on dedicated revenues for various projects or concerns, often resulting in the unintended effect of limiting government's flexibility. In any case, an SFD can provide focused and accountable revenues for local projects and services of importance to the community.

FEDERAL GOVERNMENT

STATE GOVERNMENT

LOCAL GOVERNMENT

The focus of this book is on local governmental entities in the State of California. (Discussion of any State or federal entities is mostly irrelevant.) The primary local entities are:

- Cities and towns ("Municipalities")
- Counties
- Special districts
- School districts

California has 481 cities and towns formed under general or charter (total of 120) law. These cities have broad purposes and powers, and may generally utilize all forms of SFDs. Charter cities can create new forms of SFDs under their charter powers, as long as they do not conflict with the State Constitution.

California's 58 counties, including the City and County of San Francisco, and their numerous subdivisions also have broad powers and typically utilize all forms of SFDs.

California contains an estimated 4,500 special districts, including over 2,300 independent special districts. This is the largest number of special districts in any U.S. state that provide a variety of services with varying levels of authority. Depending on the type of special district, virtually all types of SFDs can be used in one manner or another. For example, a community services district with police powers can levy a special tax for police services, and a water district may create an assessment district that funds infrastructure for water capital needs.

School districts are somewhat restricted in the use of SFDs. Nevertheless, many possibilities exist for schools to issue an SFD. For example, a school may form a parcel tax district to enhance the curriculum offered or establish a landscape and lighting assessment district.

Other types of related entities and non-profit groups are also interested in SFDs. These organizations do not have the power to actually form a district and levy a tax or assessment. However, they may derive benefit from the existence of an SFD. An example of this is a Chamber of Commerce or business group that obtains funding from a Business Improvement District (BID).

[3] Source: California Special Districts Association (Sacramento, California).
[4] The U.S. Bureau of the Census only tracks independent Special Districts. In 1987, it reported 29,427 independent Special Districts across the U.S., with many more dependent Special Districts.

Many perspectives must be taken into consideration when selecting an SFD. Most of them can be categorized into the following groupings (discussed in further detail below):

1. Fairness and equity
2. Market sensitivity
3. Potential for approval
4. Timing and predictability of revenues and expenses (and need for debt)
5. Legal perspective

All of these must be considered against the backdrop of basic political will to use an SFD and follow through with the inevitable trials and tribulations associated with the process. The proponents and, in particular, the local governing body must be prepared for an onslaught of opposition, including basic ignorance of SFDs and resistance to change.

CALIFORNIA

contains an estimated 4,500 special districts

FAIRNESS AND EQUITY

Most would agree that local government is the level of government most immediate and responsive to the needs of "common folk." In addition to proximity and responsiveness, in the interest of good public policy, it is incumbent upon local governments to be as fair as possible. This must extend to the formation and use of SFDs. For the imposition of a Special Assessment in particular, this concept of fairness is codified in the requirement of actual special benefit above that of general benefit and in the relationship of assessment amount to the special benefits received. In general, most agree that the "user" or beneficiary of any improvements or services should pay in proportion to his or her benefit.

Merriam-Webster describes equity as a "freedom of bias or favoritism." Most SFD practitioners attempt to develop a mechanism that is equitable in this manner, whether or not it is legally required. This first requires a factual analysis of the costs and commensurate benefits to determine appropriate ways of levying a charge. Each project contains many variables, including the improvements and services to be provided, local environmental and geoaphic conditions, history and customs of the area, etc. Therefore, the second step in the process of SFD development requires some level of creativity or "art" in devising unique solutions to account for the many variables in place.

MARKET SENSITIVITY

To choose the appropriate SFD, the potential market effects of the revenue requirement must be taken into account. Can the land or current property owner accept the burden of the proposed financial liability? What are the current market and economic conditions of the area and interested parties? How will the value of the benefits be perceived?

In the case of new development, there is a balance between shifting the burden of certain infrastructure forward to future property owners via an SFD, moving it backward to the original landowners in terms of price paid, or leaving it in the present by immediate payment by the developer. In the case of burdening the future property owners, the "unwritten rule" in the greater development and public finance community is that residential property should not have a total property tax burden of greater than 2 percent of the assessed value. This amounts to a doubling of the basic 1 percent ad valorem property tax rate. However, given the substantial rise in retail home prices in California starting in 1996, and then leading up to the downturn in 2008, this "rule" may require updating.

For any type of SFD usage, consideration must be given to the economics of the local area, employment, property values, and other conditions before the most appropriate strategy is devised.

POTENTIAL FOR APPROVAL

Since the passage of Proposition 218, all SFDs require an approval mechanism. Thus, even with all of the required analyses prepared, the local economic conditions and customs understood, and the "best" type of SFD selected, the process would be for naught without consideration of the potential for approval.

In general, there is either a majority (so-called "50 percent plus 1") or two-thirds supermajority requirement, as follows:

- Special Assessments: Special Assessments are subject to a protest ballot process. A protest exists, which stops the district formation, if a majority of those ballots returned are against the assessment. The ballots returned are weighted based upon the financial obligation placed on each property.

- Special Taxes: Special Taxes require a two-thirds supermajority of the voters voting in the election.

It is critical to understand the audience to gauge the potential for approval. Detailed polls, community meetings, public outreach, discussions with local leaders, and other vehicles are recommended.

TIMING AND PREDICTABILITY OF REVENUES AND EXPENSES (and need for debt)

The patterns, timing, and predictability of expenses will affect the choice of revenue mechanism(s). Initial considerations should include whether a one-time expenditure is required, or pay-as-you-go costs are preferable. Will bonds or some other form of debt be needed? Although deviations from the predicted outlays and revenues are likely, the harmony of this timing equation is of great importance.

For example, at one end of this continuum is a large infrastructure outlay for streets and sewer systems. This is clearly a one-time expenditure that likely will require bonds and a longer-term payback period. At the other end of the continuum is maintenance of a park and provision of street lighting. These activities require ongoing pay-as-you-go revenues. In the middle of the spectrum could be a project that requires some maintenance and significant outlays for replacement costs during the life of the facilities.

SPECIAL ASSESSMENTS

Subject to a protest ballot process

SPECIAL TAXES

Require a two-thirds supermajority of the voters voting in the election

THE LEGAL PERSPECTIVE

Any discussion of an SFD must include an analysis of its basic legality, the methods of implementation, and Proposition 218 issues. This includes every step of the process, and experienced professionals and legal counsel are required. Should an assessment or tax be used? Can the local government use the desired SFD statutes? Will charter city ordinances need to be developed or revised? What are the benefit issues if an assessment mechanism will be used? What are the legal issues with any potential bond issuances? These issues are not to be taken lightly.

Michael Colantuono, an experienced attorney in the local government arena, offers his perspective:

Legal Considerations in Selecting a Special Financing District
By Michael Colantuono, Colantuono & Levin, PC

A number of issues must be considered to determine whether a particular SFD can be legally used to accomplish a specific purpose. While an exhaustive analysis of these issues is beyond the scope of this book, the major issues follow.

As to Assessment Districts, these are the key questions:

- Does the assessing agency have the legal power to make use of the assessment district statute in issue? There are at least 44 assessment statutes of general application and most local governments have the power to use assessment financing for the services they are authorized to provide.

- Does the assessment district statute allow assessment proceeds to be used for the facilities or services the agency wishes to provide? Each assessment statute has a specified scope of improvements and services that may be funded via that statute. For example, a Fire Suppression Benefit Assessment may be used to fund equipment, facilities and services for fire fighting, but not for emergency medical services.

- Can the assessing agency demonstrate that the program of facilities and services to be provided conveys sufficient special benefit to private property to justify assessment financing? Property owners can only be compelled to pay for the portion of the benefit of an assessment program that benefits their property and cannot be asked to pay for the portion that benefits society generally or government property.

- If a program has a large general benefit component, are other funds available to the assessing agency to fund that portion of the program?

- Can you obtain approval of the assessment by a majority of property owners voting in a mailed ballot proceeding, with each ballot weighted by the amount each property owner is to pay?

As to Special Taxes, these are the key questions:

- Does the agency have the power to tax? Cities and counties all have taxing power, but the taxing power of most special districts is limited.

- What property or economic activity is within the boundaries of the agency that it is politically feasible to tax? Common tax bases are property (special parcel taxes), utility consumption, hotel stays, retail sales, and business activity.

- Is the tax to be bonded, or pledged to serve debt, so that a large capital sum can be raised to build capital facilities or is the tax a "pay as you go" measure to raise funds for the maintenance and operation of existing facilities and services? If bonds are sought, it is best to use a financing mechanism with which the financial markets are familiar to obtain a favorable interest rate on the debt. A Mello-Roos Community Facilities District special tax is often a favored approach when bonding is necessary as these taxes are commonly bonded and the financial markets are familiar with this revenue stream and willing to lend against it.

- How do you wish to spread the tax burden among those who will pay it? While there is considerable freedom in choosing a tax formula, some considerations to ponder are these:

  - a parcel tax cannot be based on the assessed value of property;
  - a tax formula must be administrable. If the County property tax roll is to be used, the tax formula must turn only on factors (such as size, value of improvements, zoning district, etc.) that are readily available as it is rarely feasible to gather accurate data to support a tax formula which the

Assessor or other entity does not provide;
- a tax formula must comply with the Equal Protection Clause by having at least a minimum rationality and by not being discriminatory on the basis of protected classifications (race, gender, etc.);
- a tax formula must be politically acceptable. Charging apartments 10 times as much as houses is likely legally defensible, but it likely to generate opposition to the tax.

- Special taxes differ from general taxes in that their proceeds may be used only for the purposes stated in the tax. Telling voters what their taxes will be used for facilitates approval of the tax, but triggers a 2/3-voter approval requirement. General taxes require approval of only 50% of voters. Proposition 218 requires 2/3 approval of all parcel taxes, so general parcel taxes are no longer pursued.

- Special tax measures require mandatory accountability measures to be stated in the tax ordinance presented to the voters, providing for accounting and audits and the like.

- Some additional accountability measures may be advisable to enhance the likelihood voters will approve a tax, such as a citizens' oversight committee, or a date by which the tax expires (a "sunset clause").

Please refer to the table entitled "Comparative Table of Taxes, Assessments, Fees, and Charges" at the back of this book.

SPECIAL TAXES DIFFER FROM GENERAL TAXES
in that their proceeds may be used only for the purposes stated in the tax.

As mentioned in the preface, this book is not intended to serve as legal advice nor as a "cookbook" with the recipe for the formation of new SFDs. It is intended solely to provide an introduction and background information for parties interested in the SFD process.

A number of parties are involved in the formation of any new SFD. The most important individuals in this process are the initiators—typically, community leaders and local agency staff in the city manager or district manager's office, community planning and development, engineering, public works, finance, etc.

External consultants and other professionals may also be needed for the startup of a new SFD, such as:

- *Special Tax Consultant or Assessment Engineer* – This individual or firm may perform an initial feasibility study to help determine the most appropriate mechanism. Depending on the type of SFD, the consultant will then perform the analysis on the many variables and develop a rationale for spreading costs and forming the district as required by law. A Special Tax typically requires a written report that includes background, rationale, and a special tax formula tax formula, or Rate and Method of Apportionment. A Special Assessment typically requires an Engineers Report with benefit descriptions and a logical and defensible Method of Assessment. Generally, a BID consultant fits within this designation.

- *Public Relations Professionals* – Depending on the numerous variables and existing conditions, specialists may be needed to do polling, develop communication materials, orchestrate the outreach and informational meetings, etc. Note that government may only fund research and unbiased informational activities. Any advocacy must be financed by community or business-based groups.

- *Financial Advisor* – A Financial Advisor (FA) may provide expertise on the overall financial plan. An FA will be very involved with the details of performing a bond sale.

- *Underwriter* – If bonds or similar debt instruments will be utilized, an Underwriter may manage the process of the bond sale. An Underwriter, or syndicate of Underwriters, may be selected by a "competitive bid" or "negotiated sale." There are good reasons to select an Underwriter via either one of these processes, depending on the details of the transaction.

- Underwriter's Counsel – The Underwriter's Counsel works for the Underwriter to handle any legal issues that may arise in the course of issuing bonds.

- Attorney or Bond Counsel – The local agency Attorney, whether a contracted specialist or staff person, is typically involved with the legal structure of forming a new SFD. Should debt be issued, the Bond Counsel manages the legal aspects of the bonds and ultimately writes an opinion on the taxability of the bonds sold (most such bonds are sold on a tax-exempt basis, resulting in a lower borrowing cost for the local agency and tax free income to the bond purchaser).

Note that the bond process alone requires a plethora of consultants and professionals, including some or all of the following:

- Real estate and land appraisers
- Trustees and bankers
- Absorption and economic consultants
- Disclosure consultants and attorneys
- Credit rating agency
- Credit enhancement provider

Further details may be found in many other materials. See the Additional Resources list for recommended references.

EXTERNAL CONSULTANTS

needed for the start-up of an SFD include:

- Special Tax Consultant or Assessment Engineer
- Public Relations Professionals
- Financial Advisor
- Underwriter
- Underwriter's Counsel
- Attorney or Bond Counsel

The general timeline for the successful implementation of a new SFD is 6 to 12 months, but often the process can take more than a year. Bringing all the interested parties into accord can take a very long time, and this part of the process must be taken into consideration. A well-managed and orderly process involves various meetings, forms of analysis, and consensus building.

The steps in the formation process typically include:

1. Feasibility Analysis –Answers the questions regarding the type of SFD mechanism to use, and the financial and political viability of the measure.
2. Initiation by Government Resolution or Landowner or Voter Petition –The "official" start of the process.
3. Initial Report –The official document that will be adopted by the governing board (often known as the Special Tax or Engineers Report).
4. Resolutions and Ordinances – The governing board official documents passed in public forums.
5. Notice of Public Meetings and Hearings –Informs the public of the official process.
6. Ballot Process –The official process of approval by the affected parties (may take many forms).
7. Recordation – If the measure is approved, a legal notice, lien, map, or diagram will be recorded.
8. Issuance of Bonds (if applicable) – If debt is required, funds are raised through the process of selling bonds or similar instruments.
9. Initial Levy of Charges – The charges that finance the SFD are typically placed on and collected by the county property tax billing system, but this may vary.
10. Annual Administration Process – Once an SFD is in place, administrative process is required to address a multitude of duties and to ensure that charges are appropriately calculated, levied, and collected on an annual basis.

FORMATION STEPS

1. *Feasibility Analysis*
2. *Initiation by Government Resolution or Landowner / Voter Petition*
3. *Initial Report*
4. *Resolutions and Ordinances*
5. *Notice of Public Meetings and Hearings*
6. *Ballot Process*
7. *Recordation*
8. *Issuance of Bonds (if applicable)*
9. *Initial Levy of Charges*
10. *Annual Administration Process*

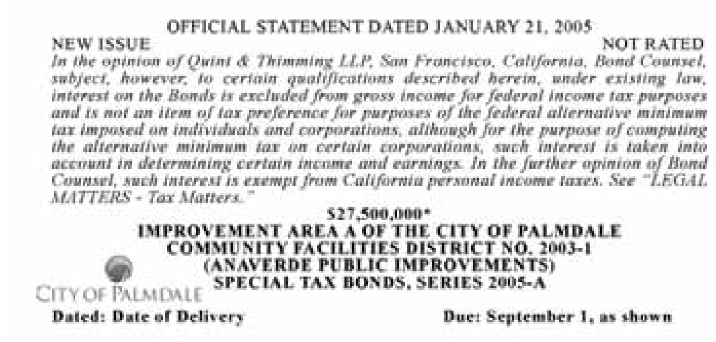
An inherent timing mismatch may occur between the expenditures and the sources of revenue for SFDs. For example, an SFD that is funding general infrastructure requires a large infusion of capital at the outset to pay for streets, water, and sewer systems. The cash needed in the early years of the SFD exceed the amount of initial revenues. The bond market can provide these types of long-term funds, typically with the added benefit of tax-free (i.e., lower) interest costs.

The concept of issuing such type of bonded indebtedness is simple. The local agency sells bonds to raise the needed capital, and it pledges all or a portion of the SFD revenue to pay the interest and principal payments. An underwriter or syndicate of underwriters will buy the bonds from the agency and then resell them to investors. These investors might be mutual funds or individual investors who appreciate the tax-exempt (usually) interest paid.

The time period for payback is typically 30 years, but can range from 10 to 40 years. To be cost effective, bond issues should be at least $2 million; often, they are in the tens of millions.

Like all debt, such bond issuances must be performed with care, due diligence, and an understanding of the value of the underlying property. Realistic projections and analysis of the revenue streams must be undertaken to ensure the viability of the overall funding scheme. Although these bonds are issued by the local agency, they are typically "non-recourse," and therefore not an obligation of the agency or its general fund should a default occur. This does not, however, release the agency from appropriate diligence and oversight in the process.

California State law generally prohibits local governments from entering into any indebtedness or liability exceeding the revenues of any one year. However, indebtedness may be allowed by an appropriate vote of the people or by certain exceptions to the general prohibition. One of these exceptions, the so-called Special Fund exception, includes special taxes, fees, and assessments. Therefore, no additional public approval process is needed to issue bonds if the SFD is appropriately formed.



OFFICIAL STATEMENT DATED JANUARY 21, 2005

NEW ISSUE NOT RATED

In the opinion of Quint & Thimming LLP, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "LEGAL MATTERS - Tax Matters."

$27,500,000*

IMPROVEMENT AREA A OF THE CITY OF PALMDALE
COMMUNITY FACILITIES DISTRICT NO. 2003-1
(ANAVERDE PUBLIC IMPROVEMENTS)
SPECIAL TAX BONDS, SERIES 2005-A

CITY OF PALMDALE

Dated: Date of Delivery **Due: September 1, as shown**

"Victorious warriors win first and then go to war, while defeated warriors go to war first and then seek to win." – Sun Tzu (400 BC)

With the passage of Proposition 218, public outreach, community input, and a subsequent campaign have become absolutely necessary to ensure the passage of any measure; in fact, an approval process is required for any new or increased special assessment or special tax. Thus, the development of any SFD calls for a vibrant public policy component, one that involves affected property owners and local voters.

Planning for an SFD often requires a long lead time to ensure success. Ultimately, a timeline with important milestones and clear responsibility for achieving the tasks is required. As well, strong leadership is needed throughout the process.

This monumental topic is the subject of other books and resources, so only a summary of the concepts is provided here. In general, however, the following questions must be asked:

- How strong is the desire or need for the project or service?
- What is the overall ability and desire to pay the proposed assessment or tax?
- Which is more appropriate - an assessment or tax?
- What are the commensurate approval thresholds and processes required?
- How long will the process take, and how will other events affect the timeline?
- How much outreach is required?
- What is the chance of success?

These key elements represent the essence of the proposed SFD and must be addressed to achieve success.

It is important to note that local governments may not advocate a new measure; however, they should offer clear information about the measure, its commensurate costs and benefits, and the overall process. If any advocacy is needed, and it usually is, private individuals or non-profit groups should be involved.

Included below is a list of 10 general key elements (provided by the League of California Cities) applicable for any successful revenue measure, which should be considered when approaching an SFD. Note that some of the language about a "ballot measure" is synonymous with a "proposed SFD initiative."

10 KEY ELEMENTS OF A SUCCESSFUL REVENUE MEASURE *

1. Develop a ballot measure responsive to public concerns; gather information about the public's concerns through polling.

2. Develop a strong expenditure plan for the money that will be generated by the proposed measure. Keep the proposal simple and include accountability measures such as sunset clauses and yearly audits reported to the public [Author's note – these are often required].

3. Draft factual ballot language and persuasive ballot arguments signed by community "white hat" organizations.

4. Gain unanimous support for the measure on the council – if the governing body is not united, the public will wonder if the measure is really a good proposal.

5. Pursue a strong grass roots campaign to gain every endorsement that can be mustered from the community and, in turn, educate the community about the importance of the measure.

6. Visit the editorial board of the local newspaper(s) to explain the need for the measure and to seek coverage.

7. Create a coalition of wide, diverse interests that represent the entire community.

8. Contact and speak to as many businesses and organizations as possible.

9. Engage in a strong letters-to-the-editor program and solicit placement of editorial (op-ed) features authorized by high-profile members of your coalition.

10. Create interesting and concise informational materials that emphasize key messages, address community concerns and clearly outline the benefits to the community.

Note: Because of restrictions on the use of public resources for advocacy efforts, achieving a number of these elements requires leadership and involvement from the private sector.

* Source: League of California Cities. Securing Voter Approval of Local Revenue Measures. 1999 Edition.

For additional perspective, Evette Davis of Berg Davis Public Affairs offers this advice:

Using Public Relations to Gain Support for Special Financing Districts
By Evette Davis, Berg Davis Public Affairs

In today's political climate, the use of Public Relations professionals in conjunction with the formation of Special Tax Assessment or Special Tax Financing Districts should be strongly considered by public officials. The subject of new "taxes" can be a hot button issue in many communities. Additionally, there are often well-established local anti-tax groups that act as self-appointed fiscal watchdogs, monitoring city and county budgets. If these kinds of groups and situations are not planned for in advance, officials can quickly find themselves in a defensive position moments after a new district has been proposed.

The key to the success of a new financing district is to treat the project as if it were a campaign – whether the measure is headed for the ballot box or not. While it may seem overtly political to be so calculating, the fact is that many agencies have quickly found themselves in retreat over new financing schemes simply because they did not anticipate any opposition. It is important for agencies to know whether a measure can even survive politically before they go to the trouble and expense to introduce it; being prepared for negative comments or even full-blown opposition in advance of introducing a measure to the public is the key to success.

Public Relations allows cities to use time-tested tools such as polling and focus groups to learn in advance about what kinds of districts communities will accept, what kinds of messages sway the public to be supportive and what kinds of messages can turn a voter off. These key messages can be used later to develop a comprehensive communications campaign to support a Special Financing District. Most successful opposition campaigns work because they sow the seeds of misinformation and doubt about the costs and benefits of a new tax or assessment. The key to succeeding in this kind of climate is to mount a very aggressive information campaign in advance of introducing a measure. Key opinion leaders should be engaged ahead of time to give their feedback and approval. Once cities have gained the acceptance of the most important decision makers, then the measure can be introduced with confidence.

It may be necessary to educate the public in advance of introducing a new Financing District. Public relations professionals can help public officials to develop education campaigns that draw on the key messages to help educate members of the community and voters in advance of introducing a measure. Once a measure has been proposed, cities can continue to support the initiative through the use of community relations to build partnerships with community groups to endorse the District and other tools such as direct mail.

Should a measure require the approval of voters, a public relations firm in conjunction with a good campaign consultant can help develop the strategy and messages necessary to win the ballot or voting process.

Over the years, many SFDs have come to fruition, and some have failed. A level of uncertainty exists throughout the process. The political winds blow in many directions, unpredictable events occur, and timelines can be extended. If there is a common thread of success, it revolves around leadership of the initiative and the strength of the need or desire.

To enact a successful SFD, strong leadership is crucial. An individual or a group must be the standard bearer. From there, the essential steps are as follows:

- Gather input
- Define the need
- Select the appropriate SFD mechanism
- Craft a simple message
- Execute the tasks over an appropriate timeline

This book has attempted to describe the types of SFDs available in California, and to illuminate the facets of these mechanisms. The goal is to provide the basics for each type of tool, so that the reader is better informed to take the essential steps forward.

I hope that this book has achieved the goal, and I invite your input and questions.

Tim Seufert
San Francisco

Contact information:

Email: tseufert@nbsgov.com

NBS corporate office mailing address:

32605 Temecula Parkway
Suite 100
Temecula, CA 92592

NBS San Francisco office mailing address:

870 Market Street
Suite 1223
San Francisco, CA 94102

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Below are three mini-case studies involving actual situations; these are used to demonstrate some of the nuances required when reviewing Special Financing District options:

1. Need – Additional Parking in Downtown Area

The installation of additional parking spaces was needed in a compact and lively downtown area of a city to accommodate the robust business environment. We were called upon by the City to investigate a number of SFD options, none of which would have been viable without the involvement and buy-in of the business and property owners.

Some of the more obvious choices were:
• Parking Districts Laws of 1943 and 1951
• Property and Business Improvement District Law of 1994 (PBID)
• Community Facilities District (Mello-Roos) Special Tax

The Special Tax would require a two-thirds majority of voters, but would be the most flexible in achieving many goals. The Parking District Laws have positive attributes, but have somewhat fallen out of favor. The PBID assessment can fund both capital (in 2004, capital funding was added to the statute) and services, and has a mechanism for private involvement in district management.

The usual political pressures and differing goals from various constituencies were evident. It was important to gather input from the property owners, and we discovered some additional interests beyond parking. Ultimately, the PBID mechanism was favored over the others.

2. Need – Funding for Street Trees

In many communities, we have seen the desire to increase the planting and maintenance for community trees. In many cases, a group will approach the City Manager with the idea of planting more trees throughout the City area. Such a project involves a large initial expenditure, followed by an ongoing level stream of maintenance and replacement costs. This has varying levels of impact throughout the City. The City can implement either a special assessment or tax, but each has pros and cons.

The options include:
• Landscape & Lighting District assessment
• Community Facilities District Special Tax
• Parcel Tax

The Tax measures require a two-thirds majority of voters, but have the most flexibility. An assessment would work, but it could be difficult to demonstrate the special benefit to justify an assessment. The assessment would require a mailed protest ballot process, and majority approval of affected property owners based on the ballots returned weighted by assessment amounts.

For each community, an assessment is needed of the baseline level of tree planting and maintenance, the community's unique environment and customs, before determining the best mechanism.

3. Need – Sewer Infrastructure

We worked with a Community Services District with a large geographic area that was supported by a failing septic system. The District General Manager was required to develop options for funding the collection system and an expansion of the sewer system that serves the rest of the area. The project involved a very large initial capital expenditure, followed by ongoing normal operating costs.

The options for acquiring the capital included:
- 1913/1915/1911 Act Assessment Districts
- Community Facilities District Special Tax
- Loan Program for Property Owners

The maintenance costs should be covered by the sewer rates, or a rate increase or other charge must be considered. Once again, the Special Tax option would require a two-thirds majority of voters, but has some flexibility. The assessment process would be expected to work well, but the special benefit for any public parcels must be taken into consideration as private property owners cannot be asked to pay for the portion of the program that would benefit public property. We determined, due to many of these conditions, that the Special Tax was the best route.

Category
Special Assessment

Overview
Landscape & Lighting Districts (L&L) can fund the installation and annual maintenance of:
- Landscaping
- Public Lighting
- Sidewalks, Curbs and Gutters
- Park or Recreational Improvements

In addition, an L&L may fund the acquisition of land for park, recreational, or open-space purposes. Bonds may be used for capital financing, but this is not common.

Who Can Use Them
Any public agency with the authority to provide such services can start an L&L. Cities are the most frequent user.

Requirements
A formation process is required, including appropriate planning and Assessment Engineering, an Assessment Engineer's Report, a public hearing, and a protest ballot process for affected landowners. A finding of benefit is required.

Underlying Legislation
California Streets and Highways Code, Section 22500 and following, entitled the Landscape and Lighting Act of 1972.

Category
Special Assessment

Overview
Benefit Assessment Districts (BAD) can fund the maintenance and operation costs of:

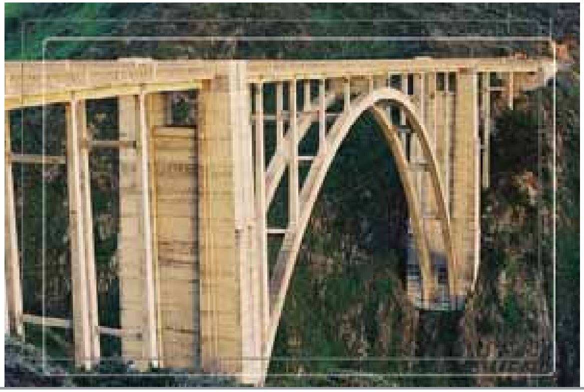
- Drainage
- Flood Control
- Street Lighting
- Street Maintenance

In addition, a BAD may fund the costs of installation and improvement of such facilities.

Who Can Use Them
Any public agency with the authority to provide such services can start a BAD. Cities are the most frequent user.

Requirements
A formation process is required, including appropriate planning and Assessment Engineering, an Assessment Engineer's Report, a public hearing, and a protest ballot process for affected landowners. A finding of benefit is required.

Underlying Legislation
California Government Code, Section 54703 et seq., entitled the Benefit Assessment Act of 1982.



Category
Special Assessment

Overview
1913/1915 Act Assessment Districts (1915 Act) can fund items that include the following:

- Public Works and Infrastructure
- Utility Infrastructure
- Real Property Acquisition
- Payment of Existing Special Assessment Liens

In addition, a 1915 Act may fund certain maintenance and repair costs for installed facilities.

Who Can Use Them
Any public agency with the authority to provide such services can start a 1915 Act.

Requirements
A formation process is required, including appropriate planning and Assessment Engineering, an Assessment Engineer's Report, a public hearing, and a protest ballot process for affected landowners. A finding of benefit is required.

Underlying Legistlation
California Streets & Highways Code, Section 10000 et seq., entitled the Municipal Improvement Act of 1913 and Section 8500 et seq., entitled the Improvement Bond Act of 1915.

Category
Special Assessment

Overview
Open Space Maintenance Districts (OSMD) can fund the costs of improving and maintaining open space areas, including:

- Improving and Protecting Open Spaces
- Planting and Maintaining Trees and Vegetation
- Removal of Aggressive and Noxious Plants
- Regulation as Necessary for Preservation

Who Can Use Them
Any public agency with the authority to provide such services can start an OSMD.

Requirements
A formation process is required, including appropriate planning and Assessment Engineering, a Report, a public hearing, and a protest ballot process for affected landowners. A finding of benefit is required.

Underlying Legislation
California Government Code, Section 50575 et seq., entitled the Open Space Maintenance Act.

Category
Special Tax

Overview
Community Facilities Districts (CFD), sometimes known as "Mello-Roos Districts" (Senator Henry Mello and Assemblyman Mike Roos were the original authors of the legislation), can fund certain public services on an annual basis as well as large infrastructure capital needs.

The services that may be funded include:
- Police Protection Services
- Fire Protection and Suppression Services
- Park, Parkways, and Open Space Maintenance
- Flood and Storm Protection Services
- Park or Recreational Improvements

Capital projects with a useful life of at least five years that may be funded include:
- Park, Recreation, and Open Space Facilities
- School Facilities
- Libraries
- Child Care Facilities
- Infrastructure Needs

Who Can Use Them
Any public agency with the authority to provide the types of services and facilities may form a CFD. Cities, counties, school districts, and special districts are common users of this tool.

Requirements
A formation process is required, including appropriate financial analysis and planning. A Special Tax Consultant will develop a Special Tax Formula and Report. There will be public hearings and either a mailed ballot process to property owners or a regular election if there are 12 or more voters in the district.

Underlying Legislation
California Government Code, Section 53311 et seq., entitled the Mello-Roos Community Facilities Act of 1982.

Category
Special Assessment

Overview
Property and Business Improvement Districts, known as PBIDs, can fund improvement items, including:
• Parking Facilities
• Benches, Kiosks, Shelters, and Signs
• Public Restrooms, Decorations, Parks, and Fountains
• Street, Sidewalk, and Plaza Improvements

In addition, a PBID may fund activities that include:
• Promotion of Public Events and Tourism
• Furnishing of Music
• Security, Graffiti Removal and Other Cleaning Services
• Other Services that Benefit Businesses and Real Property

Who Can Use Them
A city or county may form a PBID.

Requirements
A formation process is required, including appropriate planning and financial analysis, a Management Plan, and a public hearing, as well as a petition or a protest ballot process or both. A finding of benefit is required.

Underlying Legislation
California Streets & Highways Code, Section 36000 et seq., entitled the Property and Business Improvement District Law of 1994.

Note that many charter cities have created their own legislation that mirrors the PBID in most aspects. The City and County of San Francisco utilizes the friendly-sounding Community Benefits District (CBD) mechanism.

comparative table of taxes, assessments, fees, and charges

Category	Examples		Benefit Criteria	Approval Threshold	Act of Payment
Special Tax (including Special Property Tax)	Parcel Tax for Fire Suppression	Special Purpose Tax for Transportation	Not Required	Two-thirds (Voters[2])	Involuntary [1]
Special Assessment	Landscape & Lighting District for Park maintenance	1913/1915 Act Assessment District for Streets, Sewer, Water Infrastructure	Special [3]	Majority	Involuntary
General Tax	Basic Property Tax	Sales Tax	Not Required	Majority (Voters)	Involuntary [1]
Fees and Charges	Development Fee	Park Entrance Fee	Not Required [5]	Governing Body (or Voters)	Voluntary
Property-related Fees and Charges[4]	Fire Flow Charge	Unmetered Water Charge	Not Required [5]	Majority or two-thirds	Involuntary

Notes:
(1) Most general and special taxes typically must be paid as part of regular financial transactions, and are therefore categorized as "involuntary." However, it should be noted that a Sales Tax might be considered "voluntary" in that purchase of non-food items is not mandatory.
(2) Community Facilities Districts have a unique approval process involving property owners in situations of an "uninhabited" area, defined as less than 12 registered voters.
(3) Any general benefit associated with a Benefit Assessment must be paid for by other funding sources, as only special benefit may be assessed to properties.
(4) Fees and Charges are listed here for the purposes of illustration and comparison, but are not a subject matter of this book. Note that Proposition 218 categorically does not restrict fees for electricity, gas, and those imposed as a condition of development. Furthermore, the discussion of Property Related Fees and Charges and their relationship to Proposition 218 is lengthy, and continues to be debated in the public finance "court of opinion" as well as by the legal court system.
(5) Fees may not exceed the cost of the program or service provided, and there are legal limits on the distribution of fee obligations among those who pay them as well. Note passage of Proposition 26 in November 2010 causes some fees or charges to be labeled as "taxes" subject to voter approval. This is not the focus of this book, and left to other publications.

The focus of this book is on SFDs, which are represented by the first two categories in the table; the categories in gray are for comparative purposes.

Note that a General Obligation bond, which increases the ad valorem property tax rate, must be approved by a two-thirds majority of the registered voters voting in the election.

ABOUT THE AUTHOR

Tim Seufert is Managing Director of NBS, and works with many local public agencies in California. NBS is a private and independent firm that provides consulting and services to local government agencies across California, as well as outside the Golden State. Tim has been in the world of finance for well over 20 years. He spent a decade in the corporate Fortune 1000 private sector world, and over a decade in the local government public finance arena prior to writing this book. He has addressed various groups on financing topics including the League of California Cities, California Special District Association, the California Municipal Treasurers Association, and the California Society of Municipal Finance Officers. He is a graduate of the University of Southern California. When he is not working, Tim can be found roaming in San Francisco with his wife, chasing around their two young sons or perhaps skiing and hiking in the mountains.

CREDITS

This book would not have been possible without the advice, insight, and counsel of many knowledgeable people. I would like to note the following individuals for their contributions:

Geralin Reyes, NBS
Mike Rentner, NBS
Dave Ketcham, NBS
Pablo Perez, NBS
Michael Colantuono, Colantuono & Levin, PC
Evette Davis, Berg Davis Public Affairs
Thomas Fil, City of Belmont
Pauline Marx, City and County of San Francisco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fund tomorrow

City of Culver City, California

Finance Advisory Committee Agenda Item Report

Meeting Date: 04/09/2014	Item Number: A-2
AGENDA ITEM: Approval of Measure Y Status Report for Transmittal to City Council.	
Contact Person/Dept.: Jeff S. Muir/Finance	Phone Number: 310/253-5865
Public Notification: (E-Mail) Meetings and Agendas – Finance Advisory Committee (04/02/14)	
Department Approval: Jeff Muir (04/02/14)	

RECOMMENDATION:

Staff recommends that the Finance Advisory Committee (FAC) approve the draft Measure Y Status report and authorize transmittal to City Council.

DISCUSSION:

Item 2 on the FAC Work Plan is to 'Develop a methodology to analyze Measure Y proceeds and report the results to the public.' The attached draft Measure Y Status Report is a simple, one-page report that provides some background information on Measure Y, and shows budget versus actual results by fiscal year. It also includes the cumulative total received. The intention is for this report to be produced quarterly. Over time, additional fiscal years will be added to the graph. With approval of the FAC, and incorporating any changes requested by the FAC, staff will transmit this report to the City Council.

ATTACHMENTS:

Measure Y Status Report

MOTION:

That the FAC:

(1) Approve the draft Measure Y Status Report; and

(2) Authorize submission to the City Council.

FROM: The Finance Advisory Committee (FAC)

TO: City Council

DATE: April 9, 2014

CITY OF CULVER CITY

Measure-Y Sales Tax

Status Report 1

April 1, 2013 — March 31, 2014

The purpose of this report is to provide the Council and residents with a status update on Measure-Y revenue activity that occurred in the City through March 2014. This report captures the first full year of Measure Y sales tax collections.

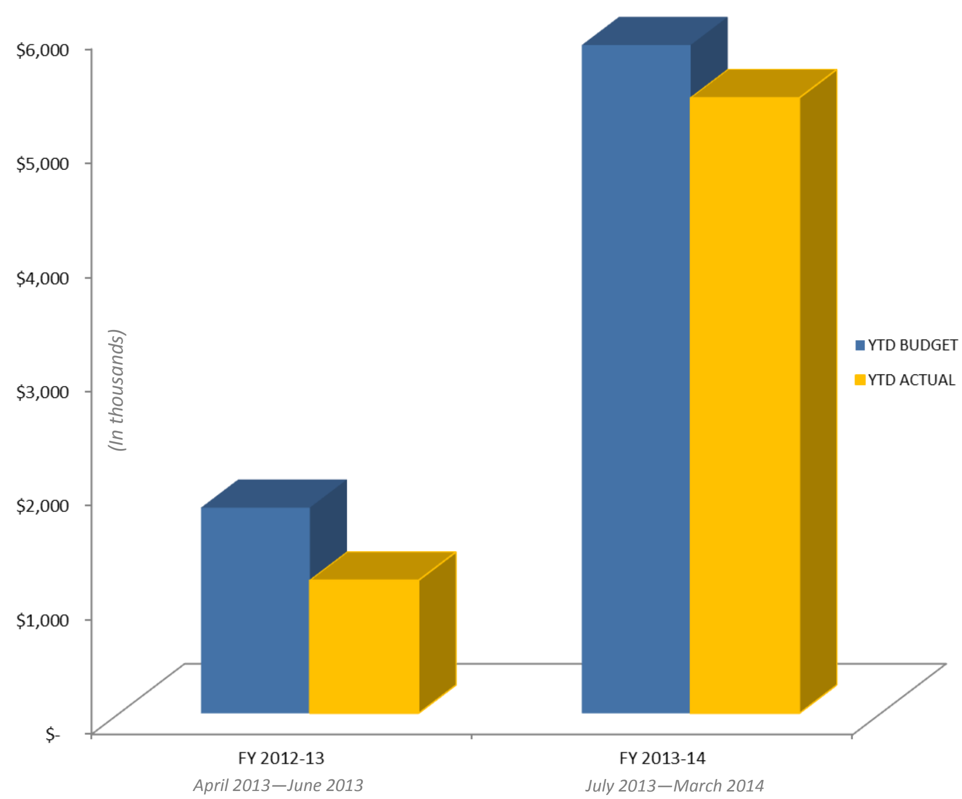
MEASURE-Y IN BRIEF

Measure-Y is a voter-approved one-half percent transaction and use tax adopted to maintain City of Culver City critical services. With the exception of certain goods sold to operators of common carrier aircraft, the transactions and use tax is imposed on the same goods and merchandise as the local sales and use tax. The 10-year measure received overwhelming voter approval in November 2012 and went into effect April 2013 to provide necessary resources to resolve the City's structural deficit issues and continue services at existing levels. Measure-Y contains a sunset provision, forcing the measure to expire on March 31, 2023 if not reauthorized by voters.

YEAR-TO-DATE MEASURE-Y REVENUES

It is estimated that Measure-Y will generate approximately $7.8 million for Fiscal Year 2013-14 or 8.5% of total operating revenues. Measure-Y funds are budgeted as part of the annual budget approval process by the City Council. Funds received are deposited into the City's General Fund and allocated to sustain general municipal functions.

Cumulatively, a total of $6.6 million in revenues has been raised since the measure's implementation. Approximately $5.4 million has been receipted in FY2013-14 as of the close of March.



City of Culver City, California

Finance Advisory Committee Agenda Item Report

Meeting Date: 04/09/2014	Item Number: A-3
AGENDA ITEM: Discussion of Draft Financial Policies.	
Contact Person/Dept.: Jeff S. Muir/Finance	Phone Number: 310/253-5865
Public Notification: (E-Mail) Meetings and Agendas – Finance Advisory Committee (04/02/14)	
Department Approval: Jeff Muir (04/02/14)	

RECOMMENDATION:

Staff recommends that the Finance Advisory Committee (FAC) hold discussion and provide feedback to staff on updated financial policies.

DISCUSSION:

Item 5 of the FAC Work Plan is to review and make recommendations on the City's current financial policies. The Budget Process and Financial Policies Subcommittee (Alexander, Hibbs, Kearney) presented recommendations regarding financial policies that were approved by the FAC in December. Staff has updated each document accordingly and returned four policies to the FAC for additional discussion and review. During previous meetings, the FAC has provided feedback on all policies with the exception of the following two items which were adjourned for discussion to the April FAC meeting:

City Council Policy 5002 – Financial Policies

This is a lengthy document that combines various financial policies into one central document. All sections of this document have been discussed except the *Debt Management* section.

FY 2013-2014 Investment Policy (Revised)

This policy is in a different format than the others, as the intention is that it be adopted annually. Updates for FY 2013-2014 have been delayed due to departmental time constraints. Normally, this policy does not change too much from year to year unless there are changes to the Government Code. As mentioned above, the City's investment of idle funds is strictly controlled by the Government Code and this policy is in line with those requirements. The City's investment advisor (currently Cutwater Asset Management) will in turn manage the City's portfolio, in consultation with the Chief Financial Officer, within the constraints of the policy.

ATTACHMENTS:

Policy 5002 – Financial Policies (*Debt Management Section Only*)
FY 2013-2014 Investment Policy

MOTION:

That the FAC:

(1) Hold discussion; and,

(2) Provide feedback to staff and/or City Council.

CITY OF CULVER CITY
COUNCIL POLICY STATEMENT

Policy Number **5002**

General Subject: Finance

Date Issued 1/23/1995

Specific Subject: Financial Policies

Dates Revised 7/16/2007
6/22/2009

Effective Date

Resolution No. 2014-Rxxx

PURPOSE:

To establish a comprehensive set of financial policies for the City that will serve as a guideline for operational and strategic decision making related to financial matters.

STATEMENT OF POLICY:

The following financial policies are intended to establish a comprehensive set of guidelines for use by the City Council and City staff on decision-making that has a fiscal impact. The goal is to maintain the City's financial stability in order to be able to continually adapt to local and regional economic changes. Such policies will allow the City to maintain and enhance a sound fiscal condition. This policy should be implemented in conjunction with associated subsidiary policies, i.e. Budget Development and Administration (5001), Purchasing Policy, Investment Policy, etc.

These financial policies will be reviewed annually to ensure that they remain current. The policy will be included as part of the City's annual Adopted Budget. The City's comprehensive financial policies shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

Financial policies included are:

- Long-term Financial Planning
- Auditing, Financial Reporting and Disclosure
- Revenue Collection
- Cash Management
- Capital Improvement Projects
- Financial Reserves
- Grant Administration
- Debt Management

DEBT MANAGEMENT POLICIES

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserves levels and employing prudent practices in governance, management, budget administration and financial reporting.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. A disciplined thoughtful approach to debt management includes policies that provide guidelines for the City to manage its debt program in-line with those resources. Therefore, the objective of this policy is to provide written guidelines and restrictions concerning the amount and type of debt issued by the City and the ongoing management of the debt portfolio.

This debt management policy is intended to improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

A. CONDITIONS AND PURPOSES OF DEBT ISSUANCE

1. Acceptable Conditions for the Use of Debt

The City believes that prudent amounts of debt can be an equitable and cost-effective means of financing major infrastructure and capital project needs of the City. Debt will be considered to finance such projects if:

a) It meets the City's goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents.
b) It is the most cost-effective funding means available to the City, taking into account cash flow needs and other funding alternatives.
c) It is fiscally prudent and meets the guidelines of this Policy. Any consideration of debt financing shall consider financial alternatives, including pay-as-you-go funding, proceeds derived from development or redevelopment of existing land and capital assets owned by the City, and use of existing or future cash reserves, or combinations thereof.

2. Acceptable Uses of Debt

The City will consider financing for the acquisition, substantial refurbishment, replacement or expansion of physical assets, including land improvements. The primary purpose of debt is to finance one of the following:

a) Acquisition and or improvement of land, right-of-way or long-term easements.

b) Acquisition of a capital asset with a useful life of 3 or more years.
c) Construction or reconstruction of a facility.
d) Refunding, refinancing, or restructuring debt, subject to refunding objectives and parameters discussed in Section E.
e) Although not the primary purpose of the financing effort, project reimbursables that include project planning design, engineering and other preconstruction efforts; project-associated furniture fixtures and equipment; capitalized interest, original issuer's discount, underwriter's discount and other costs of issuance.
f) Interim or cash flow financing, such as anticipation notes.

3. Prohibited Uses of Debt

Prohibited uses of debt include the following:

a) Financing of operating costs except for anticipation notes with a term of less than one year.
b) Debt issuance used to address budgetary deficits.
c) Debt issued for periods exceeding the useful life of the asset or projects to be financed.

B. USE OF ALTERNATIVE DEBT INSTRUMENTS

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding sources are reviewed by management within the context of the Debt Policy and the overall portfolio to ensure that any financial product or structure is consistent with the City's objectives. Regardless of what financing structure(s) is utilized, due-diligence review must be performed for each transaction, including the quantification of potential risks and benefits, and analysis of the impact on City creditworthiness and debt affordability and capacity.

1. Variable Rate Debt

Variable rate debt affords the City the potential to achieve a lower cost debt depending on market conditions. However, the City will seek to limit the use of variable-rate debt due to the potential risks of such instruments.

a) **Purpose**

The City shall consider the use of variable rate debt for the purposes of:

i. Reducing the costs of debt issues.
ii. Increasing flexibility for accelerating principal repayment and amortization.
iii. Enhancing the management of assets and liabilities (matching short-term "priced debt" with the City's short-term investments).
iv. Diversifying interest rate exposure.

b) **Considerations and Limitations on Variable-Rate Debt**

The City may consider the use of all alternative structures and modes of variable rate debt to the extent permissible under State law and will make determinations among different types of modes of variable-rate debt based on cost, benefit, and risk factors. The Chief Financial Officer shall consider the following factors in considering whether to utilize variable rate debt:

i. Any variable rate debt should not exceed 20% of total City General Fund supported debt.
ii. Any variable rate debt should be fully hedged by expected future Facility Financing Plan reserves or unrestricted General Fund reserve levels.
iii. Whether interest cost and market conditions (including the shape of the yield curves and relative value considerations) are unfavorable for issuing fixed rate debt.
iv. The likelihood of projected debt service savings when comparing the cost of fixed rate bonds.
v. Costs, implementation and administration are quantified and considered.
vi. Cost and availability of liquidity facilities (lines of credit necessary for variable rate debt obligations and commercial paper in the event that the bonds are not successfully remarketed) are quantified and considered.
vii. Ability to convert debt to another mode (daily, monthly, fixed) or redeem at par at any time is permitted.
viii. The findings of a thorough risk management assessment.

c) **Risk Management**

Any issuance of variable rate debt shall require a rigorous risk assessment, including, but not limited to factors discussed in this section. Variable rate debt subjects the City to additional financial risks (relative to fixed rate bonds), including interest rate risk, tax risk, and certain risks related to providing liquidity for certain types of variable rate debt.

The City will properly manage the risks as follows:

i. ***Interest Rate Risk and Tax Risk*** – The risk that market interest rates increase on variable-rate debt because of market conditions, changes in taxation of municipal bond interest, or reductions in tax rates. ***Mitigation*** **–** Limit total variable rate exposure per the defined limits and match the variable rate liabilities with short term assets.
ii. ***Liquidity/Remarketing Risk*** **–** The risk that holders of variable rate bonds exercise their "put" option, tender their bonds, and the bonds cannot be remarketed requiring the bond liquidity facility

provider to repurchase the bonds. This will result in the City paying a higher rate of interest to the facility provider and the potential rapid amortization of the repurchased bonds. **Mitigation -** Limit total direct variable-rate exposure. Seek liquidity facilities which allow for longer (5-10 years) amortization of any draws on the facility. Secure credit support facilities that result in bond ratings of the highest short-term ratings and long-term ratings not less than AA. If the City's bonds are downgraded below these levels as a result of the facility provider's ratings, a replacement provider shall be sought.

iii. ***Liquidity/Rollover Risk* –** The risk that arises due to the shorter term
of most liquidity provider agreements (1-5 years) relative to the longer-

iv. term amortization schedule of the City's variable-rate bonds. In particular, (1) the City may incur higher renewal fees when renewal agreements are negotiated and (2) the liquidity bank market constricts such that it is difficult to secure third party liquidity at any interest rate. ***Mitigation* –** Negotiate longer terms on provider contracts to minimize the number of rollovers.

2. Derivatives

The use of certain derivative products to hedge variable rate debt, such as interest rate swaps, may be considered to the extent the City has such debt outstanding or under consideration. The City will exercise extreme caution in the use of derivative instruments for hedging purposes, and will consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed. A comprehensive derivative policy will be adopted by the City prior to any utilization of such instruments.

C. REFUNDING GUIDELINES

The Chief Financial Officer shall monitor at least annually all outstanding City debt obligations for potential refinancing opportunities. The City will consider refinancing of outstanding debt to achieve annual savings. Absent a compelling economic reason or financial benefit to the City, any refinancing should not result in any increase to the weighted average life of the refinanced debt.

The City will generally seek to achieve debt service savings which, on a net present value basis, are at least 3% of the debt being refinanced. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Any potential refinancing shall additionally consider whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

Any potential refinancing executed more than 90 days in advance of the outstanding debt optional call date shall require a higher savings threshold. Consideration of this method of refinancing shall place greater emphasis on determining whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

D. MARKET COMMUNICATION, ADMINISTRATION, AND REPORTING

1. **Rating Agency Relations and Annual or Ongoing Surveillance** – The Chief Financial Officer shall be responsible for maintaining the City's relationships with Standard & Poor's Ratings Services, Fitch Ratings and Moody’s Investor’s Service. The City is committed to maintaining its existing rating levels. In addition to general communication, the Chief Financial Officer shall:

   a) Ensure the rating agencies are provided updated financial information of the City as it becomes publically available.
   b) Communicate with credit analysts at each agency at least once each year, or as may be requested by the agencies.
   c) Prior to each proposed new debt issuance, schedule meetings or conference calls with agency analysts and provide a thorough update on the City’s financial position, including the impacts of the proposed debt issuance.

2. **Council and Financial Planning and Budget Subcommittee Communication –** The Chief Financial Officer should report feedback from rating agencies, when and if available, regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses as they pertain to maintaining the City’s existing credit ratings.

3. **Continuing Disclosure Compliance** – The City shall remain in compliance with Security and Exchange Commission Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year, or as required in any such agreement for any debt issue. The City shall maintain a log or file evidencing that all continuing disclosure filings have been made promptly.

4. **Debt Issue Record-Keeping** – A copy of all debt-related records shall be retained at the City’s offices. At minimum, these records shall include all official statements, bond legal documents/transcripts, resolutions, trustee statements, leases, and title reports for each City financing (to the extent available).

5. **Arbitrage Rebate** – The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Chief Financial Officer shall ensure that all bond

proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.

E. CREDIT RATINGS

The City will consider published ratings agency guidelines regarding best financial practices and guidelines for structuring its capital funding and debt strategies to maintain the highest possible credit ratings consistent with its current operating and capital needs.

F. LEGAL DEBT LIMIT

Culver City Charter section 1603 indicates that the City shall not incur bonded indebtedness which shall in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation, for purposes of City taxation, of all the real and personal property within the City. While this limit defines the absolute maximum legal debt limit for the City, it is not an effective indicator of the City's affordable debt capacity.

G. AFFORDABILITY

Prior to the issuance of debt to finance a project, the City will carefully consider the overall long-term affordability of the proposed debt issuance. The City shall not assume more debt without conducting an objective analysis of the City's ability to assume and support additional debt service payments. The City will consider its long- term revenue and expenditure trends, the impact on operational flexibility and the overall debt burden on the tax payers. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and or maintain debt levels consistent with its current operating and capital needs. The Chief Financial Officer shall review benchmarking results of other California cities of comparable size with the City's Financial Planning and Budget Subcommittee prior to any significant project financing.

1. **General Fund-Supported Debt –** General Fund Supported Debt generally includes Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) which are lease obligations that are secured by an installment sale or by a lease- back arrangement between the City and another public entity. The general operating revenues of the City are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation.

   These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

   Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The lessee (City) is obligated to place in its Annual Budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

The City should strive to maintain its net General Fund-backed debt service at or less than 8% of available annually budgeted revenue. This ratio is defined as the City's annual debt service requirements on Certificates of Participation and Lease Revenue Bonds compared to total General Fund Revenues net of interfund transfers. This ratio, which pertains to only general fund backed debt, is often referred to as "lease burden."

2. **Revenue Bonds –** Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long- term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (Enterprise Revenues) and revenues generated from a project.

   In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (exclusive of depreciation which is a non-cash related expense) to estimated annual debt service. The City should strive to maintain a coverage ratio of 125% using historical and/or projected net revenues to cover annual debt service for bonds. The City may require a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

3. **Special Districts Financing –** The City's Special Districts primarily consist of 1913/1915 Act Assessment Districts (Assessment Districts). The City will consider requests for Special District formation and debt issuance when such requests address a public need or provide a public benefit. Each application will be considered on a case by case basis, and the Finance Department may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the City.

4. **Conduit Debt –** Conduit financing provides for the issuance of securities by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the City's faith and credit.

H. STRUCTURE OF DEBT

1. **Term of Debt –** Debt will be structured with the goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents. Borrowings by the City should be of a duration that does not exceed the useful life of the improvement that it finances. The standard term of long-term borrowing is typically 15-30 years.

2. **Rapidity of Debt Payment –** Accelerated repayment schedules reduce debt burden faster and reduce total borrowing costs. The Finance Department will amortize debt through the most financially advantageous debt structure and to the extent possible, match the City's projected cash flow to the anticipated debt service payments. "Backloading" of debt service will be considered only when one or more of the following occur:

   a) Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
   b) The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.
   c) Such structuring is beneficial to the City's aggregate overall debt payment schedule or achieves measurable interest savings.
   d) Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

3. **Level Payment –** To the extent practical, bonds will be amortized on a level repayment basis, and revenue bonds will be amortized on a level repayment basis considering the forecasted available pledged revenues to achieve the lowest rates possible. Bond repayments should not increase on an annual basis in excess of 2% without a dedicated and supporting revenue funding stream.

4. **Serial Bonds, Term Bonds, and Capital Appreciation Bonds –** For each issuance, the City will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, Capital Appreciation Bonds (CABs) may be used. The decision to use term, serial, or CAB bonds is driven based on market conditions.

5. **Reserve Funds –** The City shall strive to maintain fund balance in the Facilities Planning Reserve at a level equal to or greater than the maximum annual debt service of existing obligations.

~~"Exhibit A"~~

City of Culver City

Annual Investment Policy For Fiscal Year ~~2012~~2013-~~2013~~2014

Jeff Muir
Chief Financial Officer / City Treasurer

City of Culver City
Annual Investment Policy
Fiscal Year ~~2012-2013~~2013 - 2014

TABLE OF CONTENTS

1. INTRODUCTION

This statement of Investment Policy is intended to provide specific criteria for the prudent investment of City funds. The ultimate investment goal is to enhance the economic status of the City while protecting funds under management and meeting the daily cash flow demands of the City. The investment policy conforms to all Federal, State and local laws governing the investment of monies under the control of the Chief Financial Officer / City Treasurer.

This investment policy applies to the City's Investment Portfolio and Redevelopment Agency Portfolio. These portfolios encompass all monies under the direct oversight of the Chief Financial Officer / City Treasurer and include the General Fund, Reserve Funds, Special Revenue Funds, Debt Service Funds, Capital Project Funds, Proprietary Funds, Trust and Agency Funds, and any other funds that may be created.

2. DELEGATION OF AUTHORITY

The Charter of the City of Culver City and the authority granted by City Council assign the responsibility of investing unexpended cash to the City Treasurer. The Chief Financial Officer has been appointed to also serve as the City Treasurer. The Chief Financial Officer may delegate daily investment activity, such as carrying out the Treasurer's investment instructions, confirming treasury transactions, and other routine activities. The Chief Financial Officer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, PSA repurchase agreements, wire transfer agreements, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Chief Financial Officer.

The Chief Financial Officer is responsible for the investment of bond proceeds whether held by the City or with a fiscal agent. The Bond Proceeds portfolio(s) shall be segregated from the Pooled Investment Portfolio of the City and will be structured with maturities (or maintain an average maturity) sufficient to meet construction draws, debt service payments and other short-term liabilities. For purposes of efficiency, the Chief Financial Officer may instruct each fiscal agent to purchase certain securities regarding the investment of bond proceeds.

The Chief Financial Officer has delegated day-to-day management of the

Culver City Investment Portfolio to Cutwater Investor Services Corporation, who has full authority to execute investment transactions on behalf of the City, within parameters provided by the Chief Financial Officer. In the event Cutwater Investor Services Corporation is not able to execute investment transactions, the Chief Financial Officer and Revenue Division Manager have the authority to execute investment transactions.

3. ETHICS AND CONFLICTS OF INTEREST

Officers, employees and consultants involved in the investment process shall refrain from personal business activity that conflicts with proper execution of the investment program or that impair their ability to make impartial investment decisions. Employees and investment officials shall disclose any material financial interests that could be related to the performance of the City's investment policy annually or as necessary.

4. PRUDENCE

The Chief Financial Officer operates the City's pooled cash investment program under the Prudent Investor Rule, Government Code Section 53600.3, and applicable State laws. This affords a broad spectrum of investment opportunities so long as the investment is deemed prudent and permissible by the State of California, various bond indentures and this policy. The Chief Financial Officer strives to invest 100% of idle funds.

5. PRUDENT INVESTOR RULE

When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, the Chief Financial Officer shall act with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims to safeguard the principal and maintain the liquidity needs of the agency. All such investments, reinvestments, purchases, acquisitions, exchanges, and sales shall be made subject to and in accordance with this policy and the provisions of Sections 16429.1 and 53600 through 53684 of the Government Code and other applicable laws and regulations.

6. *INTERNAL CONTROLS*

The Chief Financial Officer shall establish procedures that separate the internal responsibility for management and accounting of the investment portfolio. An analysis by an external independent auditor shall be conducted annually to review internal controls, account activity and compliance with policies and procedures.

7. *INVESTMENT OBJECTIVES*

The City's cash management system is designed to accurately monitor and forecast revenues and expenditures, thus enabling the Chief Financial Officer to invest funds to the fullest extent possible. The Chief Financial Officer maintains a diversified portfolio to accomplish the primary objectives in the order of safety, liquidity, and yield.

Safety: The safety/risk associated with an investment refers to the potential loss of principal, accrued interest or a combination of these. The Chief Financial Officer seeks to mitigate credit risk by monitoring financial institutions with which he/she will do business, and by careful scrutiny of the credit worthiness of the investment instruments as well as the institutions. Such resources as Moody's and Standard & Poor's rating services are utilized for this review. The Treasurer seeks to mitigate interest rate risk through diversification of instruments as well as maturities.

Liquidity: The portfolio will be structured with sufficient liquidity to allow the Chief Financial Officer to meet anticipated cash requirements. This will be accomplished through the purchase of a diversity of instruments to include those with active secondary markets, those that can match maturities to expected cash needs, and the State Local Agency Investment Fund with immediate withdrawal provisions.

Yield: A competitive market rate of return is the third objective of the investment program after the fundamental requirements of safety and liquidity have been met. The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the City will seek to augment returns above the market average rate of return through the implementation of active portfolio management strategies.

8. PERFORMANCE EVALUATION

Investment performance is continually monitored and evaluated by the Chief Financial Officer. Investment portfolio reports are generated on a quarterly basis and submitted to the City Council, City Manager and Investment Committee.

The investment portfolio reports are to be submitted within 30 days of the end of the reporting period. The monthly average yield of the Culver City Pooled Investment Portfolio will be compared to the monthly average 6-month CMT (Constant Maturity Treasury) as calculated by the Federal Reserve Bank of New York. As an added reference, the monthly average yield of the Culver City Pooled Investment Portfolio will be compared to the monthly average 2-year CMT as calculated by the Federal Reserve Bank of New York.

9. DIVERSIFICATION

The City will diversify use of investment instruments to avoid unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities.

Market price volatility shall be controlled through maturity diversification, as well as ensuring adequate liquidity is available to meet cash flow requirements, thereby precluding the need to sell instruments at a market loss.

Risk of default will be controlled by acquiring instruments such as Government Securities, or by diversifying the portfolio within the constraints and parameters of Section 17 of this Policy, Authorized Investments.

10. PORTFOLIO SEGREGATION

Within the overall funds managed by the Chief Financial Officer, bond funds shall be invested in conformance with the permitted investment criteria documented in each bond indenture or guiding resolution. Furthermore, bond proceeds held by fiscal agents shall also be segregated and invested in accordance with each indenture.

The primary purpose in managing bond proceeds is to structure investment maturities to meet current and future liabilities. The preservation of principal and the maintenance of liquidity are the most important factors regarding the investment of bond proceeds. Portfolio yield is not a primary factor since the portfolio structure, eligible investment assets and maturity restrictions are governed by draws and expenditure schedules of the issues. Performance will be based upon maximizing permitted positive arbitrage within the context of principal preservation as a first priority (pre-1986 Tax Reform Act issuances) or minimizing or eliminating negative arbitrage (yield-restricted issues).

11. BOND ISSUANCE ARBITRAGE REBATE

The U.S. Tax Reform Act of 1986 requires the City to perform annual arbitrage calculations and rebate excess earnings to the U.S. Treasury for investment returns that exceed the allowable interest earnings limit of each bond issue. The arbitrage calculation process must be conducted for the investment of proceeds of bond issues sold after the effective date of this law. This arbitrage calculation will be contracted out to provide the necessary technical expertise to comply with this regulation. The City's investment position relative to the interest rate arbitrage restrictions is to have safety and the highest permitted return the law allows as the highest priority while ensuring the preservation of principal and liquidity.

12. MAXIMUM MATURITIES

(1) Operating Portfolio

In accordance to California Government Code Section 53601, the City will not invest in any securities maturing more than five (5) years from the settlement date of purchase. If the Chief Financial Officer desires to make investments longer than five years, express authority to make those investments, either specifically or as part of an investment program, must be approved by the City Council no less than three months prior to the investment. In no event will securities with maximum maturities beyond four years exceed 40% of the portfolio's total carrying cost at the time of purchase.

(2) Bond Proceeds

The Bond Proceeds portfolio held by the City and/or fiscal agents will be structured with maturities sufficient to meet current and future disbursements and other liabilities consistent with the purpose of each bond issue. The Chief Financial Officer may match maturities to defined future liabilities or may structure the portfolio in such a manner as to maintain an average maturity and a defined liquidity percentage necessary to meet estimated liabilities. In no event will securities be purchased with final maturities that exceed a specifically defined future liquidity requirement (such as bond reserve fund availability requirement) or liability.

13. PORTFOLIO REPORTING

On a quarterly basis, or as otherwise requested by the City Manager, the Chief Financial Officer shall provide to the City Council an investment portfolio report indicating each of the City's investments (a description that adequately describes the security), the purchase date, maturity date, cost basis, current cost value (book value), interest rate, weighted average maturity, and current unrealized loss or gain. Various investment types will be categorized and grouped in the same structure as the qualified investment categories identified in this policy. The portfolio report shall include a statement certifying the ability of the City to meet its expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may, not be available. The report will also include comments on the fixed income markets and economic conditions, and the effect, if any, on the portfolio structure and investment strategy. The report shall also detail all repurchase and reverse repurchase positions and associated liabilities.

The investment portfolio report shall include mark-to-market information for all investments. A monthly market value will be obtained for each security owned by the City. For purposes of reporting, the market value of each security may be obtained from the City's custodian bank or other pricing source(s) utilized by the City's designated investment management firm (registered investment advisor).

The City shall record interest revenue on a modified accrual basis of accounting that is typical for reporting and recording of interest earnings, accretions and premium amortizations. Securities held by a fiscal agent shall also be recorded on a modified accrual basis of accounting. The Chief Financial Officer will report year-end investments in conformance with GASB 31 and GASB 40.

The Chief Financial Officer will perform a monthly reconciliation of all funds included in the investment portfolios. The reconciliation shall utilize all available information including the City's books, the Demand Deposit Bank account, the custodian's statement and the fiscal agent's statement.

14. QUALIFIED DEALERS

The Chief Financial Officer shall transact business only with Registered Investment Advisors, banks, savings and loans, and broker dealers. The dealers should be primary dealers regularly reporting to the New York Federal Reserve Bank, or approved regional or secondary market dealers that qualify under the Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

A list of security broker/dealers approved to conduct business with the City shall be maintained by Cutwater Investor Services Corporation. ~~Approved broker/dealers shall be required to execute the Acknowledgement of Compliance Standards for Investment Transactions prior to conducting business with the City.~~

The Chief Financial Officer may direct a fiscal agent to execute investment transactions on behalf of the City for funds held by that fiscal agent.

The City may purchase A_1, P_1 rated commercial paper from its direct issuer if it presents a higher return than in the secondary market.

Cutwater Investor Services Corporation shall send annually a copy of the current investment policy by electronic mail to all broker/dealers approved to do business with the City. ~~Broker/dealers shall be required to provide a certification acknowledging receipt of the policy. Confirmation of receipt of this policy shall be considered evidence that the dealer understands the City's investment policies and agrees to sell the City only appropriate investments.~~

15. SAFEKEEPING OF SECURITIES

To protect against losses caused by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement or ~~PSA a~~Master Repurchase Agreement (repurchase agreement collateral) or, in the case of funds held by the fiscal agent, the fiscal agent shall segregate and report securities held on the City's behalf. Any trade executed by a dealer is required to settle on a delivery versus payment basis with the City's safekeeping agent.

Fiscal agents in receipt of City of Culver City bond proceeds will settle security transactions on a delivery versus payment method based upon instructions provided by the Chief Financial Officer or the City's investment advisor. The fiscal agents will issue monthly custodian statements evidencing securities held in safekeeping, including the receipt of interest and maturity proceeds, the disbursement of funds for the purchase of securities, and the receipt of any sale proceeds.

16. COLLATERALIZATION

All demand deposits, time deposits and repurchase agreements are to be fully collateralized with securities authorized by the California Government Code and the City.

(1) The eligible collateral for repurchase agreements must be those investments authorized by Section 53651 of the California Government Code. The Chief Financial Officer may specify the type of eligible collateral for use in repurchase agreements. Eligible collateral must be in book entry form. Collateral is valued at current market plus accrued interest through the date of valuation.

(a) The cost value (book value) of collateral pledged for demand deposits must at all time be equal to or greater than the amount on deposit, plus accrued interest, in accordance with the following ratio:

U.S. Treasury Securities	110%

(b) The cost value (book value) of collateral pledged for repurchase agreements must at all time be equal to or greater than the par amount, plus accrued interest, with the following ratios:

U.S. Treasury Securities	102%
U.S. Government Agencies	102%
Cash (in immediately available funds)	100%

(2) It is the policy of the City to require reports at least on a quarterly basis from institutions with which the Chief Financial Officer has pledged security interest. The Chief Financial Officer shall monitor the adequacy of collateralization to ensure that balances are collateralized in accordance with the ratios approved herein.

(3) With regard to repurchase agreements, it is the policy of the City to initiate a margin call in the event pledged collateral falls below the appropriate ratio.

(4) Collateralized investments and deposits often require substitution of collateral. Any broker or financial institution requesting substitution must contact the City for approval in the event the counterparty to the transaction is not authorized under agreement with the City to make substitutions.

17. AUTHORIZED INVESTMENTS

The City's investments and deposits ~~is~~ are governed by the California Government Code, Sections 16429.1, 53600-53609 and 53630-53686 ~~53600~~ et. seq. Within the context of these limitations and based on the cost at the time of purchase, the following investments are authorized as further limited herein:

Authorized Investment Summary Matrix

Category		Percent
A.	US Treasuries	no limit
B.	US Agencies	no limit
C.	Bankers' Acceptances	25%
D.	Commercial Paper	~~15%~~25%
E.	Repurchase Agreements	25%
F.	Reverse Repurchase Agreements	15%
G.	Local Agency Investment Fund (LAIF)	Per State limit
H.	Municipal Bonds	~~no limit~~30%
I.	Corporate Medium Term Notes	~~20%~~30%
J.	Money Market Mutual Funds	20%
K.	CalTrust MMF and Short-Term Funds	no limit
L.	CalTrust Medium-Term Fund	~~5%~~15%

A. United States Treasury Bills, Bonds, and Notes, or those for which the full faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of the portfolio that can be invested in this category.

B. United States Agency (government sponsored enterprise) debentures, discount notes, callable and step-up securities. There is no limitation as to the percentage of the portfolio that can be invested in this category.~~Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA), and the Student Loan~~

~~Marketing Association (SLMA)~~. Although there is no percentage limitation on these issues, no more than 30% of the cost (book) value of the portfolio will be invested in any one agency.

C. Bills of exchange or time drafts drawn on and accepted by a commercial bank, otherwise known as Bankers' Acceptances. Bankers' Acceptances purchased may not exceed 180 days to maturity or 25% of the cost (book) value of the portfolio. No more than 5% of the cost (book) value of the portfolio may be invested in Bankers' Acceptances issued by any one bank. Prior to the purchase of any Banker's Acceptance, the portfolio manager shall review the rating of the issuing bank. Bankers' Acceptances of issuing financial institutions shall have both a short and long term rating ~~in the highest category~~of at least A -1 or the equivalent by at least one nationally recognized statistical rating ~~agency~~ organization (NRSRO) at the time of purchase.

D. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of $500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least A or the equivalent by a NRSRO.

B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least A-1 or the equivalent by a NRSRO.

The aggregate investment in commercial paper may not exceed 25% of the cost value of the portfolio, and no more than 5% of the of the cost value of the portfolio may be invested in the commercial paper of any one issuer.

~~Commercial Paper ranked P1 by Moody's Investor Services and A1 by Standard and Poor's and issued by a domestic corporation having assets in excess of $500 million. The commercial paper must also have an A or better rating for the issuers debt, other than commercial paper, if any, as provided by Moody's or Standard and Poor's. Purchase of commercial paper from corporations on~~

~~negative credit watch by a major rating agency shall be prohibited. Purchases of eligible Commercial Paper may not exceed 270 days to maturity nor represent more than 10% of the outstanding paper of an issuing corporation. Purchases of Commercial Paper may not exceed 15% of the cost value of the portfolio at time of purchase. No more than 5% of the cost value of the portfolio may be invested in Commercial Paper issued by any one corporation. Corporate Medium Term Note and bankers' acceptance holdings shall be considered when calculating the maximum dollar amount in any issuer name.~~

~~Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the Chief Financial Officer and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.~~

E. Repurchase agreements. The City may invest in repurchase agreements with banks and primary dealers with whom the City has entered into a master repurchase agreement that specifies terms and conditions of repurchase agreements. No more than 25% of the cost value of the portfolio may be invested in repurchase agreements at any time. The maturity of repurchase agreements shall not exceed 75 days.

The cost value of securities used as collateral for repurchase agreements shall be monitored daily by the Chief Financial Officer and will not be allowed to fall below the margin ratios specified in Section 16 (1)(b) of this policy. In order to conform with provisions of the Federal Bankruptcy Code which provides for the liquidation of securities held as collateral for repurchase agreements, the only securities acceptable as collateral shall be securities that are direct obligations of, or that are fully guaranteed as to principal and interest by, the United States Government such as Treasury bills, Treasury notes or Treasury bonds with less than a five-year maturity.

F. Reverse repurchase agreements. The City may invest in reverse repurchase agreements only with those banks and primary dealers with whom the City has entered into a master repurchase agreement outlining terms and conditions of repurchase and reverse repurchase agreements. The City may only invest in reverse repurchase agreements for the following purpose:

1. The City may enter into reverse repurchase agreements

when funds obtained through the reverse can be reinvested in a higher yielding security to obtain additional interest income for the City at a spread deemed to be acceptable by the Chief Financial Officer under then prevailing market conditions. Reverse repurchase agreements entered into in accordance with this paragraph may not exceed 75 days to maturity and must be matched as to maturity and dollars invested with its corresponding reinvestment. No more than 15% of the cost value (book value) of the portfolio may be invested in reverse repurchase agreements.

2. Reverse repurchase agreements may be used for liquidity purposes when it is determined that the portfolio has sufficient additional collateral coming due within the term of the reverse repurchase agreement equal to or exceeding the amount of the reverse repurchase agreement.

G. Local Agency Investment Fund (LAIF). The City may invest in the LAIF established by the State Treasurer for the benefit of local agencies up to the maximum permitted by State law.

H. Municipal bonds including registered treasury notes or bonds of any of the 50 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the 50 states.

In addition, bonds, notes, warrants, or other evidences of indebtedness of any local agency in California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

Obligations rated "A" or the equivalent by a NRSRO at the time of purchase shall be limited to 36 month maturities, and obligations rated "AA" or the equivalent by a NRSRO at the time of purchase shall be limited to five-year maturities. The aggregate investment in municipal bonds may not exceed 30% of the cost value of the portfolio, and no more than 5% of the cost value of the portfolio may be invested in any single issuer.

~~Bonds issued by local agencies in the State of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a~~

~~department, bond, agency, or authority of the local agency rated "AA" or better. "AA" rated bonds shall be limited to 36 months maximum maturity and "AAA" rated bonds shall be limited to 60 months maximum maturity.~~

~~Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the Chief Financial Officer and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.~~

I. Corporate medium term notes issued by a domestic corporation having assets in excess of $500 million and having a rating of at least~~n~~ "~~"AA"~~A" or the equivalent by a NRSRO at the time of purchase ~~or better rating criteria at time of purchase~~ on its long-term debentures ~~as provided by Moody's or Standard and Poor's~~. Purchase of corporate medium term notes from corporations on negative credit watch by a major rating agency shall be prohibited. Obligations rated "A" or the equivalent by a NRSRO at the time of purchase shall be limited to 36 month maturities, and obligations rated "AA" or the equivalent by a NRSRO at the time of purchase shall be limited to five-year maturities. ~~"AA" rated medium term notes shall be limited to 36 months maximum maturity and "AAA" rated medium term notes shall be limited to 60 months maximum maturity.~~ The aggregate total of all purchased medium term notes may not exceed ~~20%~~30% of the cost value of the portfolio. No more than 5% of the cost value of the portfolio may be invested in corporate medium term notes issued by any one corporation. Commercial Paper and bankers' acceptance holdings shall be considered when calculating the maximum percentage in any issuer name.

~~Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the Chief Financial Officer and recommend a course of action. If at any time a security falls below "investment grade," the investment manager should obtain the best bid and take the necessary steps toward liquidation.~~

J. Money Market Mutual funds having a rating of AAA/Aaa or an equivalent by one or more ~~national rating agencies~~NRSROs with no load and maintained at $1 par value. No more than 20% of portfolio value should be invested in this category; investment in a single mutual fund will not to exceed 10% of the cost value (book value) of

Formatted: Body Text Indent 2, Indent: Left: 0", Hanging: 0.5", Hyphenate, Tab stops: Not at -0.5" + 0" + 0.5" the total portfolio exclusive of the fiscal agent cash portfolio, and the City's investment in any specific mutual fund will not exceed 2% of that mutual fund's total assets.

K. Investment Trust of California (CalTrust). The City may invest in the Money Market Fund and Short-Term fund established by this Joint Powers Authority. There is no limit on the percentage of the portfolio that can be invested in these funds.

L. Investment Trust of California (CalTrust). The City may invest in the Medium-Term fund established by this Joint Powers Authority. No more than 15% of portfolio value should be invested in this category.

Upon any announcement of negative credit watch or downgrade by a major rating agency of any issue within the portfolio, the investment manager should contact the Chief Financial Officer and recommend a course of action.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

18. INELIGIBLE INVESTMENTS

Investments not described herein including, but not limited to, equity securities such as common stocks, preferred stocks, convertibles, inverse floaters, range notes and interest-only strips that are derived from a pool of mortgages are prohibited from use in this portfolio. The City is prohibited from entering into a margin agreement and/or borrowing on margin.

19. INVESTMENT COMMITTEE

An Investment Committee shall be established consisting of but not limited to the Chief Financial Officer, members of the Chief Financial Officer's staff, two City Council members, and the City Manager.

20. INVESTMENT POLICY ADOPTION

The City Council shall review and adopt this Investment Policy annually.

GLOSSARY

AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions (e.g., S&L's, small business firms, students, farmers, housing agencies, etc.) Examples include Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB) and Federal Farm Credit Bank (FFCB).

ASK/OFFER - The price at which securities are offered. (The price at which a firm will sell a security to an investor)

BANKERS' ACCEPTANCE (BA) - A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the issuer.

BASIS POINT - One one-hundredth of a percent (i.e., 0.01%)

BEAR MARKET - A period of generally pessimistic attitudes and declining market prices.

BID PRICE - The price at which a broker/dealer will buy securities from an investor.

BOND EQUIVALENT YIELD - The basis on which yields on notes and bonds are quoted.

BOOK VALUE (COST VALUE) - The purchase price of the security as recorded on the City's books.

BROKER/DEALER – An individual or firm acting as principal in a securities transaction.

BULL MARKET - A period of generally optimistic attitudes and increasing market prices.

CALLABLES - Securities that the issuer has the right to redeem prior to maturity.

CERTIFICATE OF DEPOSIT (CD) - A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

CMT - Constant Maturity Treasury – An index of the average yield on United States Treasury securities adjusted to a constant maturity.

COLLATERAL - Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

COMMERCIAL PAPER - Commercial Paper is issued by leading industrial and financial firms to raise working capital. The maturities are from 3 to 180 days, usually sold on a discount basis. The City and Redevelopment Agency only buys Commercial Paper issued by corporations with the highest possible credit rating. Investments in Commercial Paper may not exceed 25% of the City or Redevelopment Agency's surplus funds.

CORPORATE MEDIUM TERM NOTE - A security issued by a corporation doing business in the U.S. with a maturity not to exceed five years.

COST VALUE (BOOK VALUE) - The purchase price of the security as recorded on the City's books.

COUPON - a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value; b) a certificate attached to a bond evidencing interest due on a payment date.

DEALER - A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

DEBENTURE - A bond secured only by the general credit of the issuer.

DELIVERY VS PAYMENT - Delivery of securities with a simultaneous exchange of money.

DEMAND ACCOUNT – An account with a commercial bank from which check withdrawals may be made at any time.

DERIVATIVES - Financial products that are dependent for their value on (or derived from) an underlying financial instrument, a commodity, or an index representing values of groups of such instruments or assets.

DISCOUNT - The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

DIVERSIFICATION - Dividing investment funds among a variety of securities offering independent returns.

FEDERAL CREDIT AGENCIES - Agencies of the Federal government set up to supply credit to various classes of institutions and individuals; e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) - A federal agency that insures bank deposits, currently up to $250,000 100,000 per deposit. Note that this is set to revert back to $100,000 per deposit on December 31, 2009 unless extended by Congress.

FEDERAL FUNDS RATE – Interest rate charged by one institution lending federal funds to another.

FEDERAL HOME LOAN BANKS (FHLB) - Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA) - FNMA, like GNMA was charted under the Federal National Mortgage Association Act in 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

FEDERAL OPEN MARKET COMMITTEE (FOMC) - Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while the other presidents serve on a rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

FINANCIAL ADVISOR - A firm or bank that acts in a financial advisory capacity with respect to a new issue of municipal securities pursuant to a written contract.

FISCAL AGENT - A financial institution with trust powers which acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA or Ginnie Mae) - Securities influencing the volume of bank credit guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by the FHA, VA or FmHA mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

INTERNAL RATE OF RETURN - Rate of return over the life of a security on variables.

INVESTMENT TRUST OF CALIFORNIA (dba CalTRUST) – A Joint Powers Authority investment pool administered by the California State Association of Counties, and sponsored by the League of California Cities.

LIQUIDITY - A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

LOCAL AGENCY INVESTMENT FUND (LAIF) - The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

MARKET VALUE - The price at which a security is trading, usually the liquidation value.

MONEY MARKET MUTUAL FUNDS – Open-ended mutual fund that invests in commercial paper, banker's acceptances, repurchase agreements, government securities, certificates of deposit and other highly liquid and safe securities, and pays money market rates of interest. The fund's net asset value remains a constant $1 a share, with the interest rate increasing or decreasing.

OFFER PRICE - The price at which a broker/dealer will offer securities to an investor.

OPEN MARKET OPERATIONS - Federal Reserve activity. Under the Federal Reserve Act, the Fed uses purchases and sales of Government and Federal Agency securities to add to or subtract from commercial bank reserves. Goals are to sustain economic growth, high employment and reasonable price stability.

PAPER GAIN OR LOSS - Term used for unrealized gain or loss on securities being held in a portfolio based on comparison of current market quotes and their original cost. This situation exists as long as the security is held while there is a difference between cost value (book value) and the market value.

PRIMARY DEALER - A group of government securities dealers that submits daily reports of market activity, positions and monthly financial statements to the Federal Reserve Bank of New York, and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker/dealers, banks and a few unregulated firms.

PSA - The Public Securities Association is the international organization of banks, dealers and brokers that underwrite, trade and sell municipal securities, mortgage-backed securities, money market securities and U.S. government and federal agency securities.

RATE OF RETURN - The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity; on a bond, the current income return.

SAFEKEEPING - The service provided by banks and trust companies for clients when the bank or trust company stores the securities, takes in coupon payments, and redeems issues at maturity.

SPREAD - a) The yield or price difference between the bid and offer on an issue; b) the yield or price difference between different issues.

SWAP - The sale of one issue and the simultaneous purchase of another for some perceived advantage.

TREASURY BILLS - A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

TREASURY BONDS – U.S. Treasury securities that have initial maturities of more than ten years.

TREASURY NOTES - Intermediate-term coupon bearing U.S. Treasury securities having initial maturities of from one year to ten years.

TRUSTEE - A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the bond contract.

WHEN ISSUED BASIS (WI) - A term applied to securities that are traded before they are actually issued with the stipulation that transactions are null and void if securities are not issued.

YIELD CURVE - Yield calculations of various maturities at a given time to observe spread difference.

YIELD TO MATURITY - The current coupon yield minus any premium above par, or plus any discount from par in the purchase price with the adjustment spread over the period from date of purchase to maturity.

City of Culver City, California

Finance Advisory Committee Agenda Item Report

Meeting Date: 04/09/2014	Item Number: A-4
AGENDA ITEM: Invitation to Commissions, Committees, and Board to Provide Comment during the City's Fiscal Year 2014/2015 Budget Process.	
Contact Person/Dept.: Jeff S. Muir/Finance	Phone Number: 310/253-5865
Public Notification: (E-Mail) Meetings and Agendas – Finance Advisory Committee (04/02/14)	
Department Approval: Jeff Muir (04/02/14)	

RECOMMENDATION:

Staff recommends that the Finance Advisory Committee (FAC) receive the invitation from the City Council to provide comments during the City's Fiscal Year 2014/2015 Budget Process.

BACKGROUND AND DISCUSSION:

Beginning with the upcoming Fiscal Year (Fiscal Year 2014/2015), the City Council has approved an enhanced budget process. This process provides additional opportunities for the public to provide input into the budget document. Further, the City Council has specifically invited members of the City's Commissions, Committees, and Boards to provide comments during the City's Fiscal Year 2014/2015 Budget Process.

Attached is the Budget Calendar for this fiscal year. Members of the City's Commissions, Committees and Board are welcome to attend any and all of the public meetings of the City Council at which the budget will be reviewed and ultimately considered for adoption by the City Council.

As the City Manager's Proposed Budget for Fiscal Year 2014/2015 is created, Members of the City's Commissions, Committees, and Board are welcome to provide comments on the proposals. As the process moves forward, you may transmit any comments on the budget to the staff supporting your body.

ATTACHMENTS:

Budget Calendar – Fiscal Year 2014/2015

MOTIONS:

That the Finance Advisory Committee:

Acknowledge the invitation from the City Council to provide comments during the City's Fiscal Year 2014/2015 Budget Process and receive and file this report.

Budget Calendar
Fiscal Year 2014 - 15

OB=Operating Budget **CIP=Capital Improvement Program** **SA=Successor Agency**

BUDGET	DUE DATE	PARTICIPANTS	TASK/ACTIVITY
OB/CIP	11/25/2013	Budget & Finance	Preliminary General Fund Year-End Report on FY12-13
OB/CIP	1/13/2014	Budget & Finance	Open Online "Citizen Budget Input Box" for budget input ideas
OB/CIP/SA	Week of 1/20/2014	Budget & Finance	Mid-Year Budget Review Process Kick-Off
OB/CIP	2/10/2014	Budget & Finance	Print Public Notice (for 2/24/2014)
OB/CIP/SA	Week of 2/10/2014	City Manager/ Executive Management/ Budget & Finance	Mid-Year Review Departmental Meetings with City Manager (if needed)
OB/CIP/SA	2/24/2014	City Council/ City Manager / Budget & Finance / Executive Management	City Council Presentation - Presentation of Mid-Year Results - Projection for year-end and Updated 5-Year Forecast - City Council Input on Work Plans & Priorities - Pre-Proposed Budget Public Comment Period
OB/CIP/SA	2/1 - 3/31/2014	Commissions / Boards / Committees	Commissions, Boards & Committee Discussion on Budget/Work Plan Recommendations
OB/CIP	3/10/2014	Budget & Finance	Print Public Notice (for 3/24/2014)
OB/CIP	3/10/2014	City Council/ City Manager / Budget & Finance / Executive Management	- Department Presentations & Discussions of FY13-14 Work Plan Status Updates & Proposed FY14-15 Work Plans
OB/CIP/SA	3/24/2014	City Council	2nd Pre-Proposed Budget Public Comment Period
OB/CIP/SA	3/25/2014	Budget & Finance / Executive Management	Budget Kickoff - Distribute work packets/guidelines, and other materials - Distribute Capital Project Forms - Presentation on Budget Preparation
OB/CIP/SA	4/8/2014	Commissions / Boards / Committees	Commission, Boards & Committees Recommendations Due to Applicable Department Director and City Manager
OB/CIP	4/11/2014	Executive Management	Budget Materials Due from Departments - Departments Submit Proposed Budget - Departments Submit Proposed Capital Improvement Projects

Budget Calendar
Fiscal Year 2014 - 15

OB=Operating Budget **CIP=Capital Improvement Program** **SA=Successor Agency**

BUDGET	DUE DATE	PARTICIPANTS	TASK/ACTIVITY
OB/CIP/SA	4/14 - 4/25/2014	City Manager/ Executive Management/ Budget & Finance	Departments meet with City Manager (as necessary)
OB/CIP	4/28/2014	Budget & Finance	Print Public Notice (for 5/12/2014)
OB/CIP/SA	4/28-5/7/2014	Budget & Finance	Prepare and assemble 2014-15 Proposed Budget and Related Documents / Prepare Gann Limit / Prepare "Budget at a Glance"
OB/CIP/SA	Week of 5/5/2014	Information Technology Dept. - Graphic Services	Print Proposed Budget Documents
OB/CIP/SA	5/12/2014	City Council/City Manager/Budget & Finance	Presentation of Proposed Budget / Public Comment
OB/CIP	5/12/2014	Budget & Finance	Release of "Budget at a Glance" Document
OB/CIP/SA	Week of 5/19/2014	City Council/City Manager/Budget & Finance/Executive Management	Departmental Presentations to City Council
OB/CIP	5/26/2014	Budget & Finance	Print Public Notice (for 6/9/2014)
OB/CIP	6/9/2014	City Council	2nd Public Comment Period on Proposed Budget
OB/CIP	6/9/2014	Budget & Finance	Print Public Notice (for 6/23/2014)
OB/CIP/SA	6/23/2014	City Council/City Manager/Budget & Finance	Final budget Public Hearing / Budget Adoption - Adopt 14-15 Budget and Prop 4 Gann Limit - Adopt 14-15 Capital Budget - Adopt 14-15 SA Budget
OB/CIP/SA	7/1/2014	Budget & Finance	Implement Adopted 2014-15 Budget
OB/CIP/SA	July / August 2014	Budget & Finance	Update budget book to reflect City Council and SA Board decisions and update final 2013-14 accomplishments
OB/CIP/SA	July / August 2014	IT/Graphic Services	Print Adopted Budget Document
OB/CIP/SA	July / August 2014	Budget & Finance	Post Adopted Budget on City Website