

## **Additional Policies Regarding Land-Secured and Conduit Financing**

The purpose of the Additional Policies Regarding Land-Secured and Conduit Financing is to facilitate the acquisition and construction of public facilities on commercial, industrial, and residential properties by promoting the health and welfare of developed areas; the orderly development of the City; and the development of needed commercial or industrial property.

The policies consist of guidelines and requirements for such item as:

- Project costs and reimbursement policies
- Agreements required
- Project feasibility information
- Appraisals/Value to lien ratios
- Credit enhancements
- Special tax formulas
- Continuing disclosure and notification requirements

## **Credit Rating**

A major portion of the City's financings has been through the issuance of special assessment district debt. These assessment and Mello-Roos district bonds are land secured financings where developments are not yet completed at the time of issuance, and are therefore not rated.

The City's general obligation bonds are rated A1 by Moody's Investor's Service and A+ by Standard and Poor's. The City's Certificates of Participation (COP's) issued to finance essential facilities such as the 2001 Central District Fire Station are rated A3 by Moody's. COPs issued for non-essential facilities, such as parks are rated in the BBB range. The City has typically opted to purchase bond insurance to enhance its credit rating to AAA. A bond insurance policy guarantees payment of principal and interest on bonds due for payment should the City fail to make a bond payment.

The City is in the process of actively seeking a rating upgrade from the major credit rating agencies based on the City's current financial condition.

## **Types of Debt Financing Instruments**

### **A. General Obligation Bonds:**

The California Constitution provides for the issuance of General Obligation Bonds by cities subject to a two-thirds approval of voters on the bond proposition. General Obligation Bonds are secured by the full faith and credit of the City. Ad valorem taxes are levied on all real property within the City for the payment of annual principal and interest on the bonds.

**B. Lease Revenue Bonds and Certificates of Participation:**

Lease Revenue Bonds and Certificates of Participation are lease obligations secured by an installment sale agreement or by a leaseback arrangement with a public entity. The City pledges general operating revenues to pay the lease payments. The lease payments are in turn used to pay principal and interest on the Certificates of Participation. Under State law these obligations do not constitute indebtedness and are therefore not subject to voter approval. Lease payments may not be accelerated as they are payable only in the year in which use and occupancy of the leased property is available. The City is obligated to annually budget for the rentals that are due and payable during each fiscal year that it has use of the leased property.

**C. Public Enterprise Revenue Bonds:**

Public Enterprise Revenue Bonds are issued to finance facilities for a revenue producing enterprise such as a water or sewer system. California courts have determined that under the State Constitution cities may issue revenue bonds without a two-thirds voter approval in a bond election because the revenues are not payable from taxes or the general fund of the City. Rather principal and interest on the bonds is payable from the revenues produced by the enterprise, including such items as service charges, tolls, connection fees, admission fees and rents.

**D. Special Assessment Districts/Mello-Roos Community Facilities District Bonds:**

The City may establish special assessment or Mello-Roos Community Facilities Districts under various sections of State law to issue bonds for the financing of infrastructure and public facilities improvements in connection with land development. The issuance of these bonds is subject to a two-thirds approval of the landowners voting within the proposed district. The security for the bonds is provided by properties within the district. The properties are assessed for amounts proportionate to the benefit received from the improvements financed for the payment of annual principal and interest on the bonds. The City is not liable for the repayment of these bonds, but rather acts as an agent for the property owners/bondholders in collecting and forwarding the special assessments.

## **Folsom Public Financing Authority**

The City of Folsom authorized the formation of a joint powers authority with the Folsom Redevelopment Agency to be known as the Folsom Public Financing Authority in 1988, under Title 1 of the California State Government Code. The Authority is authorized, but not limited, to issue bonds for the purpose of financing facilities and improvements. The Authority provides financing to other funds and agencies of the City on a cost reimbursement basis.