

October 30, 2008



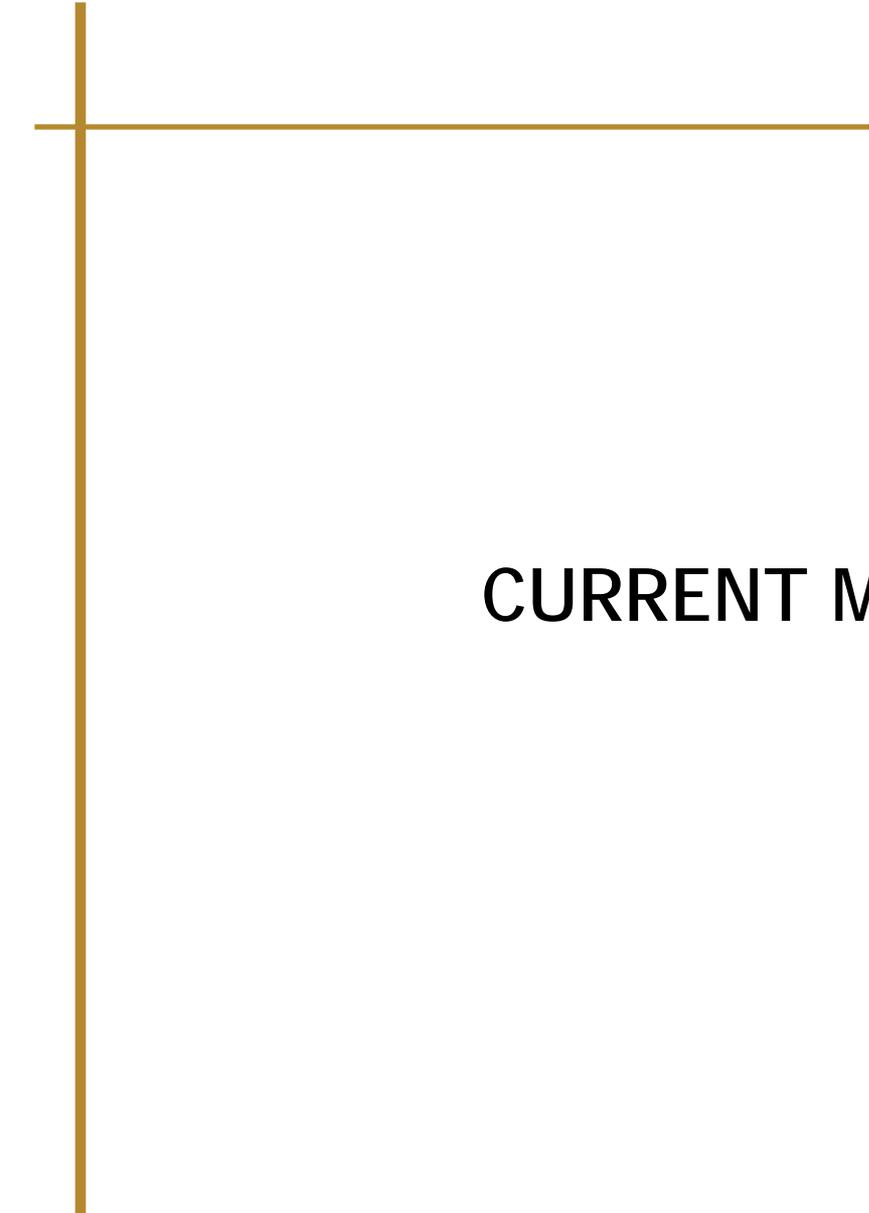
## BONDING AND BEYOND: COMMUNITY DEVELOPMENT

*Finance Strategies to "Make It Happen"*

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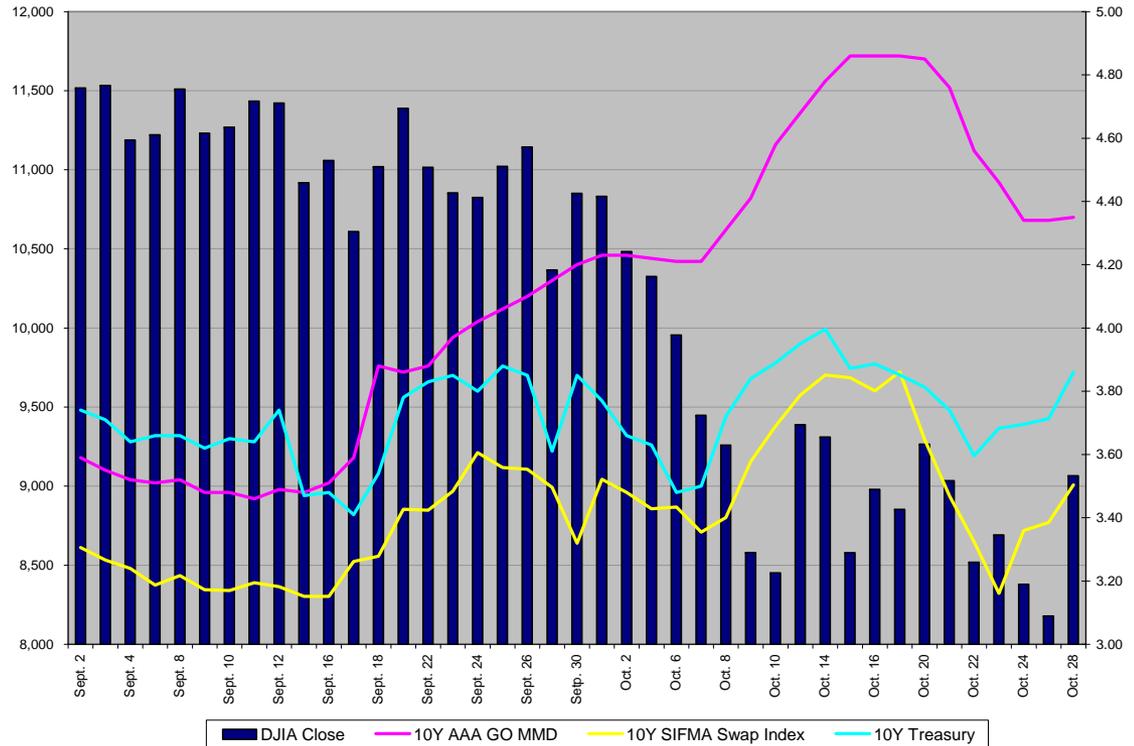
# CURRENT MARKET UPDATE

# Recent Market Update

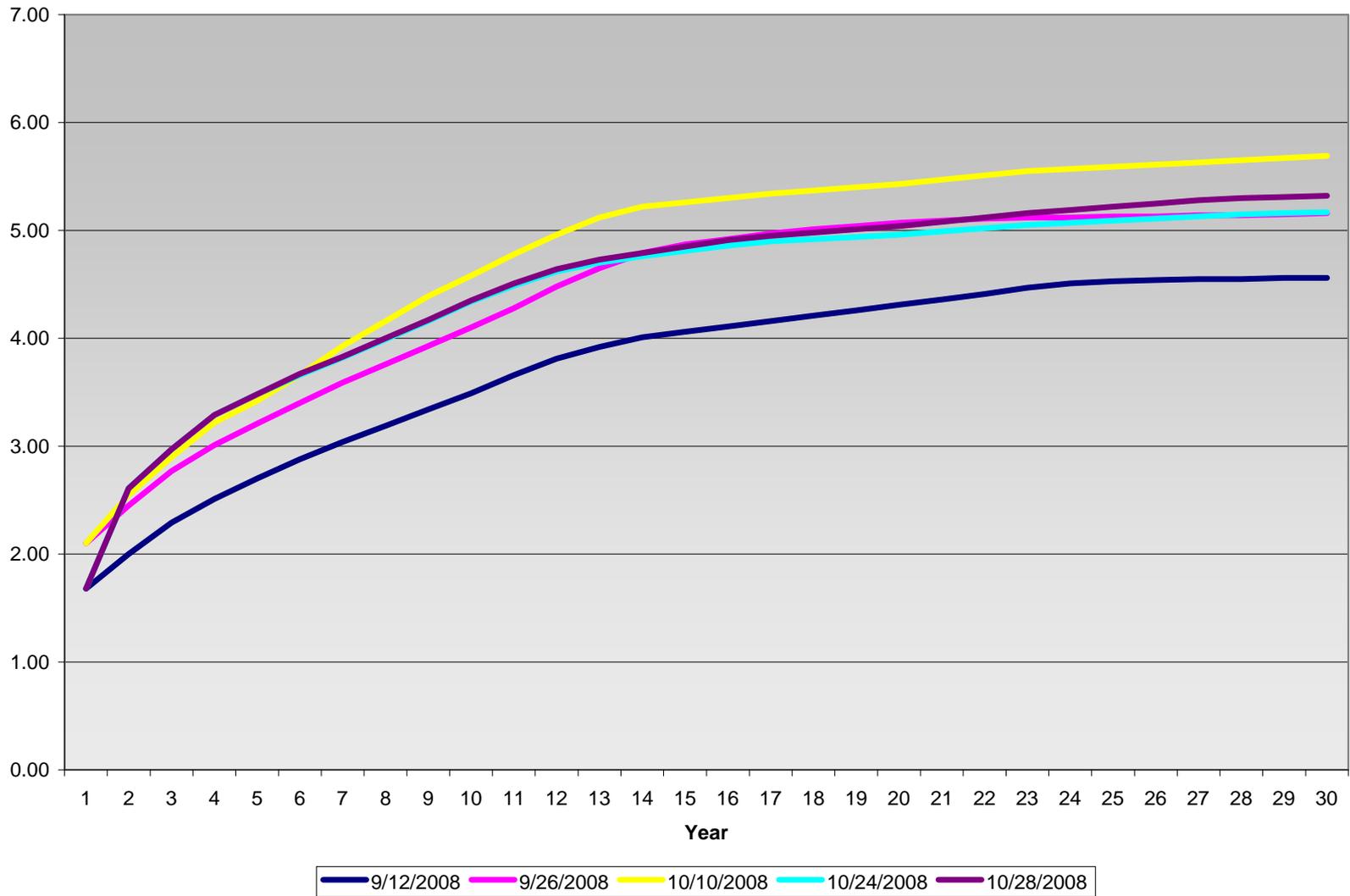
- ◆ The financial markets have experienced extreme volatility in the past few weeks as a result of economic releases, rating downgrades, announced acquisitions and general uncertainty
- ◆ **Week of September 15th**
  - Lehman files for bankruptcy; Barclay's announces purchase of Lehman broker/dealer
  - Bank of America announces buyout of Merrill Lynch
  - Reserve Primary Fund NAV falls below 1 ("breaks the buck")
  - AIG downgraded; \$85MM US Government bailout
  - Investors withdraw \$80 billion from money market funds
  - Treasury Secretary proposes \$700 billion proposal asking for quick Congressional approval
- ◆ **Week of September 22th**
  - Berkshire Hathaway announces \$5 billion investment in Goldman Sachs
  - JPMorgan announces purchase of Washington Mutual
  - Tentative agreement by the Administration and leaders of Congress on TARP
- ◆ **Week of September 29th**
  - Citigroup announces purchase of Wachovia assets; Wells Fargo counter proposal by week's end
  - House of Representatives rejects TARP; DJIA declines 777 points
  - Senate passes revised "Bailout Plan"; House passes revised plan on Friday
  - Labor Department reports seven-year high for unemployment
  - California indicates it may need \$7 billion in federal funding
- ◆ **Week of October 6th**
  - Fed cuts Fed Fund Target Rate by 50 bps to 1.50%
  - DJIA falls below and remains below 10,000
  - 1M LIBOR increases to 4.51%; 3M LIBOR increased to 4.75% (October 9, 2008)
- ◆ **Week of October 13th**
  - DJIA despite large up and down swing ends slightly positive
  - 1M LIBOR falls to 3.75%; 3M LIBOR falls to 4.06%
  - Total municipal volume of \$1.6 billion down \$300 million from prior week; \$3 billion slated for week of the 20th

# Volatility in Current Markets

- ◆ US Treasury and swap rates reacted to market news, economic releases and in anticipation of Congressional action on TARP
- ◆ Flight to quality as investors look toward security of US Treasury instruments; especially short-term (3- and 6-month T-Bills)
- ◆ The equity market also reacted to the same data but with a general downward trend
- ◆ Municipal interest rates dramatically increased as funds for investment decreased and supply increased but have recently improved

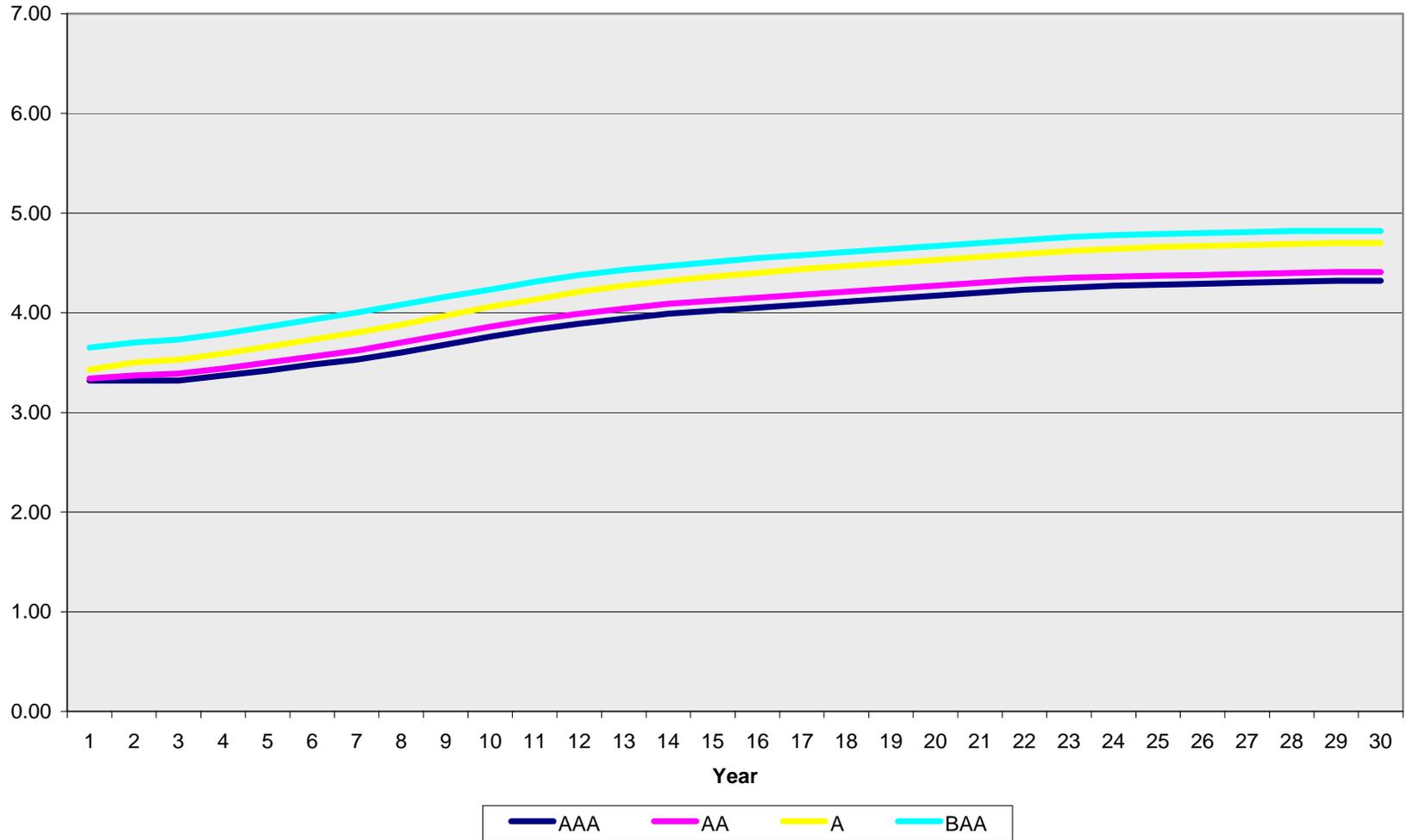


# Recent Movement in AAA MMD Index

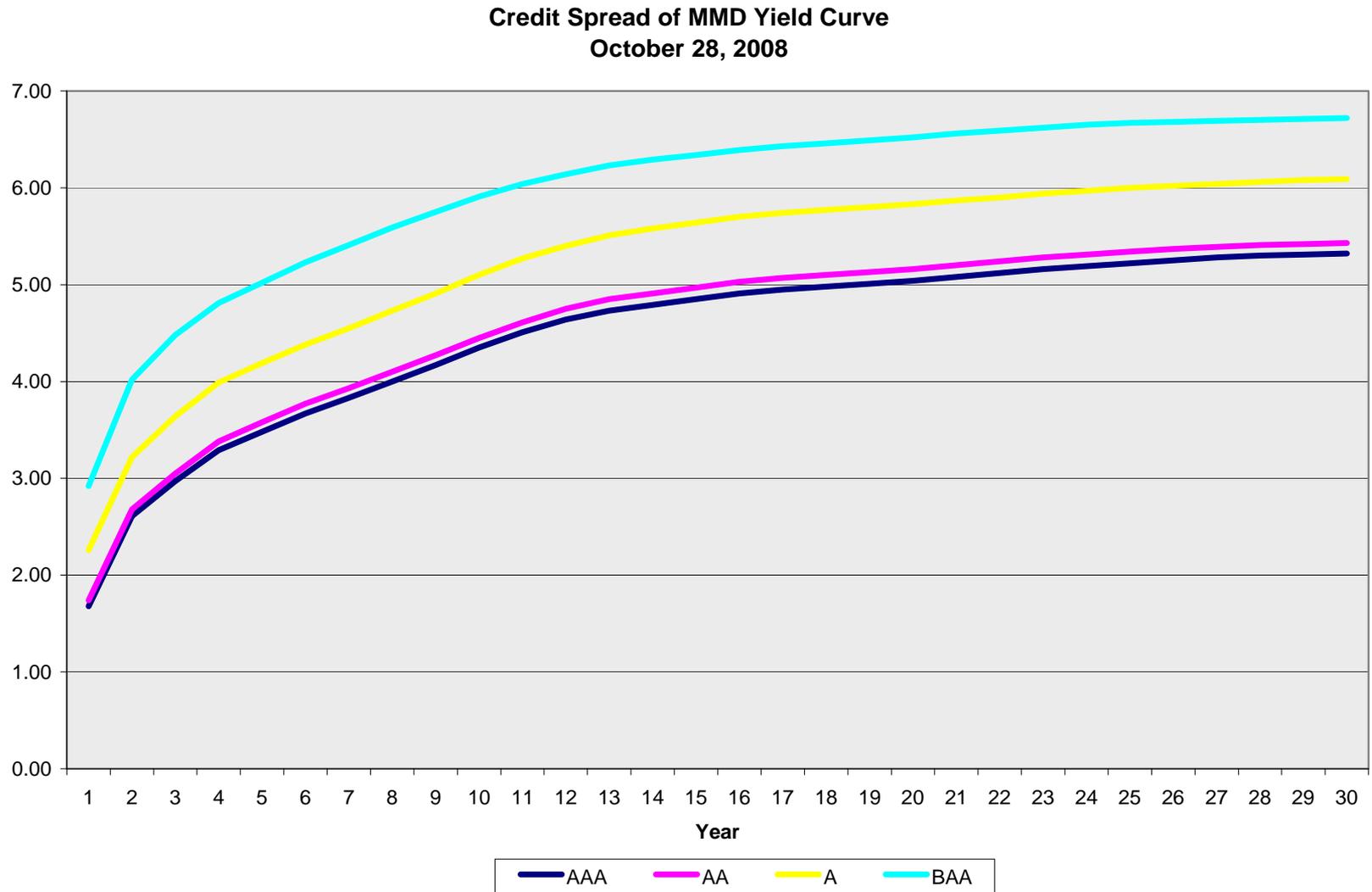


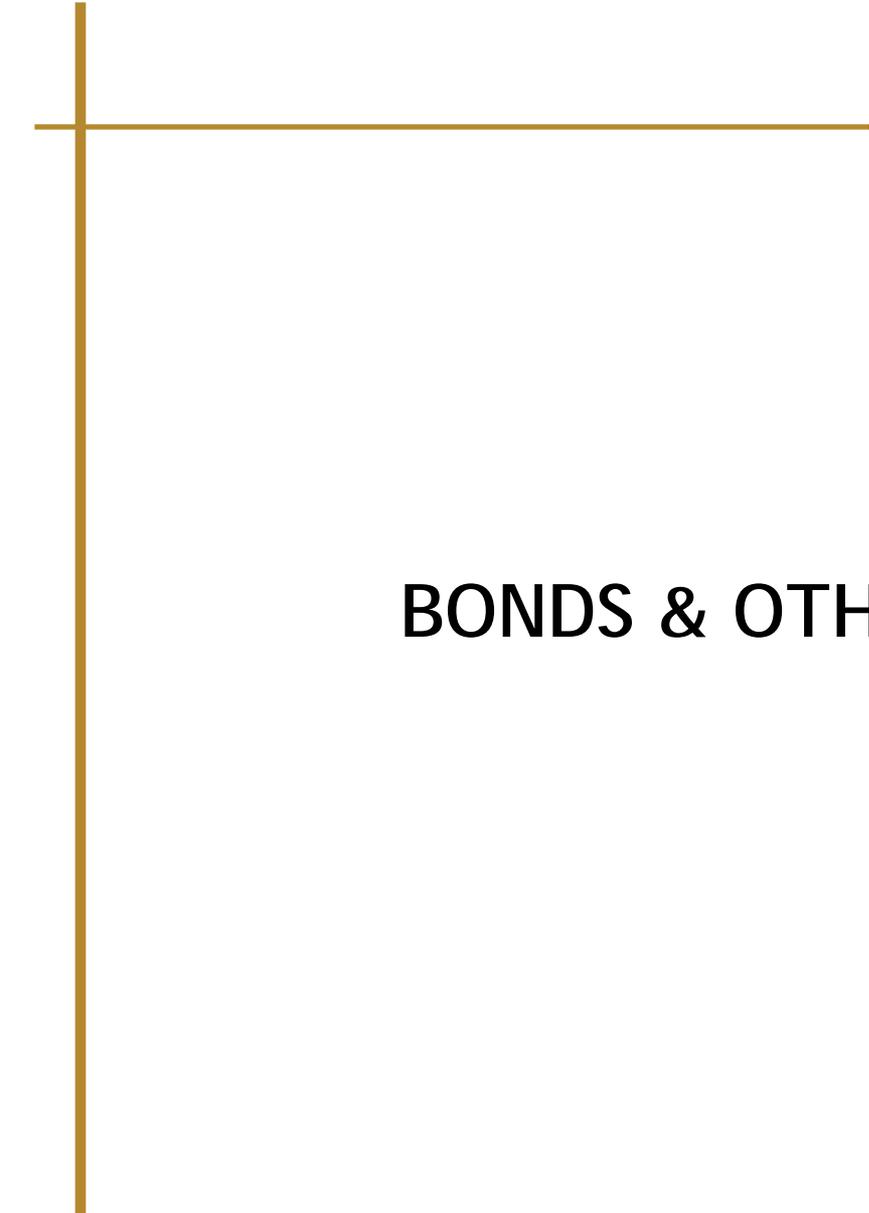
# Credit Spread of MMD Yield Curve - October 28, 2007

Credit Spread of MMD Yield Curve  
October 28, 2007



# Credit Spread of MMD Yield Curve - October 28, 2008





# BONDS & OTHER FINANCING TOOLS

# What Are Tax-Exempt Bonds & Who Can Issue Them?

## What are Tax-Exempt Bonds?

Tax-exempt bonds are a popular debt financing instrument that enables eligible borrowers to borrow money at extremely attractive interest rates. Interest on the bonds is not subject to federal income taxes or, in many cases, state income taxes. Because bond purchasers (lenders/investors) do not pay this federal (or, in many cases, state) income tax on the bond interest they receive, they are willing to accept a lower interest rate than would be available under conventional alternatives. The magnitude of the reduction is related to the tax bracket of the investor and the amount of tax that would have otherwise been paid.

## Who Can Issue Tax-Exempt Bonds?

Tax-exempt bonds can only be issued by governmental entities such as state, county or local governments, or by "authorities" established by the municipal entities to act as "conduit" issuers for the benefit of non-governmental, qualified borrowers, for example 501(c)(3) organizations or Industrial Development Revenue bonds.

# What Are The Benefits Of Tax-Exempt Bonds?

## Benefits of Tax-Exempt Bonds

The biggest advantage of tax-exempt borrowing is cost savings, due to lower interest rates as compared to taxable rates. Another important advantage is that a longer borrowing commitment may be possible through the tax-exempt market. It is possible, for example, to issue bonds with a 30-year maturity and a fixed interest rate for the entire period.

## State Law Regulates:

- Permitted Projects
- Public Or Private Sale
  - Interest Rate Limitation
  - Maturity
  - Interest Payments

# Capital Formation Process

- What is lowest cost of capital in today's market?
  - ✓ Fundraising/Grants
  - ✓ Tax-Exempt Bonds/Loans
  - ✓ Taxable Bonds/Loans
  - ✓ Bank Loan
- What is the easiest way to raise capital?
  - ✓ Grants
  - ✓ Borrowing
- What form of financing do you want?
  - ✓ Fixed Rate
  - ✓ Variable Rate

# What Can Be Financed On A Tax-Exempt Basis?

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- New public buildings
- Utility improvements
- Parking, parks and other public use facilities
- Renovations and improvement to existing infrastructure
- Roads, drainage, alleyway, sidewalks
- Equipment for transit, fire, police and technology
- Courthouses and jails
- Convention centers and arenas
- Most public uses
- IRBs for manufacturing

# Security & Sources of Payment

- General Obligation Bonds - ad valorem property tax (unlimited tax)
- Gross Receipts Tax - most common in New Mexico
- Enterprise Revenue Pledge (utilities, sports/multi-purpose arenas, etc.)
- Coverage and Liquidity Covenants
- Reserve Fund Requirements
- Restrictions on Additional Debt
  - ✓ Maximum Annual Debt Service Ratio
  - ✓ Unrestricted Resources to Debt
  - ✓ Expendable Resources to Debt

# Maturity

- Debt Maturity  $\leq$  125% of Useful Life
- Serials and Terms
  - ✓ Depending upon market conditions and investors, term bonds might be structured, which is the compilation of several serial maturities into on larger maturity. See graph to the left.
- Impact of Yield Curve
  - ✓ Interest rate environment and yield curve (flat or steep) can effect issuers decision to issue fixed rate or variable rate bonds.
  - ✓ Can also influence an issuers decision to utilize derivative products such as a fixed rate swap, which is discussed in detail later.

<u>Bond Type</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Principal Amount</u>
Serial	6/1/2009	2.00%	550,000
Serial	6/1/2010	2.80%	575,000
Serial	6/1/2011	3.15%	600,000
Serial	6/1/2012	3.50%	630,000
Serial	6/1/2013	3.70%	660,000
Serial	6/1/2014	3.89%	690,000
Serial	6/1/2015	4.37%	725,000
Serial	6/1/2016	4.57%	760,000
Serial	6/1/2017	4.75%	800,000
Term	6/1/2022	5.30%	4,870,000
Term	6/1/2027	5.41%	6,220,000

*These term bonds will have mandatory principal payments in the intermediate years, each increasing in size similar to the serial bonds*

# Arbitrage Rules

- Bond Proceeds Spending Rules

Construction Period	2 Years	3 Years	5 Years
6 Months	10%		
12 Months	45%		
18 Months	75%		
24 Months	95%		
36 Months		85%	
60 Months			85%
Considerations			
Yield Restrictions on Constructions Proceeds	No	No	No
Subject to Rebate	No	Yes	Yes
Positive Arbitrage Opportunities	Yes	No	No

- Escrow Rules

- ✓ Yield on escrow  $\leq$  Bond Yield

# Municipal Bond Market

## Market Segments

- ✓ Institutional investor market
  - National - Bond funds, unit investment trusts, fire & casualty insurance companies, money market, State investment funds
  - Regional - Second tier insurance companies, investment advisors, large bank trust departments
  - State - Community banks and S&Ls, local bank trust departments, single state bond funds or UITs
- ✓ Retail investor market

### Investor Appetite

<u>Type of Bond</u>	<u>Institutional</u>	<u>Retail</u>	<u>Trust Deposits</u>
Variable Rate Demand Notes (7-day reset for Money Markets)	X		X
Serial Bonds (annual maturities out 10-15 years)	X	X	X
Intermediate term bonds (15-20 years)	X	X	X
Long-term bonds (25-30 year maturities)	X		
Long-term premium bonds (25-30 year maturities)	X		
Long-term discount bonds (25-30 year maturities)	X		

# Rating Criteria - Investment Grade

<u>Moody's Investors Service, Inc.</u>	<u>Standard &amp; Poor's Corporation</u>	<u>Fitch Investors Service, Inc.</u>	<u>Definition</u>
Aaa	AAA	AAA	Highest rating assigned. Very strong security.
Aa	AA	AA	Very strong security. Only slightly below best rating.
A	A	A	Average security but more subject to adverse financial and economic developments.
Baa	BBB	BBB	Adequate capacity to secure debt. Adverse developments may affect ability to meet debt service requirements.

Note: Moody's uses the designation "1", "2", or "3" to indicate greater strength within the "Baa," "A," and "Aa" categories with "1" being strongest. Standard & Poor's and Fitch use "+" and "-" to indicate relative strength or weakness in the "BBB", "A," and "AA" categories.

# Methods of Bond Sale

- **Negotiated Sale** - An issuer selects investment banker(s) to purchase and resell its bonds. Interest rates, redemption features and other terms (including fees) are established via negotiation between the underwriter(s) and the issuer. Investment banker(s) are usually selected based on:
  - ✓ Experience underwriting and selling municipal issues
  - ✓ Expertise, location and computer/analytical skills of staff to be assigned
  - ✓ Proposed strategy to meet the issuer's program objectives
  - ✓ Sales and distribution capacity to sell the issuer's bonds
  - ✓ Underwriting fees
  - ✓ Large issues
  - ✓ Unusual credits
  - ✓ Control fees
  - ✓ Pre-marketing effects
  - ✓ Market timing
  - ✓ Unusual call features
- **Competitive Sale** - An issuer, assisted by its financial advisor, structures the bonds for sale through a published "Notice of Sale" inviting competing firms or "bidding syndicates" to submit sealed bids on a specified date and time. The bonds are awarded to that firm or syndicate offering to purchase the bonds with the lowest true interest cost (TIC).
- **Private Placement** - An issuer, usually assisted by its financial advisor or by a "placement agent", sells its bonds directly to the investor without using an underwriting syndicate as an intermediary.

# Traditional Financing Tools

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- ☑ Gross Receipts Tax Bonds
- ☑ General Obligation Bonds
- ☑ Joint Utility Revenue Bonds

# Sources of Repayment of GRT Debt - County

## County Example of Gross Receipts Tax Imposed vs. Authorized:

Gross Receipts Tax (Authorized vs. Imposed) - Guadalupe County, New Mexico					
<i>As of July 1, 2008</i>					
Type of Tax & Purpose	Total Taxing Authority	Percentage Imposed	FY/07 Revenue <sup>(4)</sup>	Unused Authority	Potential Add'l Revenue <sup>(4)</sup>
1. County GRT <sup>(1)</sup>	0.3750%	0.3750%	\$ 352,139	0.0000%	\$0
2. County 1/16th GRT <sup>(1)</sup>	0.0625%	0.0625%	58,690	0.0000%	-
3. County Correctional Facility GRT <sup>(1)</sup>	0.1250%	0.1250%	117,380	0.0000%	-
4. County Infrastructure GRT <sup>(2)</sup>	0.1250%	0.1250%	28,958	0.0000%	-
5. County Capital Outlay GRT <sup>(1)</sup>	0.2500%	0.2500%	234,760	0.0000%	-
6. County Environmental Services GRT <sup>(2)</sup>	0.1250%	0.1250%	28,958	0.0000%	-
7. County Fire Protection GRT <sup>(2)</sup>	0.2500%	0.0000%	-	0.2500%	57,916
8. County Healthcare GRT <sup>(1)</sup>	0.1250%	0.0000%	-	0.1250%	117,380
9. County Emergency Comm. & Medical GRT <sup>(1)</sup>	<u>0.2500%</u>	<u>0.2500%</u>	<u>234,760</u>	<u>0.0000%</u>	<u>-</u>
<b>Total Local Option GRT</b>	<b><u>1.6875%</u></b>	<b><u>1.3125%</u></b>	<b><u>\$1,055,644</u></b>	<b><u>0.3750%</u></b>	<b><u>\$175,296</u></b>
Special County Hospital GRT <sup>(1) (3)</sup>	0.1250%	0.0000%	-	0.1250%	117,380
County Local Hospital GRT <sup>(1) (3)</sup>	0.5000%	0.0000%	-	0.5000%	469,519
County Hospital Emergency GRT <sup>(1) (3)</sup>	0.2500%	0.0000%	-	0.2500%	234,760
County Educational GRT <sup>(1) (3)</sup>	0.5000%	0.0000%	-	0.5000%	469,519

1) Estimated county-wide taxable gross receipts for FY2008 is \$93,903,834 as reported by the State Taxation & Revenue Dept.

2) Estimated unincorporated taxable gross receipts for FY2007 is \$23,166,477 as reported by the State Taxation & Revenue Dept.

3) Requires amendment to State Legislation

4) Estimated numbers based on FY2008 taxable gross receipts as reported by the NM Taxation & Revenue Dept.

# Sources of Repayment of GRT Debt - Municipality

Municipality Example of Gross Receipts Tax Imposed vs. Authorized:

City of Santa Rosa, New Mexico Gross Receipts Tax Imposed vs. Authorized					
Type of Tax & Purpose	Total Taxing Authority	Percentage Imposed	FY/08 Revenue*	Unused Authority	Potential Add'l Revenue
Municipal GRT	1.5000%	1.2500%	\$820,257	0.2500%	\$164,051
Municipal Infrastructure GRT	0.2500%	0.2500%	164,051	0.0000%	-
Municipal Environmental Services GRT	0.0625%	0.0625%	41,013	0.0000%	-
Municipal Capital Outlay GRT	0.2500%	0.2500%	164,051	0.0000%	-
Municipal Quality of Life GRT	<u>0.2500%</u>	<u>0.0000%</u>	<u>-</u>	<u>0.2500%</u>	<u>164,051</u>
Total Local Option GRT	<u>2.3125%</u>	<u>1.8125%</u>	<u>\$ 1,189,372</u>	<u>0.2500%</u>	<u>\$ 328,103</u>
State Shared GRT	<u>1.2250%</u>	<u>1.2250%</u>	<u>803,851</u>	<u>0.0000%</u>	<u>-</u>
Total Distribution to City	<u>3.5375%</u>	<u>3.0375%</u>	<u>\$ 1,993,223</u>	<u>0.2500%</u>	<u>\$ 328,103</u>

\* Taxable GRT for FY08 was \$65,620,521. Source: NM Taxation & Revenue Dept.

# Gross Receipts Tax Bonds

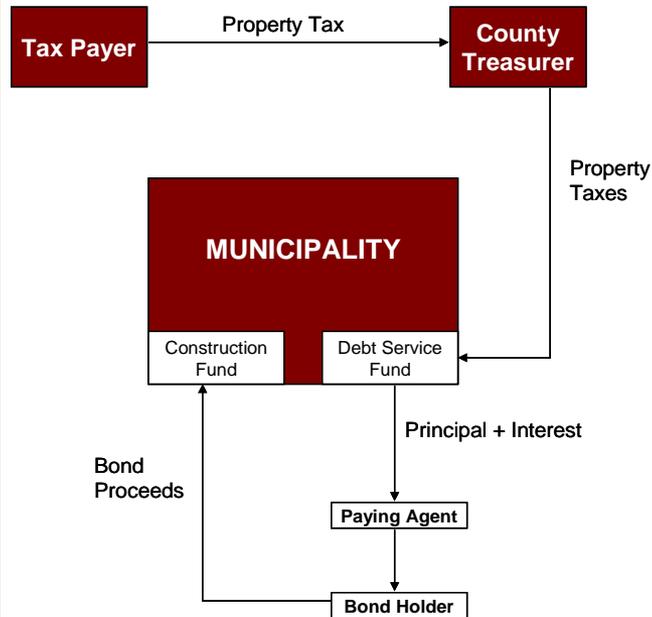
Sales Gross Receipts Tax Revenue bonds may be issued pursuant to 3-31-1(C) NMSA 1978 or 4-62-1(c) NMSA 1978 for any one or more of the following purposes:

- (1) Constructing, purchasing, rehabilitating, making additions or improvements to the following public buildings, or purchasing or improving grounds of the following public buildings (including acquiring or improving parking lots for the public building):
  - (a) Fire Stations
  - (b) Police buildings
  - (c) Jails
  - (d) Libraries
  - (e) Museums
  - (f) Auditoriums
  - (l) Other public buildings
  - (g) Convention halls
  - (h) Hospitals
  - (i) Buildings for administrative offices
  - (j) City Halls
  - (k) Garages for housing, repairing and maintaining city buildings and equipment
- (2) Acquiring or improving municipal or public parking lots, structures or facilities
- (3) Acquiring, extending, enlarging, bettering, repairing, improving or maintaining (including acquisition of rights-of-way, water and water rights for):
  - (a) Storm sewers
  - (b) Sanitary sewers
  - (c) Sewage treatment plants
  - (d) Water utilities
  - (e) Other drainage improvements

# General Obligation Bonds - Municipality

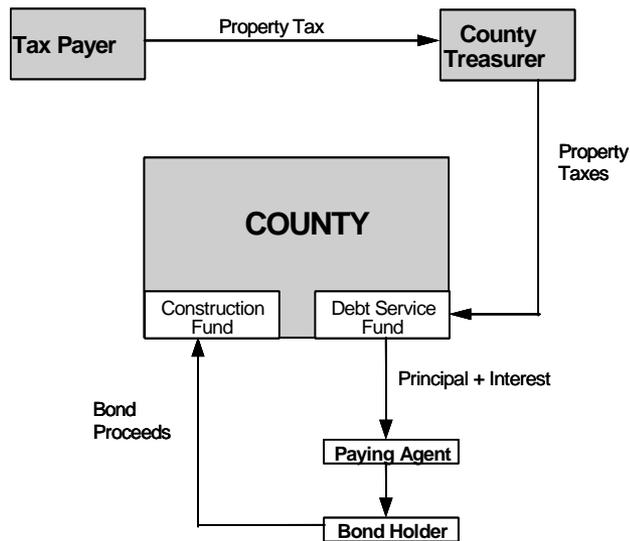
General Obligation bonds may be issued pursuant to Article 9 of the Constitution and 3-30-5, NMSA, 1978 (municipalities) for the following purposes:

- (1) erecting and operating natural or artificial gas works
- (2) erecting and operating electric works
- (3) constructing, purchasing, rehabilitating or remodeling public buildings
- (4) building, beautifying and improving public parks within or without the municipal boundary
- (5) acquiring land or buildings for playgrounds, recreation centers, zoos and other recreational purposes, and the equipment thereof
- (6) providing proper means for protecting from fire including, but not necessarily limited to purchasing apparatus for fire protection and providing, enlarging and improving fire equipment and facilities
- (7) laying off, opening, constructing, repairing, and otherwise improving municipal alleys, streets, public roads and bridges
- (8) providing apparatus for the collection and disposal of garbage and refuse
- (9) acquiring, constructing and maintaining garbage and refuse disposal areas and plants
- (10) constructing or purchasing a system for supplying water for the municipality, including the enlargement, improvement, extension or acquisition of the system, and acquisition of water or water rights, necessary real estate or rights-of-way, bridges and easements, and necessary apparatus for a water system,
- (11) constructing or purchasing a sewer system or the construction and purchase of a sewer system, including acquiring, enlarging, improving or extending the system
- (12) flood control purposes as provided in Section 3-41-1 NMSA 1978;
- (13) construction, purchasing, rehabilitating or remodeling, hospitals, including additions and improvements;
- (14) purchasing, improving or erecting public auditoriums or public buildings of a similar nature for general civic purposes
- (15) acquiring, purchasing, constructing, improving, rehabilitating or remodeling of cemeteries or mausoleums.



# General Obligation Bonds - County

General Obligation bonds may be issued pursuant to Article 9 of the Constitution and 4-49-1, NMSA, 1978 for the following purposes:



- (1) Remodeling and making additions to necessary public buildings
- (2) Remodeling and making additions for water, sewer or sanitary landfill systems
- (3) Remodeling and making additional to airports

The definition of necessary public buildings pursuant to Article 9 of the Constitution 4-46-6, NMSA, 1978 for the following purposes:

- (1) Courthouses, jails, bridges hospital, public libraries, facilities for the holding of county fairs, cultural facilities, juvenile detention homes, athletic facilities, parking structures, administrative facilities, facilities for housing equipment, repairing equipment and services equipment and sewerage facilities

# Joint Utility Revenue Bonds

Utility or Joint Utility Revenue may be issued pursuant to 4-62-1 A and B, NMSA 1978 for extending, enlarging, bettering, repairing or otherwise improving the following utilities:

1. Water facilities
2. Sewer facilities
3. Gas facilities
4. Electric facilities, or
5. any combination of the foregoing facilities

Bonds may be secured by a pledge of the net revenues from the operation of the utilities.

Bonds can be sold a public or private sale, at, above or below par and at a net effective interest rate not to exceed 12%.

The debt capacity is determined by the amount of revenue available for debt service, covenants contained in previous Ordinances authorizing issuance of Utility Revenue Bonds and bond market conditions.

# Financing Tools

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- ☑ Special Revenue Bonds
- ☑ Special Assessment Bonds
- ☑ Metropolitan Redevelopment Districts

# Special Revenue Bonds

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- ❑ Identify a revenue source
- ❑ Examples of sources of funds for special revenue bonds:
  - User Fees
  - Enterprise Funds
  - Special Taxes
  - Excise Taxes

# Project Revenue Bonds

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Project Revenue Bonds may be issued pursuant to 3-31-1, NMSA 1978 for acquiring, extending, enlarging, bettering, repairing, constructing, purchasing, furnishing, equipping and rehabilitating any revenue producing project:

## Specific Project Examples are:

1. Parking fees
2. Usage charges
3. Surcharge fees
4. Golf fees

Bonds may be secured by a pledge of the net revenues from the operation of the project.

Bonds can be sold at public or private sale at, above or below, par and at a net effective interest rate not to exceed 12%.

The debt capacity is determined by the amount of revenue available for debt service, covenants contained in previous ordinances authorizing issuance of Project Revenue Bonds, and bond market conditions.

## Other Financing Tools

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- Tax Increment Financing
- Public Improvements District
- Special Assessment District

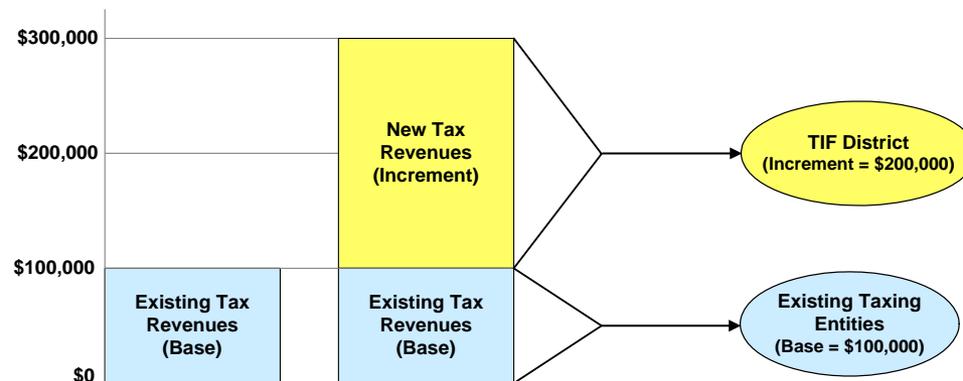
## Comparison of TIFs, PIDs, and SADs

	TIF	PID	SAD
New Tax or Revenue Sources Required	No	Yes	Yes
Election Required	Yes	Yes	No <sup>(1)</sup>
Separate Governing Board Required	Yes	Yes	No
Bond Maturity Limitation	25 Years	40 Years	20 Years
Source of Revenue	GRT and Property Tax	Property Tax, Special Levy, GRT, Enterprise Revenue (water/sewer)	Special Assessment or Property Tax (can be additionally secured by other revenue streams)
Limitation on Tax / Levy	75% of GRT and Property Tax	None	None

(1) If general obligation bonds are issued election is required

# Tax Increment Financing

- ⇒ TIF is a method of facilitating development or redevelopment of defined areas of property by utilizing future tax revenues to pay for some of the necessary improvements. TIF allows local officials to designate an area (“TIF District”) for improvement and then earmark any future growth in property tax revenues in that District to pay for the predetermined development expenditures in that District.
- ⇒ Both property tax and gross receipts taxes will be eligible.
- ⇒ For gross receipts taxes, there will be available increment of state shared portion, local portion of GRT, and state portion.
- ⇒ “Earmarked GRT” may be used, at formation entities option, for earmarked purposes within the district.
- ⇒ Consent is required for borrowing by TIF only from those districts whose taxes are affected and the State Department of Finance and Administration (except for Class A counties, and municipalities with populations over 65,000).
- ⇒ Voter approval for in property tax increment funding only, within district only, not within entire formation entity; can be combined with formation election, and waived, with consent, as with PID.
- ⇒ 30 year financing available.
- ⇒ Improvements that can be financed include water and sewerage, flood control and drainage, highways, streets and parking, non-vehicular trails, recreational facilities, pedestrian malls, library/educational/cultural facilities, cable/telecommunications lines, water rights acquisition, public buildings, traffic control, school sites, and facilities, equipment, vehicles, furnishings, landscaping, enhanced services, natural gas/electrical generation facilities, inspection & construction management.



# Public Improvement District

## History

The New Mexico Public Improvement District Act (the “Act”) became effective on April 5, 2001. The Act was passed to authorize local governments and developers to create PIDs for the purpose of selling tax-exempt bonds to fund public infrastructure improvements.

## Public Improvement District Act

The Act allows any county or city to establish a PID which allows for the financing of public services and facilities and to pay for enhanced services such as police and fire services. Basically, it allows communities to raise funds for improvements to infrastructure (such as streets, sewers, storm drains and offsites) and provides a cash flow service to pay for services.

In order to establish a PID, it must be approved by three-fourths majority of the property owners within the district. At the close of the legal proceedings, an established PID has all the legal privileges of a legally sanctioned governmental body.

## How PID’s are used?

New development requires infrastructure (such as streets, major arterials, water systems sewers, storm drains). Local governments are also forced to require developers to put in the necessary regional offsite infrastructure for new home developments. The developer then adds the cost of this infrastructure to the price of each new home. The homebuyer pays more for the home, therefore increasing the amount of the mortgage.

Many developers opt for establishing a PID so they can sell the homes at a lower price. Prior to the sale of the homes, they are the only “voters” in the PID and thus have the power to create the district for future property owners. The PID has the power to issue tax-exempt bonds to pay for the infrastructure. The cost is then passed on to the homeowner in the form of annual special levies.

Without the PID, the homebuyer would probably pay more for the home resulting in a higher mortgage payment, and would also be paying higher property taxes on the increased cost of the home.

# Public Improvement District - Continued

## Financing Options Available

A district may utilize a variety of public financing mechanisms to construct and maintain infrastructure including:

- General Obligation Bonds: Ad valorem taxes
- Revenue Bonds: User fees and charges
- Special Levy Bonds: Special levy imposed
- Municipal/state/federal contributions
- Private Contributions
- Other funds available to the district

A Public Improvement District has spending and debt limits that are independent of and separate from those of the sponsoring municipality.

# Public Improvement District - Continued

- ⇒ Improvements financed may directly or indirectly benefit the District.
- ⇒ Formed upon petition of 25% of the real property by assessed valuation in the District.
- ⇒ Development Agreement required between property owner or developer and District or Town/City/County.
- ⇒ General Plan for District is required to be filed by the developer with the Town/City/County.
- ⇒ Legislation does not change or diminish powers of local government.
- ⇒ Public hearing required prior to calling election or forming District.
- ⇒ Election required to create District (unless 100% of owners petition). Extraordinary majority required is 75%.
- ⇒ Five member Board of Directors.
- ⇒ Elections required for 1) appointment of Directors of the District; 2) approval of General Obligation Bonds; and 3) approval of property tax.
- ⇒ Operating mill levy cannot exceed \$3.00 per \$1,000 assessed valuation unless approved via election at a higher level within three years of formation.
- ⇒ Dissolution of the District occurs when 1) improvements are completed; 2) no debt of the District is outstanding; and 3) all development agreements are satisfied.

# Special Assessment District - All Governments

## Creation

State Law permits creation of an assessment district to provide street paving, drainage improvements, sidewalk and water and sewer improvements.

A District can be created under two methods:

**Provisional order**, i.e. Governing Body creates it on its own motion following engineering report.

- Motion is made to create the District.
- Public hearings are scheduled to describe area to be improved, costs and solicit comments.

**Petition method**, i.e., group of property owners petition Governing Body to create District. Hearings are scheduled to describe costs to residents following engineering report.

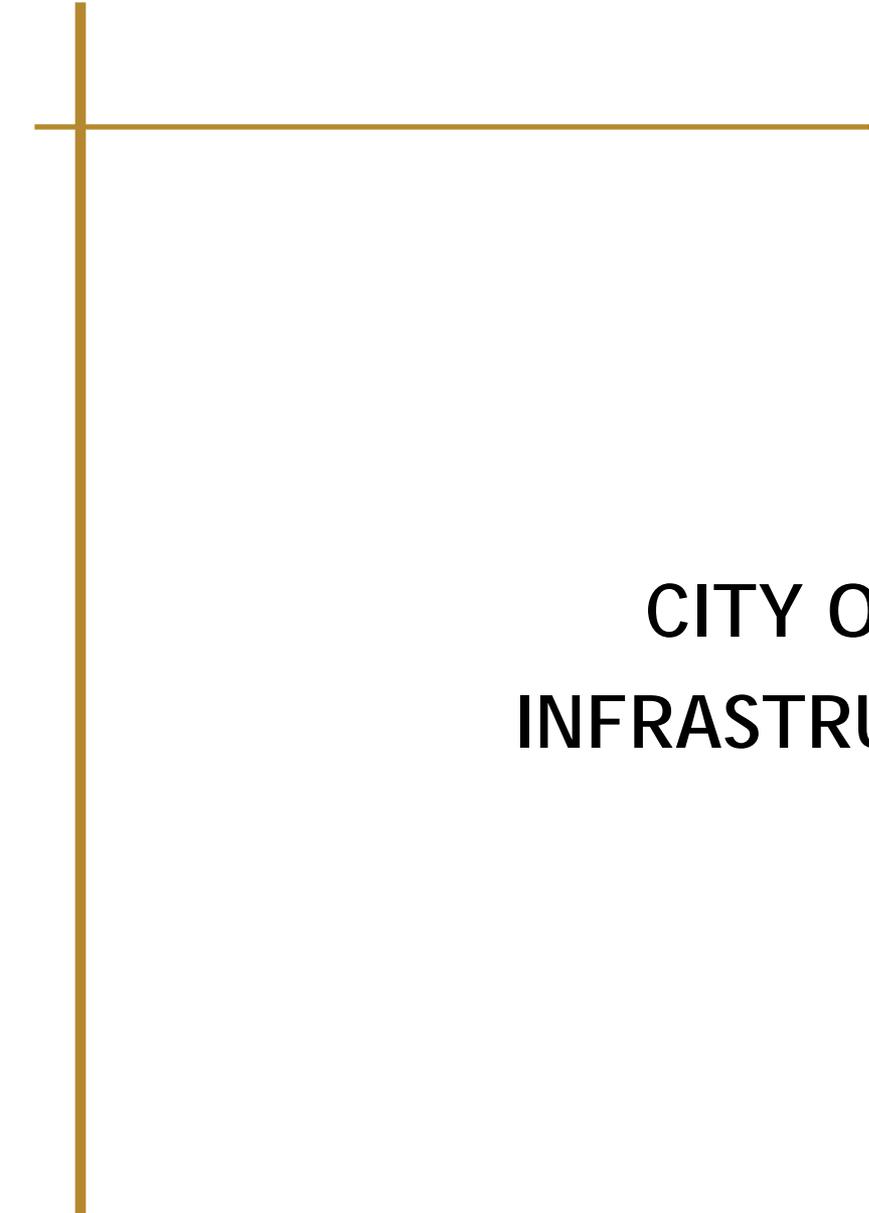
# Major Participants

- **Bond Counsel:** Outside counsel to the issuer who gives an opinion on the tax-exempt status and validity of the bond issue.
- **Bond Insurer:** A firm that enhances the security of a bond issue by offering a contractual obligation to make timely payments of principal and interest in the event the issuer fails to do so.
- **Borrower:** Obligor of debt to be repaid. In most cases, Borrower and Issuer are the same.
- **Disclosure Counsel:** Legal counsel hired by the issuer to provide due diligence and complete the issuer's offering document and continuing disclosure requirements.
- **Depository Trust Company ("DTC"):** Acts as securities depository for the Securities. DTC also facilitates the post-trade settlement among DTC's participants of sales and other securities transactions through electronic computerized book-entry transfers between participants' accounts. This eliminates the need for physical movement of securities certificates.
- **Financial Advisor:** The Financial Advisor is an investment banking firm which advises the issuer in all facets of the bond process. A financial advisor acts in a fiduciary capacity and advises on debt capacity, debt structure, time schedules, interest rates and generally coordinates all professionals in the process of issuing bonds.
- **Letter of Credit Provider:** On a variable rate transaction - A bank that lends its credit rating to the bonds, makes payments directly to bondholders and is reimbursed by the borrower.
- **Liquidity Provider:** On a variable rate transaction - A bank stands by to provide liquidity to bondholders in the event of a put.
- **Issuer:** Governmental entity through which tax-exempt municipal bonds are issued.
- **Issuer's Counsel (General Counsel):** An in-house or outside counsel who gives an opinion on the legality of an Issuer's actions under applicable enabling statutes.

# Major Participants

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- **Rating Agencies:** Three nationally recognized independent firms (Standard and Poor's, Moody's and Fitch) that assess the credit quality of an issuer and bond issues. Evaluations are typically a "snapshot" of the borrower's current financial health.
- **Registrar:** The participant who maintains a listing of the owners of the bonds.
- **Trustee:** A fiduciary representative of bondholders in their relationship with the issuer.
- **Paying Agent:** A bank or issuer that handles payments of interest and principal to the bondholders.
- **Underwriter:** Works closely with issuer and is responsible for developing financial and marketing plan, coordinating document preparation, getting orders from investors.
- **Underwriter's Counsel:** Legal counsel hired by the underwriters to assist in documentation, due diligence, disclosure, preparation of the official statement, and preparation of state securities filings.



# CITY OF SANTA ROSA INFRASTRUCTURE PROJECTS

# Original Project List & Gap Analysis

## CITY OF SANTA ROSA DEVELOPMENT PROJECTS

	<u>Cost</u>	<u>Local Funds</u>	<u>State Funds</u>	<u>Federal Funds</u>	<u>Governor's Request</u>	<u>Funding Gap</u>
<b><u>Downtown Project</u></b>						
Relocation of City Hall	\$250,000	\$150,000	\$0	\$0	\$0	\$100,000
Demolition of City Hall	150,000	-	-	-	-	150,000
Landscaping Downtown Square	900,000	-	-	-	-	900,000
Purchase of Theater & Renovation	650,000	-	-	-	-	650,000
Downtown Art Project	100,000	-	100,000	-	-	-
<b>Total Downtown Project</b>	<b>\$2,050,000</b>	<b>\$150,000</b>	<b>\$100,000</b>	<b>\$0</b>	<b>\$1,000,000</b>	<b>\$800,000</b>
<b><u>Park Renovation Funds</u></b>						
Softball Complex	\$950,000	\$314,000	\$0	\$0	\$200,000	\$436,000
Park Lane	250,000	-	-	-	-	250,000
Blue Hole Development	3,033,536	467,000	50,000	500,000	266,536	1,750,000
Blue Hole Bank Street	1,600,000	150,000	-	1,040,000	-	410,000
Power Dam	2,493,000	293,000	-	1,230,000	570,000	400,000
Art Project	100,000	-	-	-	-	100,000
<b>Total Park Renovation Project</b>	<b>\$8,426,536</b>	<b>\$1,224,000</b>	<b>\$50,000</b>	<b>\$2,770,000</b>	<b>\$1,036,536</b>	<b>\$3,346,000</b>
<b><u>Water Project</u></b>						
Wastewater	\$2,200,000	\$0	\$0	\$288,118	\$700,000	\$1,211,882
Water Well Project	400,000	-	-	400,000	-	-
Water Metering	500,000	-	150,000	-	350,000	-
Water Valve Project	50,000	-	-	-	-	50,000
<b>Total Water Projects</b>	<b>\$3,150,000</b>	<b>\$0</b>	<b>\$150,000</b>	<b>\$688,118</b>	<b>\$1,050,000</b>	<b>\$1,261,882</b>
<b>TOTAL PROJECTS</b>	<b><u>\$13,626,536</u></b>	<b><u>\$1,374,000</u></b>	<b><u>\$300,000</u></b>	<b><u>\$3,458,118</u></b>	<b><u>\$3,086,536</u></b>	<b><u>\$5,407,882</u></b>
<b><u>Funding Sources</u></b>						
	<u>Total Sources</u>	<u>Local</u>	<u>State</u>	<u>Federal</u>	<u>Gov. Request</u>	<u>Other</u>
Local Funds		\$1,374,000				
State Funds			\$300,000			
Federal Funds				\$3,458,118		
Request from Governor Richardson					\$3,086,536	
Lodger's Tax Revenue - Blue Hole						\$1,750,000
GRT on Revenue Bonds						2,396,000
Water & Wastewater Revenue Bond						1,961,882
<b>TOTAL FUNDS</b>	<b><u>\$14,326,536</u></b>	<b><u>\$1,374,000</u></b>	<b><u>\$300,000</u></b>	<b><u>\$3,458,118</u></b>	<b><u>\$3,086,536</u></b>	<b><u>\$6,107,882</u></b>

# Business Incubator Project

- ✓ City of Santa Rosa purchased the 1908 sandstone building in 2008. Proposed uses:
  - Business incubator
  - Tourism anchor
  - Information center
- ✓ Positive impact on gross receipts from retail trade.
- ✓ An estimated 33 new direct jobs are expected.
- ✓ Rehabilitation construction expected to begin in early 2009.
- ✓ Total estimated project costs is \$1,205,000.



# Power Dam Hydro Electric Learning Center Project

- ✓ The City of Santa Rosa is working with the State Engineer's Office to rehabilitate the Hydro Electric Power Dam which was constructed in the 1930s, closed in the 1940s and in 1996 the dam was breached by a 100-year flood.
- ✓ In partnership with Luna Community College, the City is proposing to create a learning center for alternative energy.
- ✓ Project is expected to generate additional tourism revenue within Santa Rosa.
- ✓ Direct jobs created are estimated to be 10 with additional retail and spin-off jobs created.
- ✓ The construction phase of the dam will be ready to bid in early 2009.
- ✓ The learning center expected to be bid in July 2009.
- ✓ Total estimated project cost is \$6,485,000.

# Municipal Wastewater Treatment Facility

- ✓ The City of Santa Rosa is proposing to replace their existing lagoon type wastewater treatment plant with a more efficient sludge plant. The new plant will
  - have the capacity to treat 1 million gallons per day
  - Meet the needs of an increasing population
  - Meet NPDES requirements for Biological Oxygen Demand (“BOD”) and Total Suspended Solids (“TSS”)
  - Provide an effluent for reuse in land application on parks and ball fields.
- ✓ Project will increase capacity for residential and industrial development.
- ✓ Skilled jobs for plant operation will be created as well as jobs created in the business sector.
- ✓ Design will be completed in April 2009 and construction is expected to be completed by July 2010.
- ✓ Total estimated project cost is \$8,600,000

# Cautionary Statement

*This presentation is based on information provided to RBC Capital Markets by the issuer/borrower and other sources that we believe to be reliable. Nevertheless, RBC Capital Markets does not guarantee the accuracy or completeness of any such information and therefore assumes no liability for any loss resulting from reliance thereon. Terms, prices and structures included in this proposal are subject to changing market conditions, are indicative only, and do not constitute an offer or commitment. This proposal does not purport to be a complete statement of all the terms, conditions and risks of the proposed transaction. Should the issuer or borrower decide to complete the transaction, final prices are subject to market conditions at the time of execution, possible modification of transaction terms, final credit approval and legal documentation.*

*Historical data, past trends and past performance do not necessarily reflect and do not guarantee future trends or performance.*