

NEW ISSUE - BOOK-ENTRY ONLY

NOT RATED

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing law, and assuming compliance with the tax covenants described herein, interest on the Bonds is excluded pursuant to section 103(a) of the Internal Revenue Code of 1986 from the gross income of the owners thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax. It is also the opinion of Bond Counsel that under existing law interest on the Bonds is exempt from personal income taxes of the State of California. See "TAX MATTERS" herein.

**[\$[principal amount]*
COMMUNITY FACILITIES DISTRICT NO. 2005-1
(BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
2017 SPECIAL TAX REFUNDING BONDS
(IMPROVEMENT AREA NO. 1)
(Bank Qualified)**

Dated: Date of Delivery

Due: September 1, as shown on the inside cover page

The Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced, 2017 Special Tax Refunding Bonds (Improvement Area No. 1 (the "Bonds")) are being issued and delivered by Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced (the "District") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 et seq. of the Government Code of the State of California (the "Act"), and a Fiscal Agent Agreement, dated as of December 1, 2017, by and between the District and MUFG Union Bank, N.A., as fiscal agent (the "Fiscal Agent"), and will be secured as described herein.

The Bonds are being issued to provide funds to refund the outstanding Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced 2006 Special Tax Bonds (Improvement Area No. 1) (the "Prior Bonds"), fund a reserve fund and pay the costs of issuing the Bonds. See "THE REFUNDING PLAN" herein.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases may be made in principal amounts of \$5,000 and integral multiples thereof in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. Interest on the Bonds will be payable semiannually on each March 1 and September 1, commencing March 1, 2018. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the beneficial owners of the Bonds. See "THE BONDS — General Provisions" and APPENDIX G — "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds are limited obligations of the District, payable solely from Special Tax Revenues (as defined in the Fiscal Agent Agreement), consisting primarily of Special Taxes (as defined herein) and proceeds of foreclosure sales pursuant to the Fiscal Agent Agreement, as more fully described herein. If a deficiency occurs in the payment of any installment of Special Taxes securing the Bonds, the Fiscal Agent will have a duty only to transfer from the Reserve Fund the amount necessary to pay principal of or interest on the Bonds when due. There is no assurance that sufficient funds will be available in the Reserve Fund for this purpose. The Special Taxes are to be levied according to the rate and method of apportionment for Improvement Area No. 1 of the District, which was approved by the City Council of the City of Merced (the "City") and the qualified electors within the District. See "SOURCES OF PAYMENT FOR THE BONDS - Repayment of the Bonds" herein.

The Bonds are subject to redemption prior to maturity as set forth herein. See "THE BONDS — Redemption" herein.

Neither the faith and credit nor the taxing power of the City, the County of Merced, the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are special tax obligations of the District payable solely from Special Tax Revenues and certain other amounts as more fully described herein.

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. The purchase of the Bonds involves significant investment risks, and the Bonds may not be suitable investments for many investors. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

* Preliminary, subject to change.

MATURITY SCHEDULE

(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, and subject to certain other conditions. Norton Rose Fulbright US LLP is serving as Disclosure Counsel to the District with respect to the Bonds. Certain legal matters will be passed on for the District by the City Attorney, and for the Underwriter by its counsel, Nossaman LLP, Irvine, California. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about December ___, 2017.

[UNDERWRITER LOGO]

Dated: December __, 2017

**Community Facilities District No. 2005-1
(Bellevue Ranch West)
of the City of Merced
2017 Special Tax Refunding Bonds
(Improvement Area No. 1)**

MATURITY SCHEDULE

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>CUSIP[†]</i>
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\$ _____ % Term Bonds Due September 1, 20__, Price _____% CUSIP No. _____

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CITY OF MERCED

CITY COUNCIL

as the legislative body of the

Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced

Mike Murphy, *Mayor*
Joshua Pedrozo, *Council Member*
Jill McLeod, *Council Member*
Anthony Levi Martinez, *Council Member*

Kevin Blake, *Mayor Pro Tem*
Michael Belluomini, *Council Member*
Matthew Serratto, *Council Member*

CITY STAFF

Steve Carrigan, City Manager
Stephanie Dietz, Assistant City Manager
Jolie Houston, City Attorney
Steve Carrigan, City Clerk
Venus Rodriguez, Interim Finance Officer

Special Services

BOND AND DISCLOSURE COUNSEL

Norton Rose Fulbright US LLP
Los Angeles, California

MUNICIPAL ADVISOR

Fieldman, Rolapp & Associates, Inc.
Irvine, California

FISCAL AGENT

MUFG Union Bank, N.A.
San Francisco, California

ESCROW BANK

U.S. Bank National Association
San Francisco, California

SPECIAL TAX CONSULTANT

Goodwin Consulting Group, Inc.
Sacramento, California

APPRAISAL VALUATION SERVICES

Seevers Jordan Ziegenmeyer
Rocklin, California

VERIFICATION AGENT

Causey Demgen & Moore, P.C.
Denver, Colorado

No dealer, broker, salesperson or other person has been authorized by the District, the Fiscal Agent or the Underwriter to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Fiscal Agent or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers or Beneficial Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with the Municipal Securities Rulemaking Board, or a nationally recognized municipal securities depository.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information in APPENDIX G — “BOOK-ENTRY ONLY SYSTEM” attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the District or the Underwriter as to the accuracy or completeness of such information.

The information set forth herein which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the District. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or any other parties described herein since the date hereof. All summaries of the Fiscal Agent Agreement or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the District for further information in connection therewith.

A wide variety of other information, including financial information, concerning the District, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement.

Cautionary Information Regarding Forward-Looking Statements in the Official Statement

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as set forth in the Continuing Disclosure Agreement, a form of which is attached as APPENDIX E, the District has no plans to issue any updates or revisions to the forward-looking statements set forth in this Official Statement.

In connection with the offering of the Bonds, the Underwriter may over-allot or effect transactions which stabilize or maintain the market price of such bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page hereof, and such public offering prices may be changed from time to time by the Underwriter.

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such Act. The Bonds have not been registered or qualified under the securities laws of any state.

VICINITY MAP

City of Merced

Legend

- ★ City of Merced
- Highways
- Roads
- Railroads
- Merced County

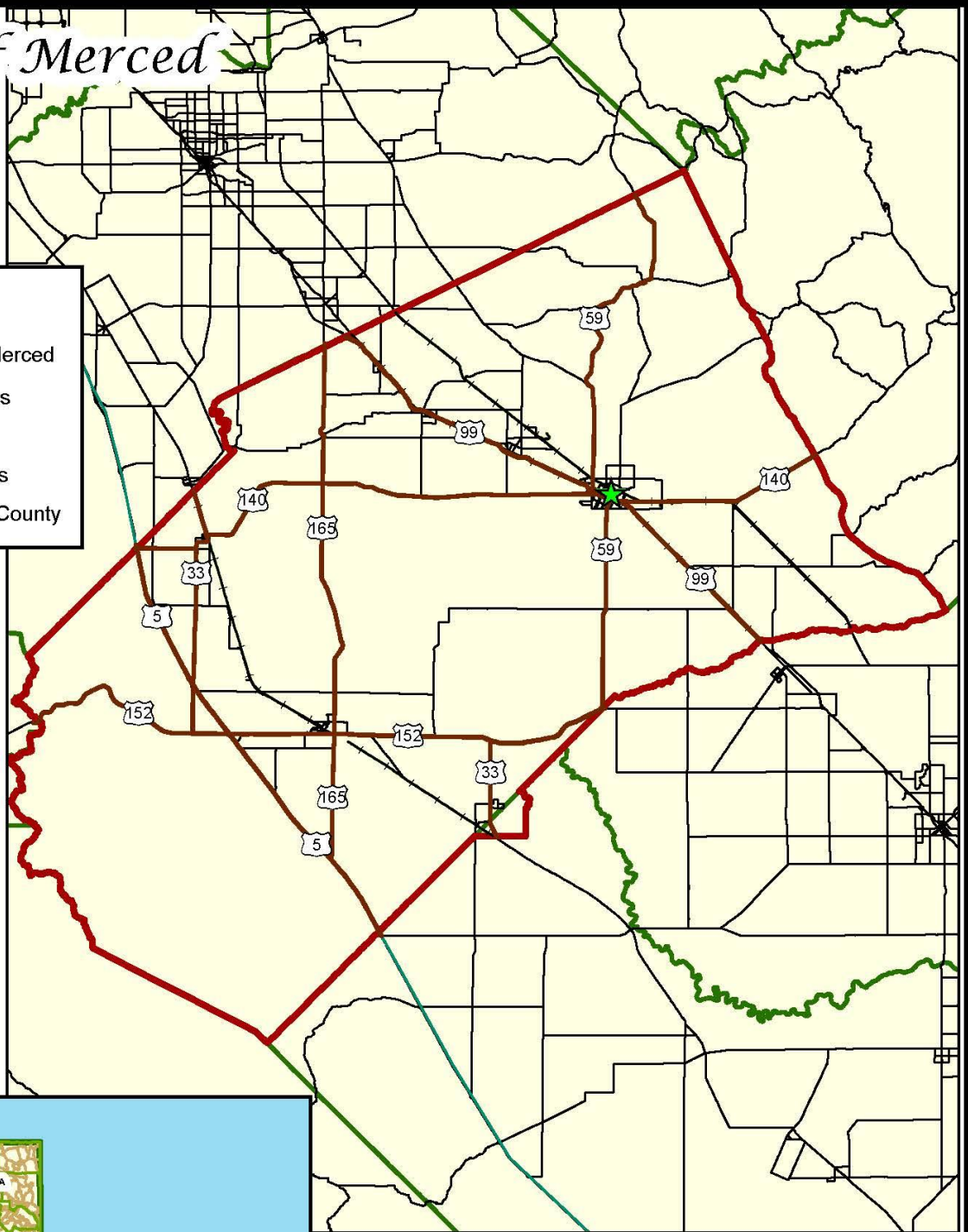


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 COUNSEL
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**[\$[principal amount]*
COMMUNITY FACILITIES DISTRICT NO. 2005-1
(BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
2017 SPECIAL TAX REFUNDING BONDS
(IMPROVEMENT AREA NO. 1)**

INTRODUCTION

General

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the appendices, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds (defined below) to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined shall have the meaning set forth in APPENDIX C — “SUMMARY OF FISCAL AGENT AGREEMENT — Definitions” herein.

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced (the “District”) of the \$[principal amount]* Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced, 2017 Special Tax Refunding Bonds (Improvement Area No. 1) (the “Bonds”).

The proceeds of the Bonds will be used primarily for the purpose of refunding the outstanding Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced 2006 Special Tax Refunding Bonds (Improvement Area No. 1) (the “Prior Bonds”), originally issued in the aggregate principal amount of \$7,410,000 and now outstanding in the principal amount of \$5,865,000. A portion of the proceeds of the Bonds will also be used to fund a deposit to the Reserve Fund and to pay costs of issuance of the Bonds. See “THE REFUNDING PLAN” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

The City of Merced

The City of Merced (the “City”) is located in the eastern portion of Merced County (the “County”) in the San Joaquin Valley approximately 110 miles southeast of San Francisco and 310 miles northwest of Los Angeles. The City was incorporated in 1889 and operates as a charter city. The City is also the County seat and the largest city by population within the County, with a population of 84,578 as of January 1, 2017. It maintains a council-manager form of government with the Mayor elected at-large for a two year term. The City recently underwent a change from at-large based elections for its six Council Members to district-based elections for four-year terms commencing with the November 2016 general election.

Traditionally, the economy in the region has been associated with agricultural industries, but in recent years has become more varied, encompassing growing educational and health services. Seven of the top ten employers within the County are located in the City. The University of California Merced campus, opened in 2005, with a Fall 2016 enrollment of 6,685, is located just outside the boundaries of the City limits but within the sphere of influence of the City, and is a major source of growth and employment in the region. The campus is expected to reach a student population of 25,000 by the year 2030. See “APPENDIX C - GENERAL INFORMATION ABOUT THE CITY OF MERCED” for a more complete description of the City and the surrounding region.

* Preliminary, subject to change.

The Bonds are not a debt of the City in any respect.

The District

The Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 et seq. of the Government Code of the State of California (the “Act”), was enacted by the California legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election of the property owners within such district and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax (the “Special Tax”) within such district to repay such indebtedness. (see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS - Repayment of the Bonds - Special Taxes” herein).

On November 21, 2005, the City formed the District. On November 21, 2005 an election was held within the District in which the landowners eligible to vote unanimously approved the proposed bonded indebtedness and the levy of the Special Tax for both the Improvement Area No. 1 and Improvement Area No. 2 within the District. Phases 1 and 2 of the Bellevue Ranch West portion of the Bellevue Ranch planned development within the City make up the boundaries of the District. Phase 1 is referred to herein as “Improvement Area No. 1” and was planned for 711 residential units, one neighborhood-commercial lot, along with a park and open space. Recorded final maps exist on all property within Improvements Area No. 1. **Only Special Taxes levied in Improvement Area No. 1 are pledged to the repayment of the Bonds.** Special taxes which may be levied in the future within Improvement Area No. 2 by the District (currently none are levied) are specific to Improvement Area No. 2 and **are not** pledged to the repayment of the Bonds. Likewise, Special Taxes levied in Improvement Area No. 1 by the District are not available for repayment of any future bonds issued for Improvement Area No. 2.

As of the date of this Official Statement, there are 712 taxable parcels or lots in Improvement Area No. 1. Of the taxable lots, 241 are designated as “Developed,” consisting of 215 completed single-family residences owned by individual homeowners and 26 improved (or finished) single-family lots owned by Lennar Homes of California Inc. (“Lennar”). The lots owned by Lennar consist of 18 completed single-family residences and 8 single-family residences under construction. There are approximately 58 acres designated as “Undeveloped,” consisting of 470 improved (or finished) single-family lots with no vertical construction, owned by Forebay Farms, LLC. (“Forebay Farms”), and one approximate 8.33-acre commercial lot owned by Merced QB Club LLC, an entity formed by principals of Granville Homes (“Merced QB Granville”). All Undeveloped property within Improvement Area No. 1 has final map approval. Certain offsite infrastructure, including streets, curbs, gutters, and street lights, was completed several years ago within all of Improvement Area No. 1, including for Undeveloped property. See “THE COMMUNITY FACILITIES DISTRICT” herein for a more complete description of the District.

Security and Sources of Payment for the Bonds

The Bonds are primarily being issued to provide funds to refund and defease the Prior Bonds. See “THE REFUNDING PLAN.”

The Bonds are payable from Special Taxes and secured by a lien and charge upon the Special Taxes levied within Improvement Area No. 1 of the District. The Bonds are issued pursuant to a Fiscal Agent Agreement, dated as of December 1, 2017 (the “Fiscal Agent Agreement”), between the District and MUFG Union Bank, N.A. (the “Fiscal Agent”).

The Bonds are special limited obligations of the District, payable solely from Net Taxes (as defined herein) and the other funds pledged therefor under the Fiscal Agent Agreement. Subject only to the provisions

of the Fiscal Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Net Taxes and any other amounts (including proceeds of the sale of Bonds) held in the Special Tax Fund, the Bond Fund, the Redemption Fund and the Reserve Fund established under the Fiscal Agent Agreement are pledged to secure the payment of the principal of and interest on the Bonds in accordance with their terms, the provisions of the Fiscal Agent Agreement and the Act. Such pledge constitutes a first lien on such assets.

The Bonds do not constitute a debt or liability of the City, the State of California or of any political subdivision thereof, other than of the District. The District shall only be obligated to pay the principal of, premium if any and interest on the Bonds from the funds described in the Fiscal Agent Agreement, and neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Fiscal Agent Agreement), the City, the State of California or any of its political subdivisions is pledged to the payment of the principal of or the interest on the Bonds. The District has no ad valorem taxing power (See “SOURCES OF PAYMENT FOR THE BONDS” and “RISK FACTORS” herein).

Reserve Fund for the Bonds. As additional security for the Bonds, the Fiscal Agent Agreement provides for the establishment of the Reserve Fund in the amount of the Reserve Requirement. The “Reserve Requirement” as defined under the Fiscal Agent Agreement means as of any calculation date, an amount equal to the least of (i) ten percent (10%) of the proceeds of the Bonds (within the meaning of section 148 of the Code); (ii) 125% of average annual debt service on the Bonds; or (iii) the maximum annual debt service of the Bonds, provided, however, the Reserve Requirement on any calculation date shall not be greater than the Reserve Requirement amount on the Closing Date. As of the date of issuance of the Bonds, the Reserve Requirement will be fully funded in the amount of \$[498,525]*.

Special Taxes. As used in this Official Statement, the term “Special Tax” is that tax which has been authorized pursuant to the Act to be levied against certain interests in property within Improvement Area No. 1 of the District, including any scheduled payments and any prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien, but excluding therefrom penalties and interest. The Special Tax will be levied on property within Improvement Area No 1 of the District in accordance with the Rate and Method. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Repayment of the Bonds - Special Taxes” and APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” Under the Fiscal Agent Agreement, the District has pledged to repay the Bonds from the Special Tax Revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and amounts on deposit in the Special Tax Fund, the Bond Fund, Redemption Fund and Reserve Fund established under the Fiscal Agent Agreement. “Special Tax Revenues” is defined under the Fiscal Agent Agreement as (a) the proceeds of the Special Taxes received by the District from Improvement Area No. 1, (b) income and gains with respect to the investment of amounts on deposit in the funds and accounts established under the Fiscal Agent Agreement for the Bonds, (c) proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, and (d) the net proceeds of the sale of any delinquent installments of the Special Taxes that have been sold and assigned to a third party, but does not include any penalties or interest in excess of the interest payable on the Bonds collected in connection with delinquent Special Taxes.

Assessed and Appraised Values; Value-to-Lien Ratios. As of January 1, 2017 the net assessed value of the property within Improvement Area No. 1 of the District subject to the levy of the Special Tax in Fiscal Year 2017-18 was approximately \$54.4 million, resulting in an estimated assessed value-to-lien ratio of 8.6* to 1 for the property subject to the Special Tax levy in Fiscal Year 2017-18 based on the principal amount of the Bonds, and an estimated assessed value-to-lien ratio of ____* to 1 based upon the principal amount of the Bonds and the direct and overlapping debt payable from other taxes and assessments levied on the property within

* Preliminary, subject to change.

Improvement Area No. 1 of the District. See “Direct and Overlapping Debt, and -Estimated Value-to-Lien Ratios” herein.

The 241 parcels of Developed Property within Improvement Area No. 1 have a combined assessed value of \$50,309,604 as of January 1, 2017, resulting in a combined value to lien ratio of over 20.8* to 1.

An appraisal of the 26 Developed-designated parcels owned by Lennar and the 471 parcels of Undeveloped Property within Improvement Area No. 1, dated October 31, 2017 (the “Appraisal”), was prepared by Seevers Jordan Ziegenmeyer, Rocklin, California (the “Appraiser”) in connection with issuance of the Bonds. The purpose of the Appraisal was to ascertain the “as is” market value of the fee simple estate for (a) all taxable Undeveloped property in Improvement Area No. 1 of the District, consisting of 470 existing finished single-family lots with no vertical construction, and one commercial lot, and (b) Lennar’s 26 parcels designated as Developed property, all as of the September 28, 2017 date of value.

Subject to the assumptions and limitations contained in the Appraisal, the Appraiser estimated that the market value of the 470 finished single-family lots, in bulk, subject to the lien of the Special Taxes, had an estimated aggregate bulk value of \$12,670,000, and the market value of the commercial lot, subject to the lien of the Special Tax, had a market value of \$1,725,000. Given these estimated appraised values, the Undeveloped 470 lots owned by Forebay Farms have a combined value-to-lien ratio of 3.95* to 1, and the commercial lot owned by Merced QB Granville has a value-to-lien ratio of 2.65* to 1. Together, the Undeveloped property has a value-to-lien ratio of 3.7* to 1 based on the appraised values and the principal amount of the Bonds.

Subject to the assumptions and limitations contained in the Appraisal, the Appraiser estimated that the market value of the 26 single-family lots owned by Lennar, in bulk, subject to the lien of the Special Taxes, had an estimated aggregate bulk value of \$1,179,100. The Appraiser notes that as the date of value, vertical construction was underway on 8 of the lots and remaining 18 lots consisted of completed single-family homes with no assessed value for structural improvements in various stages of sale to individual homeowners. The appraised value of the 26 lots owned by Lennar have a combined value-to-lien ratio of 4.18* to 1 based on the appraised values and the principal amount of the Bonds.

The combined value (assessed value for Developed property other than Lennar lots and appraised value for Undeveloped property plus the Lennar lots) of just under \$65 million, results in an estimated combined value-to-lien ratio of 10.2* to 1 based on the principal amount of the Bonds, and an estimated combined value-to-lien ratio of ____* to 1 based on the direct and overlapping debt within the District. See “- Assessed Valuation” and “- Appraisal” herein.

There is no assurance that the Undeveloped property within Improvement Area No. 1 of the District can be sold for the appraised value described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current landowners or future landowners within Improvement Area No. 1 of the District. See “RISK FACTORS — Appraised Values” and APPENDIX D — “APPRAISAL REPORT” herein.

Foreclosure Proceeds. The District will covenant that it will commence, and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against Assessor’s Parcels (as defined in the Rate and Method) with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the fiscal year in which such Special Taxes were due, and it will commence, and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against all Assessor’s Parcels with delinquent Special Taxes by the October 1 following the close of any Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Fund is less than the Reserve Requirement.

As of September 20, 2017, there were no parcels within Improvement Area No. 1 of the District delinquent in the payment of Special Taxes for 2017-18, and one parcel delinquent in the amount of \$386 or

0.08% of the 2016-17 Special Tax levy; however, due to the participation of the District in the County's Teeter Plan, the District received 100% of the Special Tax levy. Although certain parcels have been delinquent in the payment of Special Taxes in the past, the District has never been required to proceed to a foreclosure sale for delinquent Special Taxes and has never received less than the annual Special Tax levy. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS— Repayment of the Bonds - *Proceeds of Foreclosure Sales*" and Tables 10 and 17 herein.

There is no assurance that the property interests within the District against which the Special Taxes are levied can be sold at foreclosure or otherwise for the assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within . See "SPECIAL RISK FACTORS—Assessed or Appraised Valuations; Value-to-Lien Ratios."

Additional Bonds and Liens. Except for refunding purposes, the District may not issue bonds, notes or other forms of indebtedness payable from Special Tax Revenues and secured by a lien and charge equal to the lien and charge securing the Bonds. Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within Improvement Area No. 1 of the District which could adversely affect the willingness of the owners of the taxable parcels within Improvement Area No. 1 of the District to pay the Special Taxes when due. See "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments" herein.

Description of the Bonds

The Bonds will be issued and delivered as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations of \$5,000 or any integral multiple thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry only system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Fiscal Agent Agreement. See APPENDIX G — "BOOK-ENTRY ONLY SYSTEM" herein.

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Fiscal Agent, all as described herein. See APPENDIX G — "BOOK-ENTRY ONLY SYSTEM" herein.

The Bonds are subject to optional redemption, extraordinary mandatory redemption and mandatory sinking redemption as described herein. For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see "THE BONDS" and APPENDIX C — "SUMMARY OF THE FISCAL AGENT AGREEMENT" herein.

Professionals Involved in the Offering

MUFG Union Bank, N.A. will act as Fiscal Agent under the Fiscal Agent Agreement. Brandis Tallman LLC is the Underwriter of the Bonds. U.S. Bank National Association will act as Escrow Bank under the Escrow Agreement. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel and Disclosure Counsel. See APPENDIX F — FORM OF OPINION OF BOND COUNSEL." Fieldman, Rolapp & Associates, Inc., Irvine, California, is acting as Municipal Advisor to the City in connection with the Bonds. Certain legal matters will be passed upon for the District by the City Attorney, and for the Underwriter by its counsel, Nossaman LLP,

Irvine, California. Other professional services have been performed by Goodwin Consulting Group, Inc., Sacramento, California, as Special Tax Consultant, and by Seevers Jordan Ziegenmeyer, Rocklin, California, as appraiser.

Continuing Disclosure

The District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system certain annual financial information and operating data, and notice of certain enumerated events. This covenant is made by the District in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The owners of the undeveloped land, Forebay Farms and Merced QB Granville, each responsible for over ten percent (10%) of the special tax levy for fiscal year 2017-18, will agree to provide to the District and EMMA certain financial and project information related to the District, and notice of certain enumerated events. See "CONTINUING DISCLOSURE" herein and APPENDIX E hereto for a description of the specific nature of the periodic reports and notice of enumerated events to be filed by the District and Forebay Farms and Merced QB Granville.

Bond Owners' Risks

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the section of this Official Statement entitled "SPECIAL RISK FACTORS" for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. *The purchase of the Bonds involves significant investment risks, and the Bonds may not be suitable investments for many investors.* See "SPECIAL RISK FACTORS" herein.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

Brief descriptions of the Bonds and the Fiscal Agent Agreement are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Fiscal Agent Agreement, the Bonds and the Constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and by reference to the Fiscal Agent Agreement.

Copies of the Fiscal Agent Agreement and other documents and information referred to herein are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City of Merced, 678 West 18th Street, Merced, California 95340.

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ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the expected sources and uses of Bond proceeds and funds relating to the Prior Bonds:

Sources of Funds

Principal Amount of Bonds	\$.00
Net Original Issue Premium	
Prior Funds ⁽¹⁾	
TOTAL SOURCES	\$ _____.

Uses of Funds

Escrow Fund	\$
Reserve Fund	
Administrative Expense Fund	
Bond Tax Fund	
Costs of Issuance Fund ⁽²⁾	
Underwriter's Discount	_____.
TOTAL USES	\$ _____.

- (1) Funds transferred from the special tax fund and the reserve fund relating to the Prior Bonds, as well as Special Taxes not yet transferred to the Prior Bonds Fiscal Agent.
- (2) Includes fees for Bond Counsel, Disclosure Counsel, Municipal Advisor, the Appraiser, the Fiscal Agent, the Escrow Bank, costs of printing the Official Statement, and other costs of issuance of the Bonds.

THE REFUNDING PLAN

A portion of the proceeds from the sale of the Bonds will also be used along with other funds held by the District to defease and redeem the Prior Bonds. On the Closing Date, such Bond proceeds and other funds will be deposited into an escrow fund (the "Escrow Fund") to be held by U.S. Bank National Association, as escrow bank (the "Escrow Bank"), pursuant to an escrow agreement relating to the Prior Bonds, dated as of December 1, 2017, between the District and the Escrow Bank (the "Escrow Agreement"). The deposit into the Escrow Fund will be uninvested and will be in an amount sufficient to pay the redemption price of the Prior Bonds upon early call and redemption of the Prior Bonds on March 1, 2018.

Sufficiency of the deposits in the Escrow Fund for such purposes will be verified by Causey Demgen & Moore, P.C., Denver, Colorado (the "Verification Agent"). Assuming the accuracy of such computations, as a result of the deposit and application of funds as provided in the Escrow Agreement, the Prior Bonds will be discharged under the Prior Fiscal Agent Agreement pursuant to which they were issued and the Prior Bonds will no longer be secured by a pledge of and lien on the Special Taxes from Improvement Area No. 1 of the District and the owners of the Prior Bonds will have no rights thereunder except to be paid the principal and interest due on the Prior Bonds from amounts in the Escrow Fund.

THE BONDS

General Provisions

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing March 1, 2018 (each, an “Interest Payment Date”), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the Bonds are held in book-entry form, principal and interest on the Bonds will be paid to DTC for subsequent disbursement to DTC Participants who are to remit such payments to the Beneficial Owners in accordance with DTC procedures. See APPENDIX G — “BOOK-ENTRY ONLY SYSTEM.”

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after the fifteenth day of the month immediately preceding an Interest Payment Date but prior to such Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on February 15, 2018, in which event interest will be payable from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on that Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment.

Authority for Issuance

The Bonds will be issued pursuant to the Act and the Fiscal Agent Agreement. On November 20, 2017, the City Council of the City adopted a resolution (the “Resolution”) approving the issuance of the Bonds.

Redemption

Optional Redemption. The Bonds are subject to redemption prior to maturity at the option of the District from any source of funds, on any Interest Payment Date on or after September 1, 20__ as a whole or in part, from such maturities as selected by the District in order to maintain substantially level debt service, and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), together with accrued interest thereon to the date fixed for redemption, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
September 1, 20__ and each March 1 and September 1 through and including March 1, 20__	%
September 1, 20__ and March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 2027 and each March 1 and September 1 thereafter	100.0

Special Mandatory Redemption from Prepayment of Special Taxes. The Bonds are also subject to mandatory redemption on any Interest Payment Date on or after March 1, 2018 in whole or in part from such maturities as selected by the District in order to maintain substantially level debt service, and by lot within a maturity, from amounts constituting prepayments of Special Taxes at the following redemption prices (expressed as a percentage of the principal amount of Bonds to be redeemed), together with accrued interest thereon to the redemption date:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
March 1, 2018 and each March 1 and September 1 through and including March 1, 20__	%
September 1, 20__ and March 1, 20__	
September 1, 20__ and March 1, 20__	
September 1, 2027 and each March 1 and September 1 thereafter	100.0

Mandatory Sinking Payment Redemption. The Bonds maturing on September 1, 20__ and September 1, 20__ are subject to mandatory sinking fund redemption in part, on September 1 in each year commencing September 1, 20__ and September 1, 20__, respectively, and on each September 1, thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

Term Bonds Maturing September 1, 20__

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>
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*maturity

Term Bonds Maturing September 1, 20__

<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Year</u> <u>(September 1)</u>	<u>Principal</u> <u>Amount</u>
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*maturity

The amounts in the foregoing schedules are to be reduced by the District pro rata among redemption dates, in order to maintain substantially level debt service, as a result of any prior or partial redemption of the Bonds pursuant to optional or special mandatory redemption described above.

Notice of Redemption. So long as the Bonds are held by DTC, all notices of redemption will be sent only to DTC in accordance with its procedures and will not be delivered to any Beneficial Owner. The Fiscal Agent will cause notice of any redemption to be mailed by first-class mail, postage prepaid, at least thirty (30) days but not more than sixty (60) days prior to the date fixed for redemption, to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Corporate Trust Office of the Fiscal Agent; but such mailing will not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, will not affect the validity of the proceedings for the redemption of such Bonds.

Such notice will state the redemption date and the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, will designate the Bond numbers of the Bonds to be redeemed or will state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, will state as to any Bond called in part the principal amount thereof to be redeemed, and will require that such Bonds be then surrendered at the Corporate Trust Office of the Fiscal Agent for redemption at the said redemption price, and will state that further interest on such Bonds will not accrue from and after the redemption date. The

cost of mailing any such redemption notice and any expenses incurred by the Fiscal Agent in connection therewith will be paid by the District.

If at the time of mailing of any notice of optional redemption there will not have been deposited with the Fiscal Agent moneys sufficient to redeem all the Bonds called for redemption, such notice will state that it is subject to the deposit of the redemption moneys with the Fiscal Agent not later than the opening of business on the redemption date and will be of no effect unless such moneys are so deposited.

The District will have the right to rescind any notice of optional redemption by written notice to the Fiscal Agent on or prior to the date fixed for redemption. Any notice of such redemption will be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default hereunder. The District and the Fiscal Agent shall have no liability to the Owners or any other party related to or arising from such rescission of redemption. The Fiscal Agent will mail notice of such rescission of redemption in the same manner as the original notice of redemption was sent.

Whenever provision is made for the redemption of less than all of the Bonds or any given portion thereof, the Fiscal Agent will select the Bonds to be redeemed, from all Bonds or such given portion thereof not previously called for redemption, among maturities as specified by the District in a written certificate delivered to the Fiscal Agent, and by lot within a maturity in any manner which the District in its sole discretion shall deem appropriate and fair. In providing such certificate, the District will provide for the redemption of Bonds such that the remaining Debt Service payable on the Bonds will remain as level as possible.

Effect of Redemption. When notice of redemption has been given, and when the amount necessary for the redemption of the Bonds called for redemption is set aside for that purpose in the Redemption Fund, the Bonds designated for redemption will become due and payable on the date fixed for redemption, and upon presentation and surrender of the Bonds at the place specified in the notice of redemption, and no interest will accrue on the Bonds called for redemption from and after the redemption date, and the Beneficial Owners of the redeemed Bonds, after the redemption date, may look for the payment of principal and premium, if any, of such Bonds or portions of Bonds only to the Redemption Fund and shall have no rights, except with respect to the payment of the redemption price from the Redemption Fund.

Registration, Transfer and Exchange

Registration. The Fiscal Agent will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the bond registration books held by the Fiscal Agent.

Transfer or Exchange. Whenever any Bond is surrendered for registration of transfer or exchange, the Fiscal Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Fiscal Agent will not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date of any selection of the Bonds to be redeemed, or (ii) any Bonds chosen for redemption.

Additional Bonds for Refunding Purposes Only

Except for refunding purposes, the District may not issue bonds, notes or other forms of indebtedness payable from Special Tax Revenues and secured by a lien and charge equal to the lien and charge securing the Bonds. The District will covenant in the Fiscal Agent Agreement not to issue any indebtedness having a lien, charge, pledge or encumbrance on the Net Taxes senior or superior to the Bonds. The District may issue

indebtedness that has a lien, charge, pledge or encumbrance on the Net Taxes junior and subordinated to that for the Bonds.

Debt Service Schedule

The following table presents the annual debt service on the Bonds, assuming there are no early redemptions. However, it should be noted that the Rate and Method allows prepayment of the Special Taxes in full or in part and the Fiscal Agent Agreement permits redemption of Bonds from the proceeds of any prepayments of Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and “THE BONDS — Redemption.”

TABLE 1
THE BONDS
DEBT SERVICE SCHEDULE

<i>Period ending (September 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2018			
2019			
2020			
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
TOTAL	<u>\$6,270,000*</u>		

Source: Underwriter.

* Preliminary, subject to change.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Repayment of the Bonds

General. The Bonds of the District are special limited obligations of the District, payable solely from Net Taxes applicable to Improvement Area No. 1 of the District and the other assets pledged therefor under the related Fiscal Agent Agreement. Subject only to the provisions of the Fiscal Agent Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, all of the Net Taxes applicable to Improvement Area No. 1 of the District and any other amounts held in the Special Tax Fund, Bond Fund, the Redemption Fund and the Reserve Fund established under the Fiscal Agent Agreement are pledged to secure the payment of the principal of, premium if any, and interest on the Bonds, in accordance with its terms, the Fiscal Agent Agreement and the Act. Each such pledge constitutes a first lien on such assets.

“Net Taxes” are defined in the Fiscal Agent Agreement to mean Special Tax Revenues, less amounts required to pay Administrative Expenses (subject to the limitations contained in the Fiscal Agent Agreement as to the amounts available to pay Administrative Expenses at any particular time).

“Special Tax Revenues” are defined in the Fiscal Agent Agreement means (a) the proceeds of the Special Taxes received by the District, (b) income and gains with respect to the investment of amounts on deposit in the funds and accounts established hereunder for the Bonds, (c) proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes, and (d) the net proceeds of the sale of any Special Tax Receivables equal to the par amount of such Special Tax Receivables. Notwithstanding the foregoing, “Special Tax Revenues” does not include any penalties or interest in excess of the interest payable on the Bonds collected in connection with delinquent Special Taxes.

The Bonds are payable only from Net Taxes received by or on behalf of Improvement Area No. 1 of the District. Only Special Taxes levied in Improvement Area No. 1 are pledged to the repayment of the Bonds. Special taxes which may be levied in the future within Improvement Area No. 2 by the District are specific to Improvement Area No. 2 and are not pledged to the repayment of the Bonds. Likewise, Special Taxes levied in Improvement Area No. 1 by the District are not available for repayment of any future bonds issued for Improvement Area No. 2. Neither the faith and credit nor the taxing power of the District (except to the limited extent set forth in the Fiscal Agent Agreement), the City, or the State of California or any political subdivision thereof is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds.

Special Taxes. The Special Taxes are excepted from the tax rate limitation of Article XIII A of the California Constitution pursuant to Section 4 thereof as a “special tax” authorized by at least two-thirds vote of the qualified electors as set forth in the Act. Consequently, the City Council of the City on behalf of the District has the power and is obligated by the Fiscal Agent Agreement to cause the levy and collection of the Special Taxes.

The rate and method of special tax apportionment for Improvement Area No. 1 of the District (the “Rate and Method”) was approved by the qualified electors of Improvement Area No. 1 of the District at the time of formation of the District (See “APPENDIX B - Rates and Methods of Special Tax Apportionment” herein).

The Special Taxes are to be levied and collected according to the Rate and Method for Improvement Area No. 1 of the District.

The amount, if any, of the Special Tax to be levied annually for Improvement Area No. 1 of the District depends on, among other things, whether a given parcel is classified as Developed Property, Undeveloped Property, Excess Multifamily Residential Property, or Excess Public Property (as defined in the Rate and Method). The Special Tax on Developed Property is based on per unit for a specific subdivision or “tax zone”

for single family dwellings, and acreage for other residential or non-residential property. The Special Tax on Undeveloped Property is based on acreage.

The Taxable Property within Improvement Area No. 1 of the District consists of 241 parcels designated as Developed Property under the Rate and Method of which 215 are completed single-family residences owned by individual homeowners and 26 are improved (or finished) single-family lots owned by Lennar Homes of California Inc., and 471 parcels (471 residential lots and one commercial lot) that have been classified under the Rate and Method as Undeveloped Property.

Pursuant to the Fiscal Agent Agreement, the District shall fix and levy the amount of Special Taxes within Improvement Area No. 1 in accordance with the Rate and Method and, subject to the limitations in the Rate and Method as to the maximum Special Tax that may be levied, in an amount sufficient to yield the amount required for the payment of principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing year, the amount required for any necessary replenishment of the reserve fund established for the District and the amount estimated to be sufficient to pay the Administrative Expenses of the District during such year, taking into account the balances in the funds and accounts established under the Fiscal Agent Agreement.

Although the Special Taxes will constitute a lien on parcels of real property within Improvement Area No. 1 of the District, they do not constitute a personal indebtedness of the owner(s) of real property within Improvement Area No. 1 of the District. There is no assurance that the property owner(s), or any successors and/or assigns thereto or subsequent purchaser(s) of land within the District, will be able to pay the annual Special Taxes or if able to pay the Special Taxes that they will do so (see “RISK FACTORS” and “THE COMMUNITY FACILITIES DISTRICT” herein).

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See APPENDIX A—“RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES.” There is no assurance that the Special Tax proceeds will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See “SPECIAL RISK FACTORS—Insufficiency of Special Taxes” herein.

The District has made certain covenants in the Fiscal Agent Agreement for the purpose of ensuring that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the Districts’ ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to do so, it will only reduce the maximum Special Tax rates in accordance with the Fiscal Agent Agreement and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes payable from Developed Property to less than 110% of the sum of estimated Administrative Expenses and Maximum Annual Debt Service on Outstanding Bonds. See “SPECIAL RISK FACTORS—Proposition 218.” Second, the District has covenanted not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds remaining Outstanding following such tender. See “SPECIAL RISK FACTORS—Non-Cash Payments of Special Taxes.”

Collection of Special Taxes. The Special Taxes initially are required to be collected by the County of Merced Tax Collector in the same manner and at the same time as regular ad valorem property taxes are collected by the Tax Collector of the County. When received, such Special Taxes will be deposited in the Special Tax Receipts Fund for the District to be held by the District and transferred to the Fiscal Agent for deposit in the Special Tax Fund as provided in the Fiscal Agent Agreement.

The County has adopted a Teeter Plan as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual

tax collections. **The Special Taxes are included in the County's Teeter Plan but there can be no assurance that the County will continue the Teeter Plan or that the Special Taxes will continue to be included within the Teeter Plan.** The District is not aware of any plans by the County to discontinue the Teeter Plan.

The District levied \$514,760.68 of Special Taxes for the 2017-18 fiscal year.

Proceeds of Foreclosure Sales. The Special Tax Revenues pledged to the payment of principal of and interest on the Bonds under the Fiscal Agent Agreement include the net proceeds, exclusive of penalties and interest, received following a judicial foreclosure sale of an interest in a parcel within Improvement Area No. 1 resulting from a taxpayer's failure to pay the Special Taxes when due.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that any delinquent Special Taxes be collected by a superior court action to foreclose the lien of the Special Tax within specified time limits. In such an action, the real property or leasehold interest therein subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted that, should the Special Taxes no longer be subject to the County's Teeter Plan, it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) Assessor's Parcels with delinquent Special Taxes in excess of \$5,000 or more by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all Assessor's Parcels with delinquent Special Taxes by the October 1 following the close of any fiscal year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount in the Reserve Fund for the Bonds is less than the Reserve Requirement. See APPENDIX C—"SUMMARY OF PRINCIPAL LEGAL DOCUMENTS" herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings result in the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" herein. Moreover, no assurances can be given that the interests in the property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See "SPECIAL RISK FACTORS—Assessed or Appraised Valuation; Value-to-Lien Ratios" herein. Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any interest in the property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Prepayment of Special Taxes. Under the Rate and Method, the owner of a parcel may voluntarily prepay the Special Tax obligation for a parcel in whole. Any voluntary prepayment of Special Taxes will result in an extraordinary redemption of the Bonds. See "THE BONDS—Redemption—*Extraordinary Redemption*."

Reserve Fund. As additional security for the Bonds, the Fiscal Agent Agreement provides for the establishment of the Reserve Fund in the amount of the Reserve Requirement. The "Reserve Requirement" as defined under the Fiscal Agent Agreement means as of any calculation date, an amount equal to the least of (i) ten percent (10%) of the proceeds of the Bonds (within the meaning of section 148 of the Code); (ii) 125% of average annual debt service on the Bonds; or (iii) the maximum annual debt service of the Bonds, provided, however, the Reserve Requirement on any calculation date shall not be greater than the Reserve Requirement

amount on the Closing Date. As of the date of issuance of the Bonds, the Reserve Requirement will be fully funded in the amount of \$498,525*.

Subject to the limits on the maximum annual Special Tax which may be levied within Improvement Area No. 1 of the District, the District covenants to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Fund at the Reserve Requirement. Amounts in the Reserve Fund are to be applied to (i) pay debt service on the Bonds, to the extent other monies are not available therefor; (ii) redeem the Bonds in whole or in part; and (iii) pay the final installments of principal and interest due on the Bonds. In the event of a prepayment of Special Taxes, under certain circumstances, a portion of the Reserve Fund will be added to the amount being prepaid and be applied to redeem Bonds; provided, however, that no such transfer shall be made if it would result in the amount in the Reserve Fund being less than the Reserve Requirement. See APPENDIX C “SUMMARY OF THE FISCAL AGENT AGREEMENT - Reserve Fund” herein.

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* Preliminary, subject to change.

BELLEVUE RANCH MASTER PLANNED COMMUNITY

General Location and Amenities

The Bellevue Ranch Master Planned Community was originally planned to include a total of between 4,843 and 6,648 units on approximately 1,365 acres. In addition to residential housing of several types, including single family detached standard homes, single family detached patio homes and multifamily housing, the master plan also proposed commercial, office, schools, park and transit station, parks and open space and public uses. Prior to the economic downturn of 2008, 1,618 lots were being prepared for home construction, of which approximately 600 were sited with homes, leaving 1,018 vacant lots ready for future development. A commercial lot at the corner of Cardella Road and M Street, as well as larger parcels along Bellevue Road, exist for future retail and office services.

The master planned community is generally located in the northeastern part of the City, north of Yosemite Avenue, south of W. Bellevue Road and west of “G” Street in an area that was originally open space and agricultural use land. It is located just a few miles west from the University of California, Merced campus, which opened in Fall 2005, and the Mercy Medical Center, a 185-bed teaching hospital, which supports the newly introduced medical program at UC Merced.

As of Fall 2017, the University had almost 2,000 faculty and staff employees, and an enrollment of 7,967 undergraduates and graduate students. On July 21, 2016, the University of California, Merced, received final approval from the UC Board of Regents for an expansion plan that will nearly double the physical capacity of the campus by 2020, enabling enrollment growth to 10,000 students after the project is completed. The regents voted unanimously to approve the design proposal of the selected developer, Plenary Properties Merced (PPM); the proposed external financing; amendments to the project’s budget and scope (over \$1.3 billion); and revisions of the commercial terms of the project agreement. The project will add approximately 1.2 million gross square feet (790,000 assignable square feet) of teaching, research, residential and student-support facilities adjacent to the existing campus. First phase of the construction is well underway with groundbreaking having occurred in October 2016, and includes 700 new student beds, a 600-seat multipurpose dining facility, new classrooms and 940 new parking spaces to be completed by fall 2018. The second phase includes a new wet-laboratory, computational laboratory buildings with faculty offices, and an outdoor competition field scheduled to be completed by fall 2019, with the remainder of construction to be completed in 2020 including a new wet-lab building with faculty offices and classrooms, 980 new beds in student housing, 630 new parking spaces, a conference center, a dedicated transit hub for buses, a new wellness center, an enrollment center, expansion of the existing Early Childhood Education Center, a swimming pool, three tennis courts and four basketball courts. It is expected that the enrollment will reach 25,000 by the year 2030. Financing for the project will include up to \$600 million in regents-issued revenue bonds, with the rest coming from the developer and UC Merced’s own funds. Merced Medical Center plans to expand over the next 20 years to allow for 435 patients.

Merced College is to the south of the area and downtown Merced is further to the south with Lake Yosemite to the east. Currently under construction across from the City’s Civic Center in downtown Merced is the UC Merced Downtown Campus Center, a three-story 67,400-square-foot, \$45 million administrative facility which will include offices, seminar and conference rooms, and mixed-use space and can accommodate up to 370 people. The Merced Mall Shopping Center is located near the community and is anchored by tenants J.C. Penney, Kohls, Target and Sears, and includes over 70 stores, specialty shops, restaurants and a 7-screen theater. Additional retail is clustered along primary neighborhood thoroughfares and at major intersections near the community. The Plaza at El Portal, a recently constructed office project, is located just south of the community.

As part of Phase 1 of the High-Speed Rail project, the High Speed Rail Authority and the City are working together to develop a station area plan serving downtown Merced, UC Merced, Merced County and the upper Central Valley. The high-speed rail station in Merced will be located adjacent to State Route 99 and the Union Pacific Rail Road line on Martin Luther King Jr. Way/Highway 59 and the State Route 99 interchange. In April 2017, the San Joaquin Regional Rail Commission (SJRRRC), which operates the Altamont Corridor

Express (ACE Train) currently running from Stockton to San Jose, was notified it will be receiving \$400 million of the Transportation Funding Measure (SB 1) to help make improvements to its system including long-term improvements to expand ACE service to Modesto and Merced, including new track, stations, and trains. When completed the ACE train will link City residents to the Bay Area and jobs in between, along with the Stanford Medical Center, BART connections and three major airports. State transportation funds in the amount of \$100 million will assist in the development of the Campus Parkway Interchange, connecting UC Merced to Highway 99. It will give North and Central Merced residents a direct route to the freeway, eliminating crosstown traffic.

Bellevue Ranch Master Planned Community is within the Merced City School District and Merced Union School District and served by three public elementary schools, Cruickshank and Rudolph Rivera Middle Schools, as well as several private schools, including Merced Christian School. Students within the master planned community are currently within the attendance boundaries of the new El Capitan High School.

There are numerous groups of finished lots dispersed throughout Bellevue Ranch, many transferred in recent years to investor buyers. Six new home developments are currently selling in Bellevue Ranch, “Bellevue Ranch - Chateau Series” developed by national home builder, Lennar Homes, “Campus Vista,” “Stone Ridge,” and “University Park” by local builder Stonefield Home, “Almond Terrace” by local builder Blue Mountain Communities, and “Bellevue Ranch” developed by local builder Bonadelle Neighborhoods.

Bellevue Ranch East and West

Bellevue Ranch Master Planned Community is divided into Bellevue Ranch East and Bellevue Ranch West, the boundaries of which were formed into separate community facilities districts by the City.

The Bellevue Ranch East community facilities district consists of approximately 228 net acres with an estimated buildout of 977 single family units and 416 multifamily units, for a total of 1,393 residential units, plus approximately 23 acres of commercially zoned property. Parcels within Bellevue Ranch East are not security for the Bonds.

Bellevue Ranch West consists of two phases of development and was planned to include 1,303 single family units and an unspecified number of multifamily units on approximately 220 acres, approximately 30.7 acres of commercially zoned property and approximately 200 acres for park, open space, floodway and streets. Bellevue Ranch West is comprised of Phase 1 (Improvement Area No. 1 of the District) and Phase 2 (Improvement Area No. 2 of the District). The District has an overall “L” shape. All property within Improvement Area No. 1 of the District has final map approval, with tentative maps for property within Improvement Area No. 2. Improvement Area No. 2 is currently undeveloped and in use for agricultural purposes. Parcels within Improvement Area No. 2 are not security for the Bonds.

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Map of District

THE COMMUNITY FACILITIES DISTRICT

General

On October 17, 2005, the City Council adopted a Resolution of Intention to form a community facilities district under the Act, to levy a special tax and to incur bonded indebtedness for the purpose of financing certain improvements. After conducting a noticed public hearing, on November 21, 2005, the City Council adopted the Resolution of Formation, which established the District and set forth the Rate and Method for the District. On November 21, 2005 an election was held within the District in which the landowners eligible to vote unanimously approved the proposed bonded indebtedness and the levy of the Special Tax separately for each Improvement Area No. 1 and Improvement Area No. 2 of the District.

Phases 1 and 2 of the Bellevue Ranch West portion of the Bellevue Ranch planned development within the City make up the boundaries of the District. The District consists of approximately 486 acres of which 220.1 acres are zoned for residential development with an estimated buildout of 1,303 for-sale residential units and an unspecified number of multifamily units, plus approximately 30.7 acres of commercially zoned property and approximately 200 acres for park, open space, floodway and streets. The District has an overall “L” shape and is generally located east of Fahrens Creek, west of “G” Street, north of Community College Drive North/Lehigh Drive, and south of Bellevue Ranch East, within the City in an area that was originally open space and agricultural use land.

Phase 1 is referred to herein as “Improvement Area No. 1” and consists of four residential neighborhoods (Village 1 – The Willows, Villages 2 & 3 – The Villages, Villages 4 & 5 – The Meadows and Village 10 – The Prairies) and an 8.33-acre commercial lot. Improvement Area No. 1 of the District is planned for 711 residential units, along with a park and open space. Recorded final maps exist on all property within Improvements Area No. 1. As of the date of this Official Statement, there are 712 parcels or lots within the District of which 241 are designated as “Developed” and 215 of those are completed single-family residences owned by individual homeowners, with an additional 26 parcels with building permits in various stages of development owned by Lennar Homes. There are approximately 64.3 acres designated as “Undeveloped,” consisting of 470 improved (or finished) single-family lots with no vertical construction, owned by Forebay Farms, LLC., and one approximate 8.33-acre commercial lot owned by Merced QB Granville. All property has final map approval and offsite infrastructure such as streets, curbs, gutters, street lights, etc. Lennar Homes with 26 lots is actively marketing and selling single family homes within its development. As September 28, 2017, vertical construction was in progress on 8 of the lots owned by Lennar and the remaining 18 lots consisted of completed single-family homes with no assessed value for structural improvements in various stages of sale to individuals.

Phase 2 is referred to herein as “Improvement Area No. 2” and is proposed for 592 residential units, as well as commercial uses, schools, parks and open space, public uses and a transit circle. Tentative maps exist for property within Improvement Area No. 2. No bonds have been issued and there is no expectation that bonds will be issued in the near future for Improvement Area No. 2. **The Bonds are secured only by Special Taxes from Improvement Area No. 1 and are not secured by special taxes from Improvement Area No. 2.**

All property within Improvement Area No. 1 of the District has final map approval. The City certified the Final Environmental Impact Report for the Bellevue Ranch Master Planned Community (the “EIR”) on October 15, 1995. The EIR analyzed the potential environmental effects from all discretionary actions necessary to develop the master-planned community. All required permits from regulatory agencies have been acquired to complete the development within Improvement Area No. 1 of the District. All appeal periods with respect to such approvals have expired. Notwithstanding the foregoing, it is possible that future events relating to environmental issues could impact the development of the undeveloped parcels. See “SPECIAL RISK FACTORS - Future Land Use Regulations and Growth Control Initiatives,” “ - Endangered and Threatened Species.”

Developers within Improvement Area No. 1 of the District pay an indexed school mitigation fees (currently \$6.60 per square foot for residential and \$0.56 per square foot for commercial) at the time of pulling building permits allocated among Merced City School District and Merced Union High School District.

The Developed properties within Improvement Area No. 1 of the District are currently subject to special taxes levied annually for Community Facilities District No. 2003-2 (Services). Undeveloped properties are not subject to the services special tax. The special tax for this Services Community Facilities District is \$949.34 per single family residential unit for the District for the 2017-18 fiscal year. This special tax contains an annual escalator. See “- Direct and Overlapping Debt.”

Rate and Method of Apportionment of Special Tax

The amount, if any, of the Special Tax to be levied annually depends on, among other things, whether a given parcel is classified as Developed Property, Undeveloped Property, Excess Multifamily Residential Property, or Excess Public Property (as defined in the Rate and Method). The Special Tax on Developed Property is based on per unit for a specific subdivision or “tax zone” for single family dwellings, and acreage for other residential or non-residential property.

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The Assigned and Maximum Special Tax rates that can be levied each Fiscal Year are shown below.

**TABLE 2
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
IMPROVEMENT AREA NO. 1**

**DEVELOPED PROPERTY
ASSIGNED SPECIAL TAX RATES**

Tax Zone	Subdivision	Village	Type of Property	Assigned Special Tax
A	The Villages	2&3	Single Family Residential	\$651 per Unit
B	The Meadows	4&5	Single Family Residential	\$771 per Unit
C	The Willows/The Prairies	1/10	Single Family Residential	\$891 per Unit
NA	Commercial Site		Other Property	\$5,220 per Acre

**DEVELOPED PROPERTY
BACK UP SPECIAL TAX RATES**

Tax Zone	Type of Property	Assigned Special Tax
A	Single Family Residential Other Property	\$648 per Unit \$9,362 per Acre
B	Single Family Residential Other Property	\$907 per Unit \$7,258 per Acre
C	Single Family Residential Other Property	\$1,048 per Unit \$6,911 per Acre

**UNDEVELOPED PROPERTY
MAXIMUM SPECIAL TAX RATES**

Tax Zone	Type of Property	Assigned Special Tax
A	Undeveloped Property	\$9,362 per Acre
B	Undeveloped Property	\$7,258 per Acre
C	Undeveloped Property	\$6,911 per Acre

Source: Rate and Method of Apportionment.

The Special Tax shall be levied proportionately first on each assessor parcel of Developed Property up to 100% of the Assigned Special Tax. If additional revenue is needed, the Special Tax shall be levied proportionately next on each assessor parcel of Undeveloped Property up to 100% of the Maximum Special Tax. If additional revenue is needed, the Special Tax levied on each assessor parcel of Developed Property whose Maximum Special Tax is derived by application of the Backup Special Tax shall be increased in equal percentages from the Assigned Special Tax to the Maximum Special Tax for each parcel, then on each assessor parcel of Excess Multifamily Residential Property up to 100% of the Maximum Special Tax for Undeveloped Property, and lastly on each assessor parcel of Excess Public Property up to 100% of the Maximum Special Tax for Undeveloped Property.

The Maximum Special Taxes set forth above are calculated based on the expected land uses within the Improvement Area No. 1. All of the parcels within Improvement Area No. 1 are part of a recorded final map. Final maps have been reviewed to ensure they reflect the number of residential units and acreage that was

anticipated. If there is a change in the formation land use plans or if a new tentative map, revised tentative map, or new final map (“Land Use/Entitlement Change”) is proposed that reduces the total Maximum Special Taxes that can be generated, the Council, prior to approval of the Land Use/Entitlement Change, will complete proceedings under the Act to increase the Maximum Special Tax, on Assessor Parcels owned by the landowner requesting same, to an amount sufficient to maintain the total Maximum Special Tax revenues that could be generated within Improvement Area No. 1 of the District before the Land Use/Entitlement Change was approved or the landowner requesting the Land Use/Entitlement Change will prepay to the City an amount that corresponds to the lost Maximum Special Tax revenue, as provided in the Rate and Method. Any such prepayment shall be used by the City to call Bonds. See “APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” hereto for a complete description of the District’s procedures for levying Special Taxes within Improvement Area No. 1.

TABLE 3
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
SPECIAL TAX LEVY SUMMARY FOR 2017-18

Type of Property	Units/ Acres	Maximum/ Assigned Special Tax	FY 2017-18 Actual Special Tax	FY 2017-18 Special Tax Levied	% of Special Tax Levied
TAX A ZONE					
Single Family Residential	35 units	\$651 per unit	\$651 per unit	\$ 22,785.00	4.43%
Other Property	0	\$5,220 per acre	\$5,220 per acre	0.00	0.0
Undeveloped Property	21.23 AC	\$9,362 per acre	\$6,428 per acre	\$136,485.42	26.51
Tax A Zone Subtotal	35 units/21.23 AC			\$159,270.42	30.94%
TAX B ZONE					
Single Family Residential	70 units	\$771 per unit	\$771 per unit	\$53,970.00	10.49%
Other Property	0	\$5,220 per acre	\$5,220 per acre	0.00	0.0
Undeveloped Property	21.91 AC	\$7,258 per acre	\$4,983 per acre	\$109,181.84	21.21
Tax B Zone Subtotal	70 units/21.91 AC			\$163,151.84	31.70%
TAX C ZONE					
Single Family Residential	136 units	\$891 per unit	\$891 per unit	\$121,176.00	23.54%
Other Property	0	\$5,220 per acre	\$5,220 per acre	0.00	0.0
Undeveloped Property	15.00 AC	\$6,911 per acre	\$4,745 per acre	\$ 71,162.42	13.82
Tax C Zone Subtotal	136 units/15.00 AC			\$192,338.42	37.36%
Total Fiscal Year 2017-18 Special Tax Levy:				\$514,760.68	100.00%
Single Family Residential Units:				241	
Single Family Residential Levy:				\$197,931.00	38.45%
Undeveloped Property Acres:				58.14	
Undeveloped Property Levy:				\$316,829.68	61.55%

Source: Goodwin Consulting Group, Inc.

Estimated Debt Service Coverage

Special Taxes will be levied each year in an amount equal to the Annual Special Tax Levy determined in accordance with the Rate and Method. The Annual Special Tax Levy is calculated (taking into consideration anticipated delinquencies if and when the Teeter Plan is no longer applicable) to include an amount equal to the debt service on the Bonds in the ensuing Bond Year plus the amount required to maintain the Reserve Fund at the Reserve Requirement plus the amount needed to pay Administrative Expenses, less the amount of earnings on deposit in the Reserve Fund in excess of the Reserve Requirement and other available funds of the District. The Annual Special Tax Levy in Fiscal Year 2017-18 totals \$514,760.68 calculated at 100% of the Assigned Special Tax Rates for Developed Property and 69% of the Maximum Special Tax Rates for Undeveloped Property. \$16,736 of this amount was budgeted to pay Administrative Expenses.

For Fiscal Year 2017-18, following the issuance of the Bonds, the Special Tax capacity based on Maximum (and Assigned without backup) Special Tax Rates for taxable property within Improvement Area No. 1 of the District is calculated to be \$659,402.

Based on the land use classifications made under the Rate and Method for fiscal year 2017-18, if Special Taxes were levied on the Taxable Property at the Maximum (and Assigned without backup) Special Tax Rates, the Special Taxes available to pay debt service on the Bonds after the payment of Administrative Expenses in an amount equal to the Administrative Expenses Cap (\$20,000 in each year) would be at least 110% of the debt service due in each Bond Year commencing after September 1, 2018. Notwithstanding the foregoing, the Act provides that under no circumstances will the Special Taxes levied against any parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) as a consequence of delinquency or default in payment of Special Taxes by any other parcel in Improvement Area No. 1 of the District.

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TABLE 4
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
ESTIMATED DEBT SERVICE COVERAGE

Bond Year Ending Sept. 1	Maximum/ Assigned Special Tax Revenues ⁽¹⁾	Estimated Annual Levy	Estimated Annual Administrative Expenses	Estimated Debt Service*	Estimated Unused Annual Levy*	Estimated Annual Levy Debt Service Coverage	Estimated Unused Max./ Assigned Special Tax*	Estimated Max. /Assign. Sp. Tax Debt Service Coverage
2018	\$659,402.00	\$514,760.68	\$16,736.00	\$495,525.00	--	100.00%	\$153,485.00	130.97%
2019	659,402.00	515,525.00	20,000.00	457,737.50	37,787.50	108.26	191,272.50	141.79
2020	659,402.00	515,525.00	20,000.00	460,687.50	34,837.50	107.56	188,322.50	140.88
2021	659,402.00	515,525.00	20,000.00	458,337.50	37,187.50	108.11	190,672.50	141.60
2022	659,402.00	515,525.00	20,000.00	458,337.50	37,187.50	108.11	190,672.50	141.60
2023	659,402.00	515,525.00	20,000.00	452,937.50	42,587.50	109.40	196,072.50	143.29
2024	659,402.00	515,525.00	20,000.00	459,325.00	36,200.00	107.88	189,685.00	141.30
2025	659,402.00	515,525.00	20,000.00	454,525.00	41,000.00	109.02	194,485.00	142.79
2026	659,402.00	515,525.00	20,000.00	454,550.00	40,975.00	109.01	194,460.00	142.78
2027	659,402.00	515,525.00	20,000.00	453,856.26	41,668.74	109.18	195,153.74	143.00
2028	659,402.00	515,525.00	20,000.00	452,418.76	43,106.24	109.53	196,591.24	143.45
2029	659,402.00	515,525.00	20,000.00	460,606.26	34,918.74	107.58	188,403.74	140.90
2030	659,402.00	515,525.00	20,000.00	457,625.00	37,900.00	108.28	191,385.00	141.82
2031	659,402.00	515,525.00	20,000.00	458,825.00	36,700.00	108.00	190,185.00	141.45
2032	659,402.00	515,525.00	20,000.00	459,425.00	36,100.00	107.86	189,585.00	141.27
2033	659,402.00	515,525.00	20,000.00	459,425.00	36,100.00	107.86	189,585.00	141.27
2034	659,402.00	515,525.00	20,000.00	458,337.50	37,187.50	108.11	190,672.50	141.60
2035	659,402.00	515,525.00	20,000.00	451,125.00	44,400.00	109.84	197,885.00	143.86
2036	659,402.00	515,525.00	20,000.00	453,487.50	42,037.50	109.27	195,522.50	143.12

⁽¹⁾ Amount represents maximum Special Tax levy on Developed and Undeveloped Property as allowed under the Rate and Method and subject to the limitation set forth in the Act, assuming no new Developed Property and no levy of the Backup Special Tax. Developed Property is currently being levied at 100% of the Assigned Special Tax and Undeveloped at 69% of the Maximum Special Tax for Fiscal Year 2017-18.

Note: Pursuant to Section 53321(d) of the Government Code, the special tax for public facilities and levied against any assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within such community facilities district by more than ten percent above the amount that would be levied in that Fiscal Year had there never been any such delinquencies.

Source: Goodwin Consulting Group, Inc. and Underwriter.

* Preliminary, subject to change.

Appraisal

The information below is only a summary of certain information contained in the Appraisal. The Appraisal is reprinted herein as Appendix D. The information below is qualified in its entirety by the complete Appraisal. The District and the Underwriter make no representations as to the accuracy or completeness of the Appraisal.

The Bonds are secured by Special Taxes which may include amounts realized upon foreclosure sale of delinquent parcels. Therefore, should the Teeter Plan be discontinued or no longer applicable to Improvement Area No. 1, the ability of the District to meet debt service on the Bonds may depend on the ability of delinquent parcels to generate sufficient proceeds upon foreclosure sale to pay delinquent Special Taxes. The City commissioned Seevers Jordan Ziegenmeyer, Rocklin, California (the “Appraiser”) to ascertain the “as is” market value of the fee simple estate for (a) all of the undeveloped taxable property in Improvement Area No. 1 of the District consisting of 470 finished, single-family residential lots owned by Forebay Farms and one 8.33-acre commercial lot owned by Merced QB Granville and (b) Lennar’s 26 parcels designated as Developed property.

The Appraiser estimated that, as of the September 28, 2017 date of value of the Appraisal, the “as is” market value of the fee simple estate, in bulk for the 470 residential lots owned by Forebay Farms (subject to the lien of the Special Taxes) was \$12,670,000, compared to the 2017-18 assessed value of \$3,000,917. These residential lots were valued using the Discounted Cash Flow Analysis. The Appraiser also estimated that, as of the September 28, 2017 date of value of the Appraisal, the “as is” market value of the fee simple estate of the commercial lot (subject to the lien of the Special Taxes) was \$1,725,000, compared to the 2017-18 assessed value of \$1,100,000. This commercial lot was valued using the Sales Comparison Approach.

The Appraiser also estimated that, as of the September 28, 2017 date of value of the Appraisal, the “as is” market value of the fee simple estate, in bulk for the 26 residential lots owned by Lennar (subject to the lien of the Special Taxes) was \$1,179,100, compared to the 2017-18 assessed value of \$936,000. These residential lots were valued using the Discounted Cash Flow Analysis. The Appraiser notes that as the date of value, vertical construction was underway on 8 of the lots and the remaining 18 lots consisted of completed single-family homes with no assessed value for structural improvements in various stages of sale to individual homeowners. See “Valuation and Principal Taxpayers” below for a further discussion of the lots owned by Lennar.

An updated Appraisal has not been requested by the City or the District or completed by the Appraiser since the original date of value. However, on the date of issuance of the Bonds, the Appraiser will certify that he is not aware of any event or act that occurred since the date of value of the Appraisal which, in the opinion of the Appraiser, would materially and adversely affect the conclusions in the Appraisal as to the market value of the appraised property.

The Appraisal’s value estimates reflect certain assumptions set forth in the Appraisal. For a full description of the assumptions relied upon by the Appraiser, as well as a description of the valuation methodology, see APPENDIX D – “APPRAISAL REPORT”.

The Appraisal was prepared in accordance with and subject to the requirements of The Appraisal Standards for Land Secured Financing as published by the California Debt and Investment Advisory Commission, the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. See APPENDIX D – “APPRAISAL REPORT”.

Assessed Values

The January 1, 2017 assessed value of the parcels within Improvement Area No. 1 classified as Developed Property for purposes of levying Special Taxes for the Fiscal Year 2017-18 was \$50,309,604. The January 1, 2017 assessed value of the parcels within Improvement Area No. 1 classified as Undeveloped Property for purposes of levying Special Taxes for the Fiscal Year 2017-18 was \$4,100,917. The District commissioned an appraisal to determine the market value of all of the Undeveloped Property, as well as the 26 lots owned by Lennar. See “Appraisal” above.

The value of the individual parcels is significant because, in the event of a delinquency in payment, the District’s only remedy is to foreclose on the delinquent parcel. A parcel with a lower value-to-lien ratio may be less likely to sell at foreclosure or provide sale proceeds adequate to pay all delinquent Special Tax installments. The value-to-lien ratios shown herein are based on either assessed values or appraised market values or a combination of both. Prospective purchasers of the Bonds should not assume that the property within the District could be sold for the assessed or appraised values listed herein. See the caption “SPECIAL RISK FACTORS—Land Values.” Assessed values do not necessarily represent market values.

Valuation and Principal Taxpayers

Table 5 sets forth the breakdown of Developed and Undeveloped Property within Improvement Area No. 1 of the District, their share of the current Annual Special Tax Levy, and their applicable assessed value and/or appraised values. See “Appraisal” above.

TABLE 5
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
TAXPAYERS FOR 2017-18

Property Owner	Use	Parcels	FY 2017-18 Special Tax Levy	% of FY 2017- 18 Levy	Total FY 2017-18 AV	9/28/17 Appraised Value
<u>Developed Property</u>						
Individual Homeowners	Single-Family	215	\$174,765	33.95%	\$49,373,604	N/A
Lennar Homes of Calif	Residential Finished Lot ¹	26	23,166	4.50	936,000	\$ 1,179,100
Subtotal		241	\$197,931	38.45%	\$50,309,604	\$ 1,179,100
<u>Undeveloped Property</u>						
Forebay Farms LLC	Residential Finished Lot	470	\$263,288	51.15%	\$ 3,000,917	\$12,670,000
Merced QB Club, LLC (Granville)	Commercial Lot	1	53,542	10.40	1,100,000	1,725,000
Subtotal		471	\$316,830	61.55%	\$ 4,100,917	\$14,395,000
<u>Total</u>		<u>712</u>	<u>\$514,761</u>	<u>100.00%</u>	<u>\$54,410,521</u>	<u>\$15,574,100</u>

1. As of the date of valuation of the Appraisal, vertical improvements (home construction) was in progress on 8 of the lots.

Additionally, the remaining 18 lots were completed single-family homes that did not include assessed value for structural improvements which were in various stages of sale to individual homeowners.

Source: Goodwin Consulting Group, Inc. and Appraisal.

As of the date of this Official Statement, almost forty percent of the Special Taxes were levied on Developed Property within Improvement Area No. 1 of the District consisting of 215 single-family residential parcels owned by individual homeowners and 26 single-family residential parcels owned by Lennar Homes of California (“Lennar”), and approximately sixty percent of the Special Taxes were levied on Undeveloped Property within Improvement Area No. 1 consisting of 470 improved (or finished) single-family lots with no vertical construction, owned by Forebay Farms, LLC (“Forebay Farms”), and one approximate 8.33-acre commercial lot owned by Merced QB Club LLC (an entity formed by principals of Granville Homes) (“Merced QB Granville”). The property owners within Improvement Area No. 1 of the District which are responsible for more than 10% of the Special Tax levy in Fiscal Year 2017-18 include Forebay Farms and Merced QB Granville.

Forebay Farms. In April 2012, Forebay Farms, LLC (“Forebay”), a California limited liability company, purchased 507 lots from the original developer, Woodside Entities. The company has two principals, Deborah and Fred Fagundes from Chowchilla, California. Forebay has no current plans to develop the property itself. The owner intends to sell the property as-is to unaffiliated homebuilders but is not actively marketing the property. Unsolicited offers have been received and reviewed and in August 2016, Forebay sold 37 parcels to Lennar. Forebay Farms currently owns 470 Undeveloped finished lots within Improvement Area No. 1 and is responsible for 51.15% of the Special Tax levy for Fiscal Year 2017-18. Forebay Farms has never been delinquent in the payment of its special tax obligation.

The Fagundes Brothers (Fred (Deborah: spouse), Ralph (Vicki: spouse), and Lloyd), are third generation farmers whose business ventures include owning/managing various dairy production operations. The dairy operation has been in the family since the 1920's. The Fagundes Brothers' original business begun in 1990 was the production of milk in their home-town of Chowchilla, California. In addition to dairy operations, the Fagundes family own and farm several thousand acres of almonds, pistachios, tomatoes, grapes, corn and other crops. Their products have been part of local farm partnerships with companies such as Blue Diamond and Horizon. Fred Fagundes currently sits on the board of the Fresno Madera Farm Credit as a director. Forebay and other Fagundes family entities have purchased real estate for investment purposes, including the property within the District. They do not intend to develop the property themselves. Forebay Farms is current with all semi-annual required filings pursuant to its continuing disclosure undertaking as a principal taxpayer within Improvement Area No. 1.

Merced QB Granville. In October 2016, Merced QB Club, LLC, purchased the 8.4 acre commercial lot from the nonprofit corporation, Merced High School Quarterback Club. Merced QB Club, LLC, is a California limited liability corporation, comprised of interrelated entities as follows: 33.33% - Darius Assemi Revocable Trust; 33.33% - Farid Assemi Grantor Trust; and 33.34% - Farshid Assemi Grantor Trust. The Assemi family owns Granville Homes, a local builder, which has constructed over 5,800 homes in the Central Valley since 1977. Granville Homes currently has three developments in Fresno consisting of three neighborhoods in Copper River Ranch area (starting in the mid \$300,000s ranging to semi-custom sites), as well as “Belterra,” (starting in the mid \$200,000s) and “La Ventana” (starting in the mid \$300,000s) in northeast and northwest Fresno. Clovis is the location of its two semi-custom home developments starting in the \$700,000s, “Whisper Creek” and “Ventana Hills,” with a new development, “Deauville East” (starting in the high \$300,000s) coming soon. Granville Homes is also currently building vacation homes at Shaver Lake in the Sierra National Forest in Fresno County.

Merced QB Granville currently is responsible for 10.40% of the Special Tax levy for Fiscal Year 2017-18. Merced QB Granville has not been delinquent in the payment of its special tax obligation. Merced QB Granville was late in filing its September 2017 semiannual disclosure report which was filed on October 16, 2017.

Lennar. Lennar Homes of California, Inc. purchased 37 lots from Forebay Farms in August 2016. As of the 2017-18 levy of the Special Tax, Lennar had 26 lots, 18 of which were completed single-family homes in various stages of sale to individuals and 8 lots with vertical improvements underway. Lennar is actively marketing its lots within Improvement Area No. 1. The lots are part of their Chateau Series.

Lennar opened “Bellevue Ranch - The Chateau Series” in September 2015 (within Bellevue Ranch East) and has continued additional phases. The current phase in Improvement Area No. 1 of the District offers three floorplans, with square footage from 1,766 to 2,244 square feet, containing 3 to 4 bedrooms and 2 bathrooms. Pricing for the Chateau Series is from the high \$200,000’s. As of the Fiscal Year 2017-18 levy, the 26 parcels owned by Lennar accounted for approximately 4.5% of the Fiscal Year 2017-18 Special Tax levy.

Lennar’s parent corporation, Lennar Corporation, one of the nation’s largest homebuilders, is a Fortune 500 company based in Miami, Florida, United States, in the Fontainebleau area. It was founded in 1954 and is publicly traded on the New York Stock Exchange (LEN). On Monday October 30, 2017, Lennar Corporation announced that it would acquire CalAtlantic Group Inc. (“CalAtlantic”) for \$5.7 billion in a combination of cash and stock, creating the largest home builder in the United States by revenue. The proposed transaction is expected to close February 1, 2018, but no assurances can be made that the proposed transaction will close at that time, if at all. Both Lennar Corporation’s (stock symbol “LEN”) and CalAtlantic’s (stock symbol “CAA”) public filings with the Securities and Exchange Commission are accessible over the internet at the SEC’s website at www.sec.gov. The proposed acquisition of CalAtlantic by Lennar Corporation does not affect the Lennar development in the Improvement Area No. 1 as described in the Official Statement. More information on Lennar may be found at its website at <http://www.lennar.com>.

Estimated Value-to-Lien Ratios*

As of January 1, 2017 the net assessed value of the property within Improvement Area No. 1 of the District subject to the levy of the Special Tax in Fiscal Year 2017-18 was approximately \$54.4 million, resulting in an estimated assessed value to lien ratio of 8.6* to 1 for the property subject to the Special Tax levy in Fiscal Year 2017-18 based on the principal amount of the Bonds, and an estimated assessed value to lien ratio of ____* to 1 based upon the principal amount of the Bonds and the direct and overlapping debt payable from other taxes and assessments levied on the property within Improvement Area No. 1 of the District. The combined value (assessed value for developed property less the 26 parcels owned by Lennar and appraised value for undeveloped property plus the 26 parcels owned by Lennar) of just under \$65 million, results in an estimated combined value to lien ratio of 10.2* to 1 based on the principal amount of the Bonds. See “- Assessed Valuation” and “- Appraisal” above.

As of January 1, 2017, the cumulative assessed value-to-lien ratio of the 215 developed parcels of individual owners and appraised value of the 26 lots owned by Lennar within Improvements Area No. 1 of the District is 20.97* to 1 based on 38.45% of the principal amount of the Bonds. Because a parcel’s assessed value generally represents the lower of its acquisition cost and adjustments for inflation (but not more than 2% per year) or its current market value, it may not be indicative of the parcel’s market value. As of September 28, 2017, the appraised value-to-lien ratio of the 470 undeveloped single-family residential parcels within Improvement Area No. 1 of the District is 3.95* to 1 based on 51.15% of the principal amount of the Bonds, and the appraised value-to-lien ratio of the undeveloped commercial lot is 2.65* to 1 based on 10.4% of the principal amount Bonds. No assurance can be given that such value-to-lien ratios will be maintained during the period of time that the Bonds are outstanding. The District does not have any control over future property values or the amount of additional indebtedness that may be issued in the future by other public agencies, the payment of which is made through the levy of a tax or an assessment with a lien on a parity with the Special Taxes. See “SPECIAL RISK FACTORS—Assessed or Appraised Valuations; Value-to-Lien Ratios” and “—Parity Taxes and Special Assessments.”

* Preliminary, subject to change.

TABLE 6
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
ESTIMATED VALUE-TO-LIEN RATIOS

DEVELOPED PROPERTY

Value-to-Lien Range :1	FY 17/18 Taxed Parcels	Assessed/ Appraised Value⁽¹⁾	FY 17-18 Levy %	FY 17-18 Levy Amount	Bonds⁽²⁾	Estimate Average Value To Lien
3 to 5	26	\$ 1,179,100	4.50%	\$ 23,166	\$282,172	4.18 to 1
5 to 10	11	813,600	1.90	9,801	119,380	6.82 to 1
10 to 15	1	106,767	0.13	651	7,929	13.46 to 1
15 to 20	37	6,542,078	5.80	29,847	363,549	18.00 to 1
20 to 25	74	16,224,441	11.61	59,814	728,560	22.27 to 1
25 to 30	78	20,992,082	12.13	62,418	760,277	27.61 to 1
30 to 35	14	4,694,636	2.38	12,234	149,015	31.50 to 1
Total	241	\$50,552,704	38.45%	\$197,931	\$2,410,882	20.97 to 1

(1) Represents the estimated appraised value from the Appraisal for 26 lots owned by Lennar Homes of California. For all other lots, represents reassessed value as shown on the unequalized Fiscal Year 2017-18 tax roll of the Merced County Assessor.

(2) Estimated par amount of the Bonds (\$6,270,000) has been allocated to the taxed parcels in proportion to their respective Fiscal Year 2017-18 special tax obligation.

Source: Goodwin Consulting Group, Inc. and Merced County Assessor.

UNDEVELOPED PROPERTY

Owner	FY 17/18 Taxed Parcels	Appraised Value⁽¹⁾	FY 17-18 Levy %	FY 17-18 Levy Amount	Bonds⁽²⁾	Estimated Value To Lien
Forebay Farms, LLC	470	\$12,670,000	51.15%	\$263,288	\$3,206,953	3.95 to 1
Merced QB Club, LLC (Granville)	1	1,725,000	10.40	53,542	652,165	2.65 to 1
Total	471	\$14,395,000	61.55%	\$316,830	\$3,859,118	3.73 to 1

(1) Represents the estimated appraised values from the Appraisal.

(2) Estimated par amount of the Bonds has been allocated to the taxed parcels in proportion to their respective Fiscal Year 2017-18 special tax obligation.

Source: Goodwin Consulting Group, Inc. and Appraisal

COMBINED PROPERTY

	FY 17/18 Taxed Parcels	Assessed or Appraised Value ⁽¹⁾	FY 17-18 Levy %	FY 17-18 Levy Amount	Bonds⁽²⁾	Estimated Value To Lien
Developed Property	241	\$50,552,704	38.45%	\$197,931	\$2,410,882	20.97 to 1
Undeveloped Prop.	471	\$14,395,000	61.55%	\$316,830	\$3,859,118	3.73 to 1
Total	712	\$64,947,704	100.00%	\$514,761	\$6,270,000	10.36 to 1

(1) Represents the assessed value for Developed lots and estimated appraised values from the Appraisal for Undeveloped lots.

(2) Estimated par amount of the Bonds has been allocated to the taxed parcels in proportion to their respective Fiscal Year 2017-18 special tax obligation.

Source: Goodwin Consulting Group, Inc., Appraisal, and Merced County Assessor

Direct and Overlapping Debt

Within the boundaries of Improvement Area No. 1 of the District are numerous overlapping local agencies providing public services. Some of these local agencies have outstanding bonds which are secured by taxes and assessments on parcels within Improvement Area No. 1 of the District and others have authorized but have not yet issued bonds which, if issued, will be secured by taxes and assessments levied on parcels within Improvement Area No. 1 of the District.

The Developed Properties within Improvement Area No. 1 of the District are currently subject to special taxes levied annually for Community Facilities District No. 2003-2 (Services). The special tax for this Community Facilities District is \$949.34 per developed single-family residential unit for the District for the 2017-18 fiscal year. Undeveloped properties are not subject to this special tax. This special tax contains an annual escalator.

The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within Improvement Area No. 1 of the District for Fiscal Year 2017-18 is shown in Table 7 below.

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TABLE 7
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
DIRECT AND OVERLAPPING DEBT SUMMARY

2015-16 Local Secured Assessed Valuation: \$51,923,648

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 12/1/15</u>
Merced Community College District School Facilities Improvement District No. 1	0.333%	\$ 111,612
Merced Union High School District	0.425	492,903
Merced City School District	1.008	289,667
City of Merced Community Facilities District No. 2005-1 (Bellevue Ranch West)	100.	<u>6,215,000</u> (1)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$7,109,182
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Merced County Certificates of Participation	0.254%	\$ 43,649
Merced County Pension Obligation Bonds	0.254	22,427
Merced City School District Certificates of Participation	1.008	45,362
City of Merced Pension Obligation Bonds	1.116	<u>62,826</u>
TOTAL OVERLAPPING GENERAL FUND DEBT		\$174,264
 COMBINED TOTAL DEBT		 \$7,283,446 (2)

(1) Excludes Mello-Roos Act bonds to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2015-16 Assessed Valuation:

Direct Debt (\$6,215,000)	11.97%
Total Direct and Overlapping Tax and Assessment Debt.....	13.69%
Combined Total Debt.....	14.03%

Source: California Municipal Statistics, Inc.

In addition to the bonded indebtedness set forth in Table 7, any general obligation bonds currently authorized but not issued within Improvement Area No. 1 of the District will likely be issued and new general obligation bonds may be authorized at future elections. New community facilities districts or special assessment districts may be formed which include all or a portion of the District, resulting in the issuance of more bonds and the levy of additional special taxes or other taxes and assessments on parcels within Improvement Area No. 1 of the District. In addition to the Special Taxes, the property owners in Improvement Area No. 1 of the District will be required to pay the general *ad valorem* property taxes for their parcels. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments” and “—Assessed or Appraised Valuations; Value-to-Lien Ratios.”

Sample Effective Tax Rates

Table 8 below sets forth an example of a typical property tax bill for a single family residential unit in Improvement Area No. 1 of the District representing a sample of tax rates therein. The actual tax rate for any particular parcel may vary from the tax rates shown in Table 8. The tax rates and amounts presented herein are based on information for Fiscal Year 2017-18. The actual amounts charged may vary and may increase in future years.

TABLE 8
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
SAMPLE PROPERTY TAX BILLS
FOR FISCAL YEAR 2015-16

Assessed Valuations and Property Taxes		Residential Land Use SF
Land		\$ 11,269
Improvements		217,216
Total Land & Improvements		228,485
Homeowner's Exemption		-
Net Taxable Value ⁽¹⁾		\$228,485
	<u>Rate</u>	\$228,485
1% on Net Value	1.0000	\$2,284.85
Voter Approved Bonds:		
Merced City School District Bond	0.00557	\$127.26
Merced Union High School District	0.00477	108.98
Merced College Mer Bonds	0.00114	26.04
Total Ad Valorem Property Taxes	0.01148	\$262.28
Fixed Charge Assessments:		
City Merced CFD 2003-2		\$ 904.92
Mosquito Abatement		8.00
City Merced CFD 2005-1		891.00
Total Assessments, Special Taxes and Parcel Charges		\$1,803.92
Total Property Taxes		\$4,351.04
Total Effective Tax Rate	2.01902%	

⁽¹⁾ Net Assessed Value reflects estimated total assessed value for the parcel net of homeowner's exemption. Not all residences qualify for the exemption.

Source: Merced County Tax Collector, as compiled by California Municipal Statistics, Inc.

Delinquency History

Table 9 below summarizes the Special Tax delinquencies for property within the boundaries of the District. As of September 20, 2017, there were no parcels within Improvement Area No. 1 of the District delinquent in the payment of Special Taxes for 2016-17 and one parcel delinquent in the amount of \$386 or 0.08% of the 2015-16 Special Tax levy; however, due to the participation of the District in the County's Teeter Plan, the District received 100% of the Special Tax levy. Although certain parcels have been delinquent in the payment of Special Taxes in the past, the District has never been required to proceed to a foreclosure sale for delinquent Special Taxes and has never received less than the annual Special Tax levy.

The County has adopted a Teeter Plan for the collection and payment of taxes pursuant to which it pays 100% of the amount levied to participating agencies without regard to the actual amount of collections. The District does participate in the County's Teeter Plan and, as a result, the District receives the Special Taxes levied. Penalties and interest received on the collection of delinquent Special Taxes are paid to the County but are not pledged under the Fiscal Agent Agreement to repay the Bonds. There is no assurance or guarantee that the County will continue the Teeter Plan or that the District will remain as a participant in the Teeter Plan during the time the Bonds remain outstanding.

TABLE 9
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
SPECIAL TAX DELINQUENCY HISTORY

Fiscal Year	<u>At the end of each Fiscal Year</u>			<u>As of September 2, 2017</u>			Special Tax Levied and Collected
	# of Parcels Delinquent	Amount Delinquent ⁽¹⁾	% Delinquent	# of Parcels Delinquent	Amount Delinquent ⁽¹⁾	% Delinquent	
2010-11	4	\$2,313	0.35%	0	\$0	0.00%	\$669,010
2011-12	3	1,157	0.22	0	0	0.00	518,519
2012-13	1	891	0.17	0	0	0.00	514,787
2013-14	0	0	0.00	0	0	0.00	513,070
2014-15	2	1,097	0.21	2	0	0.21	512,432
2015-16	2	1,037	0.20	1	\$386	0.08	511,189
2016-17	0	0	0.00	0	0	0.00	513,394

⁽¹⁾ Delinquent amounts do not include penalties, interest or fees. The District is under the Teeter Plan and therefore, the District received 100% of the Special Tax levy at fiscal year end.

Source: Merced County Tax Collector's Office; Goodwin Consulting Group, Inc.

Historical Assessed Valuation

Table 10 below sets forth the net assessed value and the annual change in net assessed value for taxable property within Improvement Area No. 1 of the District for Fiscal Years 2013-14 through 2017-18.

TABLE 10
COMMUNITY FACILITIES DISTRICT NO. 2005-1 (BELLEVUE RANCH WEST)
OF THE CITY OF MERCED
(IMPROVEMENT AREA NO. 1)
HISTORICAL ASSESSED VALUE

	2013-14	2014-15	2015-16	2016-17	2017-18
AV of all Land	\$ 7,170,927	\$ 8,536,545	\$12,403,304	\$12,786,697	\$12,978,373
AV of all Improvements	34,369,676	37,492,736	39,520,344	39,671,851	41,432,148
Total AV of all Parcels	\$41,450,603	\$46,029,281	\$51,923,648	\$52,458,548	\$54,410,521
AV of Developed Property	\$38,286,329	\$42,760,401	\$46,583,721	\$47,037,407	\$50,309,604
AV of Undev. Property	3,254,274	3,268,880	5,339,927	5,421,141	4,100,917
Total AV of all Parcels	\$41,540,603	\$46,029,281	\$51,923,648	\$52,458,548	\$54,410,521

⁽¹⁾ Assessed Values as of January of previous fiscal year from the Merced County Assessor's Roll.

Source: Goodwin Consulting Group, Inc.

Assessed values do not necessarily represent market values. Article XIII A of the California Constitution (Proposition 13) defines “full cash value” to mean “the County assessor’s valuation of real property as shown on the 1975-76 roll under ‘full cash value’, or, thereafter, the appraised value of real property when purchased or newly constructed or when a change in ownership has occurred after the 1975 assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors. Because of the general limitation to 2% per year in increases in full cash value of properties which remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values. There can be no assurance that the assessed valuations of the properties within Improvement Area No. 1 accurately reflect their respective market values, and the future fair market values of those properties may be lower than their current assessed valuations.

No assurance can be given that, should a delinquent parcel be foreclosed and sold for the amount of the delinquency, any bid will be received for such parcel, or if a bid is received that such bid will be sufficient to pay such delinquent Special Taxes. See” SPECIAL RISK FACTORS—Risks of Real Estate Secured Investments Generally,” “—Risks Related to Current Market Conditions” and “—Assessed or Appraised Valuations; Value-to-Lien Ratios.”

Building Permits

Residential and non-residential construction within the City declined after peaking in 2005, in part due to the subprime mortgage crisis and the resulting significant increase in the number of foreclosures. However, residential and non-residential construction activity within the City has increased since 2010. Total issued building permits and permit valuation (new residential) are used as indicators of overall construction activity.

The following table sets forth for the City, including neighboring Bellevue Ranch East and the District (no building permits were issued within the District before 2016) the total building permit valuations and the number of new residential construction permits issued for Calendar Years 2012 through 2016 and through September 30, 2017.

TABLE 11
CITY OF MERCED
RESIDENTIAL BUILDING PERMIT VALUATION
Calendar Years 2012 through 2017⁽³⁾
(unaudited)

Calendar Year	<u>Bellevue Ranch West</u>		<u>Bellevue Ranch East</u>		<u>Remaining Within City</u>		Total Dwelling Units	Total Permit Assessed Value Estimate ⁽²⁾
	Dwelling Units ⁽¹⁾	Permit Assessed Value ⁽²⁾	Dwelling Units ⁽¹⁾	Permit Assessed Value ⁽²⁾	Dwelling Units ⁽¹⁾	Permit Assessed Value ⁽²⁾		
2012	0	0	0		1	N/A	1	N/A
2013	0	0	4	\$884,100	5	\$1,250,000	9	\$ 2,134,100
2014	0	0	29	311,521	24	4,372,755	53	7,488,476
2015	0	0	62	1,006,825	22	5,829,990	84	16,736,815
2016	35	\$6,979,000	20	388,720	26	5,901,250	46	9,788,970
2017 ⁽³⁾	1	189,900						

⁽¹⁾ Residential reflects construction of new structures.

⁽²⁾ Total Permit Assessed Value is an estimate determined at time of permit issuance; actuals may vary.

⁽³⁾ Through September 30, 2017.

Source: City of Merced.

SPECIAL RISK FACTORS

The purchase of the Bonds involves significant investment risks and, therefore, the Bonds may not be suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area No. 1 of the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “SPECIAL RISK FACTORS — Assessed or Appraised Valuations; Value-to-Lien Ratios” and “— Limited Secondary Market” below.

Risks of Real Estate Secured Investments Generally

The Owners of the Bonds will be subject to the risks generally incident to an investment secured by real estate, including, without limitation, (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or commercial buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

Other factors that could adversely affect property values in the District include, among others, relocation of employers out of the area, shortages of water, electricity, natural gas or other utilities, and destruction of property caused by man-made disasters.

The current state of the world-wide capital markets has adversely affected the availability of mortgage loans to homeowners, including potential buyers of homes within the District. Any such unavailability could hinder the ability of the current homeowners to resell their homes, or the sale of newly completed homes in the future.

Limited Obligations

The District has no obligation to pay principal of or interest on the Bonds if Special Tax collections are delinquent or insufficient, other than from funds derived from the foreclosure and sale of parcels for Special Tax delinquencies. The City is not obligated to advance funds to pay debt service on the Bonds.

Insufficiency of Special Taxes

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel will be based primarily on whether such parcel is developed or not and, for Residential Property on which subdivision in which it is located, and for Non-Residential Property on the acreage of the Assessor's Parcel. See “APPENDIX A -- RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” and “THE COMMUNITY FACILITIES DISTRICT - Rate and Method of Apportionment of Special Taxes.” Accordingly, to the extent property is not developed, collection of the Special Taxes will be dependent on the willingness and ability of the owners of Undeveloped Property to pay such Special Taxes when due. See “SPECIAL RISK FACTORS -- Future Land Use Regulations and Growth Control Initiatives” and “-- Failure to Develop Properties” above for a discussion of the risks associated with undeveloped property.

Given limitations in the Act regarding increases in Special Taxes on residential parcels to address Special Tax delinquencies, the potential coverage to respond to delinquencies is approximately 110% of Annual Debt Service. Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation.

Furthermore, Administrative Expenses are paid by the District prior to the payment of debt service on the Bonds. Incurrence of higher than budgeted Administrative Expenses may have an adverse impact on the ability of the District to make debt service on the Bonds.

If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government, another public agency or other organization determined to be exempt, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This could result in certain owners of property paying a greater amount of the Special Tax and could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts. Due to problems of collecting taxes from public agencies, if a substantial portion of land within the District became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Taxes which could be levied upon the remaining property within those areas might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest on the Bonds.

In certain circumstances, the District has covenanted to commence judicial foreclosure proceedings against property with delinquent Special Taxes. No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes.

Depletion of Reserve Fund

A Reserve Fund has been established and may be used to pay principal of and interest on the Bonds if insufficient funds are available from the proceeds of the levy and collection of the Special Taxes against property within the District. See “SOURCES OF PAYMENT FOR THE BONDS - Reserve Fund.”

If funds within the Reserve Fund are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay Administrative Expenses and principal and interest on the Bonds under the Fiscal Agent Agreement. However, no replenishment from the proceeds of a Special Tax levy can occur so long as the proceeds that are collected from the levy of the Special Tax against property within the District at the maximum Special Tax rates (subject to the limitations of the Act), together with other available funds, remain insufficient to pay all such amounts. Thus, it is possible that the Reserve Fund will be depleted and not be replenished by the levy of the Special Tax within the District.

Natural Disasters

The value of the parcels in the District in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements and private improvements on the parcels in the District and the continued habitability and enjoyment of such private

improvements. The District, like all California communities, may be subject to unpredictable seismic activity, fires due to the vegetation and topography, or flooding in the event of significant rainfall. The occurrence of seismic activity, fires or flooding in or around the District could result in substantial damage to properties in the District, which, in turn, could substantially reduce the value of such properties. As a result of the occurrence of such an event, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such natural events, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Endangered and Threatened Species

On a regular basis, new species are proposed to be added to the State and federal protected species lists. Any action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively affect the developers' ability to complete the development of the properties within the District as planned. This, in turn, could reduce the ability or willingness of the property owners to pay the Special Taxes when due and would likely reduce the value of the land and the potential revenues available at a foreclosure sale for delinquent Special Taxes.

Hazardous Substances

A serious risk in terms of the potential reduction in the value of a parcel within the District is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel within the District may be required by law to remedy conditions of such parcel relating to release or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also similarly stringent. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of the property whether or not the owner or operator had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, will be to reduce the marketability and value of such parcel by the costs of remedying the condition, because the prospective purchaser, upon becoming the owner, will become obligated to remedy the condition just as the seller is.

Although the District is not aware that the owner or operator of any of the taxable parcels in the District has such a current liability, it is possible that such liabilities do currently exist. Further, it is possible that liabilities may arise in the future resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but that may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the property values that would otherwise be realized upon a delinquency.

No information is available as to the existence of any hazardous substances within the District.

Assessed or Appraised Valuations; Value-to-Lien Ratios

The value of land within Improvement Area No. 1 of the District is an important factor in evaluating the investment quality of the Bonds. In the event that a property owner defaults in the payment of Special Tax installments, the District's only remedy is to judicially foreclose on that property. Prospective purchasers of the Bonds should not assume that the property within Improvement Area No. 1 of the District could be sold for the assessed or appraised value described in this Official Statement at a foreclosure sale for delinquent Special Tax installments or for an amount adequate to pay delinquent Special Tax installments. Reductions in property values within Improvement Area No. 1 of the District due to a downturn in the economy or the real estate market,

events such as earthquakes, droughts, or floods, stricter land use regulations, threatened or endangered species or other events may adversely impact the security underlying the Special Taxes.

The property values of undeveloped property set forth in the various tables herein are the property values determined by the Appraiser. The Appraisal was prepared for the purpose of estimating and confirming the minimum market value of such property as of September 28, 2017 in its as is condition on the basis of certain assumptions. Prospective purchasers of the Bonds should not assume, however, that such parcels could be sold for the appraised amount described herein at the present time or at a foreclosure sale for delinquent Special Taxes. See the Appraisal included as Appendix D hereto for a brief description of the analysis used and assumptions made by the Appraiser. The actual value of the property is subject to future events that might render invalid the assumptions relied upon by the Appraiser in determining the appraised value. The values for the developed property within Improvement Area No. 1 of the District were determined by the assessed values of such parcels as of January 1, 2017. Therefore, the estimated valuation of the developed parcels in the District set forth in this Official Statement are based on the County Assessor's values. The assessed value is not an indication of what a willing buyer might pay for a property. The assessed value is not evidence of future value because future facts and circumstances may differ significantly from the present.

No assurance can be given that the estimated value-to-lien ratios as set forth in “ — Estimated Value-to-Lien Ratios” will be maintained over time. As discussed herein, many factors which are beyond the control of the District could adversely affect the property values within the District. The District does not have any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which through the levy of a tax or an assessment is on a parity with the Special Taxes. A decrease in the assessed values in the District or an increase in the indebtedness secured by taxes and amounts with parity liens on property in the District, or both, could result in a lowering of the value-to-lien ratios of the property in the District. See “ — Estimated Value-to-Lien Ratios” herein.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Repayment of the Bonds - Special Tax — Proceeds of Foreclosure Sales.”

Concentration of Ownership

A single property owner within Improvement Area No. 1 of the District is responsible for over 50% of the annual special tax levy and the top two are responsible for approximately 62% of the annual special tax levy.

If these or any other property owner is unwilling or unable to pay the Special Tax when due, a potential shortfall in the Bond Fund could occur, which would result in the depletion of the Reserve Fund prior to reimbursement from the resale of foreclosed property or payment of the delinquent Special Taxes and, consequently, a delay or failure in payments of the principal of or interest on the Bonds. No property owner is obligated in any manner to continue to own or develop any of the land it presently owns within the District. The Special Taxes are not a personal obligation of any owner of the parcels, and the District can offer no assurance that any current owner or any future owner will be financially able to pay such Special Taxes or that it will choose to pay even if financially able to do so.

Land Development Costs

Approximately two-thirds of the lien of the Improvement Area No. 1 Special Tax is spread on Undeveloped parcels. The Undeveloped lots are in finished condition but have no vertical construction. The cost of additional improvements plus any further public and private in-tract, on-site and off-site improvements would likely increase the public and private debt secured by the Undeveloped land within Improvement Area No. 1 of the District. See APPENDIX D – “THE APPRAISAL REPORT” and “THE COMMUNITY FACILITIES DISTRICT - Direct and Overlapping Debt.” This increased debt could reduce the ability or desire

of the property owners to pay the annual Special Taxes levied against the property. See “THE COMMUNITY FACILITIES DISTRICT - The Special Taxes.” In that event there could be a default in the payment of principal of, and interest on, the Bonds.

Failure to Develop Undeveloped Properties

Land development operations are subject to comprehensive Federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. While the undeveloped land in Improvement Area No. 1 is entitled as to discretionary City approvals by reason of its Development Agreement, and all other City land use approvals and zoning approvals have been obtained, there is always the possibility that such approvals, even though obtained, will be challenged or subject to subsequent referendum, or that the issuance of additional building permits will be delayed. Revocation of any such agency approval could adversely affect the development of the undeveloped land. See APPENDIX D – “THE APPRAISAL REPORT.”

Under current California law, it is generally accepted that proposed development is not exempt from future land use regulations until building permits have been properly issued and substantial work has been performed and substantial liabilities have been incurred in good faith reliance on such permits.

The undeveloped land within Improvement Area No. 1 has been final mapped and contains finished lots with certain offsite infrastructure in place (streets, curbs, gutters, street lighting, etc.). However, development of certain portions of the land within the District may be contingent upon construction or acquisition of additional public improvements, as well as local public and private in-tract improvements. The cost of these additional public and private in tract and off site improvements could increase the private debt for which the land within the District provide security. This increased debt could reduce the willingness and/or ability of the property owners to pay the annual Special Taxes levied against their property.

Development of land is also subject to economic considerations such as the strength of the regional economy and the resulting demand for land and homes. Within the District, very little development activity occurred following its initial development activity when the District was formed in 2005, until Lennar purchased 37 lots from Forebay Farms in August 2016. The undeveloped land is not actively being marketed for sale and development at the present time. In August 2012, BBC Merced Land, LLC sold the undeveloped 8-acre commercial site to Baxter Ranches, LLC. In December 2014, the commercial site was donated by Baxter Ranches, LLC to Merced High School Quarterback Club, a nonprofit corporation formed to support Merced High School’s football programs (the “Quarterback Club”). The Quarterback Club actively marketed the property and struggled to timely make its special tax obligations on the parcel given its limited resources until its sale in August 2016 to Merced QB Granville. The commercial property is not immediately adjacent to developed property within the Improvement Area No. 1 of the District.

Another economic downturn, similar to the last national recession, for example, could adversely impact the demand for homes and land development operations generally throughout the area. There can be no assurance that the means and incentive to conduct land development operations within the District will occur or will not be adversely affected by future local, State and federal governmental policies relating to real estate development, or the income tax treatment of real property ownership.

The inability or failure to develop property due to adverse regulatory or economic conditions may reduce the value of undeveloped property. The undeveloped property also provides less security to the Bondowners should it be necessary for the District to foreclose on undeveloped property due to the nonpayment of the Special Taxes. Furthermore, an inability to develop the land within the District will likely slow the diversity of ownership of land within the District, making the Bondowners more dependent upon timely payment of the Special Tax levied on the undeveloped property. Because of the current concentration of ownership of the undeveloped property in the District, the timely payment of the Bonds depends upon the willingness and ability

of the present owners of the undeveloped property to pay the Special Taxes levied on the undeveloped property when due. See “SPECIAL RISK FACTORS -- Concentration of Ownership” above.

Competition

The housing market in the City has other pending and proposed projects that may be competitive when the undeveloped land within the District is ready for development. This competition could impact the future value of the undeveloped property and the rate at which homes are sold and absorbed.

Parity Taxes and Special Assessments

While the Special Taxes are secured by the taxable parcels in the District, the security only extends to the value of such property that is not subject to priority and parity liens and similar claims.

Tables listing the outstanding governmental obligations affecting the District are set forth under “THE COMMUNITY FACILITIES DISTRICT - Direct and Overlapping Governmental Liens.”

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels within the District, and may be secured by a lien on a parity with the lien of the Special Taxes securing the Bonds.

In general, the Special Taxes, and all other taxes, assessments and charges also collected on the tax roll, are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. If proceedings are brought to foreclose a delinquency, the Special Taxes will generally be on parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis.

The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below.

The District has no control over the ability of other entities and districts to issue indebtedness secured by special taxes, ad valorem taxes or assessments payable from all or a portion of the property within Improvement Area No. 1 of the District. In addition, the landowners within Improvement Area No. 1 of the District may, without the consent or knowledge of the City or the District, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within Improvement Area No. 1 of the District as described herein.

The properties within Improvement Area No. 1 of the District are currently subject to special taxes levied annually for Community Facilities District No. 2003-2 (Services). The special tax for this Community Facilities District is \$939.34 per developed single-family residential unit for the District for the 2017-18 fiscal year. This special tax contains an annual escalator. See “SECURITY FOR THE BONDS - Direct and Overlapping Debt.”

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax, even if the value of the parcel is sufficient, may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The District caused a Notice of Special

Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within Improvement Area No. 1 of the District or lending of money thereon.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code Section 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

Special Tax Delinquencies

Special Taxes are the primary source for the repayment of the Bonds, and delinquencies could result in a draw on the Reserve Fund and, if the Reserve Fund were depleted, in a default in payment on the Bonds.

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable and are subject to the same lien priority in the case of delinquency as are *ad valorem* property tax installments.

See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS— Repayment of the Bonds - Special Taxes — *Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Fiscal Agent Agreement, in the event of delinquencies in the payment of Special Taxes. See “—Delinquency History” for a history of Special Tax delinquency rates in the District. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” below, for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessments and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

The County has adopted a Teeter Plan as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, under which a tax distribution procedure is implemented and secured roll taxes are distributed to taxing agencies within the County on the basis of the tax levy, rather than on the basis of actual tax collections. The Special Taxes are included in the County’s Teeter Plan but there can be no assurance that the County will continue the Teeter Plan or that the Special Taxes will continue to be included within the Teeter Plan.

Non-Cash Payments of Special Taxes

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds in payment of Special Taxes, the Fiscal Agent Agreement includes a covenant pursuant to which the District will not sell a Bond to the owners of taxable parcels to satisfy Special Tax

obligations by the tender of such Bond unless the District shall have first obtained a report of an Independent Financial Consultant certifying that doing so would not result in the District having insufficient funds to pay the principal of and interest on all Outstanding Bonds when due.

Payment of the Special Tax is not a Personal Obligation of the Owners

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully the Special Tax, the District has no recourse against the owner.

FDIC/Federal Government Interests in Properties

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the FDIC, or other federal government entities such as Fannie Mae, Freddie Mac, the Drug Enforcement Agency, the Internal Revenue Service or other federal agency, has or obtains an interest.

In the case of FDIC, in the event that any financial institution making a loan which is secured by parcels is taken over by the FDIC and the applicable Special Tax is not paid, the remedies available to the District may be constrained. The FDIC's policy statement regarding the payment of state and local real property taxes (the "Policy Statement") provides that taxes other than *ad valorem* taxes which are secured by a valid lien in effect before the FDIC acquired an interest in a property will be paid unless the FDIC determines that abandonment of its interests is appropriate. The Policy Statement provides that the FDIC generally will not pay installments of non-*ad valorem* taxes which are levied after the time the FDIC acquires its fee interest, nor will the FDIC recognize the validity of any lien to secure payment except in certain cases where the Resolution Trust Corporation had an interest in property on or prior to December 31, 1995. Moreover, the Policy Statement provides that, with respect to parcels on which the FDIC holds a mortgage lien, the FDIC will not permit its lien to be foreclosed out by a taxing authority without its specific consent, nor will the FDIC pay or recognize liens for any penalties, fines or similar claims imposed for the non-payment of taxes.

The FDIC has taken a position similar to that expressed in the Policy Statement in legal proceedings brought against Orange County in United States Bankruptcy Court and in Federal District Court. The Bankruptcy Court issued a ruling in favor of the FDIC on certain of such claims. Orange County appealed that ruling, and the FDIC cross-appealed. On August 28, 2001, the Ninth Circuit Court of Appeals issued a ruling favorable to the FDIC except with respect to the payment of pre-receivership liens based upon delinquent property tax.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency with respect to parcels in which the FDIC has or obtains an interest, although prohibiting the lien of the FDIC to be foreclosed out at a judicial foreclosure sale would prevent or delay the foreclosure sale.

In the event a parcel of taxable property or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to collect delinquent Special Taxes may be limited. Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. This means that, unless Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in a parcel and the District wishes to foreclose on that parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. For a discussion of risks associated with taxable parcels within Improvement Area No. 1 of the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see "— Insufficiency of Special Taxes."

The District's remedies may also be limited in the case of delinquent Special Taxes with respect to parcels in which other federal agencies (such as the Internal Revenue Service and the Drug Enforcement Administration) have or obtain an interest.

Bankruptcy and Foreclosure

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of Beneficial Owners of the Bonds. The payment of property owners' taxes and the ability of the District to foreclose the lien of a delinquent unpaid Special Tax pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS — Repayment of the Bonds - Special Taxes — *Proceeds of Foreclosure Sales.*" In addition, the prosecution of a foreclosure could be delayed due to many reasons, including crowded local court calendars or lengthy procedural delays.

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel's approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Moreover, the ability of the District to commence and prosecute enforcement proceedings may be limited by bankruptcy, insolvency and other laws generally affecting creditors' rights and by the laws of the State relating to judicial foreclosure.

No Acceleration Provision

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the Bonds or the Fiscal Agent Agreement.

Loss of Tax Exemption

As discussed under the caption "TAX MATTERS," the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended, or a change in legislation. Legislative changes have been proposed in Congress, which, if enacted, would result in additional federal income tax being imposed on certain owners of tax-exempt state or local obligations, such as the Bonds. The introduction or enactment of any of such changes could adversely affect the market value or

liquidity of the Bonds. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Fiscal Agent Agreement.

Limitations on Remedies

Remedies available to the Beneficial Owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and the Fiscal Agent Agreement to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors' rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Beneficial Owners of the Bonds.

No Ratings and Limited Secondary Market

The District has not applied to have the Bonds rated by any nationally recognized bond rating company and it does not expect to do so in the future.

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that the Bonds can be sold at all or for any particular price. Although the District has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Beneficial Owners on a timely basis. See "CONTINUING DISCLOSURE." The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

Validity of Landowner Elections

On August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One (the "Court"), issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997). The Court of Appeal considered whether Propositions 13 and 218, which amended the California Constitution to require voter approval of taxes, require registered voters to approve a tax or whether a city could limit the qualified voters to just the landowners and lessees paying the tax. The case involved a Convention Center Facilities District (the "CCFD") established by the City of San Diego. The CCFD is a financing district established under San Diego's charter and was intended to function much like a community facilities district established under the provisions of the Act. The CCFD is comprised of the entire city of San Diego. However, the special tax to be levied within the CCFD was to be levied only on properties improved with a hotel located within the CCFD.

At the election to authorize such special tax, the San Diego Charter proceeding limited the electorate to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was an election limited to landowners and lessees of properties on which the special tax would be levied, and not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax.

In addition, Section 53326(b) of the Act provides that if there are less than 12 registered voters in the district, the landowners shall vote.

The Court held that the CCFD special tax election did not comply with applicable requirements of Proposition 13, which added Article XIII A to the California Constitution (which states “Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district, may impose special taxes on such district”) and Proposition 218, which added Article XIII C and XIID to the California Constitution (which provides “No local government may impose, extend or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote”), or with applicable provisions of San Diego’s Charter, because the electors in such an election were not the registered voters residing within such district.

San Diego argued that the State Constitution does not expressly define the qualified voters for a tax; however, the Legislature defined qualified voters to include landowners in the Act. The Court of Appeal rejected San Diego’s argument, reasoning that the text and history of Propositions 13 and 218 clearly show California voters intended to limit the taxing powers of local government. The Court was unwilling to defer to the Act as legal authority to provide local governments more flexibility in complying with the State’s constitutional requirement to obtain voter approval for taxes. The Court held that the tax was invalid because the registered voters of San Diego did not approve it. However, the Court expressly stated that it was not addressing the validity of landowners voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. In the case of the CCFD, at the time of the election there were several hundred thousand registered voters within the CCFD (i.e., all of the registered voters in the city of San Diego). In the case of the District, there were fewer than 12 registered voters within Improvement Area No. 1 of the District at the time of the election to authorize the District special tax.

Moreover, Section 53341 of Act provides that any “action or proceeding to attack, review, set aside, void or annul the levy of a special tax ... shall be commenced within 30 days after the special tax is approved by the voters.” Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act or the levy of special taxes authorized pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds or the special tax. Voters approved the special tax and the issuance of bonds for the District pursuant to the requirements of the Act on November 21, 2005. In the opinion of Bond Counsel, under the provisions of Section 53341 and Section 53359 of the Act, the statute of limitations period to challenge the validity of the special tax has expired.

Ballot Initiatives

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, including Proposition 218, which was approved in the general election held on November 5, 1996, and Proposition 26, which was approved on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City and the District. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the Bonds.

Proposition 218-Voter Approval for Local Government Taxes-Limitation on Fees, Assessments, and Charges-Initiative Constitutional Amendment, added Articles XIIC and XIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the “Supermajority Vote to Pass New Taxes and Fees Act.” Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by

defining the new or expanded taxes as “fees.” Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes require a majority vote and taxes for specific purposes (“special taxes”) require a two-thirds vote.

The Special Taxes and the Bonds were each authorized by not less than a two-thirds vote of the landowners within the District who constituted the qualified electors at the time of such voted authorization. The District believes, therefore, that issuance of the Bonds does not require the conduct of further proceedings under the Act, Proposition 218 or Proposition 26.

Like their antecedents, Proposition 218 and Proposition 26 are likely to undergo both judicial and legislative scrutiny before the impact on the District can be determined. Certain provisions of Proposition 218 and Proposition 26 may be examined by the courts for their constitutionality under both State and federal constitutional law, the outcome of which cannot be predicted.

From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations. See “SPECIAL RISK FACTORS — Risks of Real Estate Secured Investments Generally” herein.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Agreement (the “Disclosure Agreement”), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning Improvement Area No. 1 of the District and provide notices of certain enumerated events. The Annual Report to be filed by the District is to be filed not later than January 31 of each year, beginning January 31, 2018. Forebay Farms LLC and Merced QB Club, LLC (an entity formed by principals of Granville Homes), have covenanted for the benefit of owners of the Bonds to provide certain financial and project information relating to the District, not later than three months and nine months after the close of their fiscal years, which currently ends December 31 of each year, and to provide notices of the occurrences of certain enumerated events. These reports are collectively referred to herein as the “Annual Reports.” The Annual Reports will be filed with EMMA. The full text of the Disclosure Agreements are set forth in APPENDIX E — “FORM OF CONTINUING DISCLOSURE AGREEMENTS.”

Notwithstanding any provision of the Fiscal Agent Agreement, noncompliance with the Disclosure Agreement by the District will not be considered an event of default under the Fiscal Agent Agreement. However, any holder of the Bonds may take such action as is necessary and appropriate, including seeking mandate or a judgment for specific performance, to cause the District to comply with its obligations with respect to the Disclosure Agreement.

As obligated parties under the Rule, the City and its related entities are, or were during the past five years, responsible for providing continuing disclosure with respect to thirteen bond issues. :

In conjunction with the delivery of the Bonds, the City engaged the services of Applied Best Practices (“ABP”) to conduct a continuing disclosure compliance review with respect to the bond issues. During the course of ABP’s review, it was determined that during the past five years, there were instances of non-compliance by the City and its related entities, including the District, with the requirements of certain undertakings due primarily to the failure to timely link Audited Financial Statements (AFS) of the City already filed for one bond issue with all applicable bond issues, and failing to timely file certain Annual Reports. Specifically, for the District:

(a) for Fiscal Years 2010-11 and 2011-12 the District did not timely file AFS for its obligations relating to the Prior Bonds; subsequent remedial filings were made 150 and 25 days, respectively, after the Annual Filing Deadline for such issue; and

(b) for Fiscal Years 2010-11 and 2011-12 the District did not timely file Annual Reports for the Prior Bonds. Remedial Annual Report filings were made 64 days and 1 day, respectively, after the Annual Filing Deadline.

Specifically, for the City or other related entities:

(a) for Fiscal Year 2010-11, the City did not timely file AFS for its obligations relating to the California Statewide Communities Development Authority Water & Wastewater Revenue Bonds (Pooled Financing Program) Series 2004A and City of Merced Fahrens Park Refunding Reassessment District 2004 Limited Obligation Refunding Bonds; for Fiscal Years 2010-11 and 2011-12 the City did not timely file AFS for its obligations relating to the Community Facilities District No. 2005-1 (Bellevue Ranch West) of the City of Merced 2006 Special Tax Bonds (Improvement Area No. 1) ("2006 Bonds") and the Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced 2006 Special Tax Bonds ("Moraga Bonds"); for Fiscal Years 2010-11 and 2011-12 and 2012-13 the City did not timely file AFS for its obligations relating to the California Statewide Communities Development Authority Taxable Pension Obligation Bonds 2004 Series A-1 Bonds; subsequent remedial filings were made up to 1,680 days after the Annual Filing Deadline for such issues; and

(b) for Fiscal Year 2011-12 the City did not timely file Annual Reports for the 2006 Bonds and the Moraga Bonds. Remedial Annual Report filings were made 1 day after the Annual Filing Deadline.

As of this date, the District and the City are compliant with all AFS and Annual Report filing requirements.

TAX MATTERS

Tax Exemption

The Internal Revenue Code of 1986 (the "Code") imposes certain requirements that must be met subsequent to the issuance and delivery of the Bonds for interest thereon to be and remain excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. Noncompliance with such requirements could cause the interest on the Bonds to be included in the gross income of the owners thereof for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to maintain the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes.

In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing law, interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with the covenants mentioned herein, interest on the Bonds is excluded pursuant to section 103(a) of the Code from the gross income of the owners thereof for federal income tax purposes. It is the further opinion of Bond Counsel that under existing law, the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Code and for that reason that interest on the Bonds will not be treated as an item of tax preference for purposes of computing the alternative minimum tax imposed by section 55 of the Code. Receipt or accrual of interest on Bonds owned by a corporation may affect the computation of the alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

Pursuant to the Fiscal Agent Agreement and in the *Tax Certificate Pertaining to Arbitrage and Other Matters under Sections 103 and 141-150 of the Internal Revenue Code of 1986*, to be delivered by the District

in connection with the issuance of the Bonds, the District will make representations relevant to the determination of, and will make certain covenants regarding or affecting, the exclusion of interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. In reaching its opinions described in the immediately preceding paragraph, Bond Counsel will assume the accuracy of such representations and the present and future compliance by the District with its covenants.

Except as stated in this section above, Bond Counsel will express no opinion as to any federal or state tax consequence of the receipt of interest on, or the ownership or disposition of, the Bonds. Furthermore, Bond Counsel will express no opinion as to any federal, state or local tax law consequence with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof predicated or permitted upon the advice or approval of other counsel. Bond Counsel has not undertaken to advise in the future whether any event after the date of issuance of the Bonds may affect the tax status of interest on the Bonds or the tax consequences of the ownership of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "Service") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the District as the "taxpayer", and the owners would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interest from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Existing law may change to reduce or eliminate the benefit to bondholders of the exemption of interest on the Bonds from personal income taxation by the State of California or of the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future change in tax law.

A copy of the form of opinion of Bond Counsel relating to the Bonds is included in APPENDIX F.

Tax Accounting Treatment of Bond Premium and Original Issue Discount on Bonds

To the extent that a purchaser of a Bond acquires that Bond at a price in excess of its "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Code), such excess will constitute "bond premium" under the Code. Section 171 of the Code, and the Treasury Regulations promulgated thereunder, provide generally that bond premium on a tax-exempt obligation must be amortized over the remaining term of the obligation (or a shorter period in the case of certain callable obligations); the amount of premium so amortized will reduce the owner's basis in such obligation for federal income tax purposes, but such amortized premium will not be deductible for federal income tax purposes. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of the obligation. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. The rate and timing of the amortization of the bond premium and the corresponding basis reduction may result in an owner realizing a taxable gain when its Bond is sold or disposed of for an amount equal to or in some circumstances even less than the original cost of the Bond to the owner.

The excess, if any, of the stated redemption price at maturity of Bonds of a maturity over the initial offering price to the public of the Bonds of that maturity is "original issue discount." Original issue discount

accruing on a Bond is treated as interest excluded from the gross income of the owner thereof for federal income tax purposes and is exempt from California personal income tax to the same extent as would be stated interest on that Bond. Original issue discount on any Bond purchased at such initial offering price and pursuant to such initial offering will accrue on a semiannual basis over the term of the Bond on the basis of a constant yield method and, within each semiannual period, will accrue on a ratable daily basis. The amount of original issue discount on such a Bond accruing during each period is added to the adjusted basis of such Bond to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such Bond. The Code includes certain provisions relating to the accrual of original issue discount in the case of purchasers of Bonds who purchase such Bonds other than at the initial offering price and pursuant to the initial offering.

Persons considering the purchase of Bonds with original issue discount or initial bond premium should consult with their own tax advisors with respect to the determination of original issue discount or amortizable bond premium on such Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of such Bonds. Bond Counsel will express no opinion regarding such determination or such tax consequences. Bond Counsel will express no opinion regarding such determination or such tax consequences.

Other Federal Income Tax Consequences

Although interest on the Bonds may be exempt from California personal income tax and excluded from the gross income of the owners thereof for federal income tax purposes, an owner's federal, state or local tax liability may be otherwise affected by the ownership or disposition of the Bonds. The nature and extent of these other tax consequences will depend, *inter alia*, upon the owner's other items of income or deduction. Without limiting the generality of the foregoing, prospective purchasers of the Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds and the Code contains additional limitations on interest deductions applicable to financial institutions that own tax-exempt obligations (such as the Bonds), (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income, (v) section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Bonds and (vi) under section 32(i) of the Code, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit. Bond Counsel will express no opinion regarding any such other tax consequence.

BANK QUALIFICATION

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense that is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. The disallowance does not apply to interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) that are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as “qualified tax-exempt obligations” and has certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions that purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution that is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

LEGAL MATTERS

Litigation

The District will furnish a certificate dated the date of delivery of the Bonds to the effect that there is no litigation pending or, to the knowledge of the duly authorized officer of the District executing the certificate, threatened, seeking to restrain or enjoin the execution, sale or delivery of the Bonds, in any way contesting or affecting the authority for the execution, sale or delivery of the Bonds, or the execution and delivery of the Fiscal Agent Agreement or the Continuing Disclosure Agreement, or in any way contesting the existence or powers of the District.

Legal Opinion

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Norton Rose Fulbright US LLP, a member of Norton Rose Fulbright, Los Angeles, California, Bond Counsel. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX F hereto and will accompany the Bonds. Certain legal matters will be passed upon for the District by the City Attorney, and for the District by Norton Rose Fulbright US LLP, as Disclosure Counsel. Norton Rose Fulbright US LLP expresses no opinion as to the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Bonds and expressly disclaims any duty to advise the Beneficial Owners of the Bonds as to matters related to this Official Statement.

No Rating

The District has not made, and does not contemplate making, application to any rating agency for the assignment of a rating for the Bonds.

Underwriting

The Bonds are being purchased by Brandis Tallman LLC (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$_____ (being \$6,450,000* aggregate principal amount thereof, less Underwriter’s discount of \$_____ plus/less a net original issue premium/discount of \$_____). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page hereof. The offering prices may be changed from time to time by the Underwriter.

* Preliminary, subject to change.

Financial Interests

The fees being paid to the Underwriter, Underwriter's Counsel, Bond Counsel, the Municipal Advisor, and the Fiscal Agent are contingent upon the issuance and delivery of the Bonds.

Pending Legislation

The District is not aware of any significant pending legislation which would have material adverse consequences on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions. A copy of the Fiscal Agent Agreement may be obtained after delivery of the Bonds from the City of Merced, 678 West 18th Street, Merced, California 95340.

The execution and delivery of this Official Statement has been authorized by the City Council of the City, acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2005-1
(Bellevue Ranch West) of the City of Merced

By: _____
City Manager of the City of Merced

APPENDIX A

RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF MERCED

Set forth below is certain demographic information regarding the City of Merced (the “City”) and the County of Merced (the “County”). This information is provided for informational purposes only and general background. The information set forth herein has been obtained from third party sources believed to be reliable, but such information is not guaranteed by the District as to accuracy or completeness. The information and data within this Appendix B speak only as of the dates indicated and may have changed, perhaps materially, from such time. Neither the delivery of this Official Statement nor any sale thereafter of the securities offered hereby shall under any circumstances create any implication that there has been no change in any information contained in this Appendix B since the date of the Official Statement. The Bonds are not a debt of the City, the County, the State of California (the “State”), or any of its political subdivisions, and none of the City, the County, the State nor any of its political subdivisions is liable thereon.

General Description and Background

The City of Merced (the “City”) is located in Merced County (the “County”) and serves as the county seat. The City is located in the heart of the San Joaquin Valley approximately 110 miles southeast of San Francisco and 310 miles northwest of Los Angeles. The City is located on Highway 99, the dominant north-south freeway in California, and is served also by Highways 140 and 59. Merced is less than two hours by car from Yosemite National Park to the east and to the west is Monterey Bay, the Pacific Ocean, and miles of beaches. The community is served by rail passenger service, a commercial airliner, and two bus lines. The two railroads, Union Pacific and Burlington Northern Santa Fe, have main lines which pass through the City.

The County has six incorporated cities, of which the City is the largest in terms of population. The City lies in the mid-portion of the County.

Population

The following sets forth the City, the County and the State population estimates as of January 1 for the years 2010 to 2017:

TABLE B-1
CITY OF MERCED, MERCED COUNTY AND STATE OF CALIFORNIA
Estimated Population

<u>Year</u> <u>(January 1)</u>	<u>City of</u> <u>Merced</u>	<u>Merced</u> <u>County</u>	<u>State of</u> <u>California</u>
2010	78,958	255,793	37,253,956
2011	79,563	258,852	37,536,835
2012	80,578	262,147	37,881,357
2013	81,589	264,437	38,238,492
2014	82,069	266,556	38,572,211
2015	82,909	269,132	38,915,880
2016	83,955	271,547	39,189,035
2017	84,578	274,665	39,523,613

Source: State Department of Finance, Demographic Research Unit.

**Includes 2010 Census count information; as of April 1, 2010.*

Commerce

Total taxable sales during the calendar year 2015 in the City were reported to be \$1,000,411,043 compared to total taxable sales of \$994,496,000 reported during the calendar year 2014. The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions in the City is presented in the following table. Annual figures are not yet available for 2016.

**TABLE B-2
CITY OF MERCED
Taxable Transactions
(dollars in thousands)**

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Retail and Food Services					
Motor Vehicle and Parts Dealers	\$139,727	\$171,571	\$191,217	\$191,858	\$ 217,485
Home Furnishings and Appliance Stores	27,487	28,165	27,677	29,733	35,399
Bldg. Mat'l. & Garden Equip. & Supplies	61,063	61,201	62,731	69,180	75,222
Food and Beverage Stores	44,526	44,055	42,969	47,543	48,905
Gasoline Stations	101,736	104,313	99,882	92,520	76,559
Clothing & Clothing Accessories Stores	35,824	38,719	40,435	40,247	41,745
General Merchandise Stores	183,832	186,379	186,226	189,211	164,949
Food Services and Drinking Places	90,422	95,180	100,236	109,214	117,632
Other Retail Group	64,153	65,489	66,358	66,459	66,611
Total Retail and Food Services	\$748,770	\$795,073	\$817,733	\$835,964	\$ 844,506
All Other Outlets	135,719	147,303	155,559	158,532	155,905
Total All Outlets ⁽¹⁾	\$884,489	\$942,376	\$973,291	\$994,496	\$1,000,441

⁽¹⁾ Detail may not compute to total due to rounding.

Source: "Taxable Sales in California," California State Board of Equalization.

Two major retail projects are currently underway in the City. The Merced Mall will be adding 90,000 square feet of new retail, food and entertainment space, plus a theatre as a second level. Across town at Highway 99 and Mission Avenue, the Merced Gateway Retail Center is moving closer to breaking ground. The Center proposes more than 600,000 square feet of retail commercial development, 178 apartments, and a fire station on 71 acres.

Revitalization of the City's Downtown area is continuing with plans this fiscal year and next to include a Dickie's BBQ and an 88-room Marriott TownPlace Suites that is under construction near the proposed new Steak 'n' Shake restaurant. Proposals are underway for the El Capitan Hotel for a major facelift and expansion to turn it into a boutique hotel that will preserve the historic 33-room hotel and add another 77 rooms, plus a restaurant and meeting rooms. The Mainzer Theatre has renovation plans to include a theatre, show room and bowling alley. Additional new retail establishments within the City include a Five Guys Burgers, Cozy Fox, Quickly, Bob Cat Diner, Pizza Factory, Stanton Optical, Premiere Car Wash and Les Schwab Tires. Opening soon are Fitness Evolution, an Arco station and a KFC restaurant.

The number of establishments selling merchandise subject to sales tax and the valuation of taxable transactions within the County is presented in the following table. Total taxable sales during the calendar year 2015 in the County were reported to be \$2,964,724,000, compared to total taxable sales reported during the calendar year 2014 of \$2,764,904,000. Annual figures are not yet available for 2016.

TABLE B-3
COUNTY OF MERCED
Taxable Retail Sales
Valuation of Taxable Transactions
(dollars in thousands)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u> ⁽²⁾
Retail and Food Services					
Motor Vehicle and Parts Dealers	\$ 195,843	\$ 228,508	\$ 258,784	\$ 265,935	\$ 297,640
Furniture and Home Furnishing Stores	16,589	17,363	18,798	20,682	n/a
Electronics and Appliance Stores	31,550	33,101	33,629	35,052	n/a
Home Furnishings and Appliance Stores	n/a	n/a	n/a	n/a	67,155
Bldg. Mat'l. & Garden Equip. & Supplies	116,705	116,658	117,906	129,537	141,507
Food and Beverage Stores	137,968	134,553	134,829	137,132	143,795
Health and Personal Care Stores	32,095	33,186	34,168	34,268	n/a
Gasoline Stations	505,278	530,931	551,141	538,392	443,752
Clothing & Clothing Accessories Stores	57,920	63,540	66,457	67,686	73,246
Sporting Goods, Hobby, Book & Music Stores	33,817	37,010	38,425	38,883	n/a
General Merchandise Stores	302,386	312,245	319,178	327,514	314,314
Miscellaneous Store Retailers	51,274	54,887	60,598	59,653	n/a
Nonstore Retailers	12,199	12,936	22,552	26,927	n/a
Other Retail Group	n/a	n/a	n/a	n/a	172,055
Food Services and Drinking Places	191,255	203,648	214,323	232,164	254,163
Total Retail and Food Services	\$1,684,878	\$1,778,567	\$1,870,789	\$1,913,822	\$1,907,627
All Other Outlets	689,812	733,749	802,208	851,081	1,057,097
Total All Outlets	\$2,374,690	\$2,512,316	\$2,672,998	\$2,764,904	\$2,964,724
Permits – All Outlets	3,605	3,734	3,725	3,658	4,064

⁽¹⁾ Detail may not compute to total due to rounding.

⁽²⁾ Categories for 2015 were reevaluated and modified.

Source: "Taxable Sales in California," California State Board of Equalization.

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Employment and Industry

The following table shows the average annual estimated numbers of wage and salary workers by industry for the County of Merced. Figures do not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

TABLE B-4
MERCED COUNTY
Civilian Labor Force, Employment and Unemployment
(Annual Averages)

TITLE	2012	2013	2014	2015	2016
Civilian Labor Force ⁽¹⁾	115,100	115,000	115,200	115,100	115,000
Civilian Employment	96,300	98,300	100,500	102,000	103,000
Civilian Unemployment	18,800	16,600	14,800	13,100	12,100
Civilian Unemployment Rate	16.4%	14.5%	12.8%	11.4%	10.5%
Total, All Industries ⁽²⁾	71,300	74,000	76,300	77,500	79,200
Total Farm	12,500	13,600	13,800	14,100	14,000
Total Nonfarm	58,800	60,400	62,400	63,400	65,200
Total Private	42,400	43,800	45,400	45,700	46,700
Goods Producing	10,000	10,300	11,800	11,800	11,500
Mining, Logging, and Construction	1,600	1,600	1,700	1,900	2,200
Manufacturing	8,400	8,700	10,000	9,900	9,400
Nondurable Goods	7,400	7,500	8,700	8,600	8,000
Service Providing	48,800	50,100	50,600	51,500	53,600
Private Service Producing	32,300	33,500	33,600	33,900	35,100
Trade, Transportation & Utilities	12,100	12,100	12,000	12,100	12,600
Wholesale Trade	2,200	2,100	1,900	1,700	2,000
Retail Trade	7,400	7,600	7,800	8,000	8,100
Transportation, Warehousing & Utilities	2,400	2,500	2,300	2,300	2,500
Information	400	400	400	300	300
Financial Activities	1,600	1,500	1,500	1,600	1,800
Professional & Business Services	4,300	4,300	3,900	3,700	3,700
Educational & Health Services	7,900	8,800	9,000	9,400	9,800
Leisure & Hospitality	4,700	5,000	5,400	5,400	5,600
Other Services	1,400	1,400	1,400	1,400	1,400
Government	16,400	16,600	17,100	17,700	18,500
Federal Government	700	700	800	800	800
State & Local Government	15,700	15,900	16,300	16,900	17,700
State Government	2,700	2,900	3,100	3,200	3,500
Local Government	13,000	12,900	13,200	13,700	13,600
Special Districts plus Indian Tribes	700	600	600	600	600

⁽¹⁾ Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

⁽²⁾ Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

Source: State of California Employment Development Department.

The following Table B-5 sets forth information regarding the size of the labor force, employment and unemployment rates for the City, the County, the State and the United States for calendar years 2012 through 2016 and for August 2017.

TABLE B-5
LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND
UNEMPLOYMENT OF CITY OF MERCED CIVILIAN LABOR FORCE⁽¹⁾
Calendar Years 2012 through 2016, and August 2017⁽²⁾
(Not Seasonally Adjusted)

	<i>Calendar Year</i>					
	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>August 2017⁽²⁾</i>
Civilian Labor Force						
City of Merced						
Employed	29,300	29,900	30,600	31,000	34,700	34,700
Unemployed	5,400	4,700	4,200	3,700	3,400	3,000
Unemployment Rates						
City	15.5%	13.7%	12.1%	10.7%	9.9%	8.5%
County	16.4	14.5	12.8	11.4	10.5	9.1
California	10.4	8.9	7.5	6.2	5.4	5.4
United States ⁽³⁾	8.1	7.4	6.2	5.3	4.9	4.5

⁽¹⁾ City, County and State 2012-2013 data based on March 2014 Benchmark Report, 2014-2017 data based on March 2016 Benchmark Report.

⁽²⁾ Preliminary, subject to change.

⁽³⁾ The United States unemployment rates for calendar years 2012-2016 and August 2017 were generated as of February 8, 2017 and September 1, 2017, respectively.

Source: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

Major Employers

The following table lists the largest employers within the County as of June 30, 2016.

TABLE B-6
MERCED COUNTY
Top Ten Major Employers

<u>Rank</u>	<u>Employer</u>	<u>Number of Employees</u>	<u>Product/Service</u>
1	Foster Farms Inc.	3,214	Poultry processing
2	UC Merced	1,997	University
3	County of Merced	1,956	Government
4	Mercy Medical	1,337	General Medical and Surgical Hospital
5	Dole Packaged Foods	1,235	Food Products
6	Merced City School District	1,127	Education
7	Merced Union High School District	1,060	Education
8	Merced College	883	Community College
9	Liberty Packing Company	650	Food Processing
10	Quad Graphic Merced	420	Printing

Source: County of Merced, Comprehensive Annual Financial Report, June 30, 2016.

Personal Income

The following Table B-7 sets forth the per capita personal income in the County, the State and the United States for calendar years 2011 through 2015. Figures for 2016 are not yet available.

TABLE B-7
COUNTY OF MERCED, STATE OF CALIFORNIA AND UNITED STATES
PER CAPITA PERSONAL INCOME⁽¹⁾
Calendar Years 2011 through 2015

<i>Calendar Year</i>	<i>County of Merced</i>	<i>State of California</i>	<i>United States</i>
2011	\$30,261	\$44,852	\$42,453
2012	30,793	47,614	44,266
2013	32,858	48,471	44,462
2014	34,567	50,988	46,414
2015	36,185	53,741	48,112

(1) Amounts for County and State may not be comparable based on different source methodology.

Source: U.S. Bureau of Economic Analysis.

Transportation and Community Services

Situated on Highway 99, Merced County offers transportation access routes throughout California and the Western United States. Many communities in the County offer small airports for corporate service. Air service is available locally at Merced Regional Airport, and south at Fresno Yosemite International Airport. Boutique Air serves the Merced regional Airport with daily commercial flights to and from Oakland and Los Angeles. San Francisco International Airport, Oakland International Airport, San Jose International Airport and Sacramento International Airport are each within 2½ hours driving time away.

Union-Southern Pacific and Burlington Northern-Santa Fe Railroads are the San Joaquin Valley Rail companies that serve Merced County with extensive spur track, piggyback service, reciprocal switching, and refrigerated shipping. Amtrak provides passenger service from a station in the City. The City of Merced is part of Phase 1 of the State's High-Speed Rail project that is currently underway. The High Speed Rail Authority and the City are working together to develop a station area plan serving downtown Merced, UC Merced, Merced County and the upper Central Valley. The high-speed rail station in Merced will be located adjacent to State Route 99 and the Union Pacific Rail Road line on Martin Luther King Jr. Way/ Highway 59 and the State Route 99 interchange. The City has a planning grant to study the impacts of the rail on the Downtown area.

In April 2017, the San Joaquin Regional Rail Commission (SJRRC), which operates the Altamont Corridor Express (ACE Train) currently running from Stockton to San Jose, was notified it will be receiving \$400 million of the Transportation Funding Measure (SB 1) to help make improvements to its system including long-term improvements to expand ACE service to Modesto and Merced, including new track, stations, and trains. When completed the ACE train will link City residents to the Bay Area and jobs in between, along with the Stanford Medical Center, BART connections and three major airports. State transportation funds in the amount of \$100 million will assist in the development of the Campus Parkway Interchange, connecting UC Merced to Highway 99. It will give North and Central Merced residents a direct route to the freeway, eliminating crosstown traffic. The Parkway will open up new commercial opportunities and new possibilities for technology centers and business parks.

In May 1995, Merced was selected as the home of the next University of California campus. On September 5, 2005, the main campus opened for the first 1,000 students for the fall 2005 semester. As of Fall 2017, the University had almost 2,000 faculty and staff employees, and an enrollment of 7,967 undergraduates and graduate students. It is expected that the enrollment will increase by 10,000 students in the next seven to

ten years. On November 19, 2015, the University of California, Merced, received preliminary approval from two committees of the UC Board of Regents for its proposal to double the physical capacity of the campus by 2020. On June 15, 2016, UC Merced approved a contractor for the new facilities which will be built within a 219-acre site that currently supports the existing campus. First phase of the construction is well underway and includes 700 new student beds, a 600-seat multipurpose dining facility, new classrooms and 940 new parking spaces to be completed by fall 2018. The second phase includes a new wet-laboratory, computational laboratory buildings with faculty offices, and an outdoor competition field scheduled to be completed by fall 2019, with the remainder of construction to be completed in 2020 including a new wet-lab building with faculty offices and classrooms, 980 new beds in student housing, 630 new parking spaces, a conference center, a dedicated transit hub for buses, a new wellness center, an enrollment center, expansion of the existing Early Childhood Education Center, a swimming pool, three tennis courts and four basketball courts. It is expected that the enrollment will reach 25,000 by the year 2030.

The City's Parks and Community Service Department operates 29 parks within the City. Merced has over 12 miles of class one, grade-separated bike paths, that along with the City's other bike lanes, connect most of Merced's open space park system.

The City provides a broad range of services, including construction and maintenance of highways, streets and infrastructure, planning and zoning activities, public transit, recreational activities and cultural events for all ages. There are authorized two police stations within the City with 87 policemen and officers. Five fire stations are located within the City with 60 firemen and officers.

Pacific Gas & Electric Company (PG&E) and Merced Irrigation District provide electricity and gas service throughout the region. Water and sewer service is supplied to the area by the individual cities within the County. Within the City of Merced, public schools include 12 elementary, 4 middle and 3 high schools, and private schools include 4 K-8 and 3 high schools. Merced Community College, Chapman University a shared campus for California State University Stanislaus and the University of California, Merced, are located in or near the City. There is one general hospital in Merced, Mercy Hospital, located on two campuses.

APPENDIX C

SUMMARY OF THE FISCAL AGENT AGREEMENT

The following is a summary of certain definitions and provisions of the Fiscal Agent Agreement (the “Agreement”) which are not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Agreement for a full and complete statement of their provisions.

APPENDIX D
APPRAISAL REPORT

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENTS

APPENDIX F
FORM OF OPINION OF BOND COUNSEL

APPENDIX G

BOOK ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Reference made to www.dtcc.com is presented as a link for additional information regarding DTC and is not a part of this Official Statement.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal of such issue.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Paying Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Paying Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Paying Agent's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, physical Bonds are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.