

## PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER \_\_\_\_, 2019

## NEW ISSUE - BOOK-ENTRY ONLY

## NOT RATED

*In the opinion of Norton Rose Fulbright US LLP, Los Angeles, California, Bond Counsel, under existing statutes, regulations, rulings and court decisions, and assuming compliance with the tax covenants described herein, interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes. Bond Counsel is further of the opinion that interest on the Bonds 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.*

**\$3,860,000\***

**COMMUNITY FACILITIES DISTRICT NO. 2006-1  
(MORAGA OF MERCED)  
OF THE CITY OF MERCED  
2019 SPECIAL TAX REFUNDING BONDS  
(Bank Qualified)**

**Dated: Date of Delivery****Due: September 1, as shown on the inside cover page**

The Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, 2019 Special Tax Refunding Bonds (the "Bonds") are being issued and delivered by Community Facilities District No. 2006-1 (Moraga of Merced) 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, 2019, 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. 2006-1 (Moraga of Merced) of the City of Merced 2006 Special Tax Bonds (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, 2020. 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 the District, which was approved by the City Council of the City of Merced (the "City") and the qualified electors within the District. See "SECURITY AND 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.

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**MATURITY SCHEDULE**

(See Inside Cover Page)

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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

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\* Preliminary, subject to change.

Attorney, and for the Underwriter by its counsel, Kutak Rock 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 \_\_, 2019.

**[UNDERWRITER LOGO]**

Dated: December \_\_, 2019

**Community Facilities District No. 2006-1  
(Moraga of Merced)  
of the City of Merced  
2019 Special Tax Refunding Bonds  
(Bank Qualified)**

**MATURITY SCHEDULE**

| <i>Maturity Date<br/>(September 1)</i> | <i>Principal Amount</i> | <i>Interest Rate</i> | <i>Yield</i> | <i>CUSIP<sup>†</sup></i> |
|--|-------------------------|----------------------|--------------|--------------------------|
|--|-------------------------|----------------------|--------------|--------------------------|

\$\_\_\_\_\_ % Term Bonds Due September 1, 20\_\_, Price \_\_\_\_\_% CUSIP No. \_\_\_\_\_

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<sup>†</sup> CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein are provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of the American Bankers Association. CUSIP numbers have been assigned by an independent company not affiliated with the City, the District, the Underwriter, or the Municipal Advisor and are included solely for the convenience of the holders of the Bonds. None of the City, the District, the Underwriter or the Municipal Advisor is responsible for the selection or use of these CUSIP numbers and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

**CITY OF MERCED**

**CITY COUNCIL**

**as the legislative body of the  
Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced**

Mike Murphy, *Mayor*  
Fernando Echevarria, *Council Member*  
Jill McLeod, *Council Member*  
Delray Shelton, *Council Member*

Anthony Levi Martinez, *Mayor Pro Tem*  
Kevin Blake, *Council Member*  
Matthew Serratto, *Council Member*

**CITY STAFF**

Steven S. Carrigan, City Manager  
Stephanie Dietz, Assistant City Manager  
Phaedra Norton, City Attorney  
Steven S. Carrigan, City Clerk  
Venus Rodriguez, 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**

Integra Realty Resources  
San Francisco, 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 overallocate 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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**\$3,860,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1**  
**(MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**2019 SPECIAL TAX REFUNDING BONDS**  
**(Bank Qualified)**

**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 THE 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. 2006-1 (Moraga of Merced) of the City of Merced (the “District”) of the \$3,860,000\* Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced, 2019 Special Tax Refunding Bonds (the “Bonds”).

The proceeds of the Bonds will be used primarily for the purpose of refunding the outstanding Community Facilities District No. 2006-1 (Moraga of Merced) of the City of Merced 2006 Special Tax Bonds (the “Prior Bonds”), originally issued in the aggregate principal amount of \$5,840,000 and are now outstanding in the principal amount of \$3,905,000. 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 87,110 as of January 1, 2019. It maintains a council-manager form of government with the Mayor elected at-large for a two year term. Commencing with the November 2016 general election, the City went from at-large based elections for its six Council Members to district-based elections for four-year terms.

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 2019 enrollment of 9,230, 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 REGARDING THE CITY OF MERCED” for a more complete description of the City and the surrounding region.

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

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\* Preliminary, subject to change.

## **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 July 3, 2006, the City formed the District. On July 3, 2006 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 within the District. Moraga of Merced, a master-planned development within the City, makes up the boundaries of the District.

The District is comprised of approximately 117 acres and is located in the northeastern section of the City, south of Yosemite Avenue, east of Whitewater Way, north of Freestone Way and west of Lake Road in an area with a mix of existing housing and agricultural use land. The development is planned to include a total of 520 residential dwelling units surrounding a community park consisting of 7.16 acres. Unit 1 is planned for 287 homes. Unit 2 consists of approximately 44 acres and is planned for the remaining 233 homes. The original developer of the project completed initial site development and completed and sold 38 homes before the project stalled due to declining market conditions in mid to late 2000s. Within Unit 1, 249 finished lots were sold on September 1, 2017 to Lennar Homes of California, Inc. (“Lennar”) from Moraga LP. The 249 lots, with all onsite and offsite improvements in place, comprise the three product lines being developed by Lennar. On December 4, 2018, Lennar purchased the remaining parcel with the 233 unimproved lots in Unit 2 from CBCP Assets, LLC. All property within the District currently has a final map in place.

There are 288 taxable parcels within the District. As of September 5, 2019, 276 of the taxable parcels are designated as “Developed,” consisting of 160 completed single-family residences owned by individual homeowners and 116 improved (or finished) single-family lots owned by Lennar in various stages of development (the “Developed Property”), all within Unit 1. Lennar also owns 11 improved or finished lots with no vertical construction or permit within Unit 1, along with the parcel of 233 unimproved lots within Unit 2, all of which is currently designated as “Undeveloped” (the “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 secured by a lien and charge upon the Special Taxes levied within the District. The Bonds are issued pursuant to a Fiscal Agent Agreement, dated as of December 1, 2019 (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 “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “SPECIAL 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 \$\_\_\_\_\_.

***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 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 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, (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, 2019 the net assessed value of the property within the District subject to the levy of the Special Tax in Fiscal Year 2019-20 was a little over \$37 million, resulting in an estimated assessed value-to-lien ratio of 9.6\* to 1 for the property subject to the Special Tax levy in Fiscal Year 2019-20 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 the District. See “COMMUNITY FACILITIES DISTRICT - Direct and Overlapping Debt, and -Estimated Value-to-Lien Ratios” herein.

An appraisal, dated October 25, 2019 (the “Appraisal”), of all property within the District, excluding 80 completed homes owned by individual homeowners with assessed value of both land and improvements (the “Appraised Property”), was prepared by Integra Realty Resources, San Francisco, California (the “Appraiser”) in connection with issuance of the Bonds. The purpose of the Appraisal was to ascertain the “as is” not-less-than market value of the fee simple estate for the Appraised Property, all as of the October 1, 2019 date of value<sup>1</sup>.

Subject to the assumptions and limitations contained in the Appraisal, the Appraiser estimated that the market value of the Appraised Property subject to the lien of the Special Taxes, has an estimated aggregate “as

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\* Preliminary, subject to change.

<sup>1</sup> Appraisal utilized the status of the development as of July 1, 2019 County tax rolls.

is” not-less-than market value of \$36,440,000 as of October 1, 2019 date of value. The appraised value of the Appraised Property have a combined value-to-lien ratio of 12.1\* to 1 based on the appraised values and its applicable share of the principal amount of the Bonds.

The assessed value for fiscal year 2019-20 for the 80 completed homes owned by individual homeowners is \$24,482,897.

The combined value (assessed value for the 80 completed homes owned by individual landowners and appraised value for all other remaining property) of just under \$61 million, results in an estimated combined value-to-lien ratio of 15.78\* 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.

The 276 parcels of Developed Property within the District have a combined assessed/appraised value of \$52,730,931, resulting in a combined value to lien ratio of approximately 19\* to 1. The 12 parcels of Undeveloped Property covering 233 unfinished lots and 11 finished lots without building permits, has a value-to-lien ratio of 7.55\* to 1 based on the appraised values and the principal amount of the Bonds.

There is no assurance that the Appraisal Property 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 the District. See “SPECIAL RISK FACTORS — Assessed or Appraised Valuations; Value-to-Lien Ratios” and APPENDIX D — “APPRAISAL REPORT” herein.

***Foreclosure Proceeds.*** The District will covenant, should the Special Taxes no longer be subject to the County’s Teeter Plan, 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 1, 2019, there was one parcel within the District delinquent in the amount of \$440 or 0.12% in the payment of Special Taxes for 2018-19, and one parcel delinquent in the amount of \$574 or 0.15% of the 2017-18 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 Table 10 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 the District which could adversely affect the willingness of the owners of the taxable parcels within 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, Kutak Rock LLP, Irvine, California. Other professional services have been performed by Goodwin Consulting Group, Inc., Sacramento, California, as Special Tax Consultant, and by Integra Realty Resources, San Francisco, 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). Lennar is responsible for over ten percent (10%) of the special tax levy for fiscal year 2019-20, and has agreed 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 Lennar.

### **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.

## 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 <sup>(1)</sup> |                 |
| <b>TOTAL SOURCES</b>       | <b>\$ _____</b> |

### Uses of Funds

|                                       |                 |
|---------------------------------------|-----------------|
| Escrow Fund                           | \$              |
| Reserve Fund                          |                 |
| Administrative Expense Fund           |                 |
| Bond Tax Fund                         |                 |
| Costs of Issuance Fund <sup>(2)</sup> |                 |
| Underwriter's Discount                | _____           |
| <b>TOTAL USES</b>                     | <b>\$ _____</b> |

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 be used along with other funds relating to the Prior Bonds and Special Taxes not yet transferred to the Prior Bonds Fiscal Agent 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, 2019, between the District and the Escrow Bank (the "Escrow Agreement"). The deposit into the Escrow Fund will be invested in certain prescribed securities authorized under the Prior Fiscal Agent Agreement 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, 2020.

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 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, 2020 (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, 2020, 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 \_\_\_, 2019, 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:

#### Redemption Dates

#### Redemption Prices

*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, 2020 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:



Redemption DatesRedemption Prices

*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><br><u>(September 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Year</u><br><u>(September 1)</u> | <u>Principal</u><br><u>Amount</u> |
|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|

\*maturity

## Term Bonds Maturing September 1, 20\_\_

| <u>Year</u><br><u>(September 1)</u> | <u>Principal</u><br><u>Amount</u> | <u>Year</u><br><u>(September 1)</u> | <u>Principal</u><br><u>Amount</u> |
|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|
|-------------------------------------|-----------------------------------|-------------------------------------|-----------------------------------|

\*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<br/>(September 1)</i> | <i>Principal</i>           | <i>Interest</i> | <i>Total</i> |
|--|----------------------------|-----------------|--------------|
| 2020                                   |                            |                 |              |
| 2021                                   |                            |                 |              |
| 2022                                   |                            |                 |              |
| 2023                                   |                            |                 |              |
| 2024                                   |                            |                 |              |
| 2025                                   |                            |                 |              |
| 2026                                   |                            |                 |              |
| 2027                                   |                            |                 |              |
| 2028                                   |                            |                 |              |
| 2029                                   |                            |                 |              |
| 2030                                   |                            |                 |              |
| 2031                                   |                            |                 |              |
| 2032                                   |                            |                 |              |
| 2033                                   |                            |                 |              |
| 2034                                   |                            |                 |              |
| 2035                                   |                            |                 |              |
| 2036                                   |                            |                 |              |
| <b>TOTAL</b>                           | <b><u>\$3,860,000*</u></b> |                 |              |

Source: Underwriter.

## 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 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 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).

\* Preliminary, subject to change.

“Special Tax Revenues” are defined in the Fiscal Agent Agreement to mean (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 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.

*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 apportionment of the Special Taxes for the District (the “Rate and Method”) was approved by the qualified electors of the District at the time of formation of the District (See “APPENDIX A - RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES” herein).

The Special Taxes are to be levied and collected according to the Rate and Method for the District.

The amount, if any, of the Special Tax to be levied annually for the District depends on, among other things, whether a given parcel is classified as Developed Property, Undeveloped Property, Excess Property Owner Association 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.

As of September 5, 2019, the Taxable Property within the District consists of 276 parcels designated as Developed Property under the Rate and Method of which 160 are completed single-family residences owned by individual homeowners and 116 are improved (or finished) single-family lots owned by Lennar, and 12 parcels (zoned for 244 residential lots) owned by Lennar 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 the District 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 the District, they do not constitute a personal indebtedness of the owner(s) of real property within 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 “SPECIAL 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—Ballot Initiatives.” 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 or no longer include the Special Taxes within the Teeter Plan.

The District levied \$375,278.18 of Special Taxes for the 2019-20 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 the District 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 THE FISCAL AGENT AGREEMENT” 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 \$\_\_\_\_\_.\*

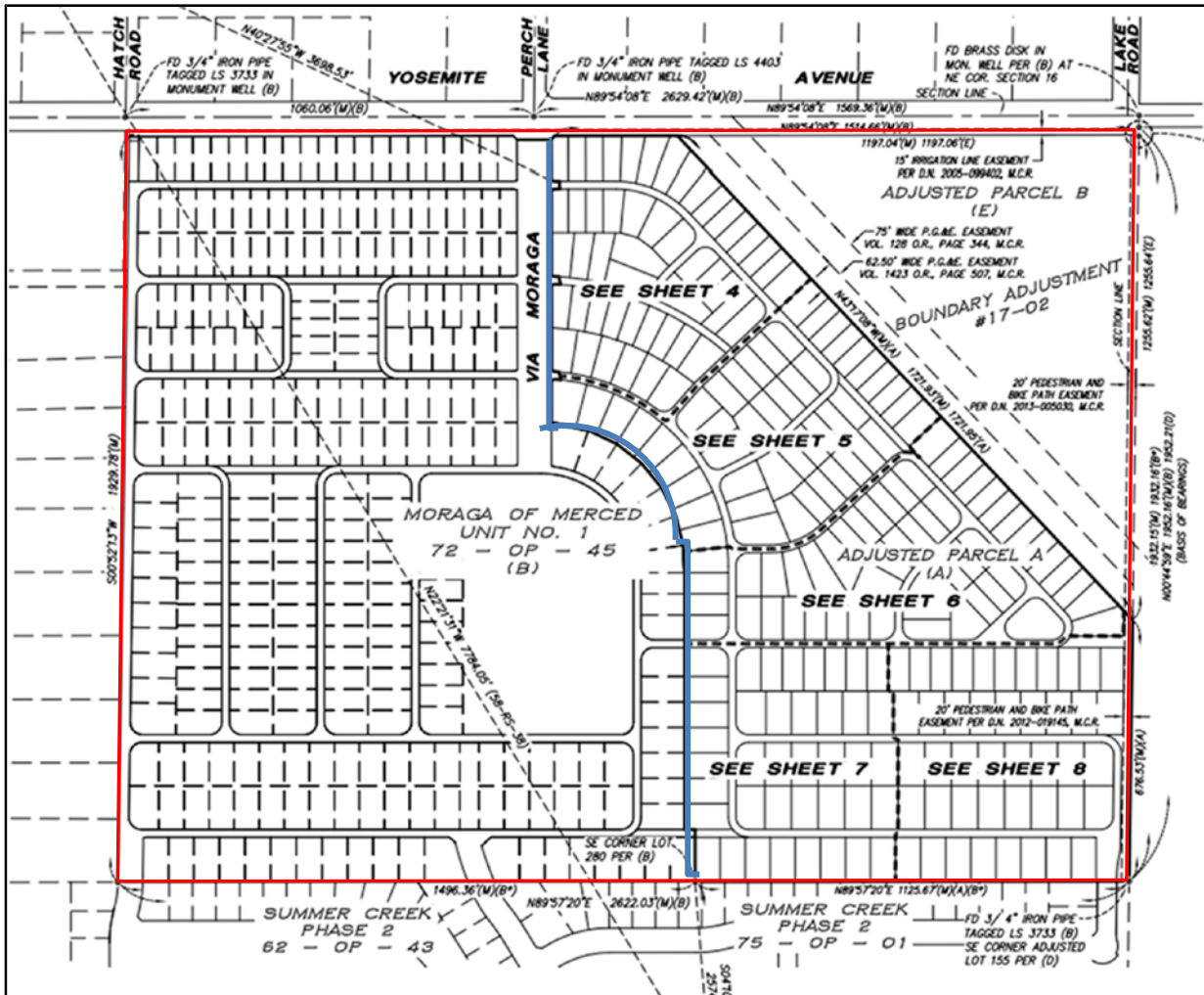
Subject to the limits on the maximum annual Special Tax which may be levied within the District, the District covenants to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Fund 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.

## MORAGA OF MERCED - UNITS 1 AND 2



\*Boundaries are approximate

Unit 1



Unit 2





# MORAGA OF MERCED

## UNIT 1





## **THE COMMUNITY FACILITIES DISTRICT**

### **History of the District**

On May 15, 2006, 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 July 3, 2006, the City Council adopted the Resolution of Formation, which established the District and set forth the Rate and Method for the District. On July 3, 2006 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 within the District.

The boundaries of the District coincide with the boundaries of the Moraga of Merced master-planned development, referred to herein as the Development. The District is comprised of approximately 117 acres zoned for residential development of which 7.16 acres will be parkland. The District has an overall rectangular shape and located in the northeastern section of the City, south of Yosemite Avenue, east of Whitewater Way, north of Freestone Way and west of Lake Road in an area with a mix of existing housing and agricultural use land. The topography of the District is generally level and at street level.

Proceeds of the Prior Bonds were used to acquire from the original developer certain capital improvements for the District, including Yosemite Avenue improvements, water improvements, sewer lift station and force main, storm drainage improvements and traffic signals.

For a detailed map of the District, including the Units 1 and 2 and the lots expected therein, and the Lennar product line distribution in Unit 1, see the maps on the previous pages.

### **The Development**

The District is planned to include a total of 520 residential dwelling units. Unit 1 is planned for 287 homes. Unit 2 consists of approximately 44 acres and is planned for the remaining 233 homes. The original developer of the project completed initial site development and completed and sold 38 homes before the project stalled due to declining market conditions in mid to late 2000s.

Within Unit 1, 249 finished lots were sold on September 1, 2017 to Lennar Homes of California, Inc. (“Lennar”) from Moraga LP. The 249 lots, with all onsite and offsite improvements in place, comprise the three product lines currently being developed by Lennar. At the time of the sale, the 249 lots had a final map in place and were finished with all offsite and onsite improvements in place. Since the date of the sale, Lennar has begun constructing homes and projects to have the final closings in October 2020.

On December 4, 2018, Lennar purchased the remaining parcel with 233 unimproved lots within Unit 2 from CBCP Assets, LLC. On October 21, 2019, the City approved a final subdivision map and subdivision agreement for the 233 lots. Installation of wet utilities is currently underway in Unit 2. Lennar estimates it will cost \$8,500,000 to get the lots to finished condition and anticipates the lots to be finished by December 2020, with final closings in 2022-23. Lennar anticipates utilizing the same product line for Unit 2 that is has for Unit 1.

All property within the District has final map approval. In January 2003, the City adopted a Mitigated Negative Declaration regarding Expanded Initial Study #02-27 subject to a certain Mitigation Measures and Monitoring Program agreed to by the Developer pursuant to a Developer Agreement dated as of January 13, 2003 (the “Environmental Review”). The Environmental Review 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 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. See “SPECIAL RISK FACTORS – Failure to Develop Undeveloped Property,” “ - Endangered and Threatened Species.”

The three neighborhoods currently being marketed by Lennar are Chateau, Skye and Summer Series. The typical lot size for the three product lines in Unit 1, Summer, Chateau and Skye, are 5,300, 6,215, and 7,345 square feet, respectively, and for the 233 lots in Unit 2 the average lot size is 6,667 sq. ft.

Lennar has 12 total floor plans across the three product lines for Unit 1 and which it intends to continue for Unit 2. For Unit 1, the Summer product line is expected to have its final closings in June 2020, Chateau product line in October 2020 and Skye product line in February 2020. All lots in Unit 2 are expected to be in finished lot condition by June 2020, with continuation of construction and sales of the three product lines. For Unit 2, final closings are anticipated in 2022-23. Each lot falls within Tax Zone A, B or C. See “Rate and Method of Apportionment of Special Tax” herein. Below are tables describing the three product lines and the number of lots within each special tax zone for Unit 1.

**TABLE 2**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**LENNAR FLOOR PLANS**

| <b>Product Line and Plan</b> | <b>Living Area (SF)</b> | <b>Stories</b> | <b>Bedrooms</b> | <b>Bathrooms</b> | <b>Garage Size</b> | <b>Base Price</b> |
|------------------------------|-------------------------|----------------|-----------------|------------------|--------------------|-------------------|
| <b>SUMMER</b>                |                         |                |                 |                  |                    |                   |
| Driftwood                    | 2,102                   | 2              | 4               | 3                | 2                  | \$299,000         |
| Sandpiper                    | 2,504                   | 2              | 5               | 3                | 2                  | \$329,000         |
| Beachcomber                  | 2,614                   | 2              | 6               | 3                | 2                  | \$341,000         |
| <b>CHATEAU</b>               |                         |                |                 |                  |                    |                   |
| Duchess                      | 1,787                   | 1              | 3               | 2                | 2                  | \$288,300         |
| Duke                         | 1,898                   | 1              | 3               | 2                | 2                  | \$298,800         |
| Countess                     | 2,280                   | 2              | 4               | 2.5              | 2                  | \$328,800         |
| Camelot                      | 2,798                   | 2              | 4               | 3.5              | 3                  | \$367,800         |
| Chevalier                    | 3,167                   | 2              | 5               | 4                | 2                  | \$381,000         |
| <b>SKYE</b>                  |                         |                |                 |                  |                    |                   |
| Sundance                     | 2,029                   | 1              | 3               | 2                | 2                  | \$320,800         |
| Moonlight                    | 2,269                   | 1              | 4               | 2                | 2                  | \$342,800         |
| Alpenglow                    | 2,376                   | 1              | 4               | 3                | 2                  | \$352,800         |
| Solstice                     | 2,570                   | 1              | 4               | 3                | 2                  | \$370,800         |

*Source: Appraisal.*

**TABLE 3**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**MAXIMUM SPECIAL TAX ZONE BY PRODUCT LINE**  
**(Unit 1 – 249 Lots)**

| Product Line | Tax Zone A | Tax Zone B | Tax Zone C | Total      |
|--------------|------------|------------|------------|------------|
| Summer       | 78         | --         | 2          | 80         |
| Chateau      | --         | 104        | 3          | 107        |
| Skye         | --         | --         | 62         | 62         |
| <b>TOTAL</b> | <b>78</b>  | <b>104</b> | <b>67</b>  | <b>249</b> |

*Source: Appraisal.*

As of September 5, 2019, there are 288 taxable parcels within the District. Of the taxable lots, 276 are designated as “Developed,” consisting of 160 completed single-family residences owned by individual homeowners (38 original and 122 sold by Lennar) and 116 improved (or finished) single-family lots owned by Lennar in various stages of development (the “Developed Property”). Lennar also owns 11 improved or finished lots with no vertical construction or permit within Unit 1, along with the parcel of 233 unimproved lots within Unit 2, all of which is currently designated as “Undeveloped” (the “Undeveloped Property”). The following table reflects the development status determined from the Appraisal utilizing information from the Merced County Assessor roll as of July 1, 2019.

**TABLE 4**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**SUMMARY OF DEVELOPMENT STATUS**  
**(As of July 1, 2019<sup>2</sup>)**

| Type of Property                       | Owner                             | Number of Lots    |
|--|-----------------------------------|-------------------|
| <b>DEVELOPED</b>                       |                                   |                   |
| Existing SF Homes Prior to Lennar      | Individual Homeowners             | 38                |
| Completed SF Homes                     | Individual Homeowners             | 42                |
| Completed SF Homes w/o AV <sup>2</sup> | Individual Homeowners             | <u>31</u>         |
|  | Subtotal                          | 111               |
| Completed SF Homes w/o AV <sup>2</sup> | Lennar Homes of Calif.            | 72                |
| SF Homes Under Construction            | Lennar Homes of Calif.            | 64                |
| Finished Lots with Permits             | Lennar Homes of Calif.            | <u>29</u>         |
|  | Subtotal                          | 165               |
|  | <b>Developed Property Total</b>   | <b>276</b>        |
| <b>UNDEVELOPED</b>                     |                                   |                   |
| Finished SF Lots                       | Lennar Homes of Calif.            | 11                |
| Partially improved (unfinished) lots   | Lennar Homes of Calif.            | <u>233</u>        |
|  | Subtotal                          | 244               |
|  | <b>Undeveloped Property Total</b> | <b><u>244</u></b> |
|  | <b>TOTAL</b>                      | <b>520</b>        |

(1) Appraisal determined development status from Merced County Assessor roll as of July 1, 2019. As of September 5, 2019, completed single family homes owned by individual owners have increased from 111 to 160 pursuant to the records of Merced County Assessor.

(2) Currently do not have assessments for structural improvements by the Merced County Assessor.

Source: Appraisal.

### The Developer

Based on the status of development as of September 5, 2019, approximately 58% of the projected fiscal year 2020-21 Special Taxes will be levied on property owned by Lennar.

Lennar Homes of California, Inc., a California corporation (previously defined as “Lennar”), is developing the property in the District (the “Development”). Lennar is based in Irvine, California, and has been in the business of developing residential real estate communities in California since 1995.

Lennar is wholly-owned by U.S. Home Corporation, a Delaware corporation (“U.S. Home”). U.S. Home is wholly-owned by Lennar Corporation.

Lennar Corporation, founded in 1954 and publicly traded under the symbol “LEN” since 1971, is one of the nation’s largest home builders, operating under a number of brand names, including Lennar and U.S. Home. Lennar primarily develops residential communities both within the Lennar Corporation family of builders and through consolidated and unconsolidated partnerships in which Lennar maintains an interest.

<sup>2</sup> As of September 5, 2019, the status of the development of the Appraised Property consists of 160 lots sold to individual homeowners, and 360 lots in various stages of development owned by Lennar.

Lennar Corporation is subject to the informational requirements of the Exchange Act and in accordance therewith files reports, proxy statements and other information with the SEC. Such filings, particularly the Annual Report on Form 10-K and its most recent Quarterly Report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Such files can also be accessed over the internet at the SEC's website at [www.sec.gov](http://www.sec.gov). This internet address is included for reference only and the information on the internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the internet site.

Copies of Lennar Corporation's Annual Report and related financial statements are available from Lennar Corporation's website at [www.lennar.com](http://www.lennar.com). *This internet address is included for reference only and the information on the Internet site is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on the internet site.*

### **Additional Charges and Taxes**

The original developer has formed the Moraga of Merced Home Owners Association ("Moraga HOA") in compliance with a condition of map approval for the Development. The principal purpose of the Moraga HOA is to ensure compliance with the Development covenants, conditions, and restrictions (CC&R's), manage the maintenance of all front yards and common area landscaping and manage parking restrictions throughout the Development. The monthly HOA assessment is \$70 and covers front yard landscaping, watering the front yard and maintenance of the park.

Developers within 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 the District are currently subject to special taxes levied annually for East Merced School Facilities Community Facilities District (the "School CFD") and City of Merced Community Facilities District No. 2003-2 (Services) (the "Services CFD"). Undeveloped properties are not subject to these special taxes. The special tax for the School CFD averages \$825, \$977 and \$1,167 per lot for Tax Zones A, B and C, respectively. The Services CFD is \$1,040.72 per single family residential unit for the District for the 2019-20 fiscal year. Both of these special taxes contains an annual escalator. See "- Direct and Overlapping Debt."

### **General Location and Amenities**

Moraga of Merced Master Planned Community is within the Merced City School District and Merced Union School District and served by two public elementary schools, Givens Elementary School and Cruickshank Middle School, as well as several private schools, including Merced Christian School. Students within the master planned community are currently within the attendance boundaries of the Golden Valley High School.

The Development is located in the eastern portion of the City, adjacent to new and recent home construction. The neighborhood is characterized as a growing suburban area. Immediately west and north of the subject is rural residential development that has been planned for low density residential development by the City in the long term.

The Merced Mall Shopping Center, located about 3.5 miles southwest of the Development, is anchored by tenants that include JC Penny, Kohl's and Big Lots, and includes over 70 stores, specialty shops, restaurants and a 7-screen theater. Additional retail development is mostly clustered along primary neighborhood thoroughfares and at major intersections. The Plaza at El Portal, a recently constructed office project, is located

southwest of the community. To the northwest is the site of the new race track as well as Castle Air Park and to the northeast is Lake Yosemite and the University of California at Merced campus, which opened in Fall 2005.

The primary downtown area of the City is located further south, between G Street and V Street, north of West 16th Street and south of West 19th Street. These areas are generally composed of more mature development utilized for a variety of retail and office uses. Notable users include the California Welcome Center at West 16th Street and M Street, and the Merced Civic Center at West 18th Street and N Street. 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 includes offices, seminar and conference rooms, and mixed-use space and can accommodate up to 370 people.

Industrial and office properties are primarily located south of downtown Merced, along State Highway 99. Another notable community use is Mercy Medical Center, which is located in north Merced on G Street. The first phase of this teaching hospital opened in 2007 and has capacity for 185 patients. Over a 20-year period, this facility is planned to expand to allow for 435 patients.

Merced College is northwest of the development. As of Fall 2019, the University had almost 2,000 faculty and staff employees, and an enrollment of 9,230 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 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 was completed in fall 2018 and includes 700 new student beds, a 600-seat multipurpose dining facility, new classrooms and 940 new parking spaces. The second phase was completed by fall 2019 and includes a new wet-laboratory, computational laboratory buildings with faculty offices, and an outdoor competition field. The remainder of construction is to be completed in 2020 and includes 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.

Revitalization of the City's Downtown area is continuing. A Dickie's BBQ restaurant and an 88-room Marriott TownPlace Suites were opened in 2017 and 2018, respectively. Additional recent new retail establishments within the City include a Five Guys Burgers, Cozy Fox, Quickly, Pizza Factory, Stanton Optical, Premiere Car Wash and Les Schwab Tires.

The El Capitan Hotel renovation and expansion into a boutique hotel is currently underway within the downtown area of the City. This will preserve the historic 33-room hotel and add another 77 rooms, plus a restaurant and meeting rooms. Two major retail projects are moving forward; the Merced Mall, adding 90,000 square feet of new retail, food and entertainment space, plus a theatre as a second level and the Merced Gateway Retail Center at Mission-Healy interchange. The Center proposes more than 600,000 square feet of retail commercial development, 178 apartments, and a fire station on 71 acres.

The historic Hotel Tioga is undergoing a major beautification project, which includes restoring the former hotel to its grand stature. Inside, a transformation is taking place and Hotel Tioga will become home to residents wanting to experience life in Merced's Central Business District. The 70-unit structure includes studio, one-bedroom, two-bedroom, and penthouse units. Project completion is scheduled for February 2020.

### **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 Property Owner Association Property, or Excess Public Property, and also Single Family Residential Property or Other 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 Assigned and Maximum Special Tax rates that can be levied each Fiscal Year are shown below.

**TABLE 5**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**

**DEVELOPED PROPERTY**  
**ASSIGNED SPECIAL TAX RATES**

| <i><b>Tax Zone</b></i> | <i><b>Type of Property</b></i>     | <i><b>Assigned Special Tax</b></i> |
|------------------------|------------------------------------|------------------------------------|
| A                      | Single Family Residential Property | \$734 per Unit                     |
|                        | Other Property                     | \$6,604 per Acre                   |
| B                      | Single Family Residential Property | \$880 per Unit                     |
|                        | Other Property                     | \$6,796 per Acre                   |
| C                      | Single Family Residential Property | \$1,148 per Unit                   |
|                        | Other Property                     | \$7,717 per Acre                   |

**DEVELOPED PROPERTY**  
**BACK UP SPECIAL TAX RATES**

| <i><b>Tax Zone</b></i> | <i><b>Type of Property</b></i>     | <i><b>Assigned Special Tax</b></i> |
|------------------------|------------------------------------|------------------------------------|
| A                      | Single Family Residential Property | \$863 per Unit                     |
|                        | Other Property                     | \$6,604 per Acre                   |
| B                      | Single Family Residential Property | \$1,035 per Unit                   |
|                        | Other Property                     | \$6,796 per Acre                   |
| C                      | Single Family Residential Property | \$1,351 per Unit                   |
|                        | Other Property                     | \$7,717 per Acre                   |

**UNDEVELOPED PROPERTY**  
**MAXIMUM SPECIAL TAX RATES**

| <i><b>Tax Zone</b></i> | <i><b>Type of Property</b></i> | <i><b>Maximum Special Tax</b></i> |
|------------------------|--------------------------------|-----------------------------------|
| A                      | Undeveloped Property           | \$6,604 per Acre                  |
| B                      | Undeveloped Property           | \$6,796 per Acre                  |
| C                      | Undeveloped Property           | \$7,717 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 after applying the first two steps, the Special Tax levied on 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. Lastly, the Special Tax shall be levied on each assessor parcel of Excess Public Property and Excess Property Owner Association 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 District. Parcels within the District are part of both a recorded final map and tentative maps. Final and tentative 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 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.

The Annual Special Tax Levy in Fiscal Year 2019-20 totals \$375,278.18 calculated at 100% of the Assigned Special Tax Rates for Developed Property (status determined as of May 1, 2019) and 51.3% of the Maximum Special Tax Rates for Undeveloped Property. \$13,263 of this amount was budgeted to pay Administrative Expenses.



**TABLE 6**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**SPECIAL TAX LEVY SUMMARY FOR 2019-20**

| <b>Type of Property</b>                            | <b>Units/<br/>Acres</b> | <b>Maximum/<br/>Assigned<br/>Special Tax<sup>(1)</sup></b> | <b>FY 2019-20<br/>Actual Special<br/>Tax</b> | <b>FY 2019-20<br/>Special Tax<br/>Levied</b> | <b>% of<br/>Special<br/>Tax Levied</b> |
|--|-------------------------|--|--|--|--|
| <b>TAX A ZONE</b>                                  |                         |  |  |  |  |
| Single Family Residential                          | 53 units                | \$734 per unit   | \$734 per unit                               | \$ 38,902.00                                 | 10.37%                                 |
| Other Property                                     | 0.00 acres              | \$6,604 per acre   | \$6,604 per acre                             | 0.00   | 0.00                                   |
| Undeveloped Property                               | 23.93 acres             | \$6,604 per acre   | \$3,389 per acre                             | 81,092.34                                    | 21.61                                  |
| Tax A Zone Subtotal                                |                         |  |  | <b>\$119,994.34</b>                          | <b>31.97%</b>                          |
| <b>TAX B ZONE</b>                                  |                         |  |  |  |  |
| Single Family Residential                          | 87 units                | \$880 per unit   | \$880 per unit                               | \$ 76,560.00                                 | 20.40%                                 |
| Other Property                                     | 0.00 acres              | \$6,796 per acre   | \$6,796 per acre                             | 0.00   | 0.00                                   |
| Undeveloped Property                               | 14.05 acres             | \$6,796 per acre   | \$3,488 per acre                             | 48,995.92                                    | 13.06                                  |
| Tax B Zone Subtotal                                |                         |  |  | <b>\$125,555.92</b>                          | <b>33.46%</b>                          |
| <b>TAX C ZONE</b>                                  |                         |  |  |  |  |
| Single Family Residential                          | 61 units                | \$1,148 per unit   | \$1,148 per unit                             | \$ 70,028.00                                 | 18.66%                                 |
| Other Property                                     | 0.00 acres              | \$7,717 per acre   | \$7,717 per acre                             | 0.00   | 0.00                                   |
| Undeveloped Property                               | 15.07 acres             | \$7,717 per acre   | \$3,960 per acre                             | 59,699.92                                    | 15.91                                  |
| Tax C Zone Subtotal                                |                         |  |  | <b>\$129,727.92</b>                          | <b>34.57%</b>                          |
| <b>Total Fiscal Year 2019-20 Special Tax Levy:</b> |                         |  |  | <b>\$375,278.18</b>                          | <b>100.00%</b>                         |
| <b>Single Family Residential Units:</b>            |                         |  |  | <b>201</b>                                   |  |
| <b>Single Family Residential Levy:</b>             |                         |  |  | <b>\$185,490.00</b>                          | <b>49.43%</b>                          |
| <b>Undeveloped Property Acres:</b>                 |                         |  |  | <b>53.05</b>                                 |  |
| <b>Undeveloped Property Levy:</b>                  |                         |  |  | <b>\$189,788.18</b>                          | <b>50.57%</b>                          |

(1) For Single Family Residential and Other Property, the Assigned Special Tax is shown. For Undeveloped Property, the Maximum Special Tax is shown. Does not include potential revenues from the Backup Special Tax that may be levied on Single Family Residential and Other Property.

Source: Goodwin Consulting Group, Inc.

The following table projects the Special Tax levy for Fiscal Year 2020-21 based on the current development identified as of October 1, 2019, and assuming the Bonds are issued to defease the Prior Bonds. The projected Annual Special Tax Levy in Fiscal Year 2020-21 totals \$347,800 calculated at 100% of the Assigned Special Tax Rates for Developed Property and 32.98% of the Maximum Special Tax Rates for Undeveloped Property. \$22,000 of this amount was budgeted to pay Administrative Expenses.

**TABLE 7**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**PROJECTED SPECIAL TAX LEVY SUMMARY FOR 2020-21**

| <b>Type of Property</b>                            | <b>Units/<br/>Acres</b> | <b>Maximum/<br/>Assigned<br/>Special Tax<sup>(1)</sup></b> | <b>FY 2020-21<br/>Actual Special<br/>Tax</b> | <b>FY 2020-21<br/>Special Tax<br/>Levied</b> | <b>% of<br/>Special<br/>Tax Levied</b> |
|--|-------------------------|--|--|--|--|
| <b>TAX A ZONE</b>                                  |                         |  |  |  |  |
| Single Family Residential                          | 83 units                | \$734 per unit   | \$734 per unit                               | \$ 60,922.00                                 | 17.52%                                 |
| Other Property                                     | 0.00 acres              | \$6,604 per acre   | \$6,604 per acre                             | 0.00   | 0.00                                   |
| Undeveloped Property                               | 20.30 acres             | \$6,604 per acre   | \$2,178 per acre                             | 44,207.36                                    | 12.71                                  |
| Tax A Zone Subtotal                                |                         |  |  | <b>\$105,129.36</b>                          | <b>30.23%</b>                          |
| <b>TAX B ZONE</b>                                  |                         |  |  |  |  |
| Single Family Residential                          | 121 units               | \$880 per unit   | \$880 per unit                               | \$106,480.00                                 | 30.62%                                 |
| Other Property                                     | 0.00 acres              | \$6,796 per acre   | \$6,796 per acre                             | 0.00   | 0.00                                   |
| Undeveloped Property                               | 8.96 acres              | \$6,796 per acre   | \$2,241 per acre                             | 20,091.60                                    | 5.78                                   |
| Tax B Zone Subtotal                                |                         |  |  | <b>\$126,571.60</b>                          | <b>36.39%</b>                          |
| <b>TAX C ZONE</b>                                  |                         |  |  |  |  |
| Single Family Residential                          | 72 units                | \$1,148 per unit   | \$1,148 per unit                             | \$ 82,656.00                                 | 23.77%                                 |
| Other Property                                     | 0.00 acres              | \$7,717 per acre   | \$7,717 per acre                             | 0.00   | 0.00                                   |
| Undeveloped Property                               | 13.14 acres             | \$7,717 per acre   | \$2,545 per acre                             | 33,443.04                                    | 9.62                                   |
| Tax C Zone Subtotal                                |                         |  |  | <b>\$116,099.04</b>                          | <b>33.38%</b>                          |
| <b>Total Fiscal Year 2019-20 Special Tax Levy:</b> |                         |  |  | <b>\$347,800.00</b>                          | <b>100.00%</b>                         |
| <b>Single Family Residential Units:</b>            |                         |  |  | <b>276</b>                                   |  |
| <b>Single Family Residential Levy:</b>             |                         |  |  | <b>\$250,058.00</b>                          | <b>71.90%</b>                          |
| <b>Undeveloped Property Acres:</b>                 |                         |  |  | <b>42.41</b>                                 |  |
| <b>Undeveloped Property Levy:</b>                  |                         |  |  | <b>\$ 97,742.00</b>                          | <b>28.10%</b>                          |

(1) For Single Family Residential and Other Property, the Assigned Special Tax is shown. For Undeveloped Property, the Maximum Special Tax is shown. Does not include potential revenues from the Backup Special Tax that may be levied on Single Family Residential and Other Property.

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 2019-20 totals \$361,424 calculated at 100% of the Assigned Special Tax Rates for Developed Property and 51.32% of the Maximum Special Tax Rates for Undeveloped Property. \$13,263 of this amount was budgeted to pay Administrative Expenses.

For Fiscal Year 2019-20, following the issuance of the Bonds, the Special Tax capacity based on Maximum (and Assigned without backup) Special Tax Rates for taxable property within the District is calculated to be \$465,312.

Based on the land use classifications made under the Rate and Method for fiscal year 2019-20, 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 (\$22,000 in each year) would be at least 110% of the debt service due in each Bond Year commencing after September 1, 2020. 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 the District.

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**TABLE 8**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**ESTIMATED DEBT SERVICE COVERAGE**

| <b>Bond Year<br/>Ending<br/>Sept. 1</b> | <b>Maximum/<br/>Assigned<br/>Special Tax<br/>Revenues<sup>(1)</sup></b> | <b>Estimated<br/>Annual<br/>Levy<sup>(2)</sup></b> | <b>Estimated<br/>Annual<br/>Administrative<br/>Expenses</b> | <b>Estimated<br/>Debt Service*</b> | <b>Estimated<br/>Unused<br/>Annual<br/>Levy*</b> | <b>Estimated<br/>Annual Levy<br/>Debt Service<br/>Coverage<sup>(3)*</sup></b> | <b>Estimated<br/>Unused Max./<br/>Assigned<br/>Special Tax*</b> | <b>Estimated Max.<br/>/Assign. Sp. Tax<br/>Debt Service<br/>Coverage<sup>(3)*</sup></b> |
|---|---|--|---|------------------------------------|--|---|---|---|
| 2020                                    | \$555,290.92  | \$375,278.18                                       | \$13,263.00   | \$361,424.44                       | \$590.74   | 100.16%   | \$180,603.48  | 149.97%   |
| 2021                                    | 465,312.00  | 347,800.00   | 22,000.00   | 325,800.00                         | 0.00   | 100.00  | 117,512.00  | 136.07  |
| 2022                                    | 465,312.00  | 347,400.00   | 22,000.00   | 325,400.00                         | 0.00   | 100.00  | 117,912.00  | 136.24  |
| 2023                                    | 465,312.00  | 351,850.00   | 22,000.00   | 329,850.00                         | 0.00   | 100.00  | 113,462.00  | 134.40  |
| 2024                                    | 465,312.00  | 349,050.00   | 22,000.00   | 327,050.00                         | 0.00   | 100.00  | 116,262.00  | 135.55  |
| 2025                                    | 465,312.00  | 346,050.00   | 22,000.00   | 324,050.00                         | 0.00   | 100.00  | 119,262.00  | 136.80  |
| 2026                                    | 465,312.00  | 347,850.00   | 22,000.00   | 325,850.00                         | 0.00   | 100.00  | 117,462.00  | 136.05  |
| 2027                                    | 465,312.00  | 322,100.00   | 22,000.00   | 300,100.00                         | 0.00   | 100.00  | 143,212.00  | 147.72  |
| 2028                                    | 465,312.00  | 322,100.00   | 22,000.00   | 300,100.00                         | 0.00   | 100.00  | 143,212.00  | 147.72  |
| 2029                                    | 465,312.00  | 316,600.00   | 22,000.00   | 294,600.00                         | 0.00   | 100.00  | 148,712.00  | 150.48  |
| 2030                                    | 465,312.00  | 320,850.00   | 22,000.00   | 298,850.00                         | 0.00   | 100.00  | 144,462.00  | 148.34  |
| 2031                                    | 465,312.00  | 319,350.00   | 22,000.00   | 297,350.00                         | 0.00   | 100.00  | 145,962.00  | 149.09  |
| 2032                                    | 465,312.00  | 314,750.00   | 22,000.00   | 292,750.00                         | 0.00   | 100.00  | 150,562.00  | 151.43  |
| 2033                                    | 465,312.00  | 314,950.00   | 22,000.00   | 292,950.00                         | 0.00   | 100.00  | 150,362.00  | 151.33  |
| 2034                                    | 465,312.00  | 319,750.00   | 22,000.00   | 297,750.00                         | 0.00   | 100.00  | 145,562.00  | 148.89  |
| 2035                                    | 465,312.00  | 318,950.00   | 22,000.00   | 296,950.00                         | 0.00   | 100.00  | 146,362.00  | 149.29  |
| 2036                                    | 465,312.00  | 315,550.00   | 22,000.00   | 293,550.00                         | 0.00   | 100.00  | 149,762.00  | 151.02  |

(1) For Fiscal Year 2019-20, the amount is based on the actual status of development as of May 1, 2019. Developed Property is projected to be levied at 100% of the Assigned Special Tax and Undeveloped at 51.32% of the Maximum Special Tax for Fiscal Year 2019-20. For all future fiscal years, the amount is based on the Assigned Special Tax revenues that are expected to be generated once all anticipated units in the CFD are considered Developed Property. Subject to change as land use plans change. Assumes no levy of the Backup Special Tax.

(2) Equal to the sum of the estimated annual administrative expenses and the estimated debt service. Assumes no delinquencies in payment of the special tax.

(3) Assumes the estimated annual administrative expenses will be paid before the estimated debt service on the Series 2019 Bonds.

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 any 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 have been levied in that Fiscal Year had there never been any such delinquencies.

Sources: 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 the District, 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 Integra Realty Resources, San Francisco, California (the “Appraiser”) to ascertain the “as is” market value of the fee simple estate for all property within the District, except for 80 parcels owned by individual homeowners. The status of the Appraised Property was determined utilizing the Merced County Assessor roll as of July 1, 2019 and consists of (a) 31 lots of completed single family homes without assessed value for structural improvements owned by individual owners, designated as Developed Property (the “31 Lots”); and (b) 409 lots owned by Lennar, including 72 completed single family homes without assessed value for structural improvements, 64 single family homes under construction and 29 finished lots with pulled building permits, designated as Developed Property, as well as 11 finished unpermitted lots and 233 unfinished lots, designated as Undeveloped Property (“Lennar Lots”).<sup>3</sup>

The Appraiser estimated that, as of the October 1, 2019 value of the Appraisal<sup>4</sup>, the “as is” market value of the fee simple estate for the Appraised Property, was not-less-than \$36,440,000.

The Appraiser estimated that, as of the October 1, 2019 date of value of the Appraisal, the “as is” aggregate market value for the 31 Lots is \$9,150,000 based on the smallest floor plan offered in the District for each product line and the sales comparison approach. The Appraiser estimated that, as of the October 1, 2019 date of value of the Appraisal, the “as is” aggregate market value for the Lennar Lots is \$27,290,000 based on the smallest floor plan offered in the District for each product line and derived using the subdivision development method, a type of discounted cash flow analysis.

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”.

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<sup>3</sup> As of September 5, 2019, the status of the development of the Appraised Property consists of 160 lots sold to individual homeowners, and 360 lots in various stages of development owned by Lennar.

<sup>4</sup> The October 1, 2019 date of value utilized the status of the development from the Merced County Assessor roll as of July 1, 2019.

## **Assessed Valuation**

The January 1, 2019 assessed value of the parcels within the District for purposes of levying Special Taxes for the Fiscal Year 2019-20 was \$37,156,988. The District commissioned an appraisal to determine the market value of all Undeveloped Property, as well as all property without assessed value for structural improvements, including completed homes, homes under construction, and finished lots with pulled building permits. 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—Assessed or Appraised Valuation; Value-to-lien Ratios.” Assessed values do not necessarily represent market values.

## **Estimated Value-to-Lien Ratios\***

Table 9 sets forth the breakdown of ownership of the property within the District, their share of the projected fiscal year 2020-21 Annual Special Tax Levy, and their applicable assessed value and/or appraised values. See “Appraisal” above. Appraised values were allocated to the individual parcels for purposes of calculating the value-to-lien ratios. Allocated appraised values may not be representative of the values of the groupings or the individual lots.

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\* Preliminary, subject to change.

**TABLE 9**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**TAXPAYERS FOR FY 2020-21**

| Property Owner <sup>(1)</sup>                          | Use                      | Parcels <sup>(1)</sup> | Lots       | FY 2020-21<br>Special Tax<br>Levy <sup>(2)</sup> | % of<br>FY 2020-<br>21 Levy | Total<br>FY 2019-20<br>AV <sup>(3)</sup> | 10/01/19<br>Appraised<br>Value <sup>(4)(5)</sup> |
|--|--------------------------|------------------------|------------|--|-----------------------------|--|--|
| Individual Homeowners                                  | Single-Family            | 76                     | 76         | \$ 71,340  | 20.51%                      | \$22,906,827                             | --   |
| Individual Homeowners<br>(Appraised) <sup>(4)(6)</sup> | Single-Family            | 84                     | 84         | 75,144   | 21.61                       | --                                       | \$19,448,339                                     |
| Lennar Homes of Calif                                  | Residential Complete     | 4                      | 4          | 4,592  | 1.32                        | \$ 1,576,070                             | --   |
| Lennar Homes of Calif<br>(Appraised) <sup>(4)</sup>    | Residential<br>(Various) | 124                    | 356        | 196,724  | 56.56                       | --                                       | \$16,991,661                                     |
| <b>TOTAL</b>   |                          | <b>288</b>             | <b>520</b> | <b>\$347,800</b>                                 | <b>100.00%</b>              | <b>\$24,482,897</b>                      | <b>\$36,440,000</b>                              |

(1) Ownership information is as of September 5, 2019.

(2) Includes an estimated \$325,800 in debt service due on Bonds in 2021, plus an estimated \$22,000 in administrative expenses.

(3) Only shows the assessed value for parcels that were not appraised.

(4) As of the date of valuation of the Appraisal, 103 parcels were completed single-family homes that did not include the full assessed value for structural improvements which were in various stages of sale to individual homeowners. Vertical improvements (home construction) were in progress on 64 parcels, and 41 parcels were in a finished lot or partially-finished lot condition. The remaining one parcel has 233 unfinished lots. See the Appraisal for complete details.

(5) Appraised values were allocated to the individual parcels for purposes of calculating the value-to-lien ratios. Allocated appraised values may not be representative of the values of the groupings or the individual lots.

(6) Currently do not have assessments for structural improvements by the Merced County Assessor.

Source: Goodwin Consulting Group, Inc. and Appraisal.

Based on the status of development as of September 5, 2019, almost 72% of the projected fiscal year 2020-21 Special Taxes will be levied on Developed Property within the District. Approximately 28% of the projected fiscal year 2020-21 Special Taxes will be levied on Undeveloped Property within the District.

Based on the status of development as of September 5, 2019, approximately 58% of the projected fiscal year 2020-21 Special Taxes will be levied on property owned by Lennar.

As of January 1, 2019 the net assessed value of the property within the District subject to the levy of the Special Tax in Fiscal Year 2019-20 was a little over \$37 million, resulting in an estimated assessed value to lien ratio of 9.6\* to 1 for the property subject to the Special Tax levy in Fiscal Year 2019-20 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 the District.

Subject to the assumptions and limitations contained in the Appraisal, the Appraiser estimated that the market value of the Appraised Property subject to the lien of the Special Taxes, has an estimated aggregate "as is" not-less-than market value of \$36,440,000 as of October 1, 2019 date of value. The appraised value of the Appraised Property have a combined value-to-lien ratio of 12.1\* to 1 based on the appraised values and its applicable share of the principal amount of the Bonds. The assessed value for fiscal year 2019-20 for the 80 completed homes owned by individual homeowners is \$24,482,897. The combined value (assessed value for 80

\* Preliminary, subject to change.

completed homes owned by individual homeowners and appraised not-less-than value for the Appraised Property in the District) of just under \$61 million, results in an estimated combined value to lien ratio of 15.78\* to 1 based on the principal amount of the Bonds. See “- Assessed Valuation” and “- Appraisal” above.

For Developed Property, the combined value of \$52.7 million results in an estimated combined value to lien ratio of 19\* to 1 based on the principal amount of the Bonds. For Undeveloped Property, the combined value of just under \$8.2 million results in an estimated combined value to lien ratio of 7.55\* to 1 based on 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. 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.”

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\* Preliminary, subject to change.



**TABLE 10**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**ESTIMATED VALUE-TO-LIEN RATIOS**

| <b>DEVELOPED PROPERTY<sup>(1)</sup></b> |                               |  |                                      |                             |                             |   |
|---|-------------------------------|--|--------------------------------------|-----------------------------|-----------------------------|---|
| <b>Value-to-Lien Range :1</b>           | <b>FY 20-21 Taxed Parcels</b> | <b>Assessed/ Appraised Value<sup>(2)</sup></b> | <b>FY 20-21 Levy %<sup>(3)</sup></b> | <b>FY 20-21 Levy Amount</b> | <b>Bonds<sup>(4)*</sup></b> | <b>Estimated Average Value To Lien*</b> |
| 3 to 5                                  | 15                            | \$ 823,846                                     | \$ 17,220                            | 4.95%                       | \$ 191,113                  | 4.31                                    |
| 5 to 10                                 | 78                            | 4,283,992                                      | 62,946                               | 18.10                       | 698,596                     | 6.13                                    |
| 10 to 15                                | 0                             | 0  | 0                                    | 0.00                        | 0                           | N/A                                     |
| 15 to 20                                | 55                            | 10,916,019                                     | 56,708                               | 16.30                       | 629,364                     | 17.34                                   |
| 20 to 25                                | 42                            | 9,730,741                                      | 37,086                               | 10.66                       | 411,593                     | 23.64                                   |
| 25 to 30                                | 39                            | 11,294,740                                     | 36,440                               | 10.48                       | 404,423                     | 27.93                                   |
| 30 to 60                                | 47                            | 15,681,593                                     | 39,658                               | 11.40                       | 440,138                     | 35.63                                   |
| <b>Total</b>                            | <b>276</b>                    | <b>\$52,730,931</b>                            | <b>\$250,058</b>                     | <b>71.90%</b>               | <b>\$2,775,227</b>          | <b>19.00</b>                            |

| <b>UNDEVELOPED PROPERTY<sup>(1)</sup></b> |                               |                                       |                                      |                             |                            |                                 |
|---|-------------------------------|---------------------------------------|--------------------------------------|-----------------------------|----------------------------|---------------------------------|
| <b>Owner</b>                              | <b>FY 20-21 Taxed Parcels</b> | <b>Appraised Value <sup>(2)</sup></b> | <b>FY 20-21 Levy %<sup>(3)</sup></b> | <b>FY 20-21 Levy Amount</b> | <b>Bonds<sup>(4)</sup></b> | <b>Estimated Value To Lien*</b> |
| Lennar Homes of California Inc.           | 12 <sup>(5)</sup>             | \$8,191,966                           | \$97,742                             | 28.10%                      | \$1,084,773                | 7.55                            |

| <b>COMBINED PROPERTY<sup>(1)</sup></b> |                               |   |                                      |                             |                             |                                 |
|--|-------------------------------|---|--------------------------------------|-----------------------------|-----------------------------|---------------------------------|
|  | <b>FY 20-21 Taxed Parcels</b> | <b>Assessed or Appraised Value <sup>(2)</sup></b> | <b>FY 20-21 Levy %<sup>(3)</sup></b> | <b>FY 20-21 Levy Amount</b> | <b>Bonds<sup>(4)*</sup></b> | <b>Estimated Value To Lien*</b> |
| Developed Property                     | 276                           | \$52,730,931                                      | \$250,058                            | 71.90%                      | \$2,775,227                 | 19.00                           |
| Undeveloped Prop.                      | 12 <sup>(5)</sup>             | 8,191,966   | 97,742                               | 28.10                       | 1,084,773                   | 7.55                            |
| <b>Total</b>                           | <b>288</b>                    | <b>\$60,922,897</b>                               | <b>\$347,800</b>                     | <b>100.00%</b>              | <b>\$3,860,000</b>          | <b>15.78</b>                    |

(1) Reflects building permits issued by the City prior to October 1, 2019 and assumes no further development.

(2) Includes the appraised value for properties that were appraised, and the FY 2019-20 Assessed Value for properties that were not appraised. See the Appraisal for complete details. Appraised values were allocated to the individual parcels for purposes of calculating the value-to-lien ratios. Allocated appraised values may not be representative of the values of the groupings or the individual lots.

(3) Includes an estimated \$325,000 in debt service due on the Bonds in 2021, plus an estimated \$22,000 in administrative expenses.

(4) Estimated par amount of the Bonds (\$3,860,000) has been allocated to the taxed parcels in proportion to their respective prospective Fiscal Year 2020-21 special tax obligation.

(5) Includes 11 finished lots on 11 parcels and 133 unfinished lots on one parcel.

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

\* Preliminary, subject to change.

## **Direct and Overlapping Debt**

Within the boundaries 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 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 the District.

The Developed Properties within the District are currently subject to special taxes levied annually for the School CFD and the Services CFD. The special tax for the School CFD averages \$825, \$977 and \$1,167 per lot for Tax Zones A, B and C, respectively. The Services CFD is \$1,040.72 per single family residential unit for the District for the 2019-20 fiscal year. Undeveloped properties are not subject to this special tax. Both of these special taxes contains an annual escalator.

The approximate amount of the direct and overlapping debt secured by such taxes and assessments on the parcels within the District for Fiscal Year 2019-20 is shown in Table 11 below.

**TABLE 11**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**DIRECT AND OVERLAPPING DEBT SUMMARY**

Source: California Municipal Statistics, Inc.

In addition to the bonded indebtedness set forth in Table 11, any general obligation bonds currently authorized but not issued within 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 the District. In addition to the Special Taxes, the property owners in 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 12 below sets forth an example of a typical property tax bill for a single family residential unit in 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 12. The tax rates and amounts presented herein are based on information for Fiscal Year 2019-20. The actual amounts charged may vary and may increase in future years.

**TABLE 12**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**SAMPLE PROPERTY TAX BILL FOR FISCAL YEAR 2019-20**

| <b>Net Taxable Value</b>                              | <b>Amount</b> |                   |
|---|---------------|-------------------|
| Land  | \$            | 65,000            |
| Improvements  |               | 198,300           |
| Total Land & Improvements                             |               | \$263,300         |
| Homeowner's Exemption                                 |               | (7,000)           |
| Net Taxable Value <sup>(1)</sup>                      |               | \$256,300         |
| <b>Ad Valorem Property Taxes</b>                      | <b>Rate</b>   | <b>Amount</b>     |
| Base Property Tax                                     | 1.0000%       | \$2,563.00        |
| Merced City School District Bond                      | 0.0629%       | 161.21            |
| Merced Union High School District                     | 0.0237%       | 60.74             |
| Merced College Mer Bonds                              | 0.0125%       | 2.04              |
| Total Ad Valorem Property Taxes                       | 1.0991%       | \$2,816.99        |
| <b>Parcel Charges, Assessments and Special Taxes:</b> | <b>Amount</b> |                   |
| Mosquito Abatement                                    | \$            | 10.00             |
| Merced City School GO Bond Sp Asmt                    |               | 0.18              |
| Merced UHSD GO Bond Sp Asmt                           |               | 0.10              |
| E Merced School Facilities CFD 2006                   |               | 1,027.64          |
| Merced CFD No. 2003-2                                 |               | 1,040.72          |
| Merced CFD No. 2006-1                                 |               | 880.00            |
| Parcel Charges, Assessments and Special Taxes         |               | \$2,958.64        |
| <b>Total Property Taxes</b>                           |               | <b>\$5,775.63</b> |
| <b>Total Effective Tax Rate</b>                       |               | <b>2.19%</b>      |

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

Sources: Merced County Tax Collector, as compiled by Goodwin Consulting Group, Inc.

## Delinquency History

Table 13 below summarizes the Special Tax delinquencies for property within the boundaries of the District. As of September 20, 2019, there was one parcel within the District delinquent in the amount of \$440 in the payment of Special Taxes for 2018-19 and one parcel delinquent in the amount of \$574 for the 2017-18 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. The District is not aware of any plans by the County to discontinue the Teeter Plan.

**TABLE 13**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**SPECIAL TAX DELINQUENCY HISTORY**

| Fiscal Year | Special Tax Levy | <u>At the end of each Fiscal Year</u> |                                     |              | <u>As of September 20, 2019</u> |                                     |              | Special Tax Levied and Collected |
|-------------|------------------|---------------------------------------|-------------------------------------|--------------|---------------------------------|-------------------------------------|--------------|----------------------------------|
|             |                  | # of<br>Parcels<br>Delinq.            | Amount<br>Delinquent <sup>(1)</sup> | %<br>Delinq. | # of<br>Parcels<br>Delinq.      | Amount<br>Delinquent <sup>(1)</sup> | %<br>Delinq. |                                  |
| 2010-11     | \$393,968        | 3                                     | \$195,627                           | 49.66%       | 0                               | \$0                                 | 0.00%        | \$393,968                        |
| 2011-12     | 395,469          | 5                                     | 197,170                             | 49.86        | 0                               | 0                                   | 0.00         | 395,469                          |
| 2012-13     | 594,278          | 3                                     | 304,097                             | 51.17        | 0                               | 0                                   | 0.00         | 594,278                          |
| 2013-14     | 464,403          | 1                                     | 574                                 | 0.12         | 0                               | 0                                   | 0.00         | 464,403                          |
| 2014-15     | 375,829          | 0                                     | 0                                   | 0.00         | 0                               | 0                                   | 0.00         | 375,829                          |
| 2015-16     | 373,010          | 0                                     | 0                                   | 0.00         | 0                               | 0                                   | 0.00         | 373,010                          |
| 2016-17     | 377,099          | 1                                     | 241                                 | 0.06         | 0                               | 0                                   | 0.00         | 377,099                          |
| 2017-18     | 375,766          | 1                                     | 574                                 | 0.15         | 1                               | 574                                 | 0.15         | 375,192                          |
| 2018-19     | 352,936          | 1                                     | 440                                 | 0.12         | 1                               | 440                                 | 0.12         | 352,496                          |

(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.

Sources: Merced County Tax Collector's Office as compiled by Goodwin Consulting Group, Inc.

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## Historical Assessed Valuation

Table 14 below sets forth the net assessed value and the annual change in net assessed value for taxable property within the District for Fiscal Years 2015-16 through 2019-20.

**TABLE 14**  
**COMMUNITY FACILITIES DISTRICT NO. 2006-1 (MORAGA OF MERCED)**  
**OF THE CITY OF MERCED**  
**HISTORICAL ASSESSED VALUE**

|                          | 2015-16      | 2016-17      | 2017-18      | 2018-19      | 2019-20      |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| AV of all Land           | \$ 2,947,457 | \$ 2,997,671 | \$ 3,028,170 | \$ 8,707,080 | \$11,943,995 |
| AV of all Improvements   | 8,646,832    | 8,880,853    | 9,187,495    | 9,317,235    | 24,856,163   |
| Other AV                 | 0            | 0            | 0            | 0            | 356,830      |
| Total AV of all Parcels  | \$11,594,289 | \$11,878,524 | \$12,215,665 | \$18,024,315 | \$37,156,988 |
| AV of Developed Property | \$ 9,588,052 | \$ 9,841,759 | \$10,138,215 | \$10,374,416 | \$32,350,828 |
| AV of Undev. Property    | 2,006,237    | 2,036,765    | 2,077,450    | 7,649,899    | 4,806,160    |
| Total AV of all Parcels  | \$11,594,289 | \$11,878,524 | \$12,215,665 | \$18,024,315 | \$37,156,988 |

(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 the District 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," 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 the District (no building permits were issued within the District from 2012 to \_\_\_\_\_ 2017) the total building permit valuations and the number of new residential construction permits issued for Calendar Years 2014 through 2018 and through September 30, 2019.

**TABLE 15**  
**CITY OF MERCED**  
**RESIDENTIAL BUILDING PERMIT VALUATION**  
**Calendar Years 2014 through 2019<sup>(3)</sup>**  
**(unaudited)**

| Calendar Year       | <u>Moraga of Merced</u>       |                                      | <u>Remaining Within City</u>  |                                      | Total Dwelling Units | Total Permit Assessed Value Estimate <sup>(2)</sup> |
|---------------------|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|----------------------|---|
|                     | Dwelling Units <sup>(1)</sup> | Permit Assessed Value <sup>(2)</sup> | Dwelling Units <sup>(1)</sup> | Permit Assessed Value <sup>(2)</sup> |                      |   |
| 2014                | -                             | -                                    | 36                            | \$5,801,596                          | 36                   | \$ 5,801,596  |
| 2015                | -                             | -                                    | 85                            | 17,006,515                           | 85                   | 17,006,515  |
| 2016                | -                             | -                                    | 171                           | 26,867,901                           | 171                  | 26,867,901  |
| 2017                | -                             | -                                    | 162                           | 18,557,074                           | 162                  | 18,557,074  |
| 2018                | 127                           | \$29,254,200                         | 481                           | 76,795,444                           | 608                  | 106,049,644   |
| 2019 <sup>(3)</sup> | 111                           | 26,169,700                           | 389                           | 82,077,588                           | 500                  | 108,247,288   |

(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, 2019.

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 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 “— No Ratings 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 – Failure to Develop Undeveloped Property" 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 “SECURITY AND 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.

According to the Federal Emergency Management Agency (FEMA) National Flood Insurance Program, Flood Insurance Rate Map (FIRM), a majority of the subject is located within Zone X (areas outside of the 2% annual chance flood plain) and the southeast corner is located within Zone X - Shaded (areas of 0.2% annual chance flood; areas of 1% annual chance flood with average depths of less than one foot or with drainage areas less than one square mile; and areas protected by levees from 1% annual chance flood).

### **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 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 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 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 October 1, 2019 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 the District were determined by the assessed values of such parcels as of January 1, 2019. 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**

For Fiscal Year 2020-21 and based only on the status of development as of September 5, 2019, Lennar is projected to be responsible for almost 58% of the annual special tax levy and individual homeowners are projected to be responsible for 42% of the annual special tax levy. If any 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 28% of the lien of the Special Tax is spread on Undeveloped Property based on the current status of development. As of September 5, 2019, Lennar owns 11 improved or finished lots with no vertical construction or permits, along with 233 unimproved lots all of which are currently designated as “Undeveloped.” Lennar estimates it will cost \$8,500,000 to get the lots to finished condition and anticipates the lots to be finished by December 2020, with final closings in 2022-23. Lennar anticipates utilizing the same product line for Unit 2 that it has for Unit 1. The cost of additional improvements plus any further public and private in-tract, on-site and off-site improvements could increase the private debt secured by the Undeveloped Property within the District. See APPENDIX D – “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 Property**

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 the District 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 – “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 Property within the District has been final mapped and contains 11 finished lots with offsite infrastructure in place (streets, curbs, gutters, street lighting, etc.) within Unit 1 and 233 unfinished lots within Unit 2. However, development of certain portions of the land within the District is 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 2006 and 38 homes were built and sold, until Lennar purchased 249 lots in September 2017.

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 Debt.”

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 the District. In addition, the landowners within 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 the District as described herein.**

**The properties within the District are currently subject to special taxes levied annually for the School CFD and the Services CFD. The special tax for the School CFD averages \$825, \$977 and \$1,167 per lot for Tax Zones A, B and C, respectively. The Services CFD is \$1,040.72 per single family residential unit for the District for the 2019-20 fiscal year. Both of these special taxes contains an annual escalators. See “COMMUNITY FACILITIES DISTRICT - 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 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 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 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 XIII C and XIII D 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 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, 2020. Lennar has covenanted for the benefit of owners of the Bonds to provide certain financial and project information relating to the District, not later than each March 31 and September 30, commencing March 31, 2020, 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 eight bond issues.

In conjunction with the delivery of the Bonds, the City engaged the services of Applied Best Practices LLC (“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 City or other related entities:

- The City issued Water System Refunding Revenue Bonds, 2012 Series (the “Water Bonds”) and Wastewater System Refunding Revenue Bonds, 2012 Series (the “Wastewater Bonds”) in June 2012. The undertaking for the Wastewater Bonds erroneously referenced information for the Water System. The City has instead provided material annual information on the Wastewater System. The City is in compliance with its undertaking for the Water Bonds. The City’s undertaking for its Fahrens Park Reassessment District No. 2012 Limited Obligation Improvement Bonds, Series 2012, issued in 2012, erroneously included a reference to water supply. The material information regarding the City’s change in water supply has been filed under the Water Bonds. The City did not file in a timely manner notice of late annual financial information
- The City was 42 days late and 87 days late, respectively, in filing its audited financial statements (AFS) for fiscal years 2016-17 and 2017-18, respectively, regarding its obligation for the California Statewide Communities Development Authority Taxable Pension Obligation Bonds 2004 Series A-1, and the City failed to file its AFS for fiscal year 2017-18 regarding its

obligation for the California Statewide Communities Development Authority Taxable Pension Obligation Bonds 2004 Series A-2.

- The City was 9 days late and 50 days late, respectively, in filing its AFS for fiscal years 2016-17 and 2017-18, respectively for the Prior Bonds, \$8,985,000 Community Facilities District No. 2003-1 (Bellevue Ranch East) of the City of Merced 2016 Special Tax Refunding Bonds, and \$6,330,000 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).

The City recently undertook a review of its policies and has adopted a formal continuing disclosure policy that will help assure compliance with existing and future continuing disclosure undertakings (including those for related entities) through creation of a disclosure practices working group including a City staff disclosure coordinator. The City believes that its procedures with the Dissemination Agent will be sufficient in the normal due course to assure substantial compliance with its continuing disclosure undertakings in the future, including the Continuing Disclosure Agreement with respect to the Bonds. [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 exclusion of interest on the Bonds from personal income taxation by the State of California or from gross income 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 changes 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 \$3,860,000 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.

## **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 18<sup>th</sup> 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. 2006-1 (Moraga of Merced) 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 2019:

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

| <u>Year</u><br><u>(January 1)</u> | <u>City of</u><br><u>Merced</u> | <u>Merced</u><br><u>County</u> | <u>State of</u><br><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                           |
| 2018                              | 85,921                          | 279,424                        | 39,740,508                           |
| 2019                              | 87,110                          | 282,928                        | 39,927,315                           |

*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 2017 in the City were reported to be \$1,088,384,000 compared to total taxable sales of \$\_\_\_\_\_ reported during the calendar year 2016. 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 2018.

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

|   | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Retail and Food Services                |             |             |             |             |             |
| Motor Vehicle and Parts Dealers         | \$191,217   | \$191,858   | \$ 217,485  |             | \$ 258,140  |
| Home Furnishings and Appliance Stores   | 27,677      | 29,733      | 35,399      |             | 38,452      |
| Bldg. Mat'l. & Garden Equip. & Supplies | 62,731      | 69,180      | 75,222      |             | 86,890      |
| Food and Beverage Stores                | 42,969      | 47,543      | 48,905      |             | 57,493      |
| Gasoline Stations                       | 99,882      | 92,520      | 76,559      |             | 72,041      |
| Clothing & Clothing Accessories Stores  | 40,435      | 40,247      | 41,745      |             | 41,794      |
| General Merchandise Stores              | 186,226     | 189,211     | 164,949     |             | 92,287      |
| Food Services and Drinking Places       | 100,236     | 109,214     | 117,632     |             | 130,701     |
| Other Retail Group                      | 66,358      | 66,459      | 66,611      |             | 66,610      |
| Total Retail and Food Services          | \$817,733   | \$835,964   | \$ 844,506  |             | \$ 924,359  |
| All Other Outlets                       | 155,559     | 158,532     | 155,905     |             | 164,026     |
| Total All Outlets <sup>(1)</sup>        | \$973,291   | \$994,496   | \$1,000,441 |             | \$1,088,384 |

<sup>(1)</sup> Detail may not compute to total due to rounding.

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

The El Capitan Hotel renovation and expansion into a boutique hotel is currently underway. This will preserve the historic 33-room hotel and add another 77 rooms, plus a restaurant and meeting rooms. Two major retail projects are moving forward; the Merced Mall, adding 90,000 square feet of new retail, food and entertainment space, plus a theatre as a second level and the Merced Gateway Retail Center at Mission-Healy interchange. The Center proposes more than 600,000 square feet of retail commercial development, 178 apartments, and a fire station on 71 acres.

The historic Hotel Tioga is undergoing a major beautification project, which includes restoring the former hotel to its grand stature. Inside, a transformation is taking place and Hotel Tioga will become home to residents wanting to experience life in Merced's Central Business District. The 70-unit structure includes studio, one-bedroom, two-bedroom, and penthouse units. Project completion is scheduled for February 2020.

Revitalization of the City's Downtown area is continuing. A Dickie's BBQ restaurant and an 88-room Marriott TownPlace Suites opened in 2017 and 2018, respectively. Additional recent new retail establishments within the City include a Five Guys Burgers, Cozy Fox, Quickly, Pizza Factory, Stanton Optical, Premiere Car Wash and Les Schwab Tires.

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 2017 in the County were reported to be \$2,940,773,000 compared to total taxable sales reported during the calendar year 2016 of \$2,806,327,000. Annual figures are not yet available for 2018.

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

|  | <u>2013</u> | <u>2014</u> | <u>2015<sup>(2)</sup></u> | <u>2016</u> | <u>2017</u> |
|--|-------------|-------------|---------------------------|-------------|-------------|
| Retail and Food Services                   |             |             |                           |             |             |
| Motor Vehicle and Parts Dealers            | \$ 258,784  | \$ 265,935  | \$ 297,640                | \$ 330,986  | \$ 354,970  |
| Furniture and Home Furnishing Stores       | 18,798      | 20,682      | n/a                       | n/a         | n/a         |
| Electronics and Appliance Stores           | 33,629      | 35,052      | n/a                       | n/a         | n/a         |
| Home Furnishings and Appliance Stores      | n/a         | n/a         | 67,155                    | 75,200      | 72,341      |
| Bldg. Mat'l. & Garden Equip. & Supplies    | 117,906     | 129,537     | 141,507                   | 147,418     | 157,530     |
| Food and Beverage Stores                   | 134,829     | 137,132     | 143,795                   | 145,019     | 146,054     |
| Health and Personal Care Stores            | 34,168      | 34,268      | n/a                       | n/a         | n/a         |
| Gasoline Stations                          | 551,141     | 538,392     | 443,752                   | 419,968     | 478,272     |
| Clothing & Clothing Accessories Stores     | 66,457      | 67,686      | 73,246                    | 77,663      | 77,261      |
| Sporting Goods, Hobby, Book & Music Stores | 38,425      | 38,883      | n/a                       | n/a         | n/a         |
| General Merchandise Stores                 | 319,178     | 327,514     | 314,314                   | 341,069     | 326,928     |
| Miscellaneous Store Retailers              | 60,598      | 59,653      | n/a                       | n/a         | n/a         |
| Nonstore Retailers                         | 22,552      | 26,927      | n/a                       | n/a         | n/a         |
| Other Retail Group                         | n/a         | n/a         | 172,055                   | 178,961     | 188,959     |
| Food Services and Drinking Places          | 214,323     | 232,164     | 254,163                   | 274,136     | 290,024     |
| Total Retail and Food Services             | \$1,870,789 | \$1,913,822 | \$1,907,627               | \$1,990,420 | \$2,092,340 |
| All Other Outlets                          | 802,208     | 851,081     | 1,057,097                 | 815,907     | 848,433     |
| Total All Outlets                          | \$2,672,998 | \$2,764,904 | \$2,964,724               | \$2,806,327 | \$2,940,773 |

<sup>(1)</sup> Detail may not compute to total due to rounding.

<sup>(2)</sup> Categories for 2015 were reevaluated and modified.

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

*[Remainder of Page Intentionally Left Blank]*

## 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)**

| <b>TITLE</b>                            | <b><u>2014</u></b> | <b><u>2015</u></b> | <b><u>2016</u></b> | <b><u>2017</u></b> | <b><u>2018</u></b> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Civilian Labor Force <sup>(1)</sup>     | 114,300            | 114,100            | 114,400            | 115,400            | 115,400            |
| Civilian Employment                     | 99,700             | 101,200            | 102,300            | 104,600            | 105,800            |
| Civilian Unemployment                   | 14,700             | 13,000             | 12,100             | 10,800             | 9,600              |
| Civilian Unemployment Rate              | 12.8%              | 11.4%              | 10.6%              | 9.4%               | 8.3%               |
| Total, All Industries <sup>(2)</sup>    | 75,800             | 77,500             | 79,100             | 81,400             | 82,500             |
| Total Farm                              | 13,700             | 14,100             | 14,000             | 14,100             | 14,100             |
| Total Nonfarm                           | 62,000             | 63,400             | 65,000             | 67,200             | 68,400             |
| Total Private                           | 45,000             | 45,800             | 46,600             | 48,600             | 49,500             |
| Goods Producing                         | 11,400             | 11,600             | 11,500             | 11,900             | 12,100             |
| Mining, Logging, and Construction       | 1,700              | 1,900              | 2,200              | 2,400              | 2,500              |
| Manufacturing                           | 9,700              | 9,700              | 9,300              | 9,600              | 9,600              |
| Nondurable Goods                        | 8,300              | 8,400              | 7,900              | 8,200              | 8,100              |
| Service Providing                       | 50,700             | 51,800             | 53,600             | 55,300             | 56,300             |
| Private Service Producing               | 33,600             | 34,100             | 35,100             | 36,700             | 37,400             |
| Trade, Transportation & Utilities       | 12,000             | 12,200             | 12,600             | 13,200             | 13,500             |
| Wholesale Trade                         | 1,400              | 1,400              | 1,600              | 1,700              | 1,700              |
| Retail Trade                            | 7,800              | 8,000              | 8,100              | 8,300              | 8,400              |
| Transportation, Warehousing & Utilities | 2,800              | 2,800              | 2,900              | 3,200              | 3,500              |
| Information                             | 400                | 300                | 300                | 300                | 300                |
| Financial Activities                    | 1,600              | 1,600              | 1,800              | 1,800              | 1,800              |
| Professional & Business Services        | 3,800              | 3,800              | 3,700              | 4,100              | 4,300              |
| Educational & Health Services           | 9,100              | 9,400              | 9,800              | 10,200             | 10,300             |
| Leisure & Hospitality                   | 5,400              | 5,400              | 5,500              | 5,600              | 5,800              |
| Other Services                          | 1,300              | 1,400              | 1,400              | 1,400              | 1,500              |
| Government                              | 17,100             | 17,700             | 18,500             | 18,600             | 18,900             |
| Federal Government                      | 800                | 800                | 800                | 800                | 700                |
| State & Local Government                | 16,300             | 16,900             | 17,700             | 17,800             | 18,100             |
| State Government                        | 3,100              | 3,200              | 3,500              | 3,600              | 3,600              |
| Local Government                        | 2,500              | 2,600              | 2,900              | 3,000              | 3,000              |
| Special Districts plus Indian Tribes    | 600                | 600                | 600                | 600                | 600                |

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

<sup>(2)</sup> 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 2014 through 2018 and for August 2019.

**TABLE B-5**  
**LABOR FORCE – ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF CITY OF MERCED CIVILIAN LABOR FORCE<sup>(1)</sup>**  
**Calendar Years 2014 through 2018, and August 2019<sup>(2)</sup>**  
(Not Seasonally Adjusted)

|                              | <i>Calendar Year</i> |             |             |             |             |                                  |
|------------------------------|----------------------|-------------|-------------|-------------|-------------|----------------------------------|
|                              | <i>2014</i>          | <i>2015</i> | <i>2016</i> | <i>2017</i> | <i>2018</i> | <i>August 2019<sup>(2)</sup></i> |
| <b>Civilian Labor Force</b>  |                      |             |             |             |             |                                  |
| City of Merced               |                      |             |             |             |             |                                  |
| Employed                     | 30,200               | 30,700      | 31,100      | 31,500      | 31,900      | 32,600                           |
| Unemployed                   | 4,200                | 3,700       | 2,900       | 2,600       | 2,300       | 2,400                            |
| <b>Unemployment Rates</b>    |                      |             |             |             |             |                                  |
| City                         | 12.1%                | 10.7%       | 8.5%        | 7.6%        | 6.7%        | 6.7%                             |
| County                       | 12.8                 | 11.4        | 10.6        | 9.4         | 8.3         | 7.2                              |
| California                   | 7.5                  | 6.2         | 5.5         | 4.8         | 4.2         | 4.2                              |
| United States <sup>(3)</sup> | 6.2                  | 5.3         | 4.9         | 4.5         | 3.9         | 3.7                              |

<sup>(1)</sup> City, County and State 2014-2018 data based on March 2018 Benchmark Report.

<sup>(2)</sup> Preliminary, subject to change.

<sup>(3)</sup> The United States unemployment rates for calendar years 2014-2018 and August 2018 were generated as of February 28, 2019 and September 1, 2019, 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, 2018.

**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.                 | 3,138                      | Poultry processing                    |
| 2           | UC Merced                         | 2,380                      | University                            |
| 3           | County of Merced                  | 2,109                      | Government                            |
| 4           | Merced City School District       | 1,367                      | Education                             |
| 5           | Mercy Medical Center              | 1,340                      | General Medical and Surgical Hospital |
| 6           | Dole Packaged Foods, LLC          | 1,275                      | Food Products                         |
| 7           | Merced County Office of Education | 1,261                      | Government                            |
| 8           | Merced Union High School District | 1,071                      | Education                             |
| 9           | Merced College                    | 830                        | Community College                     |
| 10          | Liberty Packing Company           | 650                        | Food Processing                       |

Source: County of Merced, Comprehensive Annual Financial Report, June 30, 2018.

## 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 2014 through 2018.

**TABLE B-7**  
**COUNTY OF MERCED, STATE OF CALIFORNIA AND UNITED STATES**  
**PER CAPITA PERSONAL INCOME<sup>(1)</sup>**  
**Calendar Years 2014 through 2018**

| <u>Calendar Year</u> | <u>County of Merced</u> | <u>State of California</u> | <u>United States</u> |
|----------------------|-------------------------|----------------------------|----------------------|
| 2014                 | 34,567                  | 50,988                     | 46,414               |
| 2015                 | 36,226                  | 55,679                     | 48,940               |
| 2016                 | 36,868                  | 57,497                     | 49,831               |
| 2017                 | 38,716                  | 59,796                     | 51,640               |
| 2018                 |                         |                            |                      |

(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 Sacramento 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 (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. 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 2019, the University had almost 2,000 faculty and staff employees, and an enrollment of 9,230 undergraduates and graduate students. It is expected that the enrollment will increase by 10,000 students in the next seven to ten years. In fall of 2016, the University broke ground on a major expansion project which will add approximately 1.2 million square feet of teaching, research, residential and student-support facilities by 2020. The first three buildings of the expansion project, a 600-seat dining facility and two residential halls, opened in August 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 98 policemen and officers. Five fire stations are located within the City with 63 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](http://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](http://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.