

COUNCIL POLICY			
Subject: POLICY STATEMENT TAX EXEMPT REVENUE BOND REQUESTS	Policy Number	Effective Date	Number of Pages
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**BACKGROUND:**

The Santa Rosa City Council ~~has been~~ (the "Council") ~~may be~~ requested ~~from time to time to approve the issuance of~~ tax-exempt revenue bonds for activities including housing development, hospital construction, and rehabilitation, life care facilities for the elderly, and more recently mobilehome park purchases. ~~Changing federal and state legislation, along with a fluctuating conventional lending~~ Tax-exempt bonds support public purpose developments which require below market interest rate and new forms of lending programs, combined to place local jurisdictions throughout the United States in a position of reviewing and responding to proposals that seek financing to meet community needs. Even though this policy addresses tax-exempt bonds, on occasion, the City issues taxable bonds in connection with the issuance of tax exempt bonds, and these policies are also intended to apply to those taxable bonds.

The 1986 Federal Tax Reform Act limits the amount of certain types of tax-exempt debt a state can issue in a calendar year for private projects that have a qualified public benefit (the "Volume Cap"). The California Debt Limit Allocation Committee ("CDLAC") was established to administer the allocation of the Volume Cap in California and to make certain that the total amount of the tax-exempt debt issued does not exceed the limits established under federal law. Each year CDLAC distributes the annual Volume Cap among several housing and non-housing bond programs, known as "State Ceiling Pools."

CDLAC amended its regulations on December 15, 2016, requiring, in part, that tax exempt bond issuers adopt bond issuance procedures and post-issuance compliance procedures for each State Ceiling Pool they request to be eligible to receive a CDLAC allocation.

Two of the activities covered by this Policy are also subject to the CDLAC State Ceiling Pools and CDLAC regulations. These activities include:

- Qualified Residential Rental Project Program. Tax-exempt housing revenue bond funds. Given the extreme complexities surrounding this issue, in the early 1980s the Council had directed staff to develop a policy to provide guidelines that prospective sponsors and the Council could use when tax exempt revenue bond proposals were developed and submitted to the City for review bonds assist developers of multifamily rental housing units to acquire land and action construct new units or purchase and rehabilitate existing units.
- Single-Family Housing Program. Tax-exempt mortgage revenue bonds or mortgage credit certificates assist first-time homebuyers to purchase homes.

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**PURPOSE:**

~~Requests for funds to achieve various "public purpose objectives" are expected to continue in the future, using tax exempt revenue bonds as the vehicle to generate funding. The purpose of this Council Policy is to provide guidelines for considering requests issuing tax exempt revenue bonds for tax exempt revenue bond issues. The guidelines stated here address five private activities that meet public purpose objectives: Multiple family rental housing; general acute care hospitals, life care facilities for the elderly, single family mortgage revenue bonds, including mortgage credit certificates, and mobilehome park acquisitions and rehabilitation to preserve rental spaces within parks. Multiple Family Rental Housing - The Housing Element of the City's General Plan and other documents establish the need for new, single family housing mortgage revenue bonds, including mortgage credit certificates, and multifamily rental housing, particularly when it includes units for low. In addition, these policies implement specific bond issuance and moderate income households. Multifamily mortgage revenue bonds remain one of the few mechanisms available to stimulate affordable post-issuance policies and procedures consistent with CDLAC for multifamily rental units for these housing need groups.~~

General Acute Care Hospitals -- It is necessary and a municipal affair for the City to be able to approve financing to health institutions within the City that provide essential services to residents of the City. This is essential ~~in order~~ to aid such health institutions to establish lower rates and charges than would otherwise prevail and to provide better service at such rates and charges. Unless the City intervenes to assist such financing, such rates and charges may increase at an ever-accelerated pace because such health institutions cannot obtain financing at equivalent cost from private sources.

Life Care Facilities for the Elderly -- These facilities will address the needs of senior citizens who face increased difficulties in owning and maintaining single family dwellings. ~~Senior citizens are presently being forced out of their homes through increased taxation and/or inflation.~~ It is an important municipal concern to see that the elderly are provided adequate housing and health care facilities. ~~Santa Rosa's senior population is twice the State's average, and the need for senior housing is well-documented.~~

~~Tax exempt revenue bonds are important to support public purpose developments which require "below market interest rate financing" to meet community needs.~~

Single Family Mortgage Revenue Bonds -- ~~Recent institutional lending programs and practices have caused a serious reduction in residential construction activity.~~

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~~Families at all income levels, particularly low and moderate-income families, find they have been precluded from purchasing housing.~~

~~Unemployment of construction workers and related trades, plus closures of businesses within the housing industry, represents a growing problem in our community.~~

~~Single family mortgage bonds and mortgage credit certificates represent a method that can potentially benefit residents of Santa Rosa in securing needed affordable housing. The federal and state governments have prescribed methods for localities to stimulate housing construction through the sale of such bonds.~~

Mobilehome Park Acquisition and Rehabilitation — The Housing Element of the ~~City's~~City's General Plan and other documents establish the need for preservation of mobilehome park rental spaces as a source of housing available to various income levels. Tax exempt mobilehome park revenue bonds are an important source of financing to facilitate preservation of this type of housing affordable to households of low and moderate incomes.

Single Family Mortgage Revenue Bonds and Mortgage Credit Certificates – Mortgage Revenue Bonds are tax-exempt bonds that help fund below-market-interest-rate mortgages for first-time qualifying homebuyers. Homebuyers use Mortgage Credit Certificates to reduce their federal tax liability by applying the credit to their net tax due.

Multifamily Rental Housing – The Housing Element of the City's General Plan and other documents establish the need for new rental housing, particularly when it includes units for extremely low-, very low-, low- and moderate-income households ("Affordable Housing"). Multifamily housing tax-exempt revenue bonds remain one of the few mechanisms available to stimulate Affordable Housing construction and rehabilitation. Multifamily Rental Housing Bonds may be issued for both for-profit and no-profit borrowers. Such bonds, if issued for a for-profit borrower, require an allocation from CDLAC (unless the bonds are refunding a prior issuance). Bonds issued for non-profit borrowers do not require an allocation from CDLAC.

#### GENERAL PROVISIONS AND REQUIREMENTS

A. **Bonds.** "Bonds" means tax-exempt and taxable bonds, notes or any other evidence of indebtedness authorized to be issued pursuant to Santa Rosa City Code and any applicable provisions of State law.

B. **City.** "City" means the City of Santa Rosa, a municipal corporation.

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**C. Costs and Fees.** The Borrower is responsible to pay for all costs associated with the bond issuance, including, but not limited to costs of the City/Issuer, bond counsel, financial advisor, California Debt Limit Allocation Committee, lender, trustee, rating agencies, requests for waivers, other closing costs and fees of any other parties required to complete the transaction. In addition, the Borrower is responsible to pay for any costs associated with the bond issuance after close, including, but not limited to, compliance monitoring, amendments, transfers of ownership, subordinations, default proceedings, and IRS audits. Certain Fees are set forth in Exhibit A, and these fees shall apply to bond issuance for all public benefit activities of this Policy.

**D. City of Santa Rosa General Plan, Zoning and Other Land Use and Environmental Policies.** All proposals must be consistent with adopted General Plan, Zoning Code, Design Review Guidelines, and any other land use policies of the City, state and federal governments, Environmental Laws, and other policies, as applicable.

**E. Application for Bond Financing.** Application submittal requirements for all public benefit activities of this Policy are set forth in Exhibit A.

**F. Bond Rating.** Any City-sponsored bond issue must have a rating of AA or better from Standard & Poor's or a comparable rating from another agency, except that private placement bond issues may be done without a rating or with a rating less than AA in accordance with the provisions set forth in Exhibit A.

**G. The Sponsoring Entity Must do the Following:**

1. Provide evidence that the facility/activity supported by the bonds meets applicable governmental regulations and licensing requirements;
2. Provide evidence that the facility/activity addresses a public purpose and demonstrate how public objectives are met;
3. Agree to disclose information related to proposed distribution of bond issue proceeds; and
4. Demonstrate that it is one of the following sponsor types:
  - a) For-profit motivated sponsors
  - b) Limited dividend sponsors
  - c) Non-profit sponsors
  - d) Cooperative sponsors.

**GUIDELINES:**

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The establishment of prudent but effective guidelines for considering ~~such~~ requests for tax-exempt revenue bonds is desirable for at least two reasons. Keeping a ceiling on the number and amount of tax exempt bonds approved each year should demonstrate to potential bond buyers that Santa Rosa is not over- indulgent in its use of such bonds. Greater confidence on the part of bond buyers should produce higher ratings on those bonds that are eventually approved and sold. Secondly, guidelines are needed to form a basis for short and long-range policy objectives. Guidelines for making a selection when competing proposals are submitted will result in a more equitable decision- making process.

The ~~City~~ Council may entertain requests for revenue bond issues for developments demonstrating that a public purpose objective will be accomplished consistent with this ~~policy statement~~Policy.

The following facilities are defined by the ~~City~~ Council, to meet the definition of serving a public purpose objective:

~~A. Multiple Family Rental Housing, including for-profit and non-profit motivated sponsors.~~

~~B.A. General Acute Care Hospitals~~, as defined in the State of California Health and Safety Code, Division 2, Chapter 10, Section 1250.

~~C.B. Non-Profit Charitable Corporations~~, wishing to develop facilities offering ~~"Life Care Contracts"~~ as defined in the State of California Health and Safety Code, Division 2, Chapter 10, Section 1771.

~~D. Single Family Mortgage Revenue Bond Housing is possible through the Mortgage Subsidy Bond Act of 1980, passed by the U.S. Congress, and related State of California legislation.~~

~~E.C. Mobilehome Park Acquisition and Rehabilitation~~, including for-profit and non-profit sponsors, facilitating preservation of rental spaces in mobilehome parks as a source of housing affordable to low and moderate- income households.

#### GENERAL CRITERIA

~~The five public purpose facilities described in Single Family Housing Mortgage Revenue Bond is possible through the "Guidelines" above are subject to the following "General Criteria.": They:~~

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- ~~A. Must show evidence Mortgage Subsidy Bond Act of meeting applicable governmental regulations 1980, passed by the U.S. Congress, and licensing requirements;~~
- ~~B. Shall address a public purpose and show how objectives are met;~~
- ~~C. Are sponsored by entities with demonstrable expertise and experience; and~~
- ~~D. Agree to disclose information related to proposed distribution State of bond issue proceeds California legislation.~~
- E. Multifamily Rental Housing, including for-profit and non-profit motivated sponsors.

CRITERIA APPLICABLE SPECIFICALLY TO ~~"GENERAL ACUTE CARE HOSPITALS"~~ AND ~~"NON-PROFIT CHARITABLE CORPORATIONS"~~

Tax exempt revenue bonds will be considered only for such sponsors exempt from taxation under State and Federal Income tax laws.

CRITERIA APPLICABLE SPECIFICALLY TO ~~"NON-PROFIT CHARITABLE CORPORATIONS"~~ ~~"SINGLE FAMILY HOUSING"~~

All proposals under this section must be supported by ~~All proposals authorized by the City Council under these guidelines which offer housing opportunities shall propose a system, to be approved by the City, providing a method to give preference to residents of the City of Santa Rosa and to persons who are employed within the City of Santa Rosa.~~

- A. a feasibility study.

CRITERIA APPLICABLE SPECIFICALLY TO ~~"MULTIPLE FAMILY"~~ ~~"MULTIFAMILY RENTAL HOUSING"~~

- ~~A. All proposals authorized by the City Council under these guidelines which offer housing opportunities shall propose a system, to be approved by the City, providing a method to give preference to residents of the City of Santa Rosa and to persons who are employed within the City of Santa Rosa.~~

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~~B. Tax Exempt mortgage revenue bonds for housing can be approved for the following sponsor types:~~

~~1.a) For profit motivated sponsors~~

~~2.a) Limited dividend sponsors~~

~~3.a) Non-profit sponsors~~

~~4. Cooperative sponsors~~

~~C. All housing proposals must be consistent with adopted City policies such as the General Plan and Housing Element.~~

~~D.A. The City Council may review proposals on a case-by-case basis or choose to batch proposals and select those that, in the determination of the City Council, best meet the then existing City needs.~~

~~E.B. If a sponsor requests an inducement resolution prior to completion of preliminary planning reviews and the planning approvals required by law for the proposed project, including but not limited to zone change, use permit and design review approvals, the Council may consider such a request, and if it does so, it shall conduct a public hearing thereon giving the same notice thereof as is required for a proposed change of zone. A public hearing pursuant to the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) requires a minimum 14-day notice period.~~

~~F. Any City-sponsored bond issue must have a rating of AA- or better from Standard & Poors or a comparable rating from another agency.~~

~~G. All City-sponsored issues must provide default protection, such as FHA insurance or a letter of credit, for the bond holders.~~

~~H.C. All multifamily projects utilizing City-sponsored bond financing must be able to satisfy the City's underwriter or financial consultant City's requirement that the project is either a) capable of producing a positive cash flow at the end of the first full year of operation, ~~or b)~~ willing and able to ~~escrow funds or~~ provide an alternative acceptable to the City to cover any projected operating deficit for the first five years of operation.~~

~~I. In structuring, a multifamily mortgage revenue bond issue, project~~

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~~sponsors~~All Multifamily Revenue Bonds shall ~~utilize the services of firms selected by the City.~~

- ~~J. Inducement resolutions will be valid for twelve months; final bond approval resolutions will be valid for ninety days.~~
- ~~K. **The** project sponsor shall be responsible for any and all cost related to a multiple family mortgage revenue bond issue, including fees to cover bond set up and compliance monitoring.~~
- ~~L. Existing inducement resolutions shall be valid twelve months from the date of adoption of this policy.~~

~~CRITERIA APPLICABLE SPECIFICALLY TO "SINGLE FAMILY MORTGAGE REVENUE BOND HOUSING"~~

- ~~A. All proposals authorized by the City Council under these guidelines which offer housing opportunities shall propose a system, to be approved by the City, for providing a method to give preference to residents of the City of Santa Rosa and to persons who are employed within the City of Santa Rosa.~~
- ~~B. Tax exempt mortgage revenue bonds for housing can be approved for the following sponsor types:
  - ~~1. For-profit motivated sponsors~~
  - ~~2. Limited dividend sponsors~~
  - ~~3. Non-profit sponsors~~
  - ~~4. Cooperative sponsors~~~~
- ~~C. All proposals under this section must be supported by an initial feasibility study.~~

~~CRITERIA APPLICABLE SPECIFICALLY TO "MOBILEHOME PARK ACQUISITION AND REHABILITATION"~~

- ~~A. Tax exempt mobilehome park revenue bonds can be approved for the following sponsor types:
  - ~~1. For-profit sponsors~~
  - ~~2. Limited dividend sponsors~~
  - ~~3. Non-profit sponsors~~~~



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~~4. Cooperative sponsors~~

~~B. All proposals must be consistent with adopted City policies such as the General Plan and the following Multifamily Housing Element.~~

~~C.D. Sponsors shall be responsible for any and all costs related to a mobilehome revenue bond issue, including all City administrative costs associated with a bond issue, and fees for compliance monitoring as applicable. CDLAC regulations, attached hereto as Exhibit A.~~

OTHER FACTORS

~~The City Council may refer prospective housing sponsors to the City Housing Authority and/or Redevelopment Agency if, in the opinion of the City Council, the City's interests would be best served using either of these entities as the approved State agency. In the event that authority is delegated to either Agency to act as a tax exempt mortgage revenue bond issuer, the same criteria shall apply, except that the Housing Authority or Redevelopment Agency shall act in the capacity of the City Council.~~

EXHIBIT A: MULTIFAMILY HOUSING BOND POLICIES

Modified by Resolution No.

Modified by Resolution No. -26947  
 Modified by Resolution No. 17753  
 Modified by Resolution No. 16741  
 Modified by Resolution No. 15577  
 Adopted by Resolution No. 15323

Dated: May 8, 2018

Dated: October -9, 2007  
 Dated: February 11, 1986  
 Dated: June 5, 1984  
 Dated: March 30, 1982  
 Dated: September 29, 1981

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**MULTIFAMILY HOUSING BOND POLICIES**

The City Council (the “Governing Body”) of the City of Santa Rosa (the “Issuer”) adopted these Multifamily Housing Bond Policies (the “Policies”) on \_\_\_\_\_, 20\_\_\_\_, as part of Council Policy No. 000-15, pursuant to Resolution No. \_\_\_\_\_ to establish policies and procedures in connection with tax-exempt and taxable bonds (the “Bonds”) issued by the Issuer for multifamily rental housing projects (the “Projects”) located in the jurisdiction of the Issuer. The purpose of the Policies is to help ensure that the Applicable Requirements (defined below) are satisfied.

These Policies may be amended, and waivers from the requirements of these Policies may be granted, by the Governing Body as it deems appropriate from time to time in the discretion of the Issuer with the advice of counsel. Any applicant seeking a waiver must request the waiver in writing and state the reason or reasons why the waiver is necessary and appropriate.

**I. DEFINITIONS**

The following terms, when capitalized herein, shall have the following meanings:

“Accredited Investor” has the meaning given in Rule 501 of Reg. D promulgated under the Securities Act of 1933.

“Act” means the Chapter 7 of Part 5 of Division 31 of the California Health and Safety Code.

“Applicable Requirements” means certain requirements of the Act, the California Debt and Investment Advisory Commission (Section 8855(i) of the California Government Code), the California Debt Limit Allocation Committee (Division 9.5 of Title 4 of the California Code of Regulations), and the Issuer’s Multifamily Housing Revenue Bond Law, being Chapter 4-52 of the Santa Rosa City Code.

“Approved Buyer” means an Accredited Investor or a Qualified Institutional Buyer.

“Bonds” means tax-exempt and taxable bonds, notes or any other evidence of indebtedness authorized to be issued pursuant to the Act for Projects.

“Borrower” means the owner of a Project.

“CDLAC” means the California Debt Limit Allocation Committee, or any successor entity.

“CDLAC Regulations” means the regulations of the California Debt Limit Allocation Committee, consisting of Division 9.5 of Title 4 of the California Code of Regulations, as the same may be amended from time to time.

“CDLAC Resolution” means a resolution of CDLAC granting private activity bond volume cap to a Project.

“Governing Body” means the Issuer’s City Council.

“Issuer” means the City of Santa Rosa, a municipal corporation and chartered city, organized and existing pursuant to laws of the state of California.

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“Policies” means these Multifamily Housing Bond Policies, as they may be amended from time to time.

“Project” means a multifamily rental housing development or developments situated in the jurisdiction of the Issuer, as well as other appurtenant facilities authorized to be financed by Bonds pursuant to the Act.

“Qualified Institutional Buyer” has the meaning given in Rule 144A promulgated under the Securities Act of 1933.

“Qualified Project Period” (also known as the Affordability Period and the compliance period), is defined in the Regulatory Agreement of each Project financed by Bonds. For new construction, the Qualified Project Period begins on the first day on which at least ten percent of the residential units are first occupied, and for rehabilitated projects, on the later of a) the date the bond funds are disbursed to the Borrower, or b) the date ten percent of the units are first reoccupied. The Qualified Project Period ends on the latest of a) the date which is a specified number of years (typically 15) after the date on which 50% of the residential units in the project were first occupied, b) the last day on which any Bond remains outstanding or c) a date specified by the Regulatory Agreement (which shall include any date required by a CDLAC Allocation).

“Regulatory Agreement” means a regulatory agreement executed by the Issuer and the Borrower upon the issuance of Bonds, and which is recorded in the official records of the county in which the Project is located.

“State” means the State of California.

“TCAC” means the California Tax Credit Allocation Committee, or any successor entity.

“Traveling Investor Letter” means a certification from each investor(s) of a Bond offering containing representations that (i) they are an Accredited Investor or a Qualified Institutional Buyer, (ii) they have no present intention of reoffering the Bonds in a subsequent offering, but may be allow to subsequently transfer the Bonds in a limited offering to another permitted transferee provided the transferee agrees to provide the same representation letter and subject to the other conditions of the Bond documents, and (iii) such other representations, warranties and agreements as may be required by the Issuer.

“Underwriting Statement” means a written statement from the firm contracted to market the Bonds that includes a brief paragraph on the firm’s history and principals, a summary of the firm’s initial underwriting review, an overview of proposed issuance structure including anticipated debt service coverage ratio, and a statement certifying that the proposed transaction has been initially underwritten and meets the firm’s standards for participation

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**II. GENERAL DEBT POLICIES**

**A. Findings**

(1) The Issuer hereby recognizes that a prudent multifamily housing bond policy is required in order to:

(a) Protect the Issuer's creditworthiness and exposure to financial and legal liabilities.

(b) Ensure that the government-subsidized financing represented by tax-exempt and taxable bonds furthers the policy goals of preserving and expanding affordable rental housing and other policy goals for which they were intended.

(c) Ensure that all debt is structured in order to protect the Issuer, its citizens, its current and future taxpayers, residents of facilities owned or financed by the Issuer, investors in the Issuer's bonds, the Issuer's borrowers and other stakeholders.

(d) Ensure that the Issuer's debt is consistent with the Issuer's planning goals and objectives and capital improvement program or budget, as applicable.

(2) This Section II is intended to comply with the requirements of Section 8855(i) of the California Government Code and shall be construed accordingly.

**B. Purposes of Debt**

(1) Debt may be issued to finance or refinance the acquisition, construction, rehabilitation and improvement of real and personal property, equipment, furnishings and any other capital facilities to be owned and operated by the Issuer or by third parties as rental housing facilities and related uses as may be authorized under the Act and any other applicable laws of the State of California.

(2) Long term debt financings are appropriate when one or more of the following conditions exist:

(a) The debt is intended to assist the Issuer or a third party in financing or providing rental housing facilities, programs or services in its jurisdiction or have other public benefits, all as authorized by the Act or other applicable law.

(b) The debt will be used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt or legal covenant restructuring.

(3) Short-term debt may be issued to provide financing for construction when other funds are available for permanent financing.

(4) All debt financings must satisfy the following requirements:

(a) The issuance of the debt will comply with the Act, any other applicable state and federal law and City Code;

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(b) The debt does not impose an unreasonable burden to the Issuer, as determined by the Governing Body;

(c) The debt must be approved by the Governing Body; and

(d) The debt must comply with these Policies, or a waiver must be obtained from the Governing Body.

**C. Types of Debt**

(1) The following types of debt are allowable under this Debt Policy:

(a) conduit revenue Bonds or notes; and

(b) any other type of debt authorized by the Act or other applicable law.

(2) The Issuer may from time to time find that other forms of debt would be beneficial to further its public purposes and may approve such debt without an amendment of these Policies.

(3) Subject to the Act and any other applicable law, including City Code, Bonds may bear current interest at fixed or variable rates, with or without credit or liquidity enhancement, or may be sold at a discount or premium, and with or without current interest.

**D. Relationship of Debt to Capital Improvement Program and Budget**

Bonds for Projects are intended to be non-recourse conduit financing in which the Issuer will not be responsible for the repayment of the debt. The Issuer's own capital improvement plans and budgets should not be impacted by Bond financing of Projects.

**E. Policy Goals Related to Planning Goals and Objectives**

(1) Among other policy objectives, the Issuer desires to preserve, protect, increase and improve the supply of affordable housing in its jurisdiction. These Policies will help the Issuer to function in an efficient and effective manner, to the benefit of the Issuer, its citizens, residents of facilities financed by the Issuer, and investors in the Issuer's debt issuances.

(2) The Issuer's purpose in adopting these Policies is to provide for a fair, efficient and effective process for facilitating the issuance of its Bonds, providing substantial flexibility in structuring its transactions while striking a balance in protecting the interests of the Issuer, its citizens, residents of facilities financed by the Issuer, and investors in the Issuer's Bonds.

**F. Internal Control Procedures**

(1) When issuing debt, in addition to complying with the terms of these Policies, the Issuer shall comply with (i) any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance legal compliance, and investment of bond proceeds, and (ii) all applicable laws including City Code, the Act and federal tax and securities laws.

(2) The Issuer will periodically review the requirements of and will remain in compliance with the following, if applicable:

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(a) any continuing disclosure undertakings under SEC Rule 15c2-12.

(b) any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and

(c) any requirements of State agencies such as the California Debt and Investment Advisory Commission, CDLAC and TCAC.

(3) In issuing conduit revenue debt, the Issuer shall require its Borrower or the lender to provide such information as may be needed by the Issuer to comply with Section 8855(k) of the California Government Code, as the same may be amended from time to time, and any regulations or guidance promulgated with respect thereto by any governmental body with authority over the matter.

(4) With respect to conduit revenue debt for which the Issuer is not responsible for repayment, the Issuer shall not hold the proceeds of debt and shall not be authorized to requisition such proceeds, whenever reasonably possible.

**III. ISSUANCE POLICIES**

**A. General Bond Requirements.** The requirements in this Section apply to all Bonds issued by the Issuer for Projects.

(1) The Issuer issues Bonds pursuant to these Policies. Repayment of principal and interest on Bonds issued by the Issuer will not be secured by any revenues, funds or assets of the City of Santa Rosa or the Housing Authority of the City of Santa Rosa, but only by the proceeds generated by the Project or other collateral, funds or moneys pledged and assigned by the Borrower to secure payment of such Bonds.

(2) Bonds shall satisfy the applicable requirements of the CDLAC Regulations. The Governing Body, in its discretion, reserves the right to impose more restrictive requirements on any Bond issuance by the Issuer. Additionally, the final maturity of the Bonds and the interest rate on the Bonds shall not exceed any limitations imposed by law, including federal tax law.

(3) The Borrower shall agree to defend and indemnify the Issuer and to reimburse the Issuer for all expenses incurred by the Issuer in issuing the Bonds and monitoring the Project. The Issuer reserves the right to require a parent company or personal guaranty of such indemnification and expense reimbursement obligations.

(4) The Issuer may retain a financial advisor who shall conduct a review of the financing structure and the associated public benefits, the cost of which shall be borne by the Borrower.

(5) The Issuer may retain a law firm with experience as bond counsel in tax-exempt mortgage revenue bonds for rental residential facilities to conduct a legal review of the financing documents and to render a final opinion with respect to the Bonds, the cost of which shall be borne by the Borrower.

(6) Any offering material or disclosure document shall contain language to the effect that the Issuer will take no responsibility for the disclosures contained therein (except for

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information under the sections titled “THE ISSUER” and “LITIGATION” to the extent such information pertains to the Issuer);

(7) For certain financings as may be determined by the Issuer and its counsel, the developer shall have its counsel deliver a Securities and Exchange Act 10b-5 opinion at closing. The contents of such opinion (that the borrower is not committing securities fraud, as required in a public offering) shall be to the satisfaction of the Issuer and its counsel.

(8) The Issuer shall have the discretion to select and determine the finance team participants with respect to each transaction.

(9) The Issuer reserves the right to approve any change in ownership of the Borrower. The Director of Housing and Community Services shall have the authority to approve or deny the request.

(10) Borrower shall assure that it complies with the requirements of California Labor Code Section 1720, et seq. to the development or construction of the Project or related improvements, and shall indemnify, defend and hold harmless the Issuer and the Housing Authority of the City of Santa Rosa and their respective officers, officials, employees and agents from and against any and all liability, loss, cost or damages therefrom, including the cost of reasonable attorneys’ fees.

In the event that any portion of the Bond funds are from Federal funding sources, the Borrower shall assure that it complies with the requirements of Davis-Bacon Federal labor standards (40 USC, Chapter 3, Section 276a-276a-5; and 29 CFR Parts 1, 3, 5, 6, and 7).

(11) The Borrower may request that the Issuer waive any portion of these Policies by submitting a written request detailing the reasons for the waiver. The Director of Housing and Community Services shall have the authority to approve or deny the request.

**B. Minimum Credit Requirements.**

(1) Applicants, shall provide evidence of a plan to privately place or publicly sell the proposed Bonds with or without credit enhancement for an amount no less than the amount requested the CDLAC application.

(2) Subject to the exceptions in Sections III.C. and III.D. below, Bond sale structures that include a credit rating shall be subject to the following minimum requirements:

(a) Bonds with recourse to the corporate parent entity of the Borrower via a corporate guarantee must have an investment grade credit rating for the Project or for the source of the guarantee.

(b) Bonds without a governmental or corporate guarantee shall provide a credit rating specifically for the transaction.

(c) Bond issues with limited recourse (i.e. project-specific recourse) may provide either a credit rating specifically for the transaction or provide evidence of a current credit rating for an existing outstanding Bond with the same source of debt repayment.

(d) All Bond ratings shall include evidence that the credit rating has been

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provided within the last six (6) months, or that the current credit rating for outstanding Bond(s) has been substantiated via the most recent updated surveillance review completed by a rating agency within the last thirty-six (36) months.

(3) Notwithstanding the requirements set forth in these Policies, the Issuer may apply more stringent requirements and thresholds for a given Project based upon factors such as, but not limited to the size of the Bond issue and/or the specific ratings of the Borrower and/or the Project sponsor.

**C. Credit Enhanced Bonds.**

(1) Bonds to be issued and sold through a public sale with credit enhancement will be deemed to have satisfied Section III.B., above, if the following conditions are satisfied:

(a) The credit enhancer provides a commitment, signed by both the credit enhancer and the Borrower, to provide credit enhancement for the Bonds. The commitment letter shall include the salient terms and conditions of the agreement, including but not limited to the fee structure, term, rate, security, collateral, guarantee, and recourse of the commitment and evidence that the credit enhancer is committed to move forward with the transaction if the terms and conditions in the commitment letter are met.

(b) If Fannie Mae, (a government-sponsored enterprise) or any additional or successor entity possessing a similar federal government charter is providing the credit enhancement, the commitment issued by a qualified lender under the Delegated Underwriting and Servicing (DUS) program of Fannie Mae will constitute acceptable proof of credit enhancement.

(2) If the Bonds are to be variable rate Bonds, the short-term rating shall be no less than “A-1” category by Standard & Poor’s or a comparable rating from another agency.

(3) If the Bonds are to be fixed rate Bonds, the Bond rating shall be no less than an “AA” category by Standard & Poor’s or a comparable rating from another agency.

**D. Unenhanced Bonds Rated AA Category or Higher.** Bonds to be issued with an unenhanced credit rating equivalent to an “AA” category or higher as rated by Standard and Poor’s or a comparable rating from another agency will be deemed to have satisfied the minimum Bond sale requirements required in Section III.B. if the following are provided to the Issuer:

(1) an Underwriting Statement; and

(2) Certifications of no current defaults under any bond-related agreements by the developer, the guarantor (if any) and the Project sponsor.



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**E. Privately Placed Bonds.**

(1) Bonds to be issued and sold through a private placement without a rating or with a rating less than AA will be deemed to have satisfied Section III.B., above, if the private placement purchaser provides a commitment, signed by both the bond purchaser and the Borrower, to purchase the Bonds in a private placement. The commitment letter shall include the salient terms and conditions of the agreement, including but not limited to the fee structure, term, rate, security, collateral, guarantee, and recourse of the commitment and evidence that the bond purchaser is committed to move forward with the transaction if the terms and conditions in the commitment letter are met.

(2) Cash Flow Permanent Bonds (as defined in the CDLAC Regulations) to be issued and sold through a private placement including, without limitation, bonds purchased by a property seller in consideration of the provisions of a purchase and sale agreement, will be deemed to have satisfied the requirements of Section III.B, above, if the provisions of paragraph (1) of this Section III.D. have been satisfied and, additionally, if the bond purchaser agrees to:

(a) submit a Traveling Investor Letter from an Approved Buyer due prior to Bond issuance; and

(b) ensure a minimum Bond denomination of not less than \$100,000.

**F. Bond Defaults.** Bond Applications on behalf of a Project sponsor with a bond-related default or bankruptcy shall be subject to Section 5066 of the CDLAC Regulations and the Issuer's discretion.

**IV. ISSUANCE PROCEDURES**

**A. Application for Bond Financing.** In order to apply for Bond financing of a Project, the Borrower shall provide (1) a description of the Project (including, without limitation, the use, status of discretionary environmental review pursuant to the California Environmental Quality Act and, if applicable, the National Environmental Policy Act, land use approvals, if required, street address, parcel size, area map of proposed site, site photos, tenant population, unit mix and affordability restrictions); (2) evidence of site control; (3) a breakdown of the Project costs; (4) a breakdown of the sources of funds for the Project, including the names of each lender, equity investor or other funding source; (5) project proforma, (6) project budget; (7) current financial statement and most recent audit report; (8) a description of the Bond structure, (9) a description of the ownership entity, including the true corporate name and organization of the entity, an organization chart and federal tax identification number, and a description of the default history of any member of the ownership entity with respect to multifamily or other commercial real estate projects, (10) description and qualifications of the developer and project sponsor (include names, addresses, contact persons and telephone numbers) including any projects in Santa Rosa, (11) the property management plan and the identity and qualifications of the property manager, (12) the amount of the developer fee proposed for the Project, not to exceed that which would be allowed by TCAC for a similar project, (13) the application to TCAC for tax credits, if applicable, (14) a market study as set forth in CDLAC Regulations Section 5200, (15) relocation plan, if applicable, and (16) such other information as the Issuer may request, including but not limited to third party reports. The foregoing information shall be provided on such form or in such format as the Issuer may request. At the discretion of the City Manager, the Housing and Community Services Director or the Finance Director (the "Designated Officials"), the City may accept an

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incomplete application that does not contain one or more of the above items, provided that such missing items are provided to the City (or are waived by the Designated Officials as inapplicable) at least 30 days prior to the City Council meeting at which the inducement resolution is to be considered.

**B. Issuer Approval Process.** The Issuer shall complete the following approval process before any Bond is issued for a Project:

(1) Issuer staff reviews the application and makes a determination that the Project and the Borrower will satisfy all requirements of these Policies for Bond financing, and that staff is prepared to recommend approval of the Bonds and the Project to the Governing Body.

(2) The Governing Body conducts a public hearing regarding the Bonds and the Project after publication of a notice of such hearing to comply with Section 147(f) of the Internal Revenue Code, often called a TEFRA (Tax Equity and Fiscal Responsibility Act of 1982) public hearing. The Governing Body may delegate the responsibility of conducting the hearing to Issuer staff.

(3) The Governing Body grants preliminary approval for the Project for purposes of Section 147(f) of the Internal Revenue Code declares its official intent to issue tax-exempt Bonds to reimburse Project expenditures, for purposes of Section 1.150-2 of the U.S. Treasury Regulations, and authorizes the Issuer's staff to submit an application to the State for an allocation of private activity bond volume cap for the Bonds. The Governing Body may delegate or accede these responsibilities to authorized elected representatives or officers of the Issuer, to the extent permitted by applicable law.

(4) After receipt of preliminary approval from the Governing Body, the Issuer's staff, with the Borrower's cooperation and at the Borrower's expense, shall submit an application to CDLAC for an allocation of private activity bond volume cap for the Bonds.

(5) After receipt of an allocation of private activity bond volume cap for the Bonds, the Governing Body adopts a resolution at a regular meeting thereof granting final approval of the issuance of the Bonds for the Project, including authorizing substantially final forms of any offering documents for the Bonds and of the principal legal documents to be executed and delivered by the Issuer.

(6) This Section III.B. is descriptive of the Issuer approvals that must be obtained prior to the issuance of the Bonds. Notwithstanding any mandatory language used in this Section III.B., the Issuer is under no obligation to the Borrower to consider or grant any such approval. Each of the foregoing approvals shall be considered and granted at the sole discretion of the Issuer. Any approval described herein shall not be construed to be an approval of the Project or the Bonds for any other purpose, and shall not obligate the Issuer to grant any other approval of the Project or the Bonds.

**C. Costs of Issuance.**

(1) General. The Borrower shall pay all costs of issuance, including but not limited to Issuer fees (as described below), bond counsel, financial adviser, underwriter, trustee, rating agency fees, CDLAC fees, other closing costs, and fees of any other parties required to complete the transaction. In addition, the Borrower is responsible to pay for any costs associated with the bond issuance after close.

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(2) **Issuer Fees.** The Borrower shall pay to the Issuer the following Issuer fees:

(a) Application Fee in the amount of \$5,000 is due with submittal of an application for bond issuance. This non-refundable fee is compensation for the Issuer's initial review of the application and the TEFRA public hearing. If the City is the Bond issuer, the Application Fee is credited toward the Bond Issuance Fee at bond closing.

(b) Bond Issuance Fee in the amount of 25 basis points (0.25%) of the principal amount of the Bonds issued with a minimum fee of \$20,000, payable at Bond closing. This fee is compensation for the Issuer's administrative costs associated with issuing the Bonds.

(c) Annual Compliance Monitoring Fee in the amount of 12.5 basis points (0.125%) of the principal amount of the Bonds originally issued is payable in advance in two equal installments semi-annually (except that the first payment is prorated) with the first installment paid at Bond closing and every anniversary thereof and the second installment paid six months later. This fee is compensation for compliance monitoring of regulatory restrictions and administration of outstanding Bonds. This fee is consistent with City Council Policy No. 24044, adopted June 29, 1999.

(3) **Other Costs.** The Borrower shall pay any other costs associated with the Bonds, including but not limited to change of ownership or property management company, amendments, subordinations, IRS audits, default proceedings, redemptions or prepayments, and requests for waivers of these Policies. Fees shall be determined by the Housing and Community Services Director. The fee for any activity that has an equivalent or similar Housing Authority fee, for example change of ownership or property management company, subordination, or regulatory agreement amendment, shall be equal to the Housing Authority fee.

**V. POST ISSUANCE TAX-EXEMPT BOND COMPLIANCE**

**A. External Advisors / Documentation**

(1) The Issuer and the Borrower shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for tax-exempt status. Those requirements and procedures shall be documented in the arbitrage certificate, use of proceeds certificate, indenture, loan agreement, bond Regulatory Agreement and/or other related documents (collectively, the "Tax Documents") finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.

(2) The Borrower shall also consult with bond counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements are met. This shall include, without limitation, consultation in connection with future contracts with respect to the use of Bond-financed or refinanced assets.

(3) The Issuer shall require the Borrower to engage expert advisors ("Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of

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Bond proceeds, unless the Tax Documents specify that arbitrage rebate will not be applicable to an issue of Bonds.

(4) Unless otherwise provided by the indenture or other authorizing documents relating to the Bonds, unexpended Bond proceeds shall be held by a trustee, and the investment of Bond proceeds shall be managed by the Borrower. The Borrower shall prepare (or cause the trustee to prepare) regular, periodic statements regarding the investments and transactions involving Bond proceeds and such statements shall be delivered to the Issuer if it so requests.

(5) The Borrower, in the Tax Documents relating to the Bonds and/or other documents finalized at or before the issuance of the Bonds, shall agree to undertake the responsibilities listed above.

**B. Arbitrage Rebate and Yield.** Unless the Tax Documents state that arbitrage rebate will not be applicable to an issue of Bonds, it is the Issuer's policy that the Borrower shall be responsible for compliance with all requirements under Federal arbitrage regulations. Per the Regulatory Agreement of each Bond issuance the Borrower shall be responsible to determine (or obtain expert advice to determine) whether Arbitrage Rebate calculations will be submitted to the IRS. If it is determined that such calculations are likely to be required, the Borrower shall be responsible for:

(1) engaging expert advisors ("Rebate Service Provider") to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds, or else ensure that it has adequate financial and legal resources of its own to make such calculations. Borrowers shall make any rebate payments required on a timely basis.

(2) Prior to each rebate calculation date, causing the trustee or other account holder to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider;

(3) Providing to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;

(4) Monitoring efforts of the Rebate Service Provider;

(5) Assuring payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed;

(6) During the construction period of each capital project financed in whole or in part by Bonds, monitoring the investment and expenditure of Bond proceeds and consult with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate requirements during each 6-month spending period up to 6 months, 18 months or 24 months, as applicable, following the issue date of the Bonds; and

(7) Retaining copies of all arbitrage reports and account statements as described below under Section V.D., "Record Keeping Requirements," and, upon request, providing such copies to the Issuer.

(8) The Borrower, in the Tax Documents relating to the Bonds and/or other documents finalized at or before the issuance of the Bonds, shall agree to undertake the tasks listed above

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(unless the Tax Documents provided that arbitrage rebate will not be applicable to an issue of Bonds).

**C. Use of Bond Proceeds and Bond-Financed or Refinanced Assets.** It is the Issuer's policy that the Borrower shall be responsible for:

(1) Monitoring the use of Bond proceeds and the use of Bond-financed or refinanced assets (e.g., facilities, furnishings or equipment) throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Documents relating to the Bonds;

(2) Maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds, including a final allocation of Bond proceeds as described below under Section V.D., "Record Keeping Requirements";

(3) Consulting with bond counsel and other legal counsel and advisers in the review of any contracts or arrangements involving use of Bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Documents relating to the Bonds;

(4) Maintaining records for any contracts or arrangements involving the use of Bond-financed or refinanced assets as described below under Section V.D., "Record Keeping Requirements";

(5) Conferring at least annually with personnel responsible for Bond-financed or refinanced assets to identify and discuss any existing or planned use of Bond-financed or refinanced assets, to ensure that those uses are consistent with all covenants and restrictions set forth in the Tax Documents relating to the Bonds; and

(6) To the extent that the Borrower discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced assets will or may be violated, consult promptly with bond counsel and other legal counsel and advisers to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

(7) The Borrower, in the Tax Documents relating to the Bonds and/or other documents finalized at or before the issuance of the Bonds, shall agree to undertake the responsibilities listed above.

**D. Record Keeping Requirements of Bonds.**

(1) It is the Issuer's policy that the Borrower shall be responsible for maintaining the following documents for the term (maturity, redemption or cancellation) of each issue of Bonds (including refunding Bonds, if any) plus ten years:

(a) A copy of the Bond closing transcript(s) and other relevant documentation delivered to the Borrower at or in connection with closing of the issue of Bonds, including any elections made by the Issuer or Borrower in connection therewith (the Issuer shall also retain a copy);

(b) A copy of all material documents relating to capital expenditures financed or refinanced by Bond proceeds, including (without limitation) construction contracts,

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purchase orders, invoices, trustee requisitions and payment records, draw requests for Bond proceeds and evidence as to the amount and date for each draw down of Bond proceeds, as well as documents relating to costs paid or reimbursed with Bond proceeds and records identifying the assets or portion of assets that are financed or refinanced with Bond proceeds, including a final allocation of Bond proceeds;

(c) A copy of all contracts and arrangements involving the use of Bond-financed or refinanced assets; and

(d) A copy of all records of investments, investment agreements, arbitrage reports and underlying documents, including trustee statements, in connection with any investment agreements, and copies of all bidding documents, if any.

(e) A copy of all records evidencing compliance with the requirements of Section 142(d) of the Code, including income verifications, leases, and rental records.

(2) The Borrower, in the Tax Documents relating to the Bonds and/or other documents finalized at or before the issuance of the Bonds, shall agree to the foregoing records retention requirements and procedures.

**VI. POST ISSUANCE PROJECT COMPLIANCE**

**A. Background**

(1) All Housing Projects that receive an Allocation from CDLAC and an award of low income housing tax credits are subject to the provisions of section 10337 of Title 4 of the California Code of Regulations and the CDLAC Resolution. These projects shall be monitored for compliance by the terms and conditions of the CDLAC Resolution by the Issuer.

(2) When CDLAC provides a private activity bond volume cap for a Project, a Regulatory Agreement between the Issuer and the Borrower is recorded upon the issuance of the Bonds. The Regulatory Agreement summarizes several important use restrictions, including:

- Project compliance period;
- Total units;
- Total common area units;
- Total housing units in low-income housing commitment, and the particular set aside requirement (20% at 50% or 40% at 60%);
- Percent of area median gross income for qualified low-income housing units; and
- Any additional low-income housing commitments.

(3) In order for a multifamily housing project to remain in compliance with the Regulatory Agreement and CDLAC's requirements, the Issuer must collect, review and monitor documents outlined in the Regulatory Agreement and the CDLAC's Regulations. These certifications and forms provide the information that exhibits the project is maintaining its tax-exempt status. The Issuer is required to collect and store these forms. The process of collecting, reviewing, monitoring and storing these forms is outlined in Section VI.B., "Affordable Housing Post Issuance Compliance Procedures."

(4) The Issuer and the Borrower shall consult with bond counsel and other legal

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counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for tax- exempt status. Those requirements and procedures shall be documented in the Tax Documents for the Bonds and shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirement of federal tax law beyond the term of the Bonds.

(5) The Issuer reserves the right to use its discretion as necessary and appropriate to make exceptions or request additional provisions as circumstances warrant. The Issuer also reserves the right to change these policies and procedures from time to time.

(6) The CDLAC resolution will be included as an exhibit to the Regulatory Agreement.

(7) The Issuer's Compliance Officer is responsible for all aspects of monitoring the Bonds for compliance with post-issuance requirements.

**B. Affordable Housing Post Issuance Compliance Procedures**

(1) The Issuer is required to collect, review and monitor the Certification of Compliance I, Certification of Compliance II, Certificate of Completion, TCAC Project Status Report (PSR), Certificate of Continuing Program Compliance (for pre-2017 issues only, as set forth in the Regulatory Agreement) and the Annual Applicant Public Benefits and Ongoing Compliance Self-Certification for each issuance of Bonds, and such other certificates that CDLAC may require for each issuance of Bonds, when applicable. The Regulatory Agreement and CDLAC Resolution outline the certifications and forms that will need to be collected, reviewed and sent to the appropriate parties. This section reviews the compliance certifications and forms set forth under Federal, State, Regulatory and IRS regulations. The Borrower must certify under penalty of perjury that the Project was in compliance with certification provisions set forth under Federal, State and IRS regulations for the preceding 12-month period. The failure of the Borrower to comply with those provisions may result in a revocation of the tax-exempt status of the Bonds by the IRS. The Issuer relies exclusively on the representations, warranties and agreements of the Borrower made in the Tax Documents (as defined below) relating to the Bonds.

(2) Record Keeping & Document Retention:

(a) It is the Issuer's policy that the following tax-exempt Bond documents will be retained by the Borrower and the Issuer for the compliance period term plus an additional five years.

The applicable records to be maintained include:

- These Policies (updated as deemed necessary by the Issuer)
- Certification of Compliance I (CDLAC)
- Certification of Compliance II (CDLAC)
- Certificate of Continuing Program Compliance (Pre-2017 Regulatory Agreements, where applicable)
- Annual Applicant Public Benefits & On-Going Compliance Self Certification (CDLAC)
- TCAC Project Status Report (CDLAC)
- Certification of Completion for Qualified Residential Rental Projects (CDLAC)

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(b) It is the Issuer's policy that income and rent verification documents be retained by the Borrower and Issuer, as set forth below.

(c) The Borrower is also required to submit IRS Form 8703 annually to the Internal Revenue Service on or before March 31. Form 8703 provides annual information that helps the IRS determine whether a project continues to be a qualified residential rental project under section 142(d). The Issuer is not responsible for overseeing the Borrower's compliance with CDLAC on this process. Although the Issuer is not required to collect Form 8703 from the Project Sponsor, the Issuer may request that the Borrower confirm that the Form has been submitted to the IRS and/or request a copy of the form.

(d) The following procedures outline the process for collecting and reviewing the required documents or certifications:

(i) *Certification of Compliance I & II (CDLAC):* the *Certification of Compliance I and II* documents are the Borrower's certification that the Project is in compliance with all of the terms and conditions set forth in the CDLAC Resolution. These certifications are available on the CDLAC website.

(A) The Certification of Compliance I & II documents are completed by the Borrower and must be submitted on the Borrower's letterhead to the Issuer by February 1st of each year, if applicable. The Issuer will then verify receipt of the certifications for all housing projects that have received CDLAC allocation to the California Debit Limit Allocation Committee's online compliance certification system no later than March 1st of each year.

(B) For Projects receiving an allocation prior to December 31, 2016, the Borrower submits the Certification of Compliance I document to the Issuer annually. For Projects receiving an allocation after December 31, 2016, the Borrower submits the Certification of Compliance II annually to the Issuer until the Project is completed and then, if the Project is subject to a Regulatory Period and/or Compliance Period, every three years thereafter or sooner upon a termination of the Regulatory Period and/or Compliance Period.

(C) An email reminder from the Issuer's staff may be sent to the Borrower's asset management group during the first week of January.

(ii) *Certificate of Continuing Program Compliance (Regulatory Agreement):* Borrower must periodically submit to Issuer a Certificate of Continuing Program Compliance for the duration of the Qualified Project Period, as required by any pre-2017 Regulatory Agreements (generally, Section 4(e)). The forms are typically attached as exhibits to the Regulatory Agreement.

(A) The reporting periods may vary and are specified in each Regulatory Agreement.

(B) The Borrower shall deliver the Certificate of Continuing Program Compliance to the Issuer no later than March 1st of each year.



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(iii) Annual Applicant Public Benefits & On-Going Compliance Self Certification (CDLAC) is the Applicant/Issuer's certification that the Project is in compliance with all of the terms and conditions set forth in the CDLAC Resolution.

(A) The Issuer shall complete and submit an Annual Applicant Public Benefits & On-Going Compliance Self-Certification (the "Self-Certification") to CDLAC via the online compliance certification system no later than March 1<sup>st</sup>.

(B) For projects receiving allocation prior to December 31, 2016, the Issuer shall submit the Self-Certification annually. For Projects receiving allocation after December 16, 2016, the Issuer shall submit the Self-Certification annually until Project completion and then every 3 years thereafter.

(C) TCAC Project Status Report. The Borrower is required, for Projects receiving allocation after December 31, 2016, to prepare and forward a TCAC Project Status Report, available on the TCAC website, or equivalent documentation to the Applicant annually in conjunction with the Annual Applicant Public Benefits and On-going Compliance Self Certification. Borrowers must retain information pertaining to the income verification process for 10 years.

(D) CDLAC does not expect to hold the Issuer responsible for conditions that the Issuer is not aware of; only for the Issuer to confirm its understanding of the status of the project based upon our own post-issuance compliance procedures. CDLAC will not review the Issuer's procedures, and in good faith, will assume that the Issuer has in-place procedures that the Issuer judges adequate to satisfy its post-issuance responsibilities as defined under the Internal Revenue Code and CDLAC Regulations. The Issuer is free to request project information from the Borrower and rely on that information if the Issuer believes it satisfies its own compliance procedures and responsibilities. That information can then serve as the basis for the Issuer's response to the questions within this certification.

(iv) Certificate of Completion for Qualified Residential Rental Projects ("Certificate of Completion") (CDLAC): The Certificate of Completion, available on the CDLAC website, is required by CDLAC to be delivered by the Borrower to the Issuer when the project is substantially completed.

(A) The Certificate of Completion is submitted by the Borrower to the Issuer and certifies that all work on the Project was substantially completed, along with the aggregate amount disbursed on the loan for qualified project costs. In addition, the officer's signature indicates that no more than 2% of the proceeds of the bonds issued were spent on the cost of the bond issuance.

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(B) The Applicant will then provide confirmation of receipt to CDLAC no later than March 1st of each applicable year via the online compliance certification system.

(v) Income and Rent Verification for Projects receiving allocations after December 31, 2016 (and as indicated for Projects receiving allocations prior to December 31, 2016).

(A) Borrowers are required to utilize TCAC's Compliance Manual Section IVI Qualifying Tenants for Low Income Housing Tax Credit Units, to verify tenant income in conjunction with initial occupancy.

(B) No less than every three years after the project is completed, the Borrower must collect and retain the following income and verification documentation related to all the Federally Bond-Restricted units identified in the Committee Resolution or Restricted Rental Units as defined in Section 5000: TCAC Tax Income Calculation (TIC) or equivalent documentation, all associated source income documentation, and evidence of the verifying income computation.

(C) Additionally, the Borrower is required to annually prepare and forward to the Issuer a TCAC Project Status Report (PSR), or equivalent documentation, including tenant income verification and rent for Federally Bond-Restricted Units (see Annual Applicant Public Benefits and On-going Compliance Self Certification above). Borrowers must retain information pertaining to the income verification process for 10 years and provide to Issuer upon request. This requirement may also be applicable to Projects receiving allocations prior to December 31, 2016, as set forth in the Regulatory Agreement.

(D) The Issuer shall demonstrate compliance with the income and rental requirements of the Federally Bond-Restricted Units identified in the CDLAC Resolution and the Bond Regulatory Agreement by the Issuer's initial review and subsequent review every three years of 20% of all management files associated with the Federally Bond-Restricted units.

Federally Bond-Restricted units will include a distribution of unit locations, sizes and income levels (if applicable) and must be identified in the PSR. For this 20% of files, Issuers must review each initial or subsequent occupant/s and their associated TIC in conjunction with the supporting income verification documentation of each occupant's initial occupancy and make a determination if the project is complying with the income and affordability standards. Additionally, Issuers must ensure a lease is in place and executed.

This review may be performed on-site or may be performed through an electronic file audit. Completion of this task in addition to a valid Certification of Compliance II or equivalent form will provide Issuers with the ability to report annually to CDLAC regarding compliance with the Federally Bond-Restricted unit restrictions. Information pertaining to the income verification process will be kept on file for 10 years. Issuers must

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retain documentation memorializing review and determination of income eligibility for 10 years. Source income documentation must be retained for 1 year. These guidelines rely on the compliance monitoring process and procedures in place for TCAC. To the extent TCAC is to alter their compliance policies and procedures, these guidelines shall be reviewed by CDLAC for consistency and changes made where appropriate.

(vi) *On Site Audit.* The Issuer's policy is that an onsite audit of each Project should take place no later than 3 years from date of the Completion Certification and every 3 years thereafter, if required by CDLAC or otherwise is deemed desirable by the Issuer.

If the Issuer conducts an on-site inspection, the Issuer's Compliance Officer or a designee will take a tour of the Project grounds and visit at least one selected unit. Notes will be taken of the site's general upkeep. The Issuer will report to the lender if the upkeep is not being maintained. If the Compliance Officer finds that the Project is out of compliance with the Regulatory Agreement or the facility is unsafe, the Compliance Officer will report the compliance violations to the appropriate oversight entities.

**VII. DEFAULT PROCEDURES**

Except as otherwise stated in the Tax Documents, when an apparent problem is identified through audits or collection of documents, the Compliance Officer will bring said problem to the attention of the Borrower by informal contact. The Borrower is given a reasonable period to demonstrate that no noncompliance exists, and the nature of the noncompliance determines the grace period for the Borrower's response. The Borrower can usually resolve the matter by providing clarification and/or additional documentation. However, if the project is actually out of compliance with its Regulatory Agreement or CDLAC Resolution then the Compliance Officer responds according to the nature of the violation and provisions of the Regulatory Agreement.