

## PRELIMINARY OFFICIAL STATEMENT DATED JULY \_\_, 2020

NEW ISSUE—BOOK-ENTRY-ONLY

NO RATING

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, subject to certain qualifications described in this Official Statement, under existing statutes, regulations, rules and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, such interest is exempt from State of California personal income taxes. See "TAX MATTERS" herein.*

\$20,465,000\*

**COMMUNITY FACILITIES DISTRICT NO. 2017-1  
OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)  
(IMPROVEMENT AREA NO. 2)  
SERIES A OF 2020 SPECIAL TAX BONDS**

**Dated: Delivery Date****Due: August 15, as shown on the inside cover page**

This Official Statement describes bonds that are being issued by Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (the "District") with respect to Improvement Area No. 2 therein ("Improvement Area No. 2"). The Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (Improvement Area No. 2) Series A of 2020 Special Tax Bonds (the "Bonds") are being issued by the District to (a) fund capitalized interest on a portion of the Bonds through February 15, 2022; (b) pay the cost and expense of acquisition and construction of certain public facilities required in connection with the development of the District; (c) fund a reserve account securing the Bonds; (d) pay costs of issuance of the Bonds; and (e) make an initial deposit to the Administrative Expense Account.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California), and pursuant to Resolution No. 20-\_\_ adopted by the Board of Supervisors of the County of Orange (the "County"), acting as the legislative body of the District and a Bond Indenture, dated as of August 1, 2020 (the "Indenture"), by and between the District and U.S. Bank National Association, as trustee (the "Trustee").

**The Bonds are limited obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined herein) to be levied on and collected from the owners of parcels within Improvement Area No. 2 subject to the Special Taxes and from certain other funds pledged under the Indenture, all as further described herein. The Special Taxes are to be levied according to the rate and method of apportionment approved by the Board of Supervisors of the County and the qualified electors within Improvement Area No. 2. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes." The Board of Supervisors of the County is the legislative body of the District.**

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 of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be 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 February 15 and August 15, commencing February 15, 2021. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants who will remit such payments to the beneficial owners of the Bonds. See "THE BONDS — General Provisions" and APPENDIX H — "BOOK-ENTRY ONLY SYSTEM" herein.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY OF ORANGE, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES TO BE LEVIED IN IMPROVEMENT AREA NO. 2 OF THE DISTRICT AND CERTAIN OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

The Bonds are subject to optional redemption, extraordinary redemption from prepaid Special Taxes, and mandatory sinking fund redemption prior to maturity as set forth herein. See "THE BONDS — Redemption" herein.

**THE BONDS ARE NOT RATED BY ANY RATING AGENCY, AND INVESTMENT IN THE BONDS INVOLVES SIGNIFICANT RISKS THAT ARE NOT APPROPRIATE FOR CERTAIN INVESTORS. CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY 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 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.

MATURITY SCHEDULE  
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California is serving as Disclosure Counsel to the District with respect to the Bonds. Certain legal matters will be passed on for the County and the District by the Office of the County Counsel, and for the Underwriter by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriter. It is anticipated that the Bonds in book-entry form will be available for delivery through the facilities of DTC on or about August \_\_, 2020.

[STIFEL LOGO]

Dated: August \_\_, 2020

\* Preliminary, subject to change.

**\$20,465,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2017-1**  
**OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)**  
**(IMPROVEMENT AREA NO. 2)**  
**SERIES A OF 2020 SPECIAL TAX BONDS**

**MATURITY SCHEDULE**

**Base CUSIP No.<sup>†</sup>: 68423P**

**Serial Bonds**

<i><b>Maturity Date</b></i> <i><b>(August 15)</b></i>	<i><b>Principal</b></i> <i><b>Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP No.<sup>†</sup></b></i>
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**Term Bonds**

\$ \_\_\_\_\_ % Term Bonds due August 15, 20\_\_, Yield: \_\_\_\_\_ % Price: \_\_\_\_\_ CUSIP No.<sup>†</sup> \_\_\_\_\_

\$ \_\_\_\_\_ % Term Bonds due August 15, 20\_\_, Yield: \_\_\_\_\_ % Price: \_\_\_\_\_ CUSIP No.<sup>†</sup> \_\_\_\_\_

*\* Preliminary, subject to change.*

*† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the County, the District or the Underwriter and are included solely for the convenience of the registered owners of the applicable Bonds. None of the County, the District or the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part 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 certain maturities of the Bonds.*

**COUNTY OF ORANGE  
STATE OF CALIFORNIA**

**BOARD OF SUPERVISORS  
Serving as the Legislative Body of  
Community Facilities District No. 2017-1  
of the County of Orange (Village of Esencia)**

Michelle Steel (Second District), Chair  
Andrew Do (First District), Vice Chair  
Donald P. Wagner (Third District)  
Doug Chafee (Fourth District)  
Lisa A. Bartlett (Fifth District)

**COUNTY OFFICIALS**

Frank Kim, County Executive Officer  
Shari L. Freidenrich, Treasurer-Tax Collector  
Frank Davies, Auditor-Controller  
Leon J. Page, County Counsel

**BOND COUNSEL AND DISCLOSURE COUNSEL**

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a Professional Corporation,  
Newport Beach, California

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Irvine, California

**SPECIAL TAX CONSULTANT**

David Taussig & Associates, Inc.  
Newport Beach, California

**REAL ESTATE APPRAISER**

Integra Realty Resources  
Rocklin, California

**MARKET ABSORPTION ANALYST**

Empire Economics, Inc.  
Capistrano Beach, California

**TRUSTEE**

U.S. Bank National Association  
Los Angeles, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the County and the District. No dealer, broker, salesperson or other person has been authorized by the County, the District, the Trustee 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 in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the County, the District, the Trustee 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 owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described in this Official Statement, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment to this Official Statement, is intended to be deposited with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at [www.emma.msrb.org](http://www.emma.msrb.org).

The information set forth in this Official Statement which has been obtained from third party sources is believed to be reliable, but such information is not guaranteed as to accuracy or completeness by the County or the District. The information and expressions of opinion in this Official Statement 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 County or the District or any other parties described in this Official Statement since the date of this Official Statement. All summaries of the Indenture 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 made by this Official Statement to such documents on file with the County for further information. While the County maintains an internet website for various purposes, none of the information on that website is incorporated by reference herein or intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the County. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

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 a 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.

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. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption "IMPROVEMENT AREA NO. 2" and "PROPERTY OWNERSHIP AND THE DEVELOPMENT."

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. THE DISTRICT DOES NOT PLAN 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 OVERALLOT 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 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.

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**[INSERT COLOR REGIONAL MAP HERE]**

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**\$20,465,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2017-1**  
**OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)**  
**(IMPROVEMENT AREA NO. 2)**  
**SERIES A OF 2020 SPECIAL TAX BONDS**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the table of contents and the appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (the “District”) of its (Improvement Area No. 2) Series A of 2020 Special Tax Bonds (the “Bonds”) in the aggregate principal amount of \$20,465,000\*. The proceeds of the Bonds will be used to (a) fund capitalized interest on a portion of the Bonds through February 15, 2022; (b) pay the cost and expense of acquisition and construction of certain public facilities required in connection with the development of the District; (c) fund a reserve account securing the Bonds; (d) pay costs of issuance of the Bonds; and (e) make an initial deposit to the Administrative Expense Account (as defined herein). See “ESTIMATED SOURCES AND USES OF FUNDS.”

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and pursuant to Resolution No. 20-\_\_\_ adopted by the Board of Supervisors of the County (the “Board of Supervisors”), acting as the legislative body of the District on July 28, 2020 and a Bond Indenture dated as of August 1, 2020 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee (the “Trustee”).

The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as defined herein) levied on parcels within Improvement Area No. 2 (as defined and further described below) of the District and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Indenture. See “SOURCES OF PAYMENT FOR THE BONDS.”

The Bonds are being issued and delivered pursuant to the provisions of the Act and the Indenture. The Bonds are being sold to the Underwriter pursuant to a Bond Purchase Agreement between the Underwriter and the District. See “THE BONDS — General Provisions” and “UNDERWRITING” herein.

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 and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds 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 E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — DEFINITIONS” herein.

**The District and Improvement Area No. 2**

**General.** The District is located in the southern portion of the County of Orange (the “County”), in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of Ladera Ranch and east of the City of San Juan Capistrano. Employment centers in the cities of Newport Beach and Irvine in the County are about 25 miles to the north and employment centers in the cities of Carlsbad and Del Mar located in the northern portion of the County of San Diego are 35 and 50 miles, respectively, to the south. The District

\* Preliminary, subject to change.

consists of approximately 224 gross acres. Improvement Area No. 2 of the District consists of approximately 52 gross acres. Approximately 49 acres of property in Improvement Area No. 2 are expected to be subject to the Special Tax (as defined herein) at build-out. The property within Improvement Area No. 2 for which the Special Tax is not expected to be levied consists of property owned by the property owners association and public property. RMV PA2 Development, LLC, a Delaware limited liability company (the “Developer”) is the master developer of property in the District. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT.”

**Formation Proceedings.** The District was formed and Improvement Area No. 1 (“Improvement Area No. 1”) and Improvement Area No. 2 (“Improvement Area No. 2”) were designated therein, by the County pursuant to the Act. The District constitutes a governmental entity separate and apart from the County.

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 community facilities 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 community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district or any improvement area designated therein to repay such indebtedness.

Pursuant to the Act, on February 14, 2017, the Board of Supervisors adopted Resolution No. 17-023 (the “Resolution of Intention”), stating its intention to form the District, designate Improvement Area No. 1 and Improvement Area No. 2 therein, and to authorize the levy of a special tax on the taxable property within each of Improvement Area No. 1 and Improvement Area No. 2. On February 14, 2017 the Board of Supervisors also adopted Resolution No. 17-024, stating its intention to incur bonded indebtedness in an aggregate principal amount, with respect to Improvement Area No. 2, not to exceed \$28,000,000, for the purpose of financing the acquisition, construction, expansion, improvement, or rehabilitation of certain public facilities to serve the area within the District and its neighboring areas. See “IMPROVEMENT AREA NO. 2 — Description of Authorized Facilities.”

Subsequent to a noticed public hearing, the Board of Supervisors adopted Resolution Nos. 17-034 and 17-035 on March 28, 2017 (the “Resolution of Formation” and the “Resolution to Incur Debt,” respectively) which established the District, designated Improvement Area No. 1 and Improvement Area No. 2 therein, authorized the levy of a special tax within each of Improvement Area No. 1 and Improvement Area No. 2, determined the necessity to incur bonded indebtedness within the District with respect to each of Improvement Area No. 1 and Improvement Area No. 2, and called an election within each of Improvement Area No. 1 and Improvement Area No. 2 on the propositions of incurring bonded indebtedness, levying a special tax and setting an appropriations limit within the District.

On March 28, 2017, an election was held within Improvement Area No. 2 at which the landowners within Improvement Area No. 2 eligible to vote approved the issuance of bonds for the District with respect to Improvement Area No. 2 in an amount not to exceed \$28,000,000. A Notice of Special Tax Lien for Improvement Area No. 2 was recorded in the office of the County Recorder on April 12, 2017 as Document No. 2017000148036. On April 25, 2017, the Board, acting as the legislative body of the District, adopted Ordinance No. 17-003 (the “Ordinance”) which authorizes the levy within Improvement Area No. 2 of a special tax pursuant to the Rate and Method of Apportionment of Special Tax for Improvement Area No. 2 approved at the March 28, 2017 election (the “Rate and Method”), a copy of which is attached hereto as APPENDIX A.

**Validation Proceedings.** On May 2, 2017, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District, the designation of Improvement Area No. 1 and Improvement Area No. 2 therein, the

authorization of the issuance of bonds for the District with respect to such improvement areas and the levy of the special tax within such improvement areas. On July 13, 2017, the court entered a default judgment (the “Validation Judgment”) to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District, the designation of Improvement Area No. 1 and Improvement Area No. 2 therein, the authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the Special Tax within such improvement areas were valid and in conformity with the Constitution of the State and applicable laws of the State. The last day of the appeal period for the validation action was August 14, 2017. As of the date of this Official Statement, no appeal has been filed with respect to the Validation Judgment. See the section entitled “VALIDATION” herein for additional information regarding the legal effects of the Validation Judgment.

### **Property Ownership and Development Status**

The District and Improvement Area No. 2 therein encompasses a portion of the Village of Esencia development (“Esencia”), which is a portion of the second phase of development of the Rancho Mission Viejo Ranch Plan Planned Community. The Rancho Mission Viejo Ranch Plan Planned Community is a 22,815-acre master planned community, which when complete will consist of the final build-out of Rancho Mission Viejo. Other Rancho Mission Viejo projects within the County have included the City of Rancho Santa Margarita, Ladera Ranch and Las Flores.

The Esencia development is being undertaken in phases. The first phase, which is located within Community Facilities District No. 2015-1 of the County of Orange (Village of Esencia) (“CFD No. 2015-1”) consists of 522 market-rate residential units and 318 age-qualified residential units and opened for sale in September 2015. All 840 residential units within CFD No. 2015-1 have been sold to individual homeowners. The second phase of the Esencia development is located within Community Facilities District No. 2016-1 of the County of Orange (Village of Esencia) (“CFD No. 2016-1”) and consists of 605 market-rate residential units and 288 age-qualified units. Sales in CFD No. 2016-1 commenced in September 2016. As of June 7, 2020, 890 of the 893 residential units within CFD No. 2016-1 had been sold to individual homeowners.

The District includes the third and fourth phases of the Esencia development, which consists of a for-sale residential component located within Improvement Area No. 1, and a commercial/retail, apartments and other non-residential component located within Improvement Area No. 2. The development within Improvement Area No. 1 consists of 659 market-rate units and 124 age-qualified units. Sales in Improvement Area No. 1 commenced in September 2017. As of June 7, 2020, 695 of the 783 residential units within Improvement Area No. 1 had been sold to individual homeowners. Special taxes levied within CFD No. 2015-1, CFD No. 2016-1 and Improvement Area No. 1 of the District are not pledged to and are not available to pay debt service on the Bonds.

The development within Improvement Area No. 2 is planned for: (i) an approximately 130,000 square foot self-storage facility with approximately 915 storage units (the “Self-Storage Facility”); (ii) a light-industrial business park with approximately 99,200 square feet of building space (the “Business Park”); (iii) a medical facility with two buildings totaling approximately 70,000 square feet of building space (the “Medical Facility”); (iv) a for-rent market-rate apartment complex with approximately 92 units (the “Apartment Complex”); and (v) retail center with approximately 204,000 square feet of retail space located on approximately 30 acres (the “Retail Center”).

The area included in Improvement Area No. 2 has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to the boundary of the District required to be installed by the Developer to support development within Improvement Area No. 2 has been completed. Improvement Area No. 2 is accessed via Chiquita Canyon Parkway, which borders the southern boundary of Improvement Area No. 2.

Ownership of the property relating to the Self-Storage Facility and the Business Park has been transferred to entities formed by Esencia Retail, LLC (“Esencia Retail”) (an affiliate of the Developer) and joint venture partners, as described herein. Ownership of the property relating to the Apartment Complex is expected to be transferred to an entity previously formed by Esencia Retail and into which it is anticipated a joint venture partner will be admitted as a member. Ownership of the property relating to the Retail Center is expected to be transferred to an entity to be formed by Esencia Retail and joint venture partners. The Developer’s current expectation with respect to the Self-Storage Facility, the Business Park, the Apartment Complex and the Retail Center is to retain ownership of such property through the joint venture entities or affiliated entities and contract with third-parties for management thereof.

The property relating to the Medical Facility was sold to the Mission Hospital Regional Medical Center (“Mission Hospital”) in 2017.

The following are summaries of the planned developments and respective status within Improvement Area No. 2. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT” herein for further details on the developments within Improvement Area No. 2.

**Self-Storage Facility:** Construction of the Self-Storage Facility is underway and is currently scheduled to be complete in August 2020. Contractual arrangements have been entered into by affiliated entities of the Developer and SmartStop Self-Storage, a nationwide self-storage management company, to operate the Self-Storage Facility. Occupancy is currently expected to commence in December 2020.

**Business Park:** Construction of the Business Park is underway and anticipated to be complete in July 2020. The Developer expects tenant occupancy to commence in the fall of 2020. As of June 1, 2020, the Developer reports that approximately 20% of the 99,200 square feet business park has been pre-leased.

**Apartment Complex:** As of June 1, 2020, the property for the Apartment Complex consisted of vacant land. Construction of the 92-unit Apartment Complex is expected to commence in summer of 2020 and the first phase of units are expected to be available in mid-2021. The Apartment Complex is expected to include amenities such as a community clubhouse, swimming pool, spa, fitness center, BBQ area and on-site parking.

**Retail Center:** Approximately 30 acres within Improvement Area No. 2 are planned for the Retail Center with approximately 204,000 square feet of retail space. As of June 1, 2020, the property for the Retail Center consisted of vacant land. Among other retail uses, the Developer currently anticipates tenants such as a main-line grocery store, gas station and drug store. The Developer expects construction of the Retail Center to commence based on demand for such retail space, which will be based in part on the pace of home sales within the Ranch (as defined herein).

**Medical Facility:** As of June 1, 2020, the property for the Medical Facility consisted of vacant land. Construction of the first phase of the Medical Facility is currently anticipated to commence in December 2020. Construction of the Medical Facility is expected to occur in two phases, with the first phase currently planned to be complete in 2023. Development of the second phase of the Medical Facility is expected to occur based on Mission Hospital’s demand for medical services in the vicinity.

## **Forward Looking Statements**

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 a “plan,” “expect,” “estimate,” “project,” “budget” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the

captions “IMPROVEMENT AREA NO. 2,” “PROPERTY OWNERSHIP AND THE DEVELOPMENT” and APPENDIX B — “APPRAISAL REPORT.”

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. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

### **Sources of Payment for the Bonds**

**General.** The Bonds and any Parity Bonds (as defined herein) are limited obligations of the District, and the interest on and principal of and redemption premiums, if any, on the Bonds and any Parity Bonds are payable solely from the Special Taxes to be levied annually against the property in Improvement Area No. 2, or, to the extent necessary, from the moneys on deposit in the Reserve Account. As described herein, the Special Taxes are collected along with *ad valorem* property taxes on the tax bills mailed by the Treasurer-Tax Collector of the County (the “Treasurer”). Although the Special Taxes will constitute a lien on the property subject to taxation in Improvement Area No. 2, they will not constitute a personal indebtedness of the owners of such property. There is no assurance that such owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if they are financially able to do so.

**Limited Obligations.** Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds and any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the County nor general obligations of the District, but are special obligations of the District payable solely from Special Taxes and amounts held under the Indenture as more fully described herein.

**Special Tax.** 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 land within Improvement Area No. 2 in accordance with the Rate and Method. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Under the Indenture, the District will pledge to repay the Bonds and any Parity Bonds from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and from amounts on deposit in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Indenture.

The Special Taxes are the primary security for the repayment of the Bonds and any Parity Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds and any Parity Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund.”

**Foreclosure Proceeds.** The District will covenant in the Indenture for the benefit of the owners of the Bonds and Parity Bonds that, except as set forth in the following paragraph, it will commence judicial foreclosure proceedings against parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and diligently pursue such foreclosure proceedings to completion or until it receives the payment of the delinquent amounts; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as: (i) the total delinquency of Special Taxes for such Fiscal Year is less than 5% of the total Special Taxes levied in such Fiscal Year; and (ii) the amount in the Reserve Account of the Special Tax Fund is at least equal to the Reserve Requirement.

Notwithstanding the foregoing, the Indenture will provide that the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement. The District may, but shall not be obligated to, advance funds from any source of legally available funds in order to maintain the Reserve Account at the Reserve Requirement or to avoid a default in payment on the Bonds and any Parity Bonds. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” herein and APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings.” There is no assurance that the property within Improvement Area No. 2 can be sold at foreclosure for the appraised value described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current landowners or future landowners within Improvement Area No. 2. See “SPECIAL RISK FACTORS — Land Values” and APPENDIX B — “APPRAISAL REPORT” herein.

***Teeter Plan.*** The District (including Improvement Area No. 2) participates in the County’s Teeter Plan (as defined herein) pursuant to which the County pays to the District the full amount of Special Taxes levied without any reduction for delinquencies. The Net Taxes (as defined herein) pledged to repay the Bonds do not include any penalties, fees, costs, foreclosure proceeds or delinquent Special Taxes where the County has paid the delinquent installment to the District pursuant to the Teeter Plan.

See “SOURCES OF PAYMENT FOR THE BONDS — Teeter Plan” and “SPECIAL RISK FACTORS — Teeter Plan Termination.”

**NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY, 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 NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND CERTAIN AMOUNTS HELD UNDER THE BOND INDENTURE AS MORE FULLY DESCRIBED HEREIN.**

***Parity Bonds and Liens.*** Under the terms of the Indenture, the District may issue additional bonds secured by the Net Taxes on a parity with the Bonds (“Parity Bonds”) if certain conditions are met for the purpose of financing additional public facilities or to refund the Bonds or Parity Bonds. See “SOURCES OF PAYMENT FOR THE BONDS — Issuance of Parity Bonds.” Parity Bonds may be issued by means of a supplemental indenture and without any requirement for the consent of any Bond owners. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — DEFEASANCE AND PARITY BONDS.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes have been levied and may also be levied in the future on the property within Improvement Area No. 2 which could adversely affect the willingness of the property owners to pay the Special Taxes when due. See “SPECIAL RISK FACTORS — Parity Taxes and Special Assessments” herein.

### **Appraisal Report**

An MAI appraisal of the land and existing improvements within Improvement Area No. 2 was prepared by Integra Realty Resources, Rocklin, California (the “Appraiser”). The appraisal has a date of value of May 15, 2020, and a copy is attached hereto as Appendix B (the “Appraisal Report”). See APPENDIX B — “APPRAISAL REPORT.” The Appraisal Report provides an estimate of the approximate market value of the “as-is” condition of the property in Improvement Area No. 2 subject to the levy of Special Taxes, based on the definitions, assumptions (including certain extraordinary assumptions and hypothetical conditions) and limiting conditions, as set forth in the Appraisal Report. Based on such definitions, assumptions and limiting conditions in the Appraisal Report, the Appraiser concluded that the market value of all of the parcels within Improvement Area No. 2 subject to the Special Tax was \$102,960,000 as of May 15, 2020.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in APPENDIX B. The County and the District make no representation as to the accuracy of the Appraisal Report. See “IMPROVEMENT AREA NO. 2 — Appraisal Report” and “— Appraised Value-to-Lien Ratios.” There is no assurance that property within Improvement Area No. 2 can be sold for the prices set forth in the Appraisal Report or that any parcel can be sold for a price sufficient to pay the Special Tax for that parcel in the event of a default in payment of Special Taxes by a property owner. See “IMPROVEMENT AREA NO. 2,” “SPECIAL RISK FACTORS — Land Values” and APPENDIX B — “APPRAISAL REPORT” 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 Indenture. See APPENDIX H — “BOOK-ENTRY ONLY SYSTEM.”

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee 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 Trustee, all as described in the Indenture. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — GENERAL AUTHORIZATION AND BOND TERMS — Transfers Outside Book-Entry System” herein.

The Bonds are subject to optional redemption, extraordinary redemption, and mandatory sinking fund redemption as described herein. See “THE BONDS — Redemption.” For a more complete descriptions of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” and APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE” herein.

### **Tax Exemption**

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, the interest on the Bonds is exempt from personal income taxes of the State of California and, assuming compliance with certain covenants described in the Official Statement, is excluded from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals. Set forth in APPENDIX C is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see “TAX MATTERS.”

### **Professionals Involved in the Offering**

U.S. Bank National Association, Los Angeles, California, will act as Trustee under the Indenture. Stifel, Nicolaus & Company, Incorporated is the underwriter (the “Underwriter”) of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel to the District in connection with the issuance of the Bonds. Certain legal matters will be passed on for the District and the County by the Office of the County Counsel, for the Underwriter by Best Best & Krieger LLP, Riverside, California, as counsel to the Underwriter and for the Trustee by its counsel. Other

professional services have been performed by Integra Realty Resources, Rocklin, California, as the Appraiser, Empire Economics, Inc., Capistrano Beach, California as Market Absorption Consultant, Fieldman, Rolapp & Associates, Inc., Irvine, California as municipal advisor to the County and David Taussig & Associates, Inc., Newport Beach, California, as Special Tax Consultant, and initial dissemination agent under the Developer Continuing Disclosure Agreement, dated as of August 1, 2020, by and between the Special Tax Consultant and the Developer (the “Developer Continuing Disclosure Agreement”).

For information concerning respects in which certain of the above-mentioned professionals, advisors, counsel and consultants may have a financial or other interest in the offering of the Bonds, see “FINANCIAL INTERESTS” herein.

### **Continuing Disclosure**

The District has agreed to provide, or cause to be provided, pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission (the “Rule”) certain financial information and operating data on an annual basis (the “District Reports”). The District has further agreed to provide, in a timely manner, notice of certain events with respect to the Bonds (the “Listed Events”). These covenants have been made in order to assist the Underwriter in complying with the Rule. The District Reports will be filed with the Electronic Municipal Market Access System (“EMMA”) of the Municipal Securities Rulemaking Board (the “MSRB”) available on the Internet at <http://emma.msrb.org>. Notices of Listed Events will also be filed with the MSRB. The County will assist the District in preparing the District Reports. Within the last five years, one of the County’s related entities failed to comply in certain respects with a prior continuing disclosure undertaking as described under the caption “CONTINUING DISCLOSURE.”

The Underwriter does not consider any of the entities owning property in Improvement Area No. 2 described herein to be “obligated persons” with respect to the Bonds for purposes of the Rule. However, to assist in the marketing of the Bonds, the Developer has agreed to provide, or cause to be provided on EMMA, updated information with respect to the development within Improvement Area No. 2 (the “Developer Reports”), on a semiannual basis and notices of certain events until such undertaking is terminated in accordance with the Developer Continuing Disclosure Agreement (as defined herein).

See “CONTINUING DISCLOSURE” herein and APPENDIX F and APPENDIX G hereto for a description of the specific nature of the annual reports to be filed by the District and the Developer and notices of Listed Events and a copy of the continuing disclosure undertakings pursuant to which such Reports are to be made.

### **Bond Owners’ Risks**

Certain events could affect the ability of the District to pay 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 Bonds are not rated by any nationally recognized rating agency. The purchase of the Bonds involves significant risks, and the Bonds are not appropriate investments for certain 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 Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Indenture, the Bonds and the constitution and laws of the State as well as the proceedings of the Board, acting



as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture.

Copies of the Indenture, the Appraisal Report and other documents and information are available for inspection and (upon request and payment to the District of a charge for copying, mailing and handling) for delivery from the Clerk of the Board of Supervisors' office at 333 West Santa Ana Boulevard, Santa Ana, California 92702.

### **ESTIMATED SOURCES AND USES OF FUNDS**

The following table sets forth the expected sources and uses of Bond proceeds collected by the District.

**Sources of Funds:**

Principal Amount of Bonds	\$
Plus Net Original Issue Premium	
Total Sources	\$

**Uses of Funds:**

Acquisition and Construction Fund <sup>(1)</sup>	\$
Interest Account <sup>(2)</sup>	
Administrative Expense Account	
Costs of Issuance <sup>(3)</sup>	
Reserve Account	
Total Uses	\$

<sup>(1)</sup> Acquisition and Construction Fund includes the [County Facilities Account, the Water Facilities Account and the Project Facilities Account.]

<sup>(2)</sup> Reflects capitalized interest on a portion of the Bonds through February 15, 2022.

<sup>(3)</sup> Includes Underwriter's Discount, Bond Counsel fees, Disclosure Counsel Fees, Special Tax Consultant fees, Municipal Advisor fees, Trustee fees, printing costs and other issuance costs.

Source: The Underwriter.

### **THE BONDS**

**General Provisions**

The Bonds will be dated as of 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 February 15 and August 15, commencing on February 15, 2021 (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. A portion of the interest on the Bonds through February 15, 2022 will be paid from capitalized interest.

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 a Record Date but prior to the immediately succeeding 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 the first Record Date, 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.

As used herein, Record Date means the first day of the month in which any Interest Payment Date occurs, regardless of whether such day is a Business Day.

Interest on any Bond will be paid to the person whose name appears in the Bond Register as the Owner of such Bond as of the close of business on the Record Date. Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. So long as DTC is the securities depository all payments of principal and interest on the Bonds will be made to DTC and will be paid to the Beneficial Owners in accordance with DTC's procedures and the procedures of DTC's Participants. See APPENDIX H — "BOOK-ENTRY-ONLY SYSTEM."

In the event the Bonds are not held in book-entry form, interest on the Bonds will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Bondowner at its address on the Bond Register. In addition, with respect to any Bonds owned by the District and upon a request in writing received by the Trustee on or before the applicable Record Date from an Owner of \$1,000,000 or more in principal amount of the Bonds, payment will be made by wire transfer in immediately available funds to an account designated by such Owner.

#### **Debt Service Schedule**

The following table presents the annual debt service on the Bonds (including mandatory sinking fund redemption), assuming there are no optional or extraordinary redemptions. See "SOURCES OF PAYMENT FOR THE BONDS" and "THE BONDS — Redemption."

<i>Date</i> <i>(August 15)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
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Total

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Source: The Underwriter.

### **Redemption**

***Optional Redemption.*** The Bonds maturing on or after August 15, 20\_\_ may be redeemed, at the option of the District from any source of funds on any date on or after August 15, 20\_\_, in whole, or in part from such maturities as are selected by the District and by lot within a maturity, at a redemption price equal to the principal amount to be redeemed, together with accrued interest to the date of redemption, without premium.

***Extraordinary Redemption from Special Tax Prepayments.*** The Bonds are subject to extraordinary redemption as a whole or in part, on any Interest Payment Date on and after February 15, 2021, and shall be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account to the Redemption Account pursuant to the Indenture, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

<i>Redemption Dates</i>	<i>Redemption Price</i>
Interest Payment Dates from February 15, 2021 to February 15, 2028	103%
August 15, 2028 and February 15, 2029	102
August 15, 2029 and February 15, 2030	101
August 15, 2030 and each Interest Payment Date thereafter	100

Prepayments and amounts released from the Reserve Account in connection with Prepayments will be allocated to the payment at maturity and redemption of Bonds and any Parity Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the Bonds and any Parity Bonds and such amounts shall be applied to redeem Bonds and Parity Bonds as nearly as practicable on a pro rata basis among maturities in increments of \$5,000; provided, however, that, for Prepayments of less than \$50,000, the District may specify in a Certificate of an Authorized Representative that Prepayments be applied to one or more maturities of the Bonds or Parity Bonds so long as there is delivered to the Trustee a Certificate of the Special Tax Consultant that, following such application of the Prepayments, the maximum Special Taxes that may be levied in each Fiscal Year on Taxable Property is not less than 110% of Annual Debt Service in the Bond Year that begins in such Fiscal Year.

See the caption “SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments or Assessment Bond Proceeds” for a discussion of the potential for a lower than expected yield on the Bonds as a result of a special mandatory redemption from prepayment of Special Taxes.

***Mandatory Sinking Fund Redemption.*** The Term Bonds maturing on August 15, 20\_\_ (the “20\_\_ Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on August 15, 20\_\_, and on each August 15 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20\_\_ Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 20\_\_ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

<b><i>Sinking Fund Redemption Date</i></b> <b><i>(August 15)</i></b>	<b><i>Sinking Fund Payments</i></b>
	\$

(maturity)

The Term Bonds maturing on August 15, 20\_\_ (the “20\_\_ Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Principal Account, on August 15, 20\_\_, and on each August 15 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20\_\_ Term Bonds so called for redemption shall be selected by the Trustee by lot and shall be redeemed at a redemption price for each redeemed 20\_\_ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

<b><i>Sinking Fund Redemption Date</i></b> <b><i>(August 15)</i></b>	<b><i>Sinking Fund Payments</i></b>
	\$

(maturity)

***Notice of Redemption.*** So long as the Bonds are held in book-entry form, the Beneficial Owners will not be mailed any notice of redemption by the Trustee. It is the responsibility of DTC Participants to provide

such notice to Beneficial Owners. See APPENDIX H — “BOOK-ENTRY ONLY SYSTEM.” The Trustee is obligated to provide at least 30 days but not more than 45 days prior to the date of redemption, notice of intended redemption, by first-class mail, postage prepaid, to the respective registered owners of the Bonds at the addresses appearing on the Bond registration books; provided, however, so long as the Bonds are registered in the name of the Nominee, such notice shall be given in such manner as complies with the requirements of the Depository. The notice of redemption must: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all the Bonds or Parity Bonds of one maturity are to be redeemed, the bond numbers of such issue need not be specified; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as shall be specified by the Trustee. Such notice must further state that on the date fixed for redemption, there will become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable.

So long as notice of redemption has been provided as set forth in the Indenture, the actual receipt by the owner of any Bond of notice of such redemption is not a condition precedent to redemption, and neither the failure to receive such notice nor any defect therein will affect the validity of the proceedings for redemption of such Bonds or the cessation of interest on the date fixed for redemption.

Any redemption notice for an optional redemption of the Bonds delivered in accordance with the Indenture may be conditional, and, if any condition stated in the redemption notice has not been satisfied on or prior to the redemption date: (i) the redemption notice will be of no force and effect, (ii) the District will not be required to redeem such Bonds, (iii) the redemption will not be made, and (iv) the Trustee will within a reasonable time thereafter give notice to the persons to whom such conditional redemption notice was given in the manner in which the conditional redemption notice was given that such condition or conditions were not met and that the redemption was canceled.

***Effect of Redemption.*** When notice of redemption has been given, and when the amount necessary for redemption has been made available for that purpose and is available therefor on the date fixed for such redemption, the Bonds designated for redemption will become due and payable on the date fixed for redemption upon presentation and surrender of the Bonds at the place specified in the notice of redemption. Bonds or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds, or portions thereof, will cease to bear further interest from and after the redemption date. As of the date fixed for redemption no Owner of any of the Bonds or portions thereof so designated for redemption will be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

***Purchase in lieu of Redemption.*** The Bonds may be purchased by the District in lieu or partially in lieu of redemption of Bonds. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — CREATION OF FUNDS AND APPLICATION OF PROCEEDS — Redemption Account of the Special Tax Fund.”

## **Registration, Transfer and Exchange**

***Registration.*** The Trustee 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 Trustee.

***Transfer or Exchange.*** Whenever any Bond is surrendered for registration of transfer or exchange, the Trustee 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 Trustee 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.

## **SOURCES OF PAYMENT FOR THE BONDS**

### **Limited Obligations**

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Indenture and from no other sources.

In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expense Account therein), including amounts held in the Reserve Account therein, for the exclusive benefit of the owners of the Bonds and any Parity Bonds.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE DISTRICT, THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE BONDS. EXCEPT FOR THE NET TAXES, NO OTHER REVENUES OR TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE COUNTY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES TO BE LEVIED IN IMPROVEMENT AREA NO. 2 AND CERTAIN OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

### **Special Taxes**

***Authorization and Pledge.*** In accordance with the provisions of the Act, the County established the District and designated Improvement Area No. 2 therein on March 28, 2017 for the purpose of financing various public improvements required in connection with the proposed development within the District. On March 28, 2017, an election was held within Improvement Area No. 2 at which the landowners eligible to vote approved the issuance of bonds for Improvement Area No. 2 in an amount not to exceed \$28,000,000, and the levy of the Special Taxes on property within Improvement Area No. 2 to repay such bonds and to finance the Facilities (as defined below). The landowners within Improvement Area No. 2 also voted to approve the Rate and Method which authorized the Special Tax to be levied to repay indebtedness of the District with respect to Improvement Area No. 2, including the Bonds.

The District will covenant in the Indenture that it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds and any Parity Bonds, to maintain the Reserve Account at the Reserve Requirement and to pay the estimated Administrative Expenses.

The “Special Taxes” are the special taxes authorized to be levied and collected by the District within Improvement Area No. 2 in accordance with the Rate and Method, the Ordinance, the Resolution of Formation and the Act. The Special Taxes are collected in the manner and at the same time as *ad valorem* property taxes are collected and are subject to the same penalties and the same procedure, sale, and lien priority in case of delinquency as is provided for *ad valorem* property taxes. See APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

The “Net Taxes” pledged by the District to secure the repayment of the Bonds (and any Parity Bonds) is defined in the Indenture as the “Gross Taxes” minus amounts permitted to be set aside prior to the payment of the principal of and interest on the Bonds and Parity Bonds in order to pay Administrative Expenses.

“Gross Taxes” is defined in the Indenture as the amount of all Special Taxes received by the District from the Treasurer, together with all payments made with respect to tax-defaulted parcels (including all delinquent and redemption penalties, fees and costs) and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, but excluding any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, so long as the County has paid to the District the Special Taxes levied for a tax defaulted parcel pursuant to the Teeter Plan (as defined herein).

Except for Prepayments which shall be deposited to the Interest Account, the Principal Account and/or the Redemption Account as specified in the Indenture, the Trustee will, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund. The Trustee will transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to:

- (1) The Administrative Expense Account of the Special Tax Fund in an amount needed to pay Administrative Expenses when due (not to exceed the Administrative Expenses Cap);
- (2) The Interest Account of the Special Tax Fund;
- (3) The Principal Account of the Special Tax Fund;
- (4) The Redemption Account of the Special Tax Fund;
- (5) The Reserve Account of the Special Tax Fund;
- (6) The Rebate Fund; and
- (7) The Surplus Fund.

See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE.”

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 TAX” hereto. 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 the caption “*Limitation on Special Tax Levy and Potential Impact on Coverage*” below and “SPECIAL RISK FACTORS — Insufficiency of Special Taxes” herein.

***Rate and Method of Apportionment of Special Tax.*** The District is legally authorized and will covenant in the Indenture to cause the levy of the Special Taxes in an amount determined according to a methodology, i.e., the Rate and Method which the Board of Supervisors and the electors within Improvement Area No. 2 have approved. The Rate and Method apportions the total amount of Special Taxes to be collected among the taxable parcels in Improvement Area No. 2 as more particularly described below.

Improvement Area No. 2 is comprised of two tax zone areas (each a “Zone”). All of the property other than the property planned for the Medical Facility (which is located in Zone 2) is located in Zone 1.

The following is a synopsis of the provisions of the Rate and Method for Improvement Area No. 2, which should be read in conjunction with the complete text of the Rate and Method which is attached as APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” The meanings of the defined terms used in this section are as set forth in APPENDIX A. This section provides only a summary

of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method attached as APPENDIX A.

***Assignment to Land Use Categories.*** Each Fiscal Year, all Taxable Property within Zone 1 and 2 of Improvement Area No. 2 shall be classified as Developed Property, Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property or Undeveloped Property, and shall be subject to Special Taxes in accordance with the Rate and Method determined pursuant to Sections C and D of APPENDIX A. The Assigned Special Tax for Residential Property shall be based on the Zone in which the Assessor's Parcel is located and the number of acres located on the Assessor's Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Zone in which the Assessor's Parcel is located and the Acreage, Developed Floor Area, or number of Hotel/Motel Rooms for such Assessor's Parcel.

The term "Developed Property" is defined in the Rate and Method as, for each Fiscal Year, all Taxable Property, exclusive of Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, for which a building permit for new construction was issued prior to January 1 of the prior Fiscal Year.

***Exemptions.*** No Special Tax shall be levied on Assessor's Parcels of Conservation Property, Property Owner Association Property, Public Property and/or Religious Property, that is within Zones 1 and 2; provided that an Assessor's Parcel shall not be exempt and shall be classified as Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and/or Taxable Religious Property if exempting such property would increase the sum of all property exempt from the Special Tax within the applicable Zone to greater than the corresponding Acreage amount listed in Table 5 of the Rate and Method attached as APPENDIX A.

***Maximum Special Tax, Assigned Annual Special Tax and Backup Special Tax.***

***Maximum Special Tax.*** The Maximum Special Tax for each Assessor's Parcel classified as Developed Property within a particular Zone shall be the greater of (i) the amount derived by application of the Assigned Special Tax for such Zone or (ii) the amount derived by application of the Backup Special Tax for such Zone. The Maximum Special Tax for an Assessor's Parcel of Undeveloped Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property or Taxable Religious Property within each Zone is shown in Table 4 of the Rate and Method attached as APPENDIX A and is \$27,550 for Tax Zone 1 and \$23,347 per acre for Tax Zone 2 for Fiscal Year 2020-21.

***Assigned Special Tax.*** The Assigned Special Tax rates for each Zone are shown in Tables 1 and 2 of the Rate and Method attached as APPENDIX A (which rates escalate at 2.00% per year). The Assigned Special Tax rates for Developed Property per Land Use Class and the projected Developable Floor Area ("FA"), number of rooms and areas of residential property, as applicable, within Zone 1 are as follows:



<i>Land Use Class</i>	<i>Fiscal Year 2020-21 Assigned Special Tax Rate</i>	<i>FA/Rooms/Acres Subject to Special Tax in Fiscal Year 2020-21</i>	<i>Projected FA/Rooms/Acres Subject to Special Tax at Buildout</i>
Retail Property	\$2.97 per square foot of FA	-	195,800 square feet
Office/Medical Property	\$2.44 per square foot of FA	-	-
Industrial Property	\$1.06 per square foot of FA	229,142 square feet <sup>(1)</sup>	229,142 square feet
Institutional Property	\$1.06 per square foot of FA	-	8,000 square feet <sup>(3)</sup>
Hotel/Motel Property	\$318.36 per Hotel/Motel Room	-	-
Residential Property	\$27,550 per acre	-	5.756 acres
Undeveloped Property	\$27,550 per acre	33.259 acres <sup>(1)(2)</sup>	-

<sup>(1)</sup> Does not tie to the total Special Tax levy in Table 4 due to rounding of the per FA rate.

<sup>(2)</sup> The District does not expect to levy Special Taxes on Undeveloped Property in Fiscal Year 2020-21. The amount of the Fiscal Year 2020-21 Special Tax levy on Undeveloped Property that would have been required to meet the Special Tax requirement will be paid from capitalized interest on the Bonds.

<sup>(3)</sup> Such property is expected to be included in the Retail Center.

Source: David Taussig & Associates.

For Developed Property within Zone 2, the Assigned Special Tax rate for Fiscal Year 2020-21 is \$23,347 per acre. Zone 2 is approximately seven acres.

For a detailed description of Assigned Special Taxes in the Zones, see the Rate and Method attached as APPENDIX A.

*Multiple Land Use Classes.* In some instances an Assessor's Parcel may contain both Undeveloped Property and Developed Property. Furthermore, Developed Property may contain more than one Land Use Class. In such cases, the Acreage of the Assessor's Parcel will be allocated between Developed Property and Undeveloped Property based on the portion of the Assessor's Parcel for which building permits had been issued prior to January 1 of the prior Fiscal Year and the portion of the Assessor's Parcel for which building permits had not been issued prior to January 1 of the prior Fiscal Year. The Acreage that is considered Developed Property will be allocated between Residential Property and Non-Residential Property based on the site plan. The Maximum Special Tax that can be levied on such Assessor's Parcel will be the sum of the Maximum Special Tax that can be levied on each type of property located on that Assessor's Parcel.

*Backup Special Tax.* The Fiscal Year 2020-21 Backup Special Taxes are detailed in Table 3 of the Rate and Method attached as APPENDIX A and is \$27,550 for Tax Zone 1 and \$23,347 per acre for Tax Zone 2 for Fiscal Year 2020-21.

*Annual Increases.* On each July 1, the Assigned Special Tax and the Backup Special Tax for Developed Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year. On each July 1, the Maximum Special Tax for Undeveloped Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property and Taxable Religious Property will be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

*Method of Apportionment of Special Tax.* Commencing with Fiscal Year 2020-21 and for each following Fiscal Year, the Board of Supervisors shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax;

**Second:** If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

**Third:** If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

**Fourth:** If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property at up to the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property or Taxable Religious Property; and

**Fifth:** If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Taxable Public Property.

Notwithstanding the above, under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within Improvement Area No. 2. To the extent that the levy of the Special Tax on Residential Property is limited by the provision in the previous sentence, the levy of the Special Tax on all other Assessor's Parcels shall continue in equal percentages at up to 100% of the Maximum Special Tax.

***Prepayment of Annual Special Taxes.*** The Annual Special Tax obligation for an Assessor's Parcel may be prepaid in full, or in part, provided that the terms set forth under the Rate and Method are satisfied. The Prepayment Amount is calculated based on the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Amount, Administrative Fees and Expenses and less a credit for the resulting reduction in the Reserve Requirement for the Bonds (if any) and less capitalized interest (if any), all as specified in Section G of the Rate and Method attached as APPENDIX A. Prepayments of Special Taxes will be applied to effect an extraordinary redemption of Bonds and Parity Bonds. See "THE BONDS — Redemption — *Extraordinary Redemption from Special Tax Prepayments.*"

***Estimated Debt Service Coverage.*** Table 1 sets forth the debt service coverage from Net Taxes based on the estimated debt service and the expected pace of development based on the Market Absorption Study. As shown in Table 1, the District does not expect to levy Special Taxes on Undeveloped Property in Fiscal Year 2020-21.

In Table 1 below, Special Tax revenues for Fiscal Year 2021-22 through Fiscal Year 2025-26 reflect a levy at 100.00% of the Maximum Special Tax rate for Undeveloped Property and the Assigned Special Tax rates for Developed Property. For Fiscal Year 2026-27 and thereafter, the Special Tax revenues shown reflect a levy at 100.00% of the Assigned Special Tax rates for Developed Property and at the Maximum Special Tax rate for Undeveloped Property. The schedule for the pace of development in Table 1 is based on the Market Absorption Study. See "IMPROVEMENT AREA NO. 2 — Market Absorption Study." At buildout, the District does not expect to levy the Special Taxes on Developed Property at the maximum Assigned Special Tax rates as listed in Table 1. Pursuant to the Rate and Method, and subject to the Maximum Special Taxes prescribed therein and permitted by the Act, the District will only levy Special Taxes in each Fiscal Year in an amount sufficient to achieve the Special Tax Requirement.

At buildout, approximately 18 acres within Improvement Area No. 2 are expected to consist of parking lots and other common use areas. Such areas are expected to remain classified as Undeveloped Property. The District does not expect to levy Special Taxes on such parking lot and common use property at buildout but may do so if necessary to satisfy the Special Tax Requirement.

**TABLE 1**  
**COMMUNITY FACILITIES DISTRICT NO. 2017-1 OF THE COUNTY OF ORANGE**  
**(VILLAGE OF ESENCIA)**  
**(IMPROVEMENT AREA NO. 2)**  
**ESTIMATED BOND DEBT SERVICE COVERAGE AT BUILD-OUT**

<i>Bond Year Ending August 15</i>	<i>Developed Special Tax Revenues for Zone 1<sup>(1)(2)(3)</sup></i>	<i>Developed Special Tax Revenues for Zone 2<sup>(1)(2)(3)</sup></i>	<i>Undeveloped Special Tax Revenues for Zone 1<sup>(1)(2)(3)(7)</sup></i>	<i>Undeveloped Special Tax Revenues for Zone 2<sup>(1)(2)(3)</sup></i>	<i>Annual Administrative Expenses<sup>(4)</sup></i>	<i>Net Special Tax Revenues From Developed Property</i>	<i>Net Special Tax Revenues From Developed Property and Undeveloped Property<sup>(7)</sup></i>	<i>Series 2020 Special Tax Bonds Debt Service</i>	<i>Coverage on Series 2020 Special Tax Bonds From Developed Property<sup>(5)</sup></i>	<i>Coverage on Series 2020 Special Tax Bonds From Developed Property and Undeveloped Property<sup>(6)(7)</sup></i>
2021	\$ 243,167	\$ 0	\$ 0	\$ 0	\$ 75,000	\$ 168,167	\$ 168,167	\$ 168,167 <sup>(8)</sup>	100.00%	100.00%
2022	409,780	0	772,862	165,742	76,500	333,280	1,271,884	831,195 <sup>(8)</sup>	40.10	153.02
2023	417,976	0	788,320	169,057	78,030	339,946	1,297,323	1,020,763	33.30	127.09
2024	426,335	172,438	804,086	0	79,591	519,183	1,323,269	1,041,163	49.87	127.10
2025	695,954	175,887	699,196	0	81,182	790,658	1,489,854	1,060,563	74.55	140.48
2026	709,873	179,404	713,180	0	82,806	806,471	1,519,651	1,078,963	74.75	140.84
2027	1,117,189	182,993	566,438	0	84,462	1,215,719	1,782,157	1,104,463	110.07	161.36
2028	1,139,532	186,652	577,767	0	86,151	1,240,033	1,817,800	1,123,213	110.40	161.84
2029	1,162,323	190,385	589,322	0	87,874	1,264,834	1,854,156	1,145,463	110.42	161.87
2030	1,185,570	194,193	601,109	0	89,632	1,290,131	1,891,239	1,170,963	110.18	161.51
2031	1,209,281	198,077	613,131	0	91,425	1,315,933	1,929,064	1,194,463	110.17	161.50
2032	1,233,467	202,039	625,393	0	93,253	1,342,252	1,967,645	1,215,963	110.39	161.82
2033	1,258,136	206,079	637,901	0	95,118	1,369,097	2,006,998	1,240,463	110.37	161.79
2034	1,283,299	210,201	650,659	0	97,020	1,396,479	2,047,138	1,267,713	110.16	161.48
2035	1,308,965	214,405	663,672	0	98,961	1,424,409	2,088,081	1,292,463	110.21	161.56
2036	1,335,144	218,693	676,946	0	100,940	1,452,897	2,129,843	1,319,713	110.09	161.39
2037	1,361,847	223,067	690,485	0	102,959	1,481,955	2,172,440	1,344,213	110.25	161.61
2038	1,389,084	227,528	704,294	0	105,018	1,511,594	2,215,888	1,370,963	110.26	161.63
2039	1,416,865	232,079	718,380	0	107,118	1,541,826	2,260,206	1,399,713	110.15	161.48
2040	1,445,203	236,720	732,748	0	109,261	1,572,662	2,305,410	1,425,213	110.35	161.76
2041	1,474,107	241,455	747,403	0	111,446	1,604,116	2,351,518	1,457,463	110.06	161.34
2042	1,503,589	246,284	762,351	0	113,675	1,636,198	2,398,549	1,485,263	110.16	161.49
2043	1,533,661	251,210	777,598	0	115,948	1,668,922	2,446,520	1,515,463	110.13	161.44
2044	1,564,334	256,234	793,150	0	118,267	1,702,300	2,495,450	1,542,863	110.33	161.74
2045	1,595,621	261,358	809,013	0	120,633	1,736,346	2,545,359	1,577,463	110.07	161.36
2046	1,627,533	266,586	825,193	0	123,045	1,771,073	2,596,266	1,608,863	110.08	161.37
2047	1,660,084	271,917	841,697	0	125,506	1,806,495	2,648,192	1,638,825	110.23	161.59
2048	1,693,285	277,356	858,531	0	128,016	1,842,624	2,701,156	1,670,175	110.33	161.73
2049	1,727,151	282,903	875,702	0	130,577	1,879,477	2,755,179	1,707,700	110.06	161.34
2050	1,761,694	288,561	893,216	0	133,188	1,917,067	2,810,282	1,740,975	110.11	161.42

(footnotes on following page)

- (1) Special Tax revenues for Fiscal Year 2020-21 reflect a levy at 100.00% of the Assigned Special Tax rates for Developed Property based on building permits issued as of January 1, 2020.
- (2) Special Tax revenues for Fiscal Year 2021-22 through Fiscal Year 2025-26 reflect a levy at 100.00% of the Maximum Special Tax rate for Undeveloped Property and the Assigned Special Tax rates for Developed Property. The schedule and pace of development is based on the Market Absorption Study.
- (3) Special Tax Revenues for Fiscal Year 2026-27 and each year thereafter are based on 100.00% of the Assigned Special Tax rates for Developed Property and the Maximum Special Tax rate for Undeveloped Property. The schedule and pace of development is based on the Market Absorption Study. Until Improvement Area No. 2 is substantially built-out, the Special Tax Levy will be made on Developed Property and Undeveloped Property in accordance with the Rate and Method of Apportionment. The Assigned Special Tax rates escalate by 2.00% per year.
- (4) The Administrative Expenses Cap is equal to \$75,000, escalating at 2.00% per Fiscal Year, commencing July 1, 2021.
- (5) Calculated by dividing the Net Special Tax Revenues from Developed Property column by the Series 2020 Special Tax Bonds Debt Service column.
- (6) Calculated by dividing the Net Special Tax Revenues from Developed Property and Undeveloped Property column by the Series 2020 Special Tax Bonds Debt Service column.
- (7) At buildout, the District does not expect to levy the Special Taxes on Undeveloped Property but is authorized to do so if necessary to meet the Special Tax Requirement.
- (8) Debt service shown is net of the amount to be paid from capitalized interest.

Source: David Taussig & Associates, except for debt service on the Bonds, which was provided by the Underwriter.

***Limitation on Special Tax Levy and Potential Impact on Coverage.*** Pursuant to Section 53321(d) of the Government Code, the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within Improvement Area No. 2 by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the tax levy to the Assigned Special Tax in all years. However, subject to the limitations on the District's ability to levy the necessary amount of Special Taxes as imposed by Section 53321(d) of the Government Code, the District can levy Special Taxes on all Taxable Property to make-up all or a portion of any shortfall in the Special Tax levy.

***Collection of Special Taxes.*** The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The County assesses and collects secured and unsecured property taxes for the cities, school districts, and special districts within the County, including the Special Taxes for Improvement Area No. 2 of the District. The delinquency dates for property tax payment are December 10 for the first installment and April 10 for the second installment. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes the County's share of such taxes (including the Special Taxes) to the County, periodically and typically pursuant to a published schedule. Prior to distribution, the moneys are deposited in an account established on behalf of the County in the Orange County Investment Pool (the "Pool") which is invested by the County Treasurer. If the County or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that District property taxes held in the Pool (including the Special Taxes), if any, could be temporarily unavailable to the County. The District participates in the County's Teeter Plan, which is an alternate method for allocating property taxes by counties. A Teeter Plan requires counties to allocate 100 percent of property taxes billed to participating taxing entities in exchange for retaining future delinquent tax payments, penalties and interest. See "SOURCES OF PAYMENT FOR THE BONDS — Teeter Plan."

The District will make certain covenants in the Indenture 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 District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District will covenant that, to the extent it is legally permitted to do so, it will not reduce the maximum Special Tax rates and will oppose the reduction of maximum Special Tax rates by initiative where such reduction would reduce the maximum Special Taxes below current levels unless, in connection therewith, (i) the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that, among other things, on the basis of the parcels of land and improvements existing in Improvement Area No. 2 as of the July 1 preceding the reduction, the maximum amount of the Special Tax which may be levied on then existing Developed Property (as defined in the Rate and Method then in effect in Improvement Area No. 2) in each Bond Year for any Bonds and Parity Bonds Outstanding will equal at least the sum of the Administrative Expenses Cap and 110% of gross debt service in each Bond Year on all Bonds and Parity Bonds to remain Outstanding after the reduction is approved, (ii) the District finds that any reduction made under such conditions will not adversely affect the interests of the Owners of the Bonds and Parity Bonds, and (iii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds.

Second, the District will covenant not to permit the tender of Bonds or Parity Bonds in payment of any Special Taxes unless the District shall have first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due. See APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE."

Although the Special Taxes constitute liens on taxed parcels within Improvement Area No. 2, they do not constitute a personal indebtedness of the owners of property within Improvement Area No. 2. In addition to the obligation to pay Special Taxes, properties in Improvement Area No. 2 are subject to other assessments and special taxes as set forth in Table 2 herein. These other special taxes and assessments are co-equal to the lien for the Special Taxes. Moreover, other liens for taxes and assessments could come into existence in the future in certain situations without the consent or knowledge of the County or the landowners in Improvement Area No. 2. See “SPECIAL RISK FACTORS — Parity Taxes and Special Assessments” herein. There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described in the section of this Official Statement entitled “SPECIAL RISK FACTORS.”

***Proceeds of Foreclosure Sales.*** The proceeds of delinquent Special Taxes received following a judicial foreclosure sale of parcels within Improvement Area No. 2 resulting from a landowner’s failure to pay the Special Taxes when due, up to the amount of the delinquent Special Tax lien, are included within the Special Tax revenues pledged to the payment of principal and interest on the Bonds under the Indenture, except any payment of Special Taxes on tax-defaulted parcels, including all delinquent and redemption penalties, fees and costs and the proceeds collected from the sale of property pursuant to the foreclosure provisions of the Indenture, so long as the County has paid to the District the Special Taxes levied for a tax-defaulted parcel pursuant to the Teeter Plan established by the County.

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 Board of Supervisors of the County, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property 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 will covenant for the benefit of the Owners of the Bonds that it will commence and diligently pursue until the delinquent Special Taxes are paid, judicial foreclosure proceedings against parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which such Special Taxes were due and diligently pursue such foreclosure proceedings to completion or the payment of the delinquent amounts. Notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as: (i) the total delinquency of Special Taxes for such Fiscal Year is less than 5% of the total Special Taxes levied in such Fiscal Year; and (ii) the amount in the Reserve Account is at least equal to the Reserve Requirement.

See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — COVENANTS AND WARRANTY” herein.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with 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 County and the District. See “SPECIAL RISK FACTORS — Bankruptcy and Foreclosure” herein. Moreover, no assurances can be given that the real 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 — Land Values” 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 County any obligation to purchase or acquire any lot or parcel of 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.

### **Reserve Account of the Special Tax Fund**

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account an amount equal to the Reserve Requirement and thereafter to levy Special Taxes to maintain in the Reserve Account an amount equal to the Reserve Requirement. The Indenture provides that the amount to be maintained in the Reserve Account as the Reserve Requirement shall, as of any date of calculation, equal the lesser of (i) 10% of the initial principal amount of the Bonds and any Parity Bonds; (ii) the Maximum Annual Debt Service on the then Outstanding Bonds and any Parity Bonds; (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding Bonds and any Parity Bonds; provided, however, that the Reserve Requirement shall not increase beyond \$\_\_\_\_\_, the Reserve Requirement at the time the Bonds are issued, except upon the issuance of Parity Bonds. As of the date of issuance of the Bonds the Reserve Requirement will be fully funded from a portion of the proceeds of the Bonds in the amount of \$\_\_\_\_\_.

Subject to the limits on the maximum annual Special Tax which may be levied within Improvement Area No. 2 in accordance with the Rate and Method set forth in APPENDIX A, the District will covenant 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 Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied to (i) pay debt service on the Bonds and any Parity Bonds, to the extent other moneys in the Interest Account and the Principal Account are insufficient therefor; (ii) make any required transfer to the Rebate Fund pursuant to the Indenture; (iii) redeem the Bonds and any Parity Bonds in whole or in part; and (iv) pay the principal and interest due in the final year of maturity of the Bonds and any series of Parity Bonds. See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — CREATION OF FUNDS AND APPLICATION OF PROCEEDS — Reserve Account of the Special Tax Fund” herein.

### **Surplus Fund**

After the deposit to the Administrative Expense Account, the payment of principal of and interest on the Bonds when due, transfers to the Redemption Account to pay principal and premium, if any, on Bonds and Parity Bonds called for redemption, transfers to replenish the Reserve Account to the Reserve Requirement and any required transfers to the Rebate Fund, as soon as practicable after each August 15, and in any event prior to each September 1, the Trustee will transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, other than amounts in the Special Tax Fund which (i) the District has included as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture or (ii) amounts to be transferred to the Acquisition and Construction Fund because such amounts were included in the levy of Special Taxes for the previous Fiscal Year to pay for the acquisition or construction of the Project. Moneys deposited in the Surplus Fund may be applied to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor, to replenish the Reserve Account to the Reserve Requirement, to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expense Account of the Special Tax Fund are insufficient to pay Administrative Expenses, to pay Project Costs, or for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or any Parity Bonds and may be used by the District for any lawful purpose.

### **Issuance of Parity Bonds**

While the Indenture authorizes the issuance of Parity Bonds to finance additional Facilities (as defined below), based on the current sizing of the Bonds and the Special Tax revenues expected to be generated within



Improvement Area No. 2 at buildout (see Table 1 above), the District does not currently expect to issue Parity Bonds for purposes other than to refund the Bonds.

The District may issue Parity Bonds, in addition to the Bonds, which shall be secured by a lien on the Special Taxes and funds pledged for the payment of the Bonds under the Indenture on a parity with the Outstanding Bonds as provided herein. The Parity Bonds shall be issued by means of a Supplemental Indenture and without the consent of any Bondowners, upon compliance with the provisions of the Indenture. The District may issue such Parity Bonds subject to the following specific conditions:

(A) The District shall be in compliance with all covenants set forth in the Indenture and all Supplemental Indentures; provided, however, that Parity Bonds may be issued notwithstanding that the District is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the District will be in compliance with all such covenants.

(B) The Supplemental Indenture providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on February 15 and August 15, and principal thereof shall be payable on August 15 in any year in which principal is payable (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(C) The District shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Trustee (unless the Trustee shall accept any of such documents bearing a prior date):

(1) A certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(2) A written request of the District as to the delivery of such Parity Bonds;

(3) An opinion of Bond Counsel and/or County Counsel to the effect that (a) the District has the right and power under the Act to execute and deliver the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully executed and delivered by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (c) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax-exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) A certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) Where Parity Bonds are issued to refund Bonds and/or Parity Bonds, a certificate from one or more Independent Financial Consultants which, when taken together, certify that in each Bond

Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds;

(6) Where Parity Bonds are being issued other than to refund the Bonds and/or other Parity Bonds, a certificate or certificates from one or more Independent Financial Consultants which, when taken together, certify that: (i) the aggregate Value of all Assessor's Parcels of Taxable Property is not less than five times the sum of the principal amount of the Outstanding Bonds, the Outstanding Parity Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt for all Assessor's Parcels of Taxable Property; (ii) the aggregate Value of all Assessor's Parcels of Undeveloped Property is not less than four times the sum of the principal amount of the Outstanding Bonds, the Outstanding Parity Bonds, the Parity Bonds proposed to be issued and the Overlapping Debt for all Assessor's Parcels of Undeveloped Property; (iii) the Maximum Special Tax that may be levied in each Fiscal Year on Taxable Property that is not known by the District to be delinquent in the payment of any *ad valorem* taxes or any Special Taxes is not less than the sum of the Administrative Expenses Cap plus 110% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year; and (iv) the Maximum Special Taxes that may be levied in each Fiscal Year on Developed Property that is not known by the District to be delinquent in the payment of any *ad valorem* taxes or any Special Taxes is not less than the sum of the Administrative Expenses Cap plus 50% of the Annual Debt Service in the Bond Year that begins in such Fiscal Year.

See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — DEFEASANCE AND PARITY BONDS — Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness.”

### **Teeter Plan**

**General.** Improvement Area No. 2 of the District is included in the County's Teeter Plan and, as described below, so long as the Teeter Plan remains in effect with respect to Improvement Area No. 2 of the District, the District will be paid 100% of the amount of Special Taxes levied regardless of whether the County has actually collected the levies. To the extent that the County's Teeter Plan continues in existence and is carried out as adopted, the County's Teeter Plan may help to protect the Owners of the Bonds from the risk of delinquencies in Special Taxes.

In 1949, the California Legislature enacted an alternative method for the distribution of secured property taxes to local agencies. This method, known as the Teeter Plan, is now set forth in Section 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county acts as “bank” and certain other public agencies and taxing areas located in the county receive annually the full amount of their share of property taxes on the secured roll, including delinquent property taxes which have yet to be collected. A county benefits from the Teeter Plan by retaining penalties associated with these delinquent taxes when they are paid and the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

To implement a Teeter Plan, the board of supervisors of the county generally must elect to do so by July 15 of the fiscal year in which it is to apply. The Board of Supervisors adopted the Teeter Plan on June 29, 1993 and has elected to include in its Teeter Plan special taxes levied in certain community facilities districts, including the District and Improvement Area No. 2 therein, on the secured roll.

Once adopted, a county's Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless prior to the commencement of a fiscal year a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, opt to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a fiscal year, elects to discontinue the procedure with respect to such levying agency and the rate of

secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured roll by that agency. See “SPECIAL RISK FACTORS – Teeter Plan Termination.” The County has never discontinued the Teeter Plan with respect to any levying agency.

Upon making a Teeter Plan election, a county must initially provide a participating local agency with 95% of the estimated amount of the then accumulated tax delinquencies (excluding penalties) for that agency. In the case of the initial year distribution of special taxes and assessments (if a county has elected to include assessments), 100% of the special tax delinquencies (excluding penalties) are to be apportioned to the participating local agency which levied the special tax. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such adjustment for a decrease in the tax or assessment is treated by the County as an interest-free offset against future advances of tax levies under the Teeter Plan.

The District is not aware of any intention on the part of the County, or formal actions taken by the County, to terminate the Teeter Plan, as now in effect in the County. There can be no assurance that the County will always maintain the Teeter Plan or will have sufficient funds available to distribute the full amount of the District’s share of property tax collections to the District. The ability of the County to maintain the Teeter Plan may depend on its financial resources and may be affected by future property tax delinquencies. Property tax delinquencies may be impacted by economic and other factors beyond the District’s or the County’s control, including the ability or willingness of property owners to pay property taxes during an economic recession or depression or tax delinquencies resulting from Order N-61-20 (as defined below). See “*Waiver of Penalties for Delinquencies*” below.

***Waiver of Penalties for Delinquencies.*** Pursuant to Revenue and Taxation Code Section 4985.2, the Treasurer-Tax Collector of the County may cancel any penalty, costs or other charges resulting from tax delinquency upon a finding that the late payment is due to reasonable cause and circumstances beyond the taxpayer’s control, and occurred notwithstanding the exercise of ordinary care in the absence of willful neglect, provided the property taxes are paid within four fiscal years of such taxes coming due.

On March 26, 2020, the County announced that it would waive penalties for property taxpayers who, as a result of the impact of COVID-19 (as defined below), do not pay the second installment of their fiscal year 2019-20 property tax bills prior to delinquency on April 10, 2020. Those requesting such a waiver must file a penalty cancellation form and documentation to support the requested waiver.

In addition, on May 6, 2020, the Governor signed Executive Order N-61-20 (“Order N-61-20”). Under Order N-61-20, certain provisions of the State Revenue and Taxation Code are suspended until May 6, 2021 to the extent said provisions require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent, subject to certain conditions set forth in Order N-61-20.

## **IMPROVEMENT AREA NO. 2**

### **General Description of the District and Improvement Area No. 2**

The District is located in the southern portion of Orange County, in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of the community of Ladera Ranch and east of the City of San Juan Capistrano. Improvement Area No. 2, located within the District, consists of approximately 52 gross acres. The land within which the District sits is part of a larger area acquired through a series of Mexican land grants from 1843-1845. The areas conveyed by these land grants included the areas of the County known as the

Rancho La Paz, Mission San Juan Capistrano, Rancho Trabuco, Rancho Santa Margarita, and Las Flores (collectively, this property is referred to as the “Ranch”). In 1939, the Ranch was split in two, with representatives of the O’Neill family retaining the portion located in Orange County, and representatives of the Flood family retaining the southern portion located in San Diego County. In 1942, the United States Marine Corps acquired the entire southern portion to expand Camp Pendleton. After World War II, what remained of the historic Ranch encompassed two Orange County parcels, united under the name of Rancho Mission Viejo. These two parcels totaled 52,000 acres.

In 1966, the O’Neill family and its partners established The Mission Viejo Company and embarked on residential development of a 10,000 acre master planned community now known as the City of Mission Viejo. In 1972, The Mission Viejo Company was sold to Philip Morris Inc., which completed the master planned community. Rancho Mission Viejo, the entity established by the O’Neill family and its partners to develop the remaining Ranch land, is responsible for the creation and development of the master planned communities of Rancho Santa Margarita, Las Flores, and Ladera Ranch. Between the years 2001 and 2009, Rancho Mission Viejo secured all approvals for a comprehensive land use management/operation and open space preservation plan for the remaining 22,815 acres of the family ranch. With these approvals secured, approximately 25% of the Ranch is anticipated to be developed over the next few decades into a new community and the remaining 75% is planned to be set-aside in perpetuity as a permanent habitat reserve covered by a conservation easement to a 501c(3) non-profit corporation known as “The Reserve at Rancho Mission Viejo.” The property within Improvement Area No. 2 is a portion of the Village of Esencia project, which is the second phase of the final development within the Ranch. The Village of Esencia project is located approximately four miles southeast of Ladera Ranch and directly Antonio Parkway and the Village of Sendero. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT — The Development” herein.

The District was formed and Improvement Area No. 2 was designated therein in 2017 by the Board under the Act to provide for the financing of public improvements to meet the needs of new development. The Developer and the other owners of the property within Improvement Area No. 2, as the qualified electors of Improvement Area No. 2, authorized the District to incur bonded indebtedness for Improvement Area No. 2 to finance certain public facilities to meet the needs of new development within the District and approved the Rate and Method for Improvement Area No. 2 and authorized the levy of the Special Tax.

Approximately 49 acres of property in Improvement Area No. 2 are expected to be subject to the Special Tax at build-out. The development within Improvement Area No. 2 is planned for: (i) an approximately 130,000 square foot Self-Storage Facility with approximately 915 storage units; (ii) a light-industrial Business Park with approximately 99,200 square feet of building space; (iii) a Medical Facility of approximately 70,000 square feet of building space; (iv) a for-rent market-rate Apartment Complex with approximately 92 units; and (v) the Retail Center with approximately 204,000 square feet of retail space located on approximately 30 acres.

Ownership of the property relating to the Self-Storage Facility and the Business Park has been transferred to entities formed by Esencia Retail (an affiliate of the Developer) and joint venture partners, as described herein. Ownership of the property relating to the Apartment Complex is expected to be transferred to an entity previously formed by Esencia Retail and into which it is anticipated a joint venture partner will be admitted as a member in July 2020. Ownership of the Retail Center property is expected to be transferred to an entity to be formed by an affiliate of the Developer and joint venture partners. The Developer’s current expectation with respect to the Self-Storage Facility, the Business Park, the Apartment Complex and the Retail Center is to retain ownership of such property through the joint venture entities or affiliated entities and contract with third-parties for management thereof.

The area included in Improvement Area No. 2 has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to the boundary of the District required to be installed by the Developer to support development within Improvement Area No. 2 is complete. Improvement Area No. 2 is accessed via Chiquita Canyon Parkway, which borders the southern boundary of Improvement Area No. 2.

See “PROPERTY OWNERSHIP AND THE DEVELOPMENT.” A detailed description of the status of the construction and ownership as of the date of the Appraisal Report is included in APPENDIX B — “APPRAISAL REPORT.”

Water and sewer service to the property is provided by the Santa Margarita Water District. Electricity is supplied by San Diego Gas and Electric, natural gas is supplied by The Gas Company, police services are provided by the Orange County Sheriff’s Department, and fire services are provided by the Orange County Fire Authority.

### **Description of Authorized Facilities**

The facilities authorized to be constructed and acquired by the District with the proceeds of bonds to be issued by the District, consist of roadway improvements, tunnels, regional hiking and biking trails, storm drains, water and wastewater facilities (including, without limitation, domestic and non-domestic water facilities, wells, reservoirs, pipelines, storm and sewer drains and related infrastructure and improvements), wet and dry utilities, bridges and pedestrian bridges, parks, traffic signals, school facilities and equipment, sheriff’s substations and equipment and library facilities and equipment, and related infrastructure improvements, both onsite and offsite appurtenances and appurtenant work in connection with the foregoing (collectively, the “Facilities”).

The total cost of the previously Facilities constructed by the Developer benefitting the development within the District is approximately \$223 million. Approximately \$60 million has been reimbursed to the Developer from a portion of the proceeds of the Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (Improvement Area No. 1) Series A of 2018 Special Tax Bonds (the “Improvement Area No. 1 Bonds”) issued by the District for Improvement Area No. 1. Upon the delivery of the Bonds, \$ \_\_\_\_\_ will be deposited to the Acquisition and Construction Fund to finance the Facilities. The District may issue Parity Bonds to finance additional costs of the Facilities, subject to the requirements of the Indenture. Costs of the Facilities in excess of available proceeds of the Improvement Area No. 1 Bonds, the Bonds and any Parity Bonds will be borne by the Developer. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT — The Development — *Infrastructure Requirements and Financing Plan*” below.

### **Direct and Overlapping Indebtedness**

The ability of an owner of land within Improvement Area No. 2 to pay the Special Taxes could be affected by the existence of other taxes and assessments imposed upon the property. These other taxes and assessments consist of the direct and overlapping debt in Improvement Area No. 2 and are set forth in Table 2 below, (the “Debt Report”). The Debt Report sets forth those entities which have issued debt and does not include entities which only levy or assess fees, charges, *ad valorem* taxes or special taxes. The Debt Report includes the principal amount of the Bonds. The Debt Report has been derived from data assembled and reported to the District by David Taussig & Associates, Inc. as of March 2, 2020. None of the District, the County, or the Underwriter has independently verified the information in the Debt Report and do not guarantee its completeness or accuracy.

**TABLE 2**  
**COMMUNITY FACILITIES DISTRICT NO. 2017-1 (VILLAGE OF ESENCIA)**  
**OF THE COUNTY OF ORANGE**  
**(IMPROVEMENT AREA NO. 2)**  
**OVERLAPPING DEBT SUMMARY**

<i>Overlapping District</i>	<i>Total Levy</i>	<i>Amount of Levy on Parcels in Improvement Area No. 2<sup>(1)</sup></i>	<i>Percent of Levy on Parcels in Improvement Area No. 2</i>	<i>Total Debt Outstanding<sup>(2)</sup></i>	<i>District Share of Total Debt Outstanding<sup>(3)</sup></i>
Metropolitan Water District	\$143,645,604	\$ 3,604	0.0025%	\$37,300,000	\$ 936
Capistrano Unified SFID No. 1 Series 2001B	2,459,451	3,995	0.1624	5,360,000	8,708
Capistrano Unified SFID No. 1 Series 2012 Refunding	2,262,947	3,676	0.1624	13,565,000	22,033
Santa Margarita Water District ID No. 4/4C	7,747,503	38,761	0.5003	27,065,000	135,408
				Estimated Share of Overlapping Debt Allocable to Improvement Area No. 2	\$ 167,085
				Plus the Series A of 2020 Bonds	20,465,000*
				Estimated Share of Direct and Overlapping Debt Allocable to Improvement Area No. 2	\$ 20,632,085*

\* Preliminary, subject to change.

(1) Allocated based on Fiscal Year 2019-20 *ad valorem* rates multiplied by the appraised value of property within Improvement Area No. 2 as set forth in the Appraisal Report.

(2) As of March 2, 2020.

(3) Calculated by multiplying Percent of Levy on Parcels in District column by Total Debt Outstanding column.

Source: David Taussig & Associates, Inc.

### Market Absorption Study

In order to provide an independent estimate of the absorption schedule of the property within Improvement Area No. 2, the County engaged Empire Economics, Inc. (the "Market Absorption Consultant"). The Market Absorption Consultant performed a comprehensive analysis of the product mix characteristics as well as the macroeconomic and microeconomic factors and the potential impact of the COVID-19 pandemic that the Market Absorption Consultant expects to influence the absorption of the forthcoming products within Improvement Area No. 2. The Market Absorption Consultant delivered its Market Absorption Study dated April 27, 2020, as revised on May 11, 2020 (the "Market Absorption Study"). The term "absorption," as used in the Market Absorption Study means that the proposed product has been constructed and occupied by final users for the commercial products and renters for the Apartment Complex. For purposes of its analysis, the Market Absorption Consultant grouped the planned projects/products within Improvement No. 2 into "near-term" projects, which are under active development and "intermediate term" projects, which are not under active development. The "near term" projects consist of the Business Park, the Self-Storage Facility, the Medical Facility and the Apartment Complex. The "intermediate term" project consists of the Retail Center planned for the balance of the area within Improvement Area No. 2.

To account for the potential effect of the COVID-19 pandemic on the absorption of the projects within Improvement Area No. 2, the Market Absorption Consultant performed a baseline analysis of a hypothetical scenario that the COVID-19 pandemic had not occurred. The baseline analysis was based on housing market conditions during 2014 through 2019. The estimation of the absorption schedule utilized the baseline analysis and applies adjustment factors for the COVID-19 pandemic. Such adjustment factors include general economic trends and patterns which indicate an economic slowdown/recession (significant increases in unemployment rates, large amounts of recent/near-term federal deficits, federal emergency aid bills in response to COVID-19 and Federal Reserve Board policies with respect to maintaining low short-term interest rates) and the resulting impact of such a slowdown on new development activity.

Based on the foregoing, the Market Absorption Study estimates that market-entry of the Medical Facility will be delayed by one year for its first phase and two years for its second phase. With respect to the

Retail Center, the Market Absorption Study estimates that market-entry will be delayed by two years. Other than with respect to the Self-Storage Facility, the Market Absorption Study estimates that absorption time for the projects in Improvement Area No. 2 will be elongated. The following table summarizes the estimated absorption schedules in the Market Absorption Study based upon a baseline schedule and as adjusted for the impact of the COVID-19 pandemic.

<i>Product Type</i>	<i>Projected Absorption Schedule (Baseline)</i>	<i>Projected Absorption Schedule (Adjustments for COVID-19 Impact)</i>
Business Park	2022	2023
Self-Storage Facility	2021	2021
Apartment Complex	2022	2023
Medical Facility	Phase 1 in 2022 and Phase 2 in 2024	Phase 1 in 2023 and Phase 2 in 2026

Source: The Market Absorption Consultant.

With respect to the Business Park, the Market Absorption Study notes that the District’s trade area has favorable metrics with regards to higher lease rates and lower vacancy rates as compared to the County as a whole, however, the District’s trade area has experienced recent negative absorption rates. With respect to the Medical Facility, the Market Absorption Study notes that, as compared with the County as a whole, office space (which is comparable to facilities such as the Medical Facility) in the District’s trade area has lower vacancy rates, lower lease rates (due to distance from major employment centers) and experienced positive net absorption in the fourth quarter of 2019. The Market Absorption Study further notes, however, that the full utilization of the Medical Facility will depend in part on having sufficient numbers of households in the vicinity. With respect to the Apartment Complex, the Market Absorption Study notes that the market for apartments in the vicinity of Improvement Area No. 2 has been well-established and performing favorably with low vacancy rates.

With respect to the Retail Center, the Market Absorption Report estimates that the existing residential developments in Esencia (within CFD No. 2015-1, CFD No. 2016-1 and Improvement Area No. 1) are nearly built-out, which provides support for approximately 20 acres of retail space. The Market Absorption Study notes that the next phase of residential development is not expected to enter the market until 2022. As a result, the Market Absorption Study estimates that 12 acres of the Retail Center will be open with tenants in 2024, which are projected to include the main-line grocery store, drug store and gas station and other value-oriented tenants. The Market Absorption Report estimates the balance of the Retail Center to be open with tenants by the end of 2026.

The Market Absorption Consultant identifies potential risks that could affect the estimated absorption, including economic downturn and the impact of the COVID-19 pandemic. See “SPECIAL RISK FACTORS.” A complete copy of the Market Absorption Study is attached hereto as APPENDIX I.

### **Appraisal Report**

[The section to be updated with addendum if Retail Center property is transferred]

**Estimate of Value.** The estimated assessed value of the property within Improvement Area No. 2, as shown on the County’s assessment roll for Fiscal Year 2019-20, is approximately \$25,969,706. However, as a result of the requirements of Article XIII A of the California Constitution, a property’s assessed value is not necessarily indicative of its market value. In order to provide information with respect to the value of the property within Improvement Area No. 2, the County engaged Integra Realty Resources, the Appraiser, to prepare the Appraisal Report. The Appraiser has an “MAI” designation from the Appraisal Institute and has prepared numerous appraisals for the sale of land-secured municipal bonds. The Appraiser was selected by the

County and has no material relationships with the County, the District, or the owners of the land within Improvement Area No. 2 other than the relationship represented by the engagement to prepare the Appraisal Report. The County instructed the Appraiser to prepare its analysis and report in conformity with County-approved guidelines and the Appraisal Standards for Land Secured Financings published in 1994 and revised in 2004 by the California Debt and Investment Advisory Commission. A copy of the Appraisal Report is included as APPENDIX B — “APPRAISAL REPORT” to this Official Statement.

The purpose of the Appraisal Report was to estimate the aggregate market value of the “as is” condition of the property within Improvement Area No. 2 subject to the Special Taxes. The estimate of market value: (i) takes into consideration and assumes that proceeds of the Bonds will be available to reimburse the Developer for completed improvements, (ii) is based on the costs for completion of the Self-Storage Facility and the Business Park provided by the Developer; and (iii) assumes that there will not be major deviations in the construction of the Self-Storage Facility and the Business Park from the plans provided to the Appraiser. Subject to the contingencies, assumptions and limiting conditions set forth in the Appraisal Report, the Appraiser concluded that, as of May 15, 2020 (the “Date of Value”), the market value of the Taxable Property within Improvement Area No. 2 was \$102,960,000. The estimates of market value of the property by ownership in the Appraisal Report also assumes that such property is not marketed concurrently, which, as a result of the affiliated ownership of the substantial majority of such property, would suggest a market under duress.

Table 3 below shows the market value of the various parcels by ownership as set forth in the Appraisal Report as of the Date of Value. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT” below.

**TABLE 3**  
**COMMUNITY FACILITIES DISTRICT NO. 2017-1 (VILLAGE OF ESENCIA)**  
**OF THE COUNTY OF ORANGE**  
**(IMPROVEMENT AREA NO. 2)**  
**SUMMARY OF APPRAISED VALUES**

<i>Owner<sup>(1)</sup></i>	<i>Development</i>	<i>Appraised Value</i>
Los Patrones Self Storage Partners, LLC <sup>(2)</sup>	Self-Storage Facility	\$19,300,000
Los Patrones Business Park Partners, LLC <sup>(2)</sup>	Business Park	20,320,000
	Apartment Complex/	
Esencia Retail, LLC <sup>(2)(3)</sup>	Retail Center	53,280,000
Mission Hospital Regional Medical Center	Medical Facility	<u>10,060,000</u>
<b>Total Appraised Value</b>		<b>\$102,960,000<sup>(4)</sup></b>

<sup>(1)</sup> Based on ownership as of the Date of Value set forth in the Appraisal Report. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT” below.

<sup>(2)</sup> Affiliated entity of the Developer. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT” below.

<sup>(3)</sup> The Developer expects that the property for the Apartment Complex will be transferred to Los Patrones Apartments Partners, LLC, which is an affiliated entity of the Developer, at the time construction is anticipated to commence. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT” below.

<sup>(4)</sup> The total appraised value represents a rounded amount of the appraised values of each owner’s property as of the Date of Value.

Source: The Appraiser.

***Appraiser’s Approach.*** In estimating the market value of the property relating to the Self-Storage Facility and the Business Park, the Appraiser utilized an income capitalization approach, which involves an analysis of the revenue generating potential of the property, allowances for vacancy and collection loss and a calculation of net operating income. To arrive at the estimates of value, the Appraiser then used a direct capitalization approach based on a single year’s estimate of income divided by a capitalization rate.



Part of foregoing analysis involved a projection of the time for the Self-Storage Facility and the Business Park to reach stabilized occupancy. With respect to the Self-Storage Facility, the Appraiser estimates that it will take approximately 20 months from the time preleasing activities are currently estimated to commence (November 2020) to reach stabilized occupancy, which is estimated to be June 2022. The Appraiser concludes that the Self-Storage Facility would lease-up at a faster rate compared to other projects in the region due to the facility's location, newer effective age and project amenities. With respect to the Business Park, based on location, configuration and market conditions, the Appraiser estimates that such project will reach stabilized occupancy in July 2022.

In addition, as part of its analysis, the Appraiser conducted a review of the existing inventory of self-storage facilities and retail space in the south County area. Within a five-mile radius of the Self-Storage Facility, according to the Appraiser, there are five self-storage facilities. The Appraisal Report states that there is only one self-storage facility within the Storage Facility's market area, which is located in Ladera Ranch and has 1,206 units. Based on the Appraiser's review, there are no existing self-storage facilities in the Rancho Mission Viejo Ranch Planned Community, Coto de Caza and Las Flores. The Appraiser anticipates the majority of the Storage Facility's demand to come from such areas.

With respect to retail space, the Appraisal Report states that there is approximately 682,000 square feet of existing retail space across five properties which are located within Improvement Area No. 2's primary trade area. As of the Date of Value, the vacancy rate in such retail centers were between 0% to 2.9%, with the exception of one retail center, which had a vacancy rate of 22.2%. The Appraisal Report notes that such higher vacancy rate is attributable to the departure of a Kohl's store (89,000 square feet) a portion of which (46,000 square feet) has since been leased to EOS Fitness.

With respect to the Apartment Complex, the Retail Center and the Medical Facility, which currently consists of vacant land, the Appraiser used a sales comparison approach to develop an indication of value by analyzing the sale of comparable properties.

***Assumptions and Limiting Conditions.*** Reference is made to APPENDIX B for a complete list of the assumptions and limiting conditions and a full discussion of the appraisal methodology and the basis for the Appraiser's opinions. In the event that any of the contingencies, assumptions and limiting conditions are not actually realized, the value of the property within Improvement Area No. 2 may be less than the amount reported in the Appraisal Report. In any case, there can be no assurance that any portion of the property within Improvement Area No. 2 would actually sell for the amount indicated by the Appraisal Report.

The Appraisal Report merely indicates the Appraiser's opinion as to the market value of the property referred to therein as of the date and under the conditions specified therein. The Appraiser's opinion reflects conditions prevailing in the applicable market as of the Date of Value. The Appraiser's opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future. See "SPECIAL RISK FACTORS — Land Values." Also see the Appraisal Report in APPENDIX B for the Appraiser's discussion on the economic impact of the COVID-19 pandemic and its potential influence on the forecasts and projections contained therein.

It is a condition precedent to the issuance of the Bonds that the Appraiser deliver to the District a certification to the effect that, while the Appraiser has not updated the Appraisal Report since the date of the Appraisal Report and has not undertaken any obligation to do so, nothing has come to the attention of the Appraiser subsequent to the date of the Appraisal Report that would cause the Appraiser to believe that the value of the property in Improvement Area No. 2 is less than the value of Improvement Area No. 2 reported in the Appraisal Report. However, the Appraiser notes that acts and events may have occurred since the date of the Appraisal Report which could result in both positive and negative effects on market value within Improvement Area No. 2.

### Appraised Value-To-Lien Ratios

Table 4 below incorporates the values assigned to parcels in the Appraisal Report, the estimated principal amount of the Bonds allocable to each category of parcels and the estimated appraised value-to-lien ratios for various categories of parcels based upon appraised values and property ownership in Improvement Area No. 2 as of the Date of Value as set forth in the Appraisal Report. Based on the principal amount of the Bonds, the estimated appraised value-to-lien ratio within Improvement Area No. 2 including all Taxable Property as of the Date of Value is 5.03-to-1\*. This ratio does not include other overlapping debt within Improvement Area No. 2. See “— Direct and Overlapping Indebtedness” above. Taking that direct and overlapping debt into account, the ratio of the aggregate appraised value of the Taxable Property within Improvement Area No. 2 to the total principal amount of all direct and overlapping general obligation debt for Improvement Area No. 2 is approximately 4.99 -to-1\*.

The District does not expect to levy any Special Taxes on Undeveloped Property in Fiscal Year 2020-21. The portion of the Special Tax that would have been levied on Undeveloped Property in Fiscal Year 2020-21 to meet the Special Tax Requirement will be paid from capitalized interest funded from a portion of the proceeds of the Bonds. As shown in Table 4 below, if the District were to levy Special Taxes on Undeveloped Property in Fiscal Year 2020-21 to meet the Special Tax Requirement, the appraised value-to-lien ratios for Developed Property ranges from 6.46-to-1\* to 8.87-to-1\* and for Undeveloped Property from 4.09-to-1\* to 4.35-to-1\*.

In the Annual Reports provided pursuant to the District Continuing Disclosure Certificate, Table 4 will not be updated based on appraised value, but similar information will be provided based on current assessed value for Improvement Area No. 2. Based on the Fiscal Year 2019-20 assessed value of \$25,969,706, the assessed value-to-lien ratio, taking the total direct and overlapping debt in Table 4 into account, is approximately 1.26-to-1\*.

\* Preliminary, subject to change.

**TABLE 4**  
**COMMUNITY FACILITIES DISTRICT NO. 2017-1 (VILLAGE OF ESENCIA)**  
**OF THE COUNTY OF ORANGE**  
**(IMPROVEMENT AREA NO. 2)**  
**APPRAISED VALUE-TO-LIEN RATIOS (LEVY ON UNDEVELOPED PROPERTY)**

<i>Zone/Property Classification/Owner<sup>(1)(2)</sup></i>	<i>Proposed Product Type<sup>(1)</sup></i>	<i>BSF/Acres<sup>(3)</sup></i>	<i>IA No. 2 Fiscal Year 2020-21 Adjusted Levy<sup>(4)</sup></i>	<i>Percentage of Fiscal Year 2020-21 Levy</i>	<i>IA No. 2 Bonds Outstanding<sup>(5)*</sup></i>	<i>Metropolitan Water District Bonds Outstanding<sup>(6)</sup></i>	<i>Capistrano Unified School District SFID Bonds Outstanding<sup>(6)</sup></i>	<i>Santa Margarita Water District ID 4/4C Bonds Outstanding<sup>(6)</sup></i>	<i>Total Direct and Overlapping Debt<sup>7</sup></i>	<i>Appraised Value<sup>(1)</sup></i>	<i>Appraised Value-to-Lien Ratios<sup>(7)*</sup></i>
<b>Zone 1</b>											
<b>Developed Property</b>											
Los Patrones Self Storage Partners, LLC <sup>(8)</sup>	Self-Storage	129,942 BSF	\$ 137,895	14.45%	\$ 2,957,948	\$ 175	\$ 5,762	\$ 25,382	\$ 2,989,268	\$ 19,300,000	6.46
Los Patrones Business Park Partners, LLC <sup>(8)</sup>	Business Park	99,200 BSF	105,272	11.03	2,258,149	185	6,067	26,724	2,291,125	20,320,000	8.87
Subtotal	N/A	229,142 BSF	\$ 243,167	26.49%	\$ 5,216,097	\$ 360	\$ 11,829	\$ 52,106	\$ 5,280,393	\$ 39,620,000	7.50
<b>Undeveloped Property<sup>(8)</sup></b>											
Esencia Retail, LLC	Retail/Apartments	33.26 Acres	\$ 603,806	63.29%	\$ 12,952,020	\$ 484	\$ 15,908	\$ 70,071	\$ 13,038,483	\$ 53,280,000	4.09
<b>Zone 2</b>											
<b>Undeveloped Property<sup>(9)</sup></b>											
Mission Hospital Regional Medical Center	Medical Office	6.96 Acres	\$ 107,078	11.22%	\$ 2,296,883	\$ 91	\$ 3,004	\$ 13,230	\$ 2,313,2095	\$ 10,060,000	4.35
<b>Total</b>		N/A	\$ 954,050	100.00%	\$ 20,465,000	\$ 936	\$ 30,741	\$ 135,408	\$ 20,632,085	\$ 102,960,000	4.99

\* Preliminary, subject to change.

- (1) Ownership, product type, and value based on Appraisal Report with a date of value of May 15, 2020.
- (2) Based on building permits issued as of January 1, 2020. Under the Rate and Method, Developed Property is property for which a building permit was issued as of January 1, 2020. Undeveloped Property is property for which a building permit was not issued as of January 1, 2020.
- (3) "BSF" indicates the building square footage
- (4) Based on debt service due on the Bonds (not adjusted for capitalized interest) plus the Administrative Expenses Cap.
- (5) Allocated based on Fiscal Year 2020-21 Special Tax levy.
- (6) As of March 2, 2020. Allocated based on Fiscal Year 2019-20 levy.
- (7) Calculated by dividing the Appraised Value column by the Total Direct and Overlapping Debt column.
- (8) Based on the building permits issued for such property, the Self-Storage Facility and the Business Park are taxed as "Industrial Property" under the Rate and Method. See "Special Taxes— Rate and Method of Apportionment of Special Tax" and Appendix A.
- (9) The District will not levy Special Taxes on Undeveloped Property in Fiscal Year 2020-21. The Special Tax levy on Undeveloped Property shown in this Table 4 will be paid from capitalized interest. In Fiscal Year 2021-22 and each year thereafter, the District will levy Special Taxes on Undeveloped Property as necessary to meet the Special Tax Requirement.

Source: David Taussig & Associates, Inc.

## **Largest Taxpayers**

The District will not levy Special Taxes on Undeveloped Property in Fiscal Year 2020-21. The portion of the Special Tax that would have been required to be levied on Undeveloped Property in Fiscal Year 2020-21 to meet the Special Tax Requirement will be paid from capitalized interest. As a result, Los Patrones Self Storage Partners, LLC and Los Patrones Business Park Partners, LLC will be responsible for approximately 56.71% and 43.29% of the Fiscal Year 2020-21 Special Tax levy, respectively. As shown in Table 4 above, if the District were to levy Special Taxes on Undeveloped Property in Improvement Area No. 2 in Fiscal Year 2020-21, the largest taxpayer would be Esencia Retail. See Table 4 above and “SPECIAL RISK FACTORS — Concentration of Ownership.”

## **Delinquency History**

Fiscal Year 2020-21 will be the first fiscal year in which Special Taxes are levied within Improvement Area No. 2. Therefore, no delinquency history exists at this time.

## **PROPERTY OWNERSHIP AND THE DEVELOPMENT**

*The following information about RMV PA2 Development, LLC, its affiliated entities and Mission Hospital and the respective developments within Improvement Area No. 2 has been provided by RMV PA2 Development, LLC and Mission Hospital. No assurance can be given that the proposed developments will occur as described in this Official Statement or that they will be completed in a timely manner, if at all, or that the current property owners will continue to own the property. Neither the Bonds nor the Special Taxes securing the Bonds are personal obligations of the property owners or any affiliate thereof and, in the event that a property owner defaults in the payment of its Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of such property owner or any affiliate thereof. The information with respect to Mission Hospital and its project has been provided by Mission Hospital and the Developer has not reviewed and is not responsible for such information. The information with respect to Mission Hospital and its project in Improvement Area No. 2 will not be subject to future update in the Developer Continuing Disclosure Agreement.*

## **General Description of the Development**

The District is located in the southern portion of Orange County, in the vicinity of Ortega Highway (Route 74) and Antonio Parkway, south of Ladera Ranch and east of the City of San Juan Capistrano. The property in Improvement Area No. 2 is a portion of Planning Area 2, which is the second phase of one of six planning areas of the Rancho Mission Viejo Ranch Plan Planned Community, a proposed 22,815-acre master planned community which is anticipated to be the final master planned community within the Ranch. Other Rancho Mission Viejo projects within the County have included the City of Rancho Santa Margarita, Ladera Ranch, Las Flores and Sendero.

Improvement Area No. 2 consists of approximately 52 gross acres, of which approximately 49 acres are expected to be subject to the Special Tax at build-out. The development within Improvement Area No. 2 is planned for: (i) an approximately 130,000 square foot Self-Storage Facility with approximately 915 storage units; (ii) a light-industrial Business Park with approximately 99,200 square feet of building space; (iii) a Medical Facility of approximately 70,000 square feet of building space; (iv) a for-rent market-rate Apartment Complex with approximately 92 units; and (v) the Retail Center with approximately 204,000 square feet of retail space located on approximately 30 acres.

Other than the property within the area planned for the Retail Center, a final tract map has been recorded for the property in Improvement Area No. 2 and assessor parcel numbers are expected to be assigned by the County based on such final tract map by the fall of 2020. The Developer has not yet determined the timeframe for recording the final tract map for the Retail Center. The area included in Improvement Area No.

2 has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to the boundary of the District and to be installed by the Developer to support development within Improvement Area No. 2 has been completed. Within Improvement Area No. 2, construction of the Business Park and the Self-Storage Facility are underway and are anticipated to be complete in July 2020 and August 2020, respectively. As of June 1, 2020 the property that is planned for the Apartment Complex, the Medical Facility and the Retail Center consisted of vacant land.

Ownership of the property relating to the Self-Storage Facility and the Business Park has been transferred to entities formed by Esencia Retail (an affiliate of the Developer) and joint venture partners, as described herein. Ownership of the property relating to the Apartment Complex is expected to be transferred to an entity previously formed by Esencia Retail and into which it is anticipated a joint venture partner will be admitted as a member. Ownership of the property relating to the Retail Center is expected to be transferred to an entity to be formed by Esencia Retail and joint venture partners. The Developer's current expectation with respect to the Self-Storage Facility, the Business Park, the Apartment Complex and the Retail Center is to retain ownership of such property through the joint venture entities or affiliated entities and contract with third-parties for management thereof.

The District is the third and fourth phases of the Esencia development. The first phase, which is located within CFD No. 2015-1 consists of 522 market-rate residential units and 318 age-qualified residential units and opened for sale in September 2015. All 840 planned residential units within CFD No. 2015-1 have been sold to individual homeowners. Special taxes levied within CFD No. 2015-1 are not pledged to and are not available to pay debt service on the Bonds.

The second phase of the Esencia development is located within CFD No. 2016-1 and is planned for 605 market-rate residential units and 288 age-qualified units. Sales in CFD No. 2016-1 commenced in September 2016. As of June 7, 2020, 890 of the 893 planned residential units within CFD No. 2016-1 had been sold to individual homeowners. Special taxes levied within CFD No. 2016-1 are not pledged to and are not available to pay debt service on the Bonds.

The residential component of the District is the third phase of Esencia located within Improvement Area No. 1 and is planned for 659 market-rate units and 124 age-qualified units. Sales in Improvement Area No. 1 commenced in September 2017. As of June 7, 2020, 695 of the 783 planned residential units within Improvement Area No. 1 had been sold to individual homeowners. Special taxes levied within Improvement Area No. 1 are not pledged to and are not available to pay debt service on the Bonds.

### **The Developer and Joint Venture Entities**

RMV PA2 Development, LLC is the master developer of Esencia. The Developer is a limited liability company created under the laws of the State of Delaware, was formed on April 17, 2013 and is governed by that certain Amended and Restated Limited Liability Company Operating Agreement, dated as of June 30, 2015. The sole member of the Developer is RMV Community Development, LLC, a California limited liability company ("RMV CD"). RMV CD is the managing member of the Developer. Excerpts from the Developer's unaudited financial statements for the period ended May 31, 2020 and the fiscal year ended December 31, 2019, are attached hereto as APPENDIX J. The excerpts from the financial statements of the Developer are included for informational purposes only and the inclusion of such information does not mean that the Bonds are secured by any resources of the Developer.

RMV CD was formed on April 5, 2006 and is governed by that certain Limited Liability Company Operating Agreement, dated as of April 25, 2006, as amended on April 14, 2009 (the "RMV Community Development Operating Agreement"). The members of RMV CD are DMB Ladera, L.L.C., a Delaware corporation ("DMB Ladera"), and RMV Community Development Company, Inc., a California corporation ("RMV CDCI"), as the managing member of RMV CD. RMV CD is the developer of Sendero, a community

that represents the first phase of the RMV Ranch Plan Planned Community. DMB Ladera is the developer of Ladera Ranch.

The members of DMB Ladera are DMB Consolidated Holdings, L.L.C., an Arizona limited liability company (“DMB”), and Ladera Development Company, L.L.C., a Delaware limited liability company (“Ladera”).

DMB is a privately-held, diversified real estate investment and development firm with real estate holdings through affiliated companies that include residential communities and commercial developments located in Arizona and California. DMB was formed in 1984 by Drew Brown, Mark Sklar and Bennett Dorrance. Since its inception, DMB has pursued large-scale real estate development. Early activities focused on commercial development, including the 1.2 million square-foot Centerpoint project in Tempe, Arizona. In the late 1980s and early 1990s, DMB focused on acquisition of both commercial properties and forming joint ventures to develop master planned communities.

Starting in 1994, DMB focused primarily on master planned community development. In most cases, a DMB managed entity partners with a landowner. Master planned communities developed or in development by DMB affiliated entities include Verrado in Buckeye, Arizona (8,800 acres), DC Ranch in Scottsdale, Arizona (8,000 acres); Marley Park in Surprise, Arizona (956 acres); One Scottsdale in Scottsdale, Arizona (120 acres); Power Ranch in Gilbert, Arizona (2,000 acres); Forest Highlands in Flagstaff, Arizona (500 acres); Ladera Ranch in Orange County, California (4,000 acres); Lahontan in North Lake Tahoe, California (720 acres), Martis Camp in North Lake Tahoe, California (2,200 acres); Santaluz in San Diego, California (4,000 acres); Kukui’ula, on Kauai, Hawaii (1,010 acres); Glenwild in Park City, Utah (950 acres) and Eastmark in Mesa, Arizona (3,200 acres).

The members of Ladera are members of the O’Neill family and key employees of Rancho Mission Viejo, L.L.C. (“RMV”), a Delaware limited liability company which is controlled and majority owned by members of the O’Neill family (with the remaining ownership held by key employees of RMV). Ladera was formed in February 1995 to acquire an option to purchase the property comprising Ladera Ranch from Santa Margarita Company (“Santa Margarita”), an affiliate of RMV, and to develop the property in Ladera Ranch.

The members of RMV CDCI are the principals of DMB and their family trusts, members of the O’Neill family and key employees of RMV. RMV CDCI was formed in September 2004 to acquire an option to purchase the property comprising the residential portions of Esencia from DMB San Juan Investment North, LLC (“DMB SJIN”), an affiliate of RMV, and to develop the properties in Sendero and Esencia.

***History of Property Tax Payments; Loan Defaults; Litigation; Bankruptcy.*** The Developer has represented to the District as follows: a) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, has ever defaulted in the payment of a special tax or an assessment on property owned by it; b) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, is now in default on any loans, lines of credit or other obligation, or has been in default on any loans, lines of credit or other obligation in the past two years; c) neither the Developer, nor any individual or entity which has an ownership interest in the Developer, has ever filed for bankruptcy or been declared a bankrupt; and d) the Developer has not been served with notice of any claim or suit, nor to the best of the Developer’s knowledge is any claim or suit now threatened against the Developer, with respect to the development within Improvement Area No. 2.

***Commercial and Retail Portfolios.*** Over the course of approximately 28 years, RMV and its affiliates have developed and managed apartment and retail projects in the communities that they have developed, including in Rancho Santa Margarita, Ladera Ranch, Sendero and Esencia. The apartment portfolio currently includes 2,107 units, consisting of 1,737 traditional family units and 370 senior oriented units. The following table provides a summary of the apartment properties currently held in joint ventures between RMV affiliated entities and Western National Group (or affiliates thereof) as developer, equity partner, and property manager.

<i>Community</i>	<i>Apartment Property</i>	<i>Property Type</i>	<i>Date Opened</i>	<i>Units</i>
Rancho Santa Margarita	Villas Antonio	Traditional	January 1995	316
Ladera Ranch	Laurel Canyon	Traditional	January 2002	201
Ladera Ranch	Laurel Glen	Traditional/Affordable	June 2002	220
Ladera Ranch	Laurel Terrace	Traditional	April 2003	232
Ladera Ranch	Laurel Vista	Traditional	January 2004	220
Ladera Ranch	Heritage Square	Seniors	September 2004	83
Ladera Ranch	Heritage Park	Seniors	October 2004	180
Sendero	Sendero Gateway	Traditional	June 2014	286
Sendero	Sendero Bluffs	Seniors/Affordable	February 2018	107
Esencia	Esencia Sur	Traditional	December 2017	150
Esencia	Esencia Norte	Traditional/Affordable	November 2017	112

The following table provides a summary of the completed retail projects currently held in joint ventures between RMV affiliated entities and Westar Associates (or affiliates thereof) as developer, equity partner, and property manager.

<i>Community</i>	<i>Center Name</i>	<i>Date Opened</i>	<i>Square Feet</i>	<i>Major Tenants</i>
Rancho Santa Margarita	Plaza Antonio	1992	169,715	Pavilions, CVS, Chase Bank, Sola Salon Studios
Ladera Ranch	Bridgepark Plaza	April 2001	101,786	Albertsons, CVS, Wells Fargo Bank, JPMorgan and Chase Bank
Ladera Ranch	Mercantile East	March 2003 and August 2008	289,703	Dick's Sporting Goods, Home Goods, Staples, Tilly's, BevMo!, and EOS Fitness
Ladera Ranch	Mercantile West	June 2004	149,993	Stater Bros., CVS, Union Bank, US Bank
Ladera Ranch	Corporate Terrace Shops	February 2007	41,300	Sola Salon Studios
Sendero	Sendero Marketplace	July 2017	96,364	Gelson's Market, Rite Aid, Chevron Gas Station, Chase Bank, In-N-Out Burger

As part of the development of the Ladera Ranch community, DMB Ladera retained land for development of Ladera Corporate Terrace, a mixed use/office park situated on approximately 27 acres. Ladera Corporate Terrace is part of a 75-acre Urban Activity Center located east of Antonio Parkway and south of Crown Valley Parkway. Ladera Corporate Terrace was developed in four phases with class "A" office buildings (generally regarded as buildings with higher-end finishes and above-average rental prices for its market), medical office buildings, a fitness center, a Catholic church, two daycare facilities and a self-storage facility. The last building within Ladera Corporate Terrace opened in 2008. DMB Ladera sold one of the office buildings, the self-storage facility, the land for the fitness center, church, daycare centers, and the sports center. The balance of Ladera Corporate Terrace is owned and has been retained by RMV affiliates as a long-term investment.

***Esencia Retail, LLC and Joint Venture Entities.*** Esencia Retail, LLC is a California limited liability company ("Esencia Retail") formed by affiliates of the Developer in connection with the development within Improvement Area No. 2. In addition, joint venture entities have been formed by Esencia Retail and joint venture partners to construct and when complete, operate the Self-Storage Facility and the Business Park. With respect to the property planned for the Retail Center and the Apartment Complex, Esencia Retail currently expects to transfer such property to two or more joint venture entities as development of the Retail Center and development of the apartments is anticipated to commence. As described below, all of the property in Zone 2 of Improvement Area No. 2 has been transferred to Mission Hospital.

Los Patrones Business Park Partners, LLC. Los Patrones Business Park Partners, LLC (“Los Patrones Business Park”) is a joint venture entity formed by Esencia Retail (75% ownership), KS6 Investments, LLC (20.73% ownership) and TheoPacific Holdings, LLC (4.27% ownership) for the purpose of constructing and operating the Business Park. Ownership of the land relating to the Business Park was transferred from Esencia Retail to Los Patrones Business Park in connection with the development thereof. After construction of the Business Park is complete, which is currently expected in July 2020, TheoPacific Holdings, LLC, a real estate asset and property management company, is anticipated to serve as the property manager of the Business Park.

Los Patrones Self Storage Partners, LLC. Los Patrones Self Storage Partners LLC (“Los Patrones Self Storage”) is a joint venture entity formed by Esencia Retail (52% ownership), SAM 241, LLC (38% ownership) and Lutzky Development, LLC (10% ownership) for the purpose of constructing and operating the Self-Storage Facility. Ownership of the land relating to the Self-Storage Facility was transferred to Los Patrones Self Storage in connection with the development thereof. Pursuant to an agreement between Los Patrones Self Storage and SmartStop Self-Storage, a nationwide self-storage management company, after construction of the Self-Storage Facility is complete, SmartStop Self-Storage will operate the Self-Storage Facility. Construction of the Self-Storage Facility is currently expected to be complete in August 2020.

Los Patrones Apartments Partners, LLC. Los Patrones Apartments Partners LLC (“Los Patrones Apartments”) is a joint venture entity formed by Esencia Retail. It is currently anticipated that WNG RMV Apartments V, LP will acquire interests in Los Patrones Apartments and that, after such acquisition, Los Patrones Apartments will be owned by Esencia Retail (62% ownership), and WNG RMV Apartments V, LP (38% ownership) for the purpose of constructing and operating the Apartment Complex. Ownership of the land relating to the Apartment Complex is anticipated to be transferred from Esencia Retail to Los Patrones Apartments by the end of July 2020 for construction of the Apartment Complex to commence at approximately that timeframe. After the Apartment Complex is complete, Western National Group, an affiliate of WNG RMV Apartments V, LP, is anticipated to serve as the property manager for the Apartment Complex. Western National Group is real estate construction and property management company based in California.

## **The Development**

**General.** The Developer has completed all major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to the boundary of the District and to be installed by the Developer to support development within Improvement Area No. 2. As of June 1, 2020, construction of the Business Park and the Self-Storage Facility were underway and are expected to be complete in July 2020 and August 2020, respectively. As of such date, the property relating to the Apartment Complex, the Medical Facility and the Retail Center consisted of vacant land.

**Completed Infrastructure.** Through June 1, 2020, the Developer has spent approximately \$223 million on infrastructure improvements benefitting the development within the District, which includes improvements owned by and operated by the County and the Santa Margarita Water District. The Developer has funded such costs from cash on hand and from proceeds of the Improvement Area No. 1 Bonds. Approximately \$60 million has been reimbursed to the Developer for such completed improvements from proceeds of the Improvement Area No. 1 Bonds and approximately \$17 million to \$19 million is estimated to be available from the proceeds of the Bonds to reimburse the Developer and certain governmental agencies for such improvements. The District may issue Parity Bonds to finance additional costs of the Facilities, subject to the requirements of the Indenture.

In 2019, the Developer completed the extension of Los Patrones Parkway, which now traverses from Cow Camp Road north to Oso Parkway. Los Patrones Parkway runs along the eastern border of Improvement Area No. 2. The Developer believes that this major thoroughfare will benefit the proposed retail and commercial business to be located in Improvement Area No. 2 by providing a direct link to communities located to the north, such as Coto De Caza, Las Flores and Rancho Santa Margarita.



There are infrastructure improvements to be installed by the Developer outside the boundaries of the District, however, completion of such infrastructure improvements is not a condition to the development of the retail facilities or sale of residences within the District.

***Entitlements for the Overall Rancho Mission Viejo Ranch Plan Planned Community.*** The Rancho Mission Viejo Ranch Plan Planned Community application was approved by the Board of Supervisors with a General Plan Amendment, zone change, and development agreement on November 8, 2004. There were subsequently a number of entitlements and lawsuits that were settled, as noted below. A requirement by the County for the Rancho Mission Viejo Ranch Plan Planned Community, Condition of Approval No. 1, is that a Master Area Plan is required for each of the planning areas. As a result, a Master Area Plan for Planning Area 2.3 and 2.4, which includes the property in the District, was prepared and approved by the County on March 27, 2013 and updated on May 8, 2017.

On November 8, 2004, the County approved a Development Agreement with the owners of the property (the “Original Property Owners”) within the Rancho Mission Viejo Ranch Plan Planned Community (the “Development Agreement”). The Development Agreement includes requirements of the County that would need to be accomplished by the Original Property Owners in return for vesting of project approvals to allow build-out of the Rancho Mission Viejo Ranch Plan Planned Community under the development standards and requirements in place at the time of the approval. The Development Agreement has a term of 30 years.

On November 8, 2019, the Original Property Owners entered into an Assignment and Assumption Agreement with Los Patrones Business Park (the “Business Park Assignment Agreement”). On December 3, 2019, the Original Property Owners entered into an Assignment and Assumption Agreement with Los Patrones Self-Storage (the “Self-Storage Assignment Agreement”). Pursuant to the Business Park Assignment Agreement, the Original Property Owners assigned to Los Patrones Business Park certain of their rights and obligations under the Development Agreement which were appurtenant and pertained to the Business Park. Pursuant to the Self-Storage Assignment Agreement, the Original Property Owners assigned to Los Patrones Self-Storage certain of their rights and obligations under the Development Agreement which were appurtenant and pertained to the Self-Storage Facility. These obligations included payment of certain fees. Each of these obligations has been fulfilled with respect to the Business Park and the Self-Storage Facility. The assigned rights included allocation of certain development rights and associated milestones permitted under the Development Agreement. It is anticipated that similar assignment agreements will be entered into in the future with respect to the Retail Center and the Apartment Complex.

***Environmental Impact Report and Litigation.*** On November 8, 2004, the Board of Supervisors certified the environmental impact report for the project and granted a number of approvals that would allow the implementation of the Rancho Mission Viejo Ranch Plan Planned Community. On December 8, 2004, the Endangered Habitats League, Natural Resources Defense Council, Sea and Sage Audubon Society, Laguna Greenbelt, Inc., and Sierra Club filed suit challenging the County’s approval of the Rancho Mission Viejo Ranch Plan Planned Community and related environmental impact report.

On August 16, 2005, RMV, the County, the Endangered Habitats League, Natural Resources Defense Council, Sea and Sage Audubon Society, Laguna Greenbelt, Inc., and Sierra Club reached an agreement to settle the lawsuit challenging the County’s approval of the Rancho Mission Viejo Ranch Plan Planned Community and the comprehensive open space and land use management plan for the remaining 22,815 acres of Rancho Mission Viejo, including the area comprising Improvement Area No. 2. The settlement resolved all outstanding litigation of the parties regarding the Rancho Mission Viejo Ranch Plan Planned Community and expanded the protection of open space and species found in the area covered by the Ranch Plan.

As a result of the litigation settlements, the Ranch Plan and the Development Agreement, the remaining undeveloped portions of the Ranch consisting of the Rancho Mission Viejo Ranch Plan Planned Community is entitled for the development of up to 14,000 dwelling units and 5.2 million square feet of

commercial, business and urban centers located on 5,873 acres within six planning areas. The remaining 16,942 acres will remain open space.

***Other Settlement Agreements.*** On December 8, 2004, RMV entered into an agreement with the City of San Clemente. RMV agreed not to enter into any agreements with any third party to transfer residential density in the Rancho Mission Viejo Ranch Plan Planned Community from the San Juan Watershed to the San Mateo Creek Watershed over that residential density currently allocated pursuant to the Rancho Mission Viejo Ranch Plan Planned Community entitlements. The City of San Clemente agreed not to challenge any transfer of residential density from the San Juan Creek to any one or more of the planning areas in the San Mateo Watershed that is ten percent or less of the San Mateo Watershed density. The agreement also requires RMV to complete a recreational facilities study and restricts the ability of the City of San Clemente to challenge the Rancho Mission Viejo Ranch Plan Planned Community approvals.

On June 9, 2005, RMV entered into an agreement with the City of Mission Viejo in order to resolve such city's challenge to the County's approval of the Rancho Mission Viejo Ranch Plan Planned Community and related environmental impact report. The settlement agreement resolved the City's litigation and, in relevant part, provided for the reallocation of certain funds to be provided by RMV pursuant to the South County Roadway Improvement Program (the "SCRIP") so as to better address local and regional roadway improvements benefiting the City of Mission Viejo.

At this time, the Developer believes that all fees and obligations required by the Development Agreement, related litigation settlements, and the Assignment Agreement for the development of property in Improvement Area No. 2 have been paid or fulfilled.

#### **Developments by Developer Affiliates within Improvement Area No. 2**

***General.*** Five major projects are planned within Improvement Area No. 2. Four of such projects – the Business Park, the Self-Storage Facility, the Apartment Complex and the Retail Center – are or are planned to be undertaken through joint ventures which involve Esencia Retail, an affiliate entity of the Developer. The remaining project is the Medical Facility, which is anticipated to be undertaken by the Mission Hospital Regional Medical Center, an entity that is not affiliated with the Developer.

The Developer does not believe that there have been any delays in the development of the projects being undertaken through the joint ventures involving Esencia Retail which are attributable to the impacts of the COVID-19 pandemic. However, no assurances can be made that development of such projects will not be subject to delays as a result of the COVID-19 pandemic or other reasons beyond the Developer or its affiliates' control. See "SPECIAL RISK FACTORS."

The following sections provide descriptions of the four projects being undertaken or planned to be undertaken through joint ventures involving Esencia Retail. See "—Medical Facility" below for a description of the proposed Medical Facility to be developed by Mission Hospital.

In connection with the development within Improvement Area No. 2, Esencia Retail entered into a construction loan agreement with MUFG Union Bank, N.A. (the "Development Loan") to finance certain costs and improvements allocable to the provision of backbone infrastructure, streets and common area improvements within Improvement Area No. 2. Such costs include, but are not limited to, temporary improvements for power and access during construction, soft costs (permits and fees, taxes and reserves), construction contingencies and monuments. The Development Loan is secured by a deed of trust on all of the property within Zone 1 of Improvement Area No. 2. As of June 1, 2020, the Development Loan was outstanding in the amount of \$1,154,074. The Developer expects the Development Loan to be paid down as the construction loans for the Self-Storage Facility, the Business Park and the Apartment Complex are obtained.

**Self-Storage Facility.** The Self-Storage Facility is located on approximately 2.2 acres and is accessible through the adjacent Business Park. The Self-Storage Facility, when complete, is anticipated to include approximately 915 storage units in two buildings, each with two stories. The units are expected to range in size from approximately 25 to 300 square feet. With the exception of the approximately 49 drive-up units, the storage units are expected to be climate-controlled. As of June 1, 2020, construction of the Self-Storage Facility was underway and is expected to be complete in August 2020.

The Developer estimates total construction cost of the Self-Storage Facility to be approximately \$22.6 million. As of June 1, 2020, the Developer estimates that approximately \$7.5 million remains to be spent to complete construction of the Self-Storage Facility. Construction costs for the Self-Storage Facility have been financed by a construction loan from MUFG Union Bank, N.A. (the “Self-Storage Loan”) in the amount of \$16 million and an equity contribution from the members of Los Patrones Self-Storage (which was a condition of the Self-Storage Loan). The Self-Storage Loan currently matures on January 1, 2023, unless extended in accordance with its terms. The Self-Storage Loan is guaranteed by certain of the Developer’s affiliates and is also secured by a deed of trust on property relating to the Self-Storage Facility. The Developer expects to continue to use proceeds of the Self-Storage Loan to fund the remaining costs to complete the Self-Storage Facility. It is currently anticipated that (1) the proceeds from the Self-Storage Loan, (2) equity contributions previously made by the members of Los Patrones Self-Storage, and (3) future rents expected to be received during the lease-up period and prior to obtaining a permanent loan, will be sufficient to fund anticipated costs until a permanent loan is obtained and lease revenues are sufficient to fund anticipated operating costs (including the payments required under such permanent loan). To the extent additional funds may be required to complete construction of the Self-Storage Facility, or to supplement expenses during or after the lease-up period, the members of Los Patrones Self Storage have the right, but not the obligation, to provide additional funds to Los Patrones Self-Storage.

As described above under “IMPROVEMENT AREA NO. 2—Market Absorption Study” and “—Appraisal” above, the Market Absorption Study and the Appraisal Report each provided estimates for the Self-Storage Facility to reach stabilized occupancy, ranging from 14 months to 20 months. In addition, while SmartStop Self-Storage (the contracted operator of the Self-Storage Facility upon completion of construction) has not provided a projected absorption schedule for the Self-Storage Facility, as stated in the Appraisal Report, a representative of SmartStop Self-Storage indicated to the Appraiser that self-storage facilities typically reach stabilized occupancy within three to four years. As described above, the Developer expects to have sufficient funding to cover expenses until the Self-Storage Facility reaches stabilized occupancy.

**Business Park.** The Business Park is located on approximately four acres and is planned to include three single-story steel reinforced concrete buildings. The total leasable space is expected to be approximately 99,200 square feet. The leasable space within the three buildings is expected to be divided into approximately 51 individual suites ranging in size from approximately 1,727 to 8,443 square feet. The three buildings are planned to be surrounded by an open air parking lot with approximately 397 spaces. As of June 1, 2020, construction of the Business Park was underway and is expected to be complete in July 2020.

The Developer estimates total construction cost of the Business Park to be approximately \$36.2 million. As of June 1, 2020, the Developer estimates that approximately \$2 million remains to be spent to complete construction of the Business Park. Construction costs for the Business Park have been financed by a construction loan from MUFG Union Bank, N.A. (the “Business Park Loan”) in the amount of \$18.5 million and an equity contribution from members of Los Patrones Business Park (which was a condition of the Business Park Loan). The Business Park Loan currently matures on December 1, 2022, unless extended in accordance with its terms. The Business Park Loan is guaranteed by certain of the Developer’s affiliates and is also secured by a deed of trust on property relating to the Business Park. The Developer expects to continue to use proceeds of the Business Park Loan to fund the remaining costs to complete the Business Park.

As described above under “IMPROVEMENT AREA NO. 2—Appraisal” above, the Appraisal Report estimates that the Business Park will reach stabilized occupancy in approximately July 2022. The Developer

believes that this estimated timeframe is reasonable. It is currently anticipated that (1) the proceeds from the Business Park Loan, (2) equity contributions previously made by the members of Los Patrones Business Park, and (3) future rents expected to be received during the lease-up period and prior to obtaining a permanent loan, will be sufficient to fund anticipated costs until a permanent loan is obtained and lease revenues are sufficient to fund anticipated operating costs (including the payments required under such permanent loan). To the extent additional funds may be required to complete construction of the Business Park, or to supplement expenses during or after the lease-up period, the members of Los Patrones Business Park have the right, but not the obligation, to provide additional funds to Los Patrones Business Park.

The zoning of the Business Park authorizes a variety of commercial uses including office and retail. As of June 1, 2020, the Developer reports that approximately 20% of the leasable space of the Business Park has been pre-leased by tenants for use as a swimming instruction school and the RanchoMMC association office. Lease negotiations are in process with additional tenants. The terms of the pre-leased space in the Business Park are “triple-net” leases and provide that the *ad valorem* taxes and special taxes are a part of a tenant’s rental obligation. The Developer’s expectation with respect to the Business Park is for all leasable space to be subject to “triple-net” leases.

**Apartment Complex.** The parcel that is planned for the Apartment Complex is approximately 5.8 acres and is currently planned to include approximately 92 market-rate units across several buildings. Planned amenities include a community clubhouse, swimming pool, spa, fitness center, BBQ area and on-site parking. The parcel for the Apartment Complex is currently owned by Esencia Retail. Esencia Retail expects to transfer ownership of such parcel to Los Patrones Apartments in July 2020 and commence construction thereof toward the end of July 2020. As of June 1, 2020, the property for the Apartment Complex consisted of vacant land.

The Developer currently expects the costs of construction of the Apartment Complex to be approximately \$35 million and expects that such costs will be financed through a construction loan and if necessary, equity contributions from the Developer’s affiliates. The construction loan is expected to be secured in July 2020. The current expectation is for such construction loan to be converted or refinanced into long-term permanent loan upon completion of the Apartment Complex.

**Retail Center.** Approximately 30 acres within Improvement Area No. 2 are planned for a Retail Center with approximately 204,000 square feet of retail space. Among other retail uses, the Developer currently anticipates tenants such as a main-line grocery store, gas station and drug store. As of June 1, 2020, the property for the Retail Center consisted of vacant land. Esencia Retail expects to undertake the development of the Retail Center through a joint venture. Construction of the Retail Center is planned to commence based on demand for such retail space, which will be based in part on the pace of home sales within the Rancho Mission Viejo Ranch Plan Planned Community.

### **Medical Facility**

In 2017, DMB Communities, LLC (an affiliated entity of the DMB SJIN) sold approximately seven acres within Improvement Area No. 2 (the “Mission Hospital Property”) to Mission Hospital Regional Medical Center (the “Transaction”). Mission Hospital is a California nonprofit public benefit corporation that operates a general acute care hospital with a campus in the City of Mission Viejo and a campus in the City of Laguna Beach accredited in accordance with the standards of the Joint Commission and licensed by the California Department of Public Health.

As of June 1, 2020, the Mission Hospital Property consisted of vacant land. Subject to necessary governmental and internal governance approvals, the availability of funding, satisfactory market conditions, and other conditions of the Transaction, Mission Hospital’s plans for a Medical Facility on the Mission Hospital Property are as follows: At buildout, the Medical Facility is expected to include a Medical Office “Class A” building (generally regarded as buildings with higher-end finishes and above-average rental prices

for its market) with two stories. The total square footage of the Medical Facility is expected to be approximately 70,000 square feet. Mission Hospital plans to build the Medical Facility in two phases. The first phase is expected to include one building with 35,000 square feet and the second phase is expected to include one attached building with 35,000 square feet. Mission Hospital has submitted design plans for the Medical Facility to the County and expects to receive the necessary approvals to obtain building permits and commence construction by December 16, 2021. Mission Hospital expects to commence construction of the first phase of the Medical Facility in 2021 and complete construction in 2023. Construction of the second phase will commence at such time that Mission Hospital believes there is sufficient demand within the vicinity for healthcare services and office space.

A portion of the Medical Facility is expected to house Mission Hospital or its affiliate's employees. The remaining portion is expected to be leased to healthcare professionals who are not Mission Hospital employees. Mission Hospital anticipates that the Medical Facility will be occupied by a variety of healthcare professionals including, but not limited to, primary care providers, specialists, alternative health providers and dentists.

Mission Hospital estimates the total costs to construct the first phase of the Medical Facility to be \$35 million. Mission Hospital has not yet finalized its financing plan with respect to the Medical Facility and may finance such costs through joint ventures, loans, internal cash or a combination thereof.

[INSERT SITE PLAN]

## **SPECIAL RISK FACTORS**

The purchase of the Bonds involves significant risks that are not appropriate investments for certain 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. The Bonds have not been rated by a rating agency. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area No. 2 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 Improvement Area No. 2. See “— Land Values” and “— Limited Secondary Market.”

### **Risks of Real Estate Secured Investments Generally**

The Bond owners 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 Improvement Area No. 2, the supply of or demand for competitive properties in such area, and the market value of property in Improvement Area No. 2 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; and (iii) natural disasters (including, without limitation, earthquakes, fires and floods), which may result in uninsured losses.

No assurance can be given that the current or any future property owners within Improvement Area No. 2 will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “— Bankruptcy and Foreclosure” below, for a discussion of certain limitations on the County’s ability to pursue judicial proceedings with respect to delinquent parcels.

### **COVID-19 (Coronavirus) Pandemic**

The spread of the novel strain of coronavirus called COVID-19 is having significant negative impacts throughout the world, including in the State and County. The World Health Organization declared the COVID-19 outbreak to be a pandemic, and states of emergency have been declared by the County, State and the United States. The purposes behind these declarations are to coordinate and formalize emergency actions across federal, state and local governmental agencies, and to proactively prepare for a wider spread of the virus. There have been confirmed cases of COVID-19 in the County, and confirmed cases of COVID-19 are growing throughout the State and health officials are expecting the number of confirmed cases to continue to grow.

In response to the outbreak of COVID-19, the California State Public Health Officer and Director of the California Department of Public Health ordered all individuals living in the State to stay home or at their place of residence (“Stay Home Order”), except as needed to maintain continuity of operation of the critical infrastructure sectors, critical government services, schools, and construction, including housing construction. The impact of COVID-19 and the Stay Home Order is likely to continue to evolve over time, which could adversely impact the completion of the development in Improvement Area No. 2, including, but not limited to, one or more of the following ways: (i) potential supply chain slowdowns or shutdowns resulting from the unavailability of workers in locations producing construction materials; (ii) slowdowns or shutdowns by local governmental agencies in providing governmental permits, inspections, title and document recordation, and other services and activities associated with real estate development; (iii) delays in construction where one or more members of the workforce becomes infected with COVID-19; (iv) fluctuations in financial markets and

contraction in available liquidity; (v) extensive job losses and declines in business activity across important sectors of the economy; (vi) declines in business and consumer confidence that negatively impact economic conditions or cause an economic recession; and (vii) the failure of government measures such as fiscal stimulus to counteract the economic impact of the pandemic. The ultimate effects of the COVID-19 outbreak could have a material adverse effect on the ability to complete the remaining development in Improvement Area No. 2 as planned. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT.”

In response to the COVID-19 pandemic, the County closed certain County offices and functions and may take additional actions in response to the coronavirus concerns, which may or may not include limiting or eliminating services required to complete the development within Improvement Area No. 2 as described in this Official Statement. Furthermore, other public agencies serving the property within Improvement Area No. 2 may take similar actions. Such actions may affect the ability to complete the planned development in the time period and within the cost estimates described in this Official Statement under the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENT.”

Certain northern California counties temporarily halted most construction, including residential construction which is not affordable housing, to combat the spread of the coronavirus. Such restrictions have since been lifted. The County did not impose a similar restriction on construction activity. In the event of an escalation of the COVID-19 outbreak, the County could impose similar temporary construction restrictions and such restrictions could have a material adverse effect on the ability to complete the projects within Improvement Area No. 2 on the timeframes and budgets described in this Official Statement under the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENT.”

The COVID-19 outbreak is ongoing, and the ultimate geographic spread of the virus, the duration and severity of the outbreak and actions that may be taken by governmental authorities to contain the outbreak or to treat its impact are uncertain. The ultimate adverse impact of COVID-19 on Improvement Area No. 2, and the Developer and its affiliates and Mission Hospital’s operations and finances, and the real estate market in general is unknown.

### **Concentration of Ownership**

As discussed above under the headings “IMPROVEMENT AREA NO. 2—Appraised Value-To-Lien Ratios” and “PROPERTY OWNERSHIP AND THE DEVELOPMENT,” the Developer’s affiliates and/or joint venture partners own a fee interest in nearly all of the land within Zone 1 and Mission Hospital owns all of the land in Zone 2 of Improvement Area No. 2. There is no assurance that ownership of property within Improvement Area No. 2 will be further diversified. The current expectation with respect to the Business Park and the proposed Retail Center is to lease the space to third-parties upon completion of such projects. The terms of the pre-leased space in the Business Park are “triple-net” leases and provide that the *ad valorem* taxes and special taxes, including the Special Taxes, are a part of a tenant’s rental obligation. The Developer’s expectation with respect to the Business Park and the Retail Center is for all leasable space to be subject to “triple-net” leases.

The receipt of the Special Taxes is dependent on the owners of the property in Improvement Area No. 2 paying the Special Taxes when due, and could be adversely affected by the inability to lease property within Improvement Area No. 2 due to commercial downturns or high vacancy rates. Accordingly, the willingness of the property owners to pay the Special Taxes may be dependent, in part, on the success of the proposed projects in Improvement Area No. 2.

Failure of the property owners within Improvement Area No. 2 to pay the annual Special Taxes when due could result in a draw on the Reserve Account of the Special Tax Fund, and ultimately a default in payments of the principal of, and interest on, the Bonds, when due. No assurance can be given that the current property owners or their successors, will complete the remaining intended construction and development in Improvement Area No. 2. See “— Failure to Develop Properties.”



While the District does not expect to levy Special Taxes on Undeveloped Property in Fiscal Year 2020-21, assuming no further development within Improvement Area No. 2, the District will levy Special Taxes on Undeveloped Property in fiscal years thereafter to meet the Special Tax Requirement. Undeveloped Property is defined in the Rate and Method as Taxable Property not classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property. In the event that the joint venture entities affiliated with the Developer or Mission Hospital fail to complete the remaining intended construction and development in Improvement Area No. 2, Special Taxes will continue to be levied on Undeveloped Property owned by such entities. No assurance can be given that such entities or any successors, will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See “— Bankruptcy and Foreclosure” for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

### **Limited Obligations**

The Bonds and interest thereon are not payable from the general funds of the County. Except with respect to the Special Taxes, neither the faith and credit nor the taxing power of the District or the County is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Indenture, no owner of the Bonds may compel the exercise of any taxing power by the District or the County or force the forfeiture of any County or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the County or a legal or equitable pledge, charge, lien or encumbrance upon any of the County’s or the District’s property or upon any of the County’s or the District’s income, receipts or revenues, except the Net Taxes and other amounts pledged under the Indenture.

### **Insufficiency of Special Taxes**

Under the Rate and Method, the annual amount of Special Tax to be levied on each taxable parcel in Improvement Area No. 2 will generally be based on the Zone and land use class to which a parcel of Taxable Property is assigned. See APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX” and “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Rate and Method of Apportionment of Special Tax.*”

In order to pay debt service on the Bonds, it is necessary that the Special Taxes be paid in a timely manner. The District will establish and fund upon the issuance of the Bonds a Reserve Account of the Special Tax Fund in an amount equal to the Reserve Requirement to pay debt service on the Bonds to the extent other funds are not available. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund.” The District will covenant to maintain in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement subject, however, to the limitation that the District may not levy the Special Tax in Improvement Area No. 2 in any fiscal year at a rate in excess of the maximum amounts permitted under the Rate and Method. As a result, if a significant number of delinquencies occurs, the District could be unable to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement due to the limitations on the maximum Special Tax. If such defaults were to continue in successive years, the Reserve Account of the Special Tax Fund could be depleted and a default on the Bonds could occur.

The District will covenant in the Indenture that, under certain conditions, it will institute foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” for provisions which apply in the event of such foreclosure and which the District is required to follow in the event of delinquencies in the payment of the Special Tax.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to owners of the Bonds (if the Reserve Account of the Special Tax Fund has been depleted) pending such sales or

the prosecution of such foreclosure proceedings and receipt by the District of the proceeds of sale. The District may adjust the future Special Tax levied on taxable parcels in Improvement Area No. 2, subject to the limitation on the maximum Special Tax, to provide an amount required to pay interest on, principal of, and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Reserve Account of the Special Tax Fund to an amount equal to the Reserve Requirement and to pay all current expenses; provided, however, that the Act and the Rate and Method provide that under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of residential property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within Improvement Area No. 2. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in Improvement Area No. 2 will be at all times sufficient to pay the amounts required to be paid by the Indenture, even if the Special Tax is levied at the maximum Special Tax rates. See "—Bankruptcy and Foreclosure" for a discussion of potential delays in foreclosure actions.

The Rate and Method governing the levy of the Special Tax provides that no Special Tax shall be levied on Assessor's Parcels of Conservation Property, Property Owner Association Property, Public Property, and/or Religious Property up to the acreage in Table 5 in APPENDIX A. See Section E of APPENDIX A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX." If for any reason property within Improvement Area No. 2 becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within Improvement Area No. 2. This would result in the owners of such 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 Rate and Method governing the levy of the Special Tax provides that, once a parcel is classified as Taxable Property, it will remain subject to a Special Tax levy even if it is subsequently acquired by a public agency. The Act provides that, if any property within Improvement Area No. 2 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 Improvement Area No. 2 was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which 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.

### **Teeter Plan Termination**

In 1993, the County implemented its Teeter Plan as an alternate procedure for the distribution of certain property tax and assessment levies on the secured roll. Pursuant to its Teeter Plan, the County has elected to provide local agencies and taxing areas, including the District and Improvement Area No. 2 therein, with full tax and assessment levies instead of actual tax and assessment collections. In return, the County is entitled to retain all delinquent tax and assessment payments, penalties and interest. Thus, the County's Teeter Plan may protect the Owners of the Bonds from the risk of delinquencies in the payment of Special Taxes. However, the County is entitled, and under certain circumstances could be required, to terminate its Teeter Plan with respect to all or part of the local agencies and taxing areas covered thereby. A termination of the Teeter Plan with respect to Improvement Area No. 2 would eliminate such protection from delinquent Special Taxes. See "SOURCES OF PAYMENT FOR THE BONDS – Teeter Plan."

## **Failure to Develop Properties**

Development of property within Improvement Area No. 2 may be subject to unexpected delays, disruptions and changes which may affect the willingness and ability of the property owners to pay the Special Taxes when due. Land development is 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. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or satisfy such governmental requirements would adversely affect planned land development. Development of land in Improvement Area No. 2 is also subject to the availability of water. Finally, development of land is subject to economic considerations.

The Developer reports that the area included in Improvement Area No. 2 has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to the boundary of the District to be installed by the Developer to support development within Improvement Area No. 2 has been completed. The Business Park and the Self-Storage Facility are near completion. The property planned for the Apartment Complex, the Retail Center and the Medical Facility currently consist of vacant land. No assurance can be given that the remaining proposed development will be partially or fully completed; and for purposes of evaluating the investment quality of the Bonds, prospective purchasers should consider the possibility that such parcels will remain unimproved.

Undeveloped or partially developed land is inherently less valuable than developed land and provides less security to the Bondowners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. The failure to complete development in Improvement Area No. 2 as planned, or substantial delays in the completion of the development due to litigation or other causes may reduce the value of the property within Improvement Area No. 2 and increase the length of time during which Special Taxes will be payable from undeveloped property, and may affect the willingness and ability of the owners of property within Improvement Area No. 2 to pay the Special Taxes when due.

There can be no assurance that land development operations within Improvement Area No. 2 will not be adversely affected by future deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, an increase in mortgage interest rates, the income tax treatment of real property ownership, or the national economy. A slowdown of the development process and the absorption rate could adversely affect land values and reduce the ability or desire of the property owners to pay the annual Special Taxes. In that event, there could be a default in the payment of principal of, and interest on, the Bonds when due.

Bondowners should assume that any event that significantly impacts the ability to develop land in Improvement Area No. 2 would cause the property values within Improvement Area No. 2 to decrease substantially from those estimated by the Appraiser and could affect the willingness and ability of the owners of land within Improvement Area No. 2 to pay the Special Taxes when due.

The District will not levy Special Taxes on Undeveloped Property in Fiscal Year 2020-21. Assuming no further development, the District expects to levy Special Taxes on Undeveloped Property in future fiscal years until the Special Taxes levied on Developed Property are sufficient to fund the Special Tax Requirement. Undeveloped Property is less valuable per unit of area than Developed Property, especially if there are no plans to develop such land or if there are severe restrictions on the development of such land. 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 Improvement Area No. 2 as currently proposed will make the Bondowners dependent upon timely payment of the Special Taxes levied on Undeveloped Property. A slowdown or stoppage in the continued development of Improvement Area No. 2 could reduce the willingness and ability of the current

property owners, or any successors, to make Special Tax payments on Undeveloped Property and could greatly reduce the value of such property in the event it has to be foreclosed upon. See “— Land Values.”

### **Natural Disasters**

Improvement Area No. 2, like all California communities, may be subject to unpredictable seismic activity, fires, floods, or other natural disasters. No known active or potentially active faults, as defined in the Alquist-Priolo Earthquake Fault Zone Act, cross the property within Improvement Area No. 2, and Improvement Area No. 2 is not located in an Alquist Priolo Earthquake Study Zone. However, Southern California is a seismically active area; and active faults exist within the vicinity of Improvement Area No. 2. Seismic activity represents a potential risk for damage to buildings, roads, and property within Improvement Area No. 2. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. Improvement Area No. 2 is not located in a flood plain area.

In recent years, wildfires have caused extensive damage throughout the State, including within the County. Certain of these fires have burned thousands of acres and destroyed hundreds and in some cases thousands of homes. In some instances entire neighborhoods have been destroyed. Several fires which occurred in 2017 damaged or destroyed property in areas that were not previously considered to be at risk from such events. Some commentators believe that climate change will lead to even more frequent and damaging wildfires in the future. The Esencia development, including the property within Improvement Area No. 2, is located adjacent to open space terrain which the Department of Forestry and Fire Protection of the State of California has designated as a very high fire hazard severity zone. The area also experience high winds known as Santa Ana winds which frequently accompany and magnify the intensity of wildfires.

The County, the Orange County Fire Authority and the Developer prepared a “Ranch Plan Fire Protection Program” which was adopted by the County Board of Supervisors in 2007 and has been amended from time-to-time (as amended, the “Fire Protection Plan”). The purpose of the Fire Protection Plan was to set forth certain fire protection measures to be implemented within the Ranch development (including the District). Among other measures, the Fire Protection Plan provides for a 110-foot wide “Fuel Modification Zone” that will run along the boundary of the District and limits the type of vegetation that may be planted within such Fuel Modification Zone. The Fuel Modification Zone is subject to inspection by the Orange County Fire Authority and is expected to be maintained by the property owner’s association within the District. Notwithstanding the foregoing mitigation measures, there is a risk of property within Improvement Area No. 2 being destroyed by wildfires and no assurance can be given as to the severity or frequency of wildfires within the vicinity of Improvement Area No. 2.

In the event of a severe earthquake, wildfire, flood or other natural disaster, there may be significant damage to both property and infrastructure in Improvement Area No. 2. As a result, 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 Improvement Area No. 2 could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

### **Endangered/Threatened Species**

During the 1990s, there was an increase in activity at the State and federal level related to the possible listing of certain plant and animal species found in the Southern California area as endangered or threatened species. In response to this activity, several large landowners began an effort to move away from “species by species” entitlement to multiple species entitlement, in order to minimize the risk of future species listings and maximize the certainty of development. The Original Property Owners are some of such landowners. The Original Property Owners are permittees under the Southern Subregion Habitat Conservation Plan (“SSHCP”) which addresses seven (7) federally listed species and twenty-five (25) sensitive species. The Rancho Mission Viejo Ranch Plan Planned Community is permitted by the SSHCP. Accordingly, such development within Improvement Area No. 2 is in compliance with this habitat conservation plan and is not anticipated to be impeded as a result of endangered or threatened species.

## **Hazardous Substances**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases 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 stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming the owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which 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 which 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 such substance. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency and the willingness or ability of the owner of any parcel to pay the Special Tax installments.

The value of the taxable property within Improvement Area No. 2, as set forth in the various tables in this Official Statement, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The Developer has represented to the District that it is not aware of any hazardous substance condition of the property within Improvement Area No. 2. The District has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within Improvement Area No. 2 has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

### **Payment of the Special Tax is not a Personal Obligation of the Property 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 property owner.

## **Land Values**

The value of the property within Improvement Area No. 2 is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District’s only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See “IMPROVEMENT AREA NO. 2 — Appraised Value-to-Lien Ratios.”

The Appraiser has estimated, on the basis of certain definitions, contingencies, assumptions and limiting conditions contained in the Appraisal Report that as of May 15, 2020, the market value of the land and improvements within Improvement Area No. 2 was approximately \$102,960,000. The Appraisal Report is based on a number of contingencies, assumptions and limiting conditions as stated in APPENDIX B —

“APPRAISAL REPORT.” The Appraisal Report does not reflect any possible negative impact which could occur by reason of future slow or no growth voter initiatives, an economic downturn, any potential limitations on development occurring due to time delays, an inability of any landowner to obtain any needed development approval or permit, the presence of hazardous substances or other adverse soil conditions within Improvement Area No. 2, the listing of endangered species or the determination that habitat for endangered or threatened species exists within Improvement Area No. 2, or other similar situations.

Prospective purchasers of the Bonds should not assume that the land and improvements within Improvement Area No. 2 could be sold for the amount stated in the Appraisal Report at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, the Appraiser assumes that any property will be sold in a competitive market after a reasonable exposure time, and assuming that neither the buyer or seller is under duress, which is not always present in a foreclosure sale. See APPENDIX B — “APPRAISAL REPORT” for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser’s assumptions to be untrue could result in a reduction of the value of the land within Improvement Area No. 2 from that estimated by the Appraiser.

The assessed values set forth in this Official Statement do not represent market values arrived at through an appraisal process and generally reflect only the sales price of a parcel when acquired by its current owner, adjusted annually by an amount determined by the County Assessor, generally not to exceed an increase of more than 2% per fiscal year. No assurance can be given that a parcel could actually be sold for its assessed value.

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 APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings.”

### **Parity Taxes and Special Assessments**

Property within Improvement Area No. 2 is subject to taxes and assessments imposed by other public agencies also having jurisdiction over the land within Improvement Area No. 2. See “IMPROVEMENT AREA NO. 2 — Direct and Overlapping Indebtedness.”

The Special Taxes and any penalties thereon will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. 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 or other federal agencies. See “— FDIC/Federal Government Interests in Properties” and “— Bankruptcy and Foreclosure.”

**Neither the District nor the County has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within Improvement Area No. 2. In addition, the landowners within Improvement Area No. 2 may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes and *ad valorem* taxes or assessments. Any such special 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 the property within Improvement Area No. 2 described herein. See “SOURCES OF PAYMENT FOR THE BONDS” and “IMPROVEMENT AREA NO. 2— Direct and Overlapping Indebtedness” and “— Appraised Value to Lien Ratios.”**

### **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value 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 County has caused a notice of the Special Tax to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within Improvement Area No. 2 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 special tax under the Act 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**

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, will be billed to the properties within Improvement Area No. 2 on the regular *ad valorem* property tax bills sent to owners of such properties by the County Tax Collector. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See APPENDIX E — “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — COVENANTS AND WARRANTY — Covenants — Commence Foreclosure Proceedings” for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See “— Bankruptcy and Foreclosure” for a discussion of the policy of the Federal Deposit Insurance Corporation regarding the payment of special taxes and assessment and limitations on the District’s ability to foreclosure on the lien of the Special Taxes in certain circumstances.

### **Potential Early Redemption of Bonds from Prepayments or Assessment Bond Proceeds**

Property owners within Improvement Area No. 2 are permitted to prepay the Special Tax obligation on their property at any time. Such prepayments could also be made from the proceeds of bonds issued by or on behalf of an overlapping special assessment district or community facilities district. Such prepayments will result in a redemption of the Bonds on the Interest Payment Date for which timely notice may be given under the Indenture following the receipt of the prepayment. The resulting redemption of Bonds that were purchased at a price greater than par could reduce the otherwise expected yield on such Bonds. See the caption “THE BONDS—Redemption— *Extraordinary Redemption from Special Tax Prepayments.*”

### **FDIC/Federal Government Interests in Properties**

**General.** The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: “This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within Improvement Area No. 2 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 the parcel and the District wishes to foreclose on the 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. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association (“FNMA”) is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

The District has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes within Improvement Area No. 2, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the Bonds are outstanding.

**FDIC.** In the event that any financial institution making any loan which is secured by real property within Improvement Area No. 2 is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC’s consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC’s federal immunity. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from special taxes under the Act.



The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within Improvement Area No. 2 in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

### **Bankruptcy and Foreclosure**

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Bonds in at least two ways. First, 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 "SOURCES OF PAYMENT FOR 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.

Second, the Bankruptcy Code might prevent moneys on deposit in the Acquisition and Construction Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner or other party and if the court found that the landowner or other party had an interest in such moneys within the meaning of Section 541(a)(1) of the Bankruptcy Code.

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.

On July 30, 1992, the United States Court of Appeals for the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries*. In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 (the "Bankruptcy Reform Act") included a provision which excepts from the Bankruptcy Code's automatic stay provisions, "the creation of a statutory lien for an *ad valorem* property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court]." This amendment effectively makes the *Glasply* holding inoperative as it relates to *ad valorem* real property taxes. However, it is possible that the original rationale of the *Glasply* ruling could still result in the treatment of post-petition special taxes as "administrative expenses," rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

According to the court's ruling, as administrative expenses, post-petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current *ad valorem* taxes.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as *ad valorem* taxes. No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy court. *Glasply* is controlling precedent on bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

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.

### **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 terms of the Bonds or the Indenture or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. Pursuant to the Indenture, an owner is given the right for the equal benefit and protection of all owners of the Bonds similarly situated to pursue certain remedies described in APPENDIX E — "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE — EVENTS OF DEFAULT; REMEDIES" and "— Limitations on Rights and Remedies of Owners."

### **Loss of Tax Exemption**

As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the District in violation of its covenants in the Indenture with respect to compliance with certain provisions of the Internal Revenue Code of 1986. Should such an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed under the redemption provisions contained in the Indenture.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain statutorily required financial and operating information, there can be no assurance that such information will be available to Bondowners on a timely basis. See "CONTINUING DISCLOSURE." Any failure to provide annual financial information, if required, does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, the absence of a credit rating for the Bonds 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.

### **Proposition 218**

An initiative measure commonly referred to as the "Right to Vote on Taxes Act" (the "Initiative") was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." The provisions of the Initiative as they may relate to community facilities district are subject to interpretation by the courts. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the Bonds as described below.

Among other things, Section 3 of Article XIIC states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

“Section 3 of Article XIIC of the California Constitution, as adopted at the November 5, 1996, general election, shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after that date, assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights protected by Section 10 of Article I of the United States Constitution.”

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

It may be possible, however, for voters or the Board of Supervisors acting as the legislative body of the District to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the District will covenant that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within Improvement Area No. 2. In connection with the foregoing covenant, the District will make an express determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The District will also covenant that, in the event an initiative is adopted which purports to alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

The interpretation and application of Article XIII C and Article XIII D will ultimately be determined by the courts with respect to a number of the matters discussed above, and it is not possible at this time to predict with certainty the outcome of such determination or the timeliness of any remedy afforded by the courts. See “SPECIAL RISK FACTORS — Limitations on Remedies.”

### **Litigation with Respect to Community Facilities Districts**

**Shapiro.** The California Court of Appeal, Fourth Appellate District, Division One, issued its opinion in *City of San Diego v. Melvin Shapiro* (2014) 228 Cal.App.4th 756 (the “San Diego Decision”). The case involved a Convention Center Facilities District (the “CCFD”) established by the City of San Diego (“San Diego”). The CCFD is a financing district much like a community facilities district established under the provisions of the Act. The CCFD is comprised of all of the real property in San Diego. However, the special tax to be levied within the CCFD was to be levied only on hotel properties located within the CCFD.

The election authorizing the special tax was limited 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 not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was modeled after 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. The Court held that the CCFD special tax election was invalid under the California Constitution because Article XIII A, Section 4 thereof and Article XIII C, Section 2 thereof require that the electors in such an election be the registered voters within the district.

**Horizon.** The Sacramento County Superior Court had issued a tentative ruling in *Horizon Capital Investments, LLC v. City of Sacramento et al.* (Case No. 34-2017-80002661). That ruling subsequently became the court's final order. As described below, this case involved an election to approve the levy of a special tax within a community facilities district ("CFD") formed under the Act.

In 2017, the City of Sacramento initiated proceedings to form a CFD to finance certain costs to operate and maintain a streetcar line. As permitted by the Act, the proposed district included non-contiguous parcels of non-residential property. Because there were fewer than 12 registered voters residing within the territory of the proposed CFD, the City Council submitted the special tax proposed to be levied within the proposed CFD to the owners of land within the proposed CFD, as required by the Act. The proposed special tax received the requisite two-thirds vote in the landowner election.

Petitioners Horizon Capital Investments, LLC et al. filed a writ of mandate and complaint for reverse validation and declaratory relief. Petitioners argued, and the superior court agreed in its final ruling, that under section 4(a) of article XIII A of the California Constitution (which provides that "Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district [sic], may impose special taxes on such district...") the phrase "qualified electors" means the registered voters of the entire City of Sacramento and not just the owners of the property within the boundaries of the proposed CFD. Citing the San Diego Decision, the tentative ruling states that the phrase "qualified electors of the district" refers to the registered voters of the entity imposing the special tax, which in this case was the City of Sacramento. Because the vote within the proposed CFD was by landowners only and not by all registered voters in the City of Sacramento, the final ruling states that the special tax is invalid.

The superior court's final ruling is not binding upon other courts within the State and does not directly apply to the District, the Special Taxes, or the Bonds. The City of Sacramento did not appeal the superior court's ruling.

**The Special Tax Election in the District.** With respect to the San Diego Decision, the facts of such case show that there were thousands of registered voters within the CCFD (*viz.*, all of the registered voters in San Diego). The elections held in the District, including Improvement Area No. 2 had less than 12 registered voters at the time of the election to authorize the Special Taxes. In the San Diego Decision, the court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the court's holding in the San Diego Decision does not apply to the Special Tax election in the District and Improvement Area No. 2. Moreover, Section 53341 of the 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 be brought within 30 days of the voters approving the issuance of such bonds. The petitioners in *Horizon* filed the writ of mandate within 30 days of the landowner election. Landowners in the District and Improvement Area No. 2 approved the Special Tax and the issuance of bonds on March 28, 2017. Based on Sections 53341 and 53359 of the Act and analysis of existing laws, regulations, rulings, and court decisions, the County believes that no successful challenge to the Special Taxes being levied in accordance with the Rate and Method may now be brought. In connection with the issuance of the Bonds, Bond Counsel expects to deliver its opinion in the proposed form attached hereto as Appendix C.

## **Ballot Initiatives**

Articles XIII A, XIII B, XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the County, or local districts to increase revenues or to increase appropriations or on the ability of the current property owners in Improvement Area No. 2 to complete the remaining proposed development.

## **Limitations on Remedies**

Remedies available to the 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 interest on the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture 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 creditor's rights, by equitable principles and by the exercise of judicial discretion and by limitations on remedies against public agencies in the State of California. The Bonds are not subject to acceleration. 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 owners.

## **CONTINUING DISCLOSURE**

### **District Continuing Disclosure**

Pursuant to a Continuing Disclosure Certificate (the "District Continuing Disclosure Certificate"), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) website, or other repository authorized under Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission, certain annual financial information and operating data concerning Improvement Area No. 2. The District Reports are to be filed not later than March 1 of each year, beginning March 1, 2021. The District Reports will include the audited financial statements of the District, if any are prepared. The District does not currently prepare audited financial statements and does not anticipate doing so in the future. The full text of the District Continuing Disclosure Certificate is set forth in APPENDIX F — "FORM OF CONTINUING DISCLOSURE CERTIFICATE OF THE DISTRICT."

Notwithstanding any provision of the Indenture, failure of the District to comply with the District Continuing Disclosure Certificate shall not be an event of default under the Indenture. However, any Owner or Beneficial Owner 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 District Continuing Disclosure Certificate.

On August 29, 2018, S&P Global Ratings upgraded the rating for the Community Facilities District No. 2004-1 of the County of Orange (Ladera Ranch) Series 2014A Special Tax Refunding Bonds. The notice of such rating change was not timely filed and was subsequently filed on September 17, 2018.

The County will assist the District in preparing the District Reports. In order to ensure ongoing compliance by the District with its continuing disclosure undertaking, (i) County staff will take steps to ensure that the filing due date is correctly documented in policies and procedures and a single County staff member has been assigned primary responsibility to monitor compliance; and (ii) the County has contracted with a consultant to assist in filing accurate, complete and timely disclosure reports on behalf of the District.

### **Developer Continuing Disclosure**

To provide updated information with respect to the development within Improvement Area No. 2, the Developer will enter into a Continuing Disclosure Agreement of the Developer (the “Developer Continuing Disclosure Agreement”) by and between the Developer and David Taussig & Associates, Inc., as dissemination agent, and will covenant to provide an Annual Report not later than June 15 of each year beginning June 15, 2021, and a Semiannual Report on each December 15, beginning December 15, 2020, until satisfaction of certain conditions set forth in the Developer Continuing Disclosure Agreement. The Annual Report provided by the Developer and the Semiannual Report will contain updates regarding the development within Improvement Area No. 2 as outlined in Section 4 of the Developer Continuing Disclosure Agreement attached as APPENDIX G. In addition to its Annual Reports and Semiannual Reports, the Developer will agree to provide notices of certain events set forth in the Developer Continuing Disclosure Agreement.

The Developer’s obligations under the Developer Continuing Disclosure Agreement will terminate upon the earliest to occur of: (a) the legal defeasance, prior redemption or payment in full of all the Bonds; or (b) as of the date of the filing for the Semiannual Report or Annual Report (1) with respect to the obligation of the Developer to update the information with respect to the Business Park, 75% of the proposed space has been leased to tenants, (2) with respect to the obligation of the Developer to update the information respect to the Retail Center, certificates of occupancy have been issued for 75% of the proposed rentable space, (3) with respect to the obligation of the Developer to update the information with respect to the Self-Storage Facility, 75% of the proposed space has been leased to users, and (4) with respect to the obligation of the Developer to update the information with respect to the Apartment Complex, 75% of the units have been leased to tenants.

### **TAX MATTERS**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Beneficial Owner will increase the Beneficial Owner’s basis in the Bond. In the opinion of Bond Counsel, the amount of original issue discount that accrues to the Beneficial Owner of a Bond is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

Bond Counsel’s opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the District, the County and others and is subject to the condition that the District, the County and others making such representations comply with all requirements of the Internal Revenue Code of 1986, as amended (the “Code”), that must be

satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the County will covenant to comply with all such requirements.

The amount by which a Beneficial Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium, which must be amortized under Section 171 of the Code; such amortizable Bond premium reduces the Beneficial Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Beneficial Owner realizing a taxable gain when a Bond is sold by the Beneficial Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Beneficial Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of other similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

**SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. IT IS POSSIBLE THAT LEGISLATIVE CHANGES WILL BE INTRODUCED WHICH, IF ENACTED, WOULD RESULT IN ADDITIONAL FEDERAL INCOME OR STATE TAX BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.**

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District and the County continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability

of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

Should interest on the Bonds (including any original issue discount) become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as APPENDIX C.

### **LEGAL MATTERS**

The legal opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, approving the validity of the Bonds in substantially the form set forth as APPENDIX C hereto, will be made available to purchasers at the time of original delivery. Certain legal matters will be passed upon for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Disclosure Counsel, for the County and the District by the Office of County Counsel, and for the Underwriter by Best Best & Krieger LLP, Riverside California, as counsel to the Underwriter. Bond Counsel expresses no opinion to the Owners of the Bonds 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 do so.

### **VALIDATION**

On May 2, 2017, the County, acting pursuant to the provisions of Sections 860 et seq. of the California Code of Civil Procedure and Government Code Section 53359, filed a complaint in the Superior Court of the State of California for the County of Orange seeking judicial validation of the formation of the District and the designation of Improvement Area No. 1 and Improvement Area No. 2 therein, the authorization of the issuance of bonds for the District with respect to such improvement areas and the levy of the special tax within such improvement areas. On July 13, 2017, the court entered the Validation Judgment to the effect, among other things, that the proceedings conducted by the Board of Supervisors in connection with the establishment of the District and the designation of Improvement Area No. 1 and Improvement Area No. 2 therein, the authorization to incur bonded indebtedness for the District with respect to such improvement areas through the issuance of bonds and the levy of the special tax within such improvement areas were valid and in conformity with the Constitution of the State and applicable laws of the State. The last day of the appeal period for the validation action was August 14, 2017. No appeal has been filed with respect to the Validation Judgment. In issuing the opinion as to the validity of the Bonds and as a condition thereof, Bond Counsel will rely upon the entry of the Validation Judgment and the absence of a timely appeal therefrom. See APPENDIX C—"PROPOSED FORM OF BOND COUNSEL OPINION."

### **ABSENCE OF LITIGATION**

No litigation is pending or, to the knowledge of the District, threatened concerning the validity of the Bonds and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds. Neither the County nor the District is aware of any litigation pending or threatened which questions the existence of the District or the County or contests the authority of the District to levy and collect the Special Taxes or to issue and retire the Bonds.

### **NO RATING**

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



## UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (being \$\_\_\_\_\_ aggregate principal amount thereof, plus net original issue premium of \$\_\_\_\_\_ and less Underwriter’s discount of \$\_\_\_\_\_). The purchase contract 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 the purchase contract, the approval of certain legal matters by counsel and certain other conditions.

Under certain circumstances, the Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the offering price stated on the page immediately following the 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, Bond Counsel, Disclosure Counsel, Municipal Advisor to the County, the Trustee and Underwriter’s Counsel are contingent upon the issuance and delivery of the Bonds. The fees being paid to the Appraiser, to the Market Absorption Consultant and to the Special Tax Consultant are not contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to 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. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The execution and delivery of this Official Statement by the County Executive Officer has been duly authorized by the Board of Supervisors of the County of Orange acting in its capacity as the legislative body of the District.

COMMUNITY FACILITIES DISTRICT NO. 2017-1 OF  
THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)

By: \_\_\_\_\_  
County Executive Officer

## APPENDIX A

## RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

**COMMUNITY FACILITIES DISTRICT NO. 2017-1  
OF THE COUNTY OF ORANGE  
(VILLAGE OF ESENCIA)  
(IMPROVEMENT AREA NO. 2)**

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in Improvement Area No. 2 ("IA No. 2") of Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) ("CFD No. 2017-1") and collected each Fiscal Year commencing in Fiscal Year 2017-18, in an amount determined by the Board through the application of the Rate and Method of Apportionment as described below. All of the real property in IA No. 2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

**A. DEFINITIONS**

The terms hereinafter set forth have the following meanings:

**"Acre"** or **"Acreage"** means the land area of an Assessor's Parcel as shown on an Assessor's Parcel Map, or if the land area is not shown on an Assessor's Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map.

**"Act"** means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Division 2 of Title 5 of the Government Code of the State of California.

**"Administrative Expenses"** means the following actual or reasonably estimated costs directly related to the administration of IA No. 2: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the County or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the County, IA No. 2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the County, CFD No. 2017-1 or any designee thereof of complying with disclosure requirements of the County, IA No. 2 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the County, CFD No. 2017-1 or any designee thereof related to an appeal of any Special Tax levy; the costs associated with the release of funds from an escrow account; and the County's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the County or CFD No. 2017-1 for any other administrative purposes of IA No. 2, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure action to collect delinquent Special Taxes.

**"Assessor's Parcel"** means a lot or parcel shown on an Assessor's Parcel Map with an assigned Assessor's parcel number.

**"Assessor's Parcel Map"** means an official map of the Assessor of the County designating parcels by Assessor's Parcel number.

**"Assigned Special Tax"** means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C.1.(b) and Section C.1.(e) below.

**“Backup Special Tax”** means the Special Tax applicable to each Assessor’s Parcel of Developed Property, as determined in accordance with Section C.1.(d) and Section C.1.(e) below.

**“Board”** means the Board of Supervisors of the County of Orange, acting as the legislative body of CFD No. 2017-1.

**“Bonds”** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by CFD No. 2017-1 and secured by Special Taxes of IA No. 2 under the Act.

**“CFD Administrator”** means the County Executive Officer, or designee thereof, responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

**“CFD No. 2017-1”** means Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia).

**“Conservation Property”** means, for each Fiscal Year, any property within the boundaries of IA No. 2, excluding Property Owner Association Property, Public Property and Religious Property, that is subject to a declaration of irrevocable covenant, conservation easement deed, or similar document that was recorded restricting the use of such property to open space, habitat preservation, or other conservation purposes as of January 1 of the prior Fiscal Year. In order to ensure that such property is correctly classified as Conservation Property, the owner of such property shall provide the CFD Administrator with a copy of a declaration of irrevocable covenant, conservation easement deed, or similar document.

**“County”** means the County of Orange.

**“Developed Floor Area”** or **“FA”** means all of the square footage of enclosed area within the perimeter of a non-residential structure, not including any space devoted to vehicle parking and areas incident thereto. The determination of Developed Floor Area shall be made by reference to the building permit(s) issued for such Assessor’s Parcel.

**“Developed Property”** means, for each Fiscal Year, all Taxable Property, exclusive of Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, for which a building permit for new construction was issued prior to January 1 of the prior Fiscal Year. Notwithstanding the foregoing, (a) if a building permit is revoked, expired or otherwise cancelled and a new building permit is issued for the same property prior to the issuance of Bonds, then, the building square footage and building type as indicated on the new building permit shall thereafter be used for purposes of determining the Land Use Class, (b) if a building permit is revoked, expired or otherwise cancelled and a new building permit is issued for the same property after the issuance of Bonds, and the amount of Assigned Special Taxes which may be levied pursuant to the new building permit is greater than the Assigned Special Taxes which may be levied pursuant to the original building permit, then the building square footage and building type as indicated on the new building permit shall thereafter be used for purposes of determining the Land Use Class, otherwise the Land Use Class pursuant to the original building permit shall continue to be used, and (c) if a building permit is revoked, expired or otherwise cancelled and no new building permit is issued for the same property, then the property will continue to be considered Developed Property and taxed based on the original building permit.

**“Fiscal Year”** means the period starting July 1 and ending on the following June 30.

**“Hotel/Motel Property”** means, for property in Zone 1, all Assessor’s Parcels of Non-Residential Property for which a building permit has been issued by the County permitting the construction of

non-residential facilities which are, or are expected by the County to be, primarily used as a place of lodging providing sleeping accommodations and related facilities for travelers.

**“Hotel/Motel Room”** means a room or suite used as a place of lodging located on an Assessor’s Parcel of Hotel/Motel Property as indicated on the building permit issued by the County or other applicable information as determined by the CFD Administrator.

**“Improvement Area No. 2”** or **“IA No. 2”** means Improvement Area No. 2 of CFD No. 2017-1.

**“Indenture”** means the indenture, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

**“Industrial Property”** means, for property in Zone 1, all Assessor’s Parcels of Non-Residential Property for which a building permit has been issued by the County permitting the construction of non-residential facilities which are, or are expected by the County to be, primarily used for manufacturing, production, research and development, storage and/or processing of goods.

**“Institutional Property”** means, for property in Zone 1, all Assessor’s Parcels of Non-Residential Property, excluding Religious Property, for which a building permit has been issued by the County permitting the construction of non-residential facilities which are, or are expected by the County to be, primarily used for child care or private schools.

**“Land Use Class”** means any of the classes within each Zone listed in Tables 1 and 2 below.

**“Maximum Special Tax”** means for each Fiscal Year for each Assessor’s Parcel, the maximum Special Tax, determined in accordance with Section C below, that can be levied on such Assessor’s Parcel in such Fiscal Year.

**“Non-Residential Property”** means all Assessor’s Parcels of Developed Property for which a building permit was issued for a non-residential use.

**“Office/Medical Property”** means, for property in Zone 1, all Assessor’s Parcels of Non-Residential Property for which a building permit has been issued by the County permitting the construction of non-residential facilities which are, or are expected by the County to be, primarily used for professional and/or medical offices, including urgent care facilities.

**“Outstanding Bonds”** means all Bonds which are deemed to be outstanding under the Indenture.

**“Property Owner Association Property”** means, for each Fiscal Year, any property within the boundaries of IA No. 2 that is owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association as of January 1 of the prior Fiscal Year. Notwithstanding the foregoing, any property previously classified as Developed Property and subsequently owned in fee or by easement, or dedicated to, a property owner association, including any master or sub-association, shall remain classified as Developed Property.

**“Proportionately”** means for Developed Property that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property within IA No. 2. For Undeveloped Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property in IA No. 2. For Taxable Conservation Property, Taxable Property Owner Association Property, and Taxable Religious Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Taxable

Conservation Property, Taxable Property Owner Association Property, or Taxable Religious Property, as applicable, in IA No. 2. For Taxable Public Property, “Proportionately” means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Taxable Public Property, as applicable, in IA No. 2.

“**Public Property**” means, for each Fiscal Year, any property within the boundaries of IA No. 2 that is used for rights-of-way or any other purpose and is owned by, dedicated to, or irrevocably offered for dedication to the federal government, the State of California, the County or any other public agency as of January 1 of the prior Fiscal Year; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use. In order to ensure that such property is correctly classified as Public Property, the owner of such property shall provide the CFD Administrator with a copy of any applicable documents.

“**Religious Property**” means, for each Fiscal Year, all property within the boundaries of IA No. 2 which (i) is either (a) used primarily as a place of worship or (b) vacant land or land under construction that is intended to be used primarily as a place of worship as determined by the CFD Administrator; and (ii) is exempt from *ad valorem* property taxes because it is owned by a religious organization as of January 1 of the prior Fiscal Year. Religious Property, without limitation, does not include any Assessor’s Parcels used primarily for religious schools, day care centers, or congregate care facilities.

“**Residential Property**” means all Assessor’s Parcels of Developed Property for which a building permit has been issued for purposes of constructing one or more residential dwelling units.

“**Retail Property**” means, for property in Zone 1, all Assessor’s Parcels of Non-Residential Property for which a building permit has been issued by the County permitting the construction of non-residential facilities excluding Institutional Property, Hotel/Motel Property, Industrial Property, and Office/Medical Property.

“**Special Tax**” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Taxable Property to fund the Special Tax Requirement.

“**Special Tax Requirement**” means for each Fiscal Year, that amount required for IA No. 2 to pay the sum of: (i) debt service on all Outstanding Bonds or Bonds expected to be issued in such Fiscal Year; (ii) periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) Administrative Expenses; (iv) any amounts required to establish or replenish any reserve funds for all Outstanding Bonds or Bonds expected to be issued in such Fiscal Year by IA No. 2; and (v) any amounts required for construction of facilities eligible to be constructed or acquired by IA No. 2 under the Act provided that inclusion of such amount does not increase the amount of Special Taxes to be levied on Assessor’s Parcels of Undeveloped Property. In arriving at the Special Tax Requirement, the CFD Administrator shall take into account the reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year and shall give a credit for funds available to reduce the annual Special Tax levy.

“**State**” means the State of California.

“**Taxable Conservation Property**” means all Assessor’s Parcels of Conservation Property that are not exempt pursuant to Section E below.

“**Taxable Property**” means all of the Assessor’s Parcels within the boundaries of IA No. 2 which are not exempt from the Special Tax pursuant to law or Section E below.

**“Taxable Property Owner Association Property”** means all Assessor’s Parcels of Property Owner Association Property that are not exempt pursuant to Section E below.

**“Taxable Public Property”** means all Assessor’s Parcels of Public Property that are not exempt pursuant to Section E below.

**“Taxable Religious Property”** means all Assessor’s Parcels of Religious Property that are not exempt pursuant to Section E below.

**“Trustee”** means the trustee, fiscal agent, or paying agent under the Indenture.

**“Undeveloped Property”** means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property.

**“Zone”** means any one of the separate geographic areas within IA No. 2 designated on Exhibit A herein as: Zone 1 or Zone 2.

**B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, all Taxable Property within Zones 1 and 2 of IA No. 2 shall be classified as Developed Property, Taxable Conservation Property, Taxable Public Property, Taxable Property Owner Association Property, Taxable Religious Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below.

The Assigned Special Tax for Residential Property shall be based on the Zone in which the Assessor’s Parcel is located and the number of dwelling units located on the Assessor’s Parcel. The Assigned Special Tax for Non-Residential Property shall be based on the Zone in which the Assessor’s Parcel is located and the Acreage, Developed Floor Area, or number of Hotel/Motel Rooms for such Assessor’s Parcel.

**C. MAXIMUM SPECIAL TAX RATE**

**1. Developed Property**

a. Maximum Special Tax

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property within a particular Zone shall be the greater of (i) the amount derived by application of the Assigned Special Tax for such Zone or (ii) the amount derived by application of the Backup Special Tax for such Zone.

b. Assigned Special Tax

The Assigned Special Tax for each Land Use Class within each Zone for Fiscal Year 2017-18 is shown below in Tables 1 and 2.

**TABLE 1**  
**Zone 1**  
**For Fiscal Year 2017-18**  
**Assigned Special Taxes for Developed Property**

<b>Land Use Class</b>	<b>Description</b>	<b>Assigned Special Tax</b>
1	Retail Property	\$2.80 per sq. ft. of FA
2	Office/Medical Property	\$2.30 per sq. ft. of FA
3	Industrial Property	\$1.00 per sq. ft. of FA
4	Institutional Property	\$1.00 per sq. ft. of FA
5	Hotel/Motel Property	\$300 per Hotel/Motel Room
6	Residential Property	\$25,961 per Acre

**TABLE 2**  
**Zone 2**  
**For Fiscal Year 2017-18**  
**Assigned Special Taxes for Developed Property**

<b>Land Use Class</b>	<b>Description</b>	<b>Assigned Special Tax</b>
7	Non-Residential Property	\$22,000 per Acre
8	Residential Property	\$22,000 per Acre

c. Multiple Land Use Classes

In some instances an Assessor's Parcel may contain both Undeveloped Property and Developed Property. Furthermore, Developed Property may contain more than one Land Use Class.

In such cases, the Acreage of the Assessor's Parcel shall be allocated between Developed Property and Undeveloped Property based on the portion of the Assessor's Parcel for which building permits had been issued prior to January 1 of the prior Fiscal Year and the portion of the Assessor's Parcel for which building permits had not been issued prior to January 1 of the prior Fiscal Year. The Acreage that is considered Developed Property shall be allocated between Residential Property and Non-Residential Property based on the site plan. The Maximum Special Tax that can be levied on such Assessor's Parcel shall be the sum of the Maximum Special Tax that can be levied on each type of property located on that Assessor's Parcel.

d. Backup Special Tax

The Backup Special Tax in IA No. 2 shall equal an amount per Acre for each Zone as shown below in Table 3.

**TABLE 3**  
**All Zones**  
**Fiscal Year 2017-18**  
**Backup Special Tax**

Zone	FY 2017-18 Backup Special Tax
1	\$25,961 per Acre
2	\$22,000 per Acre

e. Increase in the Assigned Special Tax and Backup Special Tax

On each July 1, commencing on July 1, 2018, the Assigned Special Tax and the Backup Special Tax for Developed Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

2. **Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property**

a. Maximum Special Tax

The Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property within each Zone is shown below in Table 4.

**TABLE 4**  
**All Zones**  
**Fiscal Year 2017-18**  
**Maximum Special Taxes for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, or Undeveloped Property**

Zone	FY 2017-18 Maximum Special Tax
1	\$25,961 per Acre
2	\$22,000 per Acre

b. Increase in the Maximum Special Tax

On each July 1, commencing on July 1, 2018, the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, Taxable Religious Property, and Undeveloped Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year.

**D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

Commencing with Fiscal Year 2017-18 and for each following Fiscal Year, the Board shall levy the Special Tax until the amount of Special Taxes levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:



First: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is determined through the application of the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Conservation Property, Taxable Property Owner Association Property and Taxable Religious Property at up to the Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property and Taxable Religious Property, as applicable.

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Taxable Public Property.

Notwithstanding the above, under no circumstances will the Special Tax levied in a Fiscal Year against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within IA No. 2. To the extent that the levy of the Special Tax on Residential Property is limited by the provision in the previous sentence, the levy of the Special Tax on all other Assessor's Parcels shall continue in equal percentages at up to 100% of the Maximum Special Tax.

#### **E. EXEMPTIONS**

No Special Tax shall be levied on Conservation Property, Property Owner Association Property, Public Property, and/or Religious Property in Zones 1 and 2 up to the Acreage amounts shown in Table 5 below:

**TABLE 5**

<b>Zone</b>	<b>Exempt Acreage</b>
1	3.09 Acres
2	0.11 Acres

Tax-exempt status will be assigned by the CFD Administrator in the chronological order in which property within each Zone becomes Conservation Property, Property Owner Association Property, Public Property, or Religious Property. However, should an Assessor's Parcel no longer be classified as Conservation Property, Property Owner Association Property, Public Property, or Religious Property its tax-exempt status will be revoked and it will thereafter be classified as Developed Property or Undeveloped Property in accordance with Section C above.

Conservation Property, Property Owner Association Property, Public Property, or Religious Property that is not exempt from Special Taxes under this section shall be subject to the levy of the Special Tax and shall be taxed Proportionately as part of the fourth or fifth steps, as applicable, in Section D above, at up to 100% of the applicable Maximum Special Tax for Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property.

**F. MANNER OF COLLECTION**

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2017-1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

Tenders of Bonds may be accepted for payment of Special Taxes upon the terms and conditions established by the Act and permitted by CFD No. 2017-1. The use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

**G. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section G:

**“CFD Public Facilities Cost”** means either \$24.6 million in 2017 dollars, which shall increase by the Construction Inflation Index on July 1, 2018, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2017-1 on behalf of IA No. 2 under the authorized bonding program for IA No. 2, or (ii) shall be determined by the Board concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

**“Construction Fund”** means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

**“Construction Inflation Index”** means, for a Fiscal Year, the greater of 0% and the annual percentage change in the Engineering News-Record Building Cost Index for the City of Los Angeles, measured as of the calendar year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Building Cost Index for the City of Los Angeles.

**“Future Facilities Costs”** means the CFD Public Facilities Cost minus (i) public facility costs previously paid from the Construction Fund, (ii) moneys currently on deposit in the Construction Fund, and (iii) moneys currently on deposit in an escrow fund that are expected to be available to finance facilities costs.

**“Outstanding Bonds”** means all Previously Issued Bonds which are deemed to be outstanding under the Indenture after the first interest and/or principal payment date following the current Fiscal Year.

**“Previously Issued Bonds”** means all Bonds that have been issued by CFD No. 2017-1 for IA No. 2 prior to the date of prepayment.

**1. Prepayment in Full**

The obligation to pay the Special Tax for an Assessor's Parcel of Taxable Property may be prepaid and permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount for such Assessor's Parcel. The CFD Administrator may charge a reasonable fee for providing this figure.

The Prepayment Amount (defined below) shall be calculated as summarized below (capitalized terms as defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
<u>less</u>	<u>Capitalized Interest Credit</u>
equals	Prepayment Amount

As of the proposed date of prepayment, the Prepayment Amount shall be calculated as follows:

**Paragraph No.:**

1. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property for which a building permit has been issued, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel. For Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, compute the Maximum Special Tax for the Assessor's Parcel to be prepaid.
2. (a) For an Assessor's Parcel of Developed Property or Undeveloped Property for which a building permit has been issued (i) Divide the Assigned Special Tax computed pursuant to paragraph 1 by the total estimated Assigned Special Taxes for the entire IA No. 2 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of IA No. 2, excluding any Assessor's Parcels for which the Special Taxes have been prepaid, and (ii) Divide the Backup Special Tax computed pursuant to paragraph 1 by the total estimated Backup Special Taxes for the entire IA No. 2 based on the Backup Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of IA No. 2, excluding any Assessor's Parcels for which the Special Taxes have been prepaid.
- (b) For Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, divide the Maximum Special Tax computed pursuant to paragraph 1 by the total estimated Maximum Special Tax for the entire IA No. 2 based on the Maximum Special Tax which could be charged in the current Fiscal Year on all expected development through buildout of IA No. 2, excluding any Assessor's Parcels for which the Special Taxes have been prepaid.

3. Multiply the larger of quotient (i) and (ii) computed pursuant to paragraph 2(a) for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, or the quotient computed pursuant to paragraph 2(b) for Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").
5. Compute the current Future Facilities Costs.
6. Multiply the larger of quotient (i) and (ii) computed pursuant to paragraph 2(a) for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, or the quotient computed pursuant to paragraph 2(b) for Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
7. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
8. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 7 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of IA No. 2, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. The reserve fund credit (the "Reserve Fund Credit") shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized

interest credit shall be calculated by multiplying the larger of quotient (i) and (ii) computed pursuant to paragraph 2(a) for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, or the quotient computed pursuant to paragraph 2(b) for Assessor's Parcels of Undeveloped Property for which a building permit has not been issued, Taxable Conservation Property, Taxable Property Owner Association Property, Taxable Public Property, or Taxable Religious Property, by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").

15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 6 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2017-1.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of Bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year's Special Tax levy as determined under paragraph 9 (above), the CFD Administrator shall remove the current Fiscal Year's Special Tax levy for such Assessor's Parcel from the County tax rolls. With respect to any Assessor's Parcel for which the Special Tax is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Assessor's Parcel, and the obligation to pay the Special Tax for such Assessor's Parcel shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless (i) the amount of Maximum Special Tax that may be levied on Taxable Property (based on expected development at build out), after the proposed prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and (ii) the amount of Maximum Special Tax that may be levied on non-delinquent Taxable Property (based on expected development at build out) after the proposed prepayment, less expected Administrative Expenses, shall be at least equal to the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year.

## **2. Prepayment in Part**

The Special Tax for an Assessor's Parcel of Developed Property and/or Undeveloped Property may be partially prepaid. The amount of the prepayment shall be calculated as in Section G.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP = [(P_E - AE) \times F] + AE$$

These terms have the following meaning:

AE = the Administrative Fees and Expenses

PP	=	the partial prepayment amount
P <sub>E</sub>	=	the Prepayment Amount calculated according to Section G.1
F	=	the percentage by which the owner of the Assessor's Parcel is partially prepaying the Special Tax.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax and the percentage by which the Special Tax shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel for which the Special Tax is partially prepaid, CFD No. 2017-1 shall (i) distribute the funds remitted to it according to Section G.1, and (ii) indicate in the records of CFD No. 2017-1 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the applicable Assigned Special Tax, Backup Special Tax, and Maximum Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D. Furthermore, for Undeveloped Property that has been partially prepaid, the outstanding percentage (1.00 - F) of the applicable Assigned Special Tax, Backup Special Tax, and Maximum Special Tax shall continue to apply to such Assessor's Parcel after such Assessor's Parcel is considered Developed Property.

Notwithstanding the foregoing, no partial prepayment will be allowed unless (i) the amount of Maximum Special Tax that may be levied on Taxable Property (based on expected development at build out), after the proposed partial prepayment, less expected Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year and (ii) the amount of Maximum Special Tax that may be levied on non-delinquent Taxable Property (based on expected development at build out) after the proposed partial prepayment, less expected Administrative Expenses, shall be at least equal to the regularly scheduled annual interest and principal payments on all Outstanding Bonds (excluding Bonds to be redeemed by such prepayment and all prior prepayments) in each future Fiscal Year.

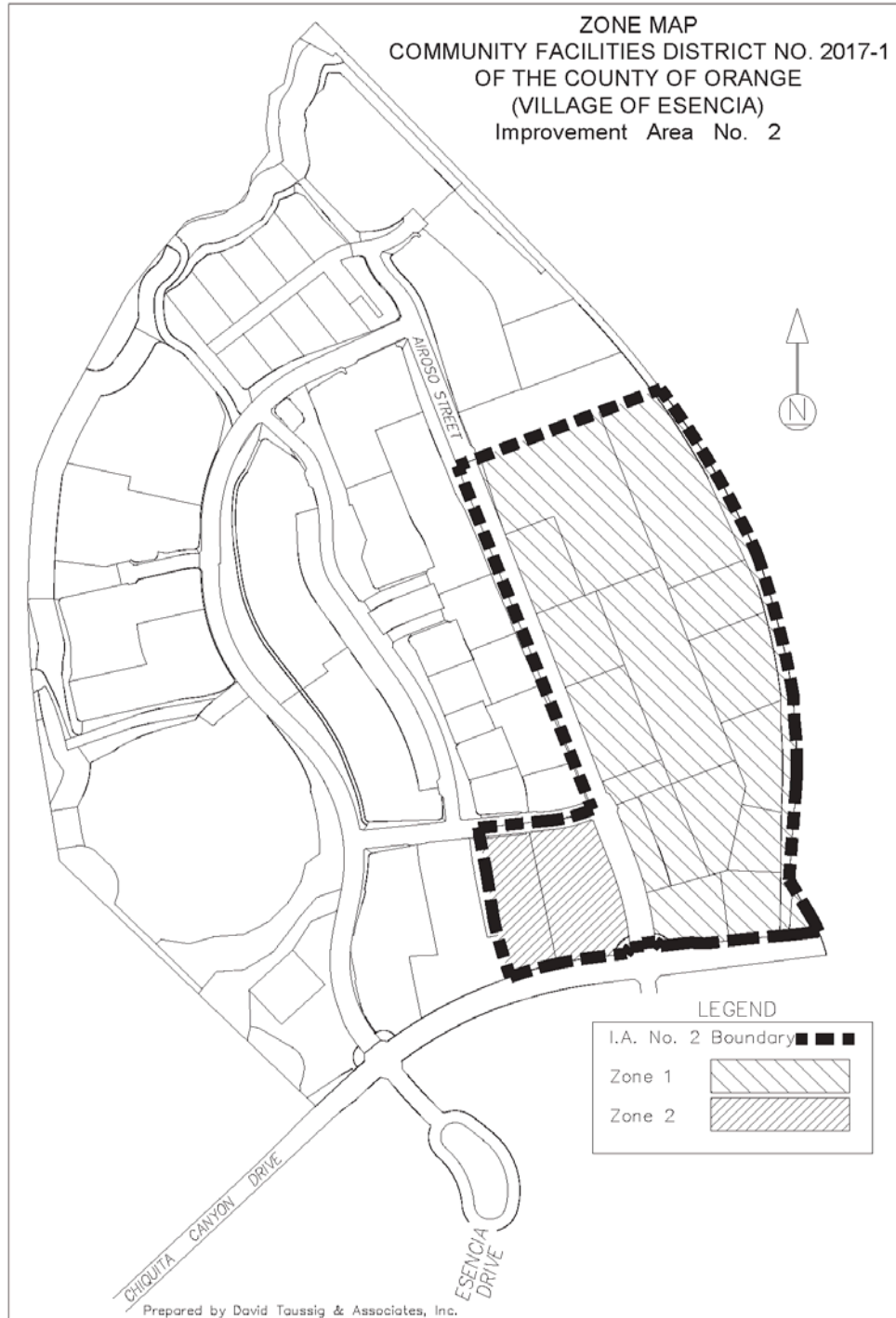
#### **H. TERM OF SPECIAL TAX**

The Special Tax shall be levied on an Assessor's Parcel for a period not to exceed forty years from the Fiscal Year in which such Assessor's Parcel first becomes Developed Property.

#### **I. DETERMINATIONS OF CFD ADMINISTRATOR CONSIDERED FINAL**

Any determinations made by CFD Administrator under terms of this Rate and Method of Apportionment shall be final.

**EXHIBIT A**  
**ZONE DESIGNATION**



**APPENDIX B**  
**APPRAISAL REPORT**



## APPENDIX C

## FORM OF OPINION OF BOND COUNSEL

Bond Counsel will deliver an opinion for the Bonds substantially in the form set forth below:

[Closing Date]

Community Facilities District No. 2017-1  
of the County of Orange (Village of Esencia)  
Santa Ana, California

*Re:     \$\_\_\_\_\_ Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (Improvement Area No. 2) Series A of 2020 Special Tax Bonds*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the Board of Supervisors of the County of Orange taken in connection with the authorization and issuance by the Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (the “District”) of its (Improvement Area No. 2) Series A of 2020 Special Tax Bonds in the aggregate principal amount of \$\_\_\_\_\_ (the “Bonds”) and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), Resolution No. 20-\_\_\_\_, adopted by the Board of Supervisors of the County of Orange, acting in its capacity as the legislative body of the District (the “Board”) on July 28, 2020, and the Indenture dated as of August 1, 2020 (the “Indenture”), by and between the District and U.S. Bank National Association, as trustee. All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on each February 15 and August 15, commencing on February 15, 2021, at the rates per annum set forth in the Indenture. The Bonds are registered bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors’ rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California. The Bonds are limited obligations of the District but are not a debt of the County of Orange (the “County”), the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and,

except for the Special Taxes, neither the faith and credit nor the taxing power of the County, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses and we express no opinion as to any provisions with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture, except to the extent that enforceability of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights generally, or by the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases, or by the limitations on legal remedies against public agencies in the State of California.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

(5) Interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues for the Bondowner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals (as described in paragraph 4 above) and is exempt from State of California personal income tax.

(7) The amount by which a Bondowner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bondowner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bondowner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner.

The opinion expressed in paragraph (4) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District and the County comply with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District and the County have covenanted to

comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the Bonds.

Certain requirements and procedures contained or referred to in the Indenture may be changed, and certain actions may be taken, under the circumstances and subject to the terms and conditions set forth in the Indenture, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion of interest on the Bonds from gross income for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions, including the default judgment entered on July 13, 2017, by the Superior Court of the State of California for the County of Orange in the action entitled County of Orange v. All Persons Interested in the Matter etc., Case No. 30-2017-00918061-CU-MC-CJC, and cover certain matters not directly addressed by such authorities.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to the matters contained in the Official Statement.

Respectfully submitted,

## APPENDIX D

### GENERAL ECONOMIC AND DEMOGRAPHIC DATA FOR THE COUNTY OF ORANGE

*The following economic data for the County of Orange (the “County”), the City of Rancho Santa Margarita and the City of Mission Viejo are presented for information purposes only. The Bonds are not an obligation of the City of Santa Margarita, the City of Rancho Mission Viejo, the County of Orange, the State of California or any of its political subdivisions, and neither the cities, the County, the State nor any of its political subdivisions is liable therefor.*

#### General

The County is third largest county in California and is located adjacent to the Pacific Ocean and the Counties of Los Angeles, San Bernardino, Riverside and San Diego. The County is located in the most heavily populated region of California, necessitating easy access to road, rail, air and sea transportation. The County is also a major Southern California tourist center with a large number of amusement parks and recreational and entertainment activities. The County’s Pacific Coast shoreline includes five state beaches and parks, five Municipal beaches and five County beaches.

The County is a general law county and governed by a five-member Board of Supervisors, each of whom serves for four-year terms. The County provides a wide range of services to its residents, including police, medical and health services, senior citizen assistance, library services, judicial institutions (including support programs), airport service, roads, solid waste management, harbors, beaches and parks, life guard services and a variety of public assistance programs.

#### Population

The following table summarizes population estimates for the City of Mission Viejo, the City of Rancho Santa Margarita, County and State from 2011 through 2020.

#### POPULATION ESTIMATES The City of Mission Viejo, the City of Rancho Santa Margarita, County of Orange and the State of California 2011-2020<sup>(1)</sup>

<i>Year</i>	<i>City of Mission Viejo</i>	<i>City of Rancho Santa Margarita</i>	<i>County of Orange</i>	<i>California</i>
2011	93,536	48,076	3,036,412	37,561,624
2012	94,362	48,611	3,072,381	37,924,661
2013	94,983	49,130	3,103,018	38,269,864
2014	95,035	49,243	3,122,962	38,556,731
2015	95,953	49,380	3,145,029	38,870,150
2016	96,251	49,527	3,162,789	39,131,307
2017	96,133	49,506	3,184,229	39,398,702
2018	95,634	49,414	3,192,092	39,586,646
2019	94,766	49,051	3,192,987	39,695,376
2020	94,267	48,793	3,194,332	39,782,870

<sup>(1)</sup> January 1 data.

Source: Source: California State Department of Finance, Demographic Research Unit., *E-4 Population Estimates for Cities, Counties, and the State, 2010-2019, with 2010 Census Benchmark.*

**Income**

The following tables show the personal income and per capita personal income for the County, State of California and United States from 2014 through 2019.

**PERSONAL INCOME**  
**County of Orange, State of California, and United States**  
**2014-2019**  
**(Dollars in Thousands)**

<i>Year</i>	<i>County of Orange</i>	<i>California</i>	<i>United States</i>
2014	\$178,946,153	\$2,021,038,469	\$14,982,715,000
2015	193,081,245	2,171,947,376	15,709,242,000
2016	200,026,649	2,263,889,847	16,111,636,000
2017	208,949,975	2,370,112,356	16,870,106,000
2018	220,684,684	2,514,129,262	17,813,035,000
2019 <sup>(1)</sup>	n/a	2,633,925,500	18,599,062,400

<sup>(1)</sup> County data for 2019 not available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**PER CAPITA PERSONAL INCOME<sup>(1)</sup>**  
**County of Orange, State of California, and United States**  
**2014-2019**

<i>Year</i>	<i>County of Orange</i>	<i>California</i>	<i>United States</i>
2014	\$57,165	\$52,363	\$47,071
2015	61,219	55,808	48,994
2016	63,086	57,801	49,890
2017	65,709	60,219	51,910
2018	69,268	63,711	54,526
2019 <sup>(2)</sup>	n/a	66,661	56,663

<sup>(1)</sup> Per capita personal income is the total personal income divided by the total mid-year population estimates of the U.S. Bureau of the Census. All dollar estimates are in current dollars (not adjusted for inflation).

<sup>(2)</sup> County data for 2019 not available.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Employment

The following table summarizes the labor force, employment and unemployment figures from 2015 to 2019 for the City of Mission Viejo, the City of Rancho Santa Margarita, the County and the State of California.

**CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**  
**City of Mission Viejo, City of Rancho Santa Margarita, County of Orange, State of California**  
**and the United States**  
**2015-2019<sup>(1)</sup>**

	<i>Area</i>	<i>Labor Force</i>	<i>Employment<sup>(2)</sup></i>	<i>Unemployment<sup>(3)</sup></i>	<i>Unemployment Rate<sup>(4)</sup></i>
2015	City of Mission Viejo	49,800	47,700	2,100	4.2%
	City of Rancho Santa Margarita	27,400	26,700	700	2.6
	Orange County	1,585,000	1,514,900	70,900	4.5
	State of California	18,851,100	17,681,800	1,169,200	6.2
	United States	157,130,000	148,834,000	8,296,000	5.3
	2016	City of Mission Viejo	49,900	47,900	2,000
City of Rancho Santa Margarita		27,800	26,800	1,000	3.6
Orange County		1,598,800	1,534,100	64,700	4.0
State of California		19,044,500	18,002,800	1,041,700	5.5
United States		159,187,000	151,436,000	7,751,000	4.9
2017		City of Mission Viejo	49,800	48,000	1,800
	City of Rancho Santa Margarita	27,800	26,900	900	3.1
	Orange County	1,609,800	1,553,400	56,400	3.5
	State of California	19,205,300	18,285,500	919,800	4.8
	United States	160,320,000	153,337,000	2,454,000	4.4
	2018	City of Mission Viejo	49,700	48,200	1,500
City of Rancho Santa Margarita		27,700	27,000	800	2.8
Orange County		1,625,400	1,569,750	47,500	2.9
State of California		19,398,200	18,582,800	815,400	4.2
United States		162,075,000	155,761,000	153,336,000	3.9
2019		City of Mission Viejo	49,900	48,500	1,400
	City of Rancho Santa Margarita	27,800	27,100	700	2.5
	Orange County	1,623,400	1,578,333	45,100	2.8%
	State of California	19,411,600	18,627,400	784,200	4.0
	United States	163,539,000	157,538,000	6,001,000	3.7

<sup>(1)</sup> Data is based on annual averages, unless otherwise specified, and is not seasonally adjusted.

<sup>(2)</sup> Includes persons involved in labor-management trade disputes.

<sup>(3)</sup> Includes all persons without jobs who are actively seeking work.

<sup>(4)</sup> The unemployment rate is computed from un-rounded data; therefore, it may differ from rates computed from rounded figures in this table.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. March 2019 Benchmark.

**Industry**

The following table summarizes employment figures by industry for the Anaheim-Santa Ana-Irvine Metropolitan Division, which is located entirely within the County.

**INDUSTRY EMPLOYMENT & LABOR FORCE ANNUAL AVERAGES**  
**Anaheim-Santa Ana-Irvine MD**  
**(Orange County)**  
**2015-2019**

	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Farming	2,400	2,400	2,100	2,000	1,900
Mining and Logging	400	300	500	500	500
Construction	91,700	97,400	101,800	106,300	106,400
Manufacturing	157,800	158,200	160,700	160,700	159,800
Wholesale Trade	78,900	78,600	79,000	79,800	79,400
Retail Trade	151,600	152,600	153,500	152,600	150,500
Transportation, Warehousing and Utilities	26,900	27,200	28,000	29,200	29,500
Information	24,900	26,00	26,800	26,700	26,100
Financial Activities	116,400	118,000	119,600	118,700	117,400
Professional and Business Services	289,200	299,300	304,400	317,000	328,200
Education and Health Services	198,900	206,200	215,900	224,700	231,800
Leisure and Hospitality	203,800	212,000	218,100	222,600	228,000
Other Services	48,900	50,500	50,300	51,400	52,000
Government	<u>156,400</u>	<u>159,600</u>	<u>160,200</u>	<u>161,200</u>	<u>162,900</u>
Total:	1,548,300	1,588,300	1,620,800	1,653,200	1,674,400

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

(1) Employment is reported by place of work; it does not include persons involved in labor-management disputes. Figures are rounded to the nearest hundred. Columns may not add to totals due to rounding.

Source: State of California, Employment Development Department, *Industry Employment & Labor Force by Annual Average, March 2019 Benchmark*.

## Largest Employers

The following table presents the largest employers in the County as of June 30, 2019.

### LARGEST EMPLOYERS County of Orange 2019

<i>Name of Business</i>	<i>Number of Employees</i>	<i>Type of Business</i>
Walt Disney Co.	30,000	Entertainment
University of California, Irvine	23,884	Education
County of Orange	18,313	County Government
St. Joseph Health System	14,000	Healthcare
Kaiser Permanente	8,178	Healthcare
Albertsons	7,670	Grocery
Target Corporation	6,300	Retail
Wal-Mart	6,200	Retail
Hoag Memorial Hospital	6,100	Healthcare
Boeing Co.	6,000	Aerospace Industries

Source: County of Orange Comprehensive Annual Financial Report, Year Ended June 30, 2019.

## Building Activity

The following tables summarize building permits and valuations for the County, the City of Mission Viejo and the City of Rancho Santa Margarita during calendar years 2015 through 2019.

### BUILDING PERMITS AND VALUATIONS County of Orange 2015-2019

	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Valuation (In \$000's)					
Residential	\$2,826,883	\$3,151,640	\$3,188,601	\$2,750,619	\$2,642,321
Nonresidential	<u>2,203,105</u>	<u>2,495,687</u>	<u>2,090,029</u>	<u>3,532,285</u>	<u>3,152,501</u>
Total Valuation <sup>(1)</sup>	\$5,029,988	\$5,647,327	\$5,278,630	\$6,282,904	\$5,794,815
New Dwelling Units (#)					
Single-Family	3,667	4,226	5,097	3,975	3,125
Multifamily	<u>7,230</u>	<u>7,908</u>	<u>5,197</u>	<u>4,130</u>	<u>7,169</u>
Total:	10,897	12,134	10,294	8,105	10,294

<sup>(1)</sup> Total may not add up due to rounding.

Source: Construction Industry Research Board.



**BUILDING PERMITS AND VALUATIONS**  
**City of Mission Viejo**  
**2015-2019**

	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Valuation (In \$000's)					
Residential	\$23,735	\$43,677	\$33,889	\$22,695	\$10,243
Nonresidential	<u>19,040</u>	<u>18,656</u>	<u>34,899</u>	<u>67,837</u>	<u>20,673</u>
Total Valuation <sup>(1)</sup>	\$42,775	\$62,333	\$68,788	\$90,532	\$30,916
 New Dwelling Units (#)					
Single-Family	0	36	29	21	0
Multi-Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total:	0	36	29	21	0

<sup>(1)</sup> Total may not add up due to rounding.

Source: Construction Industry Research Board.

**BUILDING PERMITS AND VALUATIONS**  
**City of Rancho Santa Margarita**  
**2015-2019**

	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Valuation (In \$000's)					
Residential	\$ 5,395	\$10,676	\$ 2,824	\$ 4,586	\$ 3,744
Nonresidential	<u>9,675</u>	<u>18,770</u>	<u>8,696</u>	<u>9,675</u>	<u>4,901</u>
Total Valuation <sup>(1)</sup>	\$15,070	\$29,446	\$11,520	\$14,261	\$8,645
 New Dwelling Units (#)					
Single-Family	0	22	0	0	0
Multi-Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total:	0	22	0	0	0

<sup>(1)</sup> Total may not add up due to rounding.

Source: Construction Industry Research Board.

**Taxable Sales**

The history of taxable transactions in the County, the City of Mission Viejo and the City of Rancho Santa Margarita from 2015 through 2019 is shown in the following tables.

**TAXABLE SALES  
County of Orange  
(Dollars in Thousands)  
2015-2019**

<i>Year</i>	<i>Retail Permits</i>	<i>Retail and Food Taxable Transactions</i>	<i>Total Permits</i>	<i>Total Outlets Taxable Transactions</i>
2015	66,830	\$42,148,058	109,426	\$61,916,219
2016	68,338	42,817,111	112,154	63,058,761
2017	68,701	44,264,343	113,180	65,148,058
2018	69,228	46,078,187	117,633	67,468,616
2019	71,305	47,044,198	122,989	69,499,158

*Source: Taxable Sales in California, California State Board of Equalization for 2014.  
Taxable Sales in California, California Department of Tax and Fee Administration ("CDTFA") for 2015-19. Some previously reported data has been revised by the CDTFA.*

**TAXABLE SALES  
City of Mission Viejo  
(Dollars in Thousands)  
2015-2019**

<i>Year</i>	<i>Retail Permits</i>	<i>Retail and Food Taxable Transactions</i>	<i>Total Permits</i>	<i>Total Outlets Taxable Transactions</i>
2015	1,734	\$1,305,281	2,789	\$1,541,617
2016	1,797	1,298,596	2,869	1,539,349
2017	1,823	1,266,426	2,962	1,524,624
2018	1,900	1,391,667	3,125	1,649,008
2019	1,953	1,362,000	3,280	1,618,523

*Source: Taxable Sales in California, California State Board of Equalization for 2014.  
Taxable Sales in California, California Department of Tax and Fee Administration ("CDTFA") for 2015-19. Some previously reported data has been revised by the CDTFA.*

**TAXABLE SALES  
City of Rancho Santa Margarita  
(Dollars in Thousands)  
2015-2019**

<i>Year</i>	<i>Retail Permits</i>	<i>Retail and Food Taxable Transactions</i>	<i>Total Permits</i>	<i>Total Outlets Taxable Transactions</i>
2015	645	\$453,389	1,130	\$562,087
2016	676	457,784	1,200	575,369
2017	678	477,464	1,204	586,208
2018	677	485,629	1,243	609,287
2019	694	483,666	1,294	598,668

*Source: Taxable Sales in California, California State Board of Equalization for 2014.  
Taxable Sales in California, California Department of Tax and Fee Administration ("CDTFA") for 2015-19. Some previously reported data has been revised by the CDTFA.*

**APPENDIX E**

**SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE**

*The following is a summary of certain definitions and provisions of the Indenture which is not described elsewhere in the Official Statement. This Summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of its provisions.*

**APPENDIX F**

**FORM OF DISTRICT CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX G

### FORM OF CONTINUING DISCLOSURE AGREEMENT OF RMV PA2 DEVELOPMENT, LLC

This Developer Continuing Disclosure Agreement (the “Disclosure Agreement”) dated as of August 1, 2020 is executed and delivered by the RMV PA2 Development, LLC (the “Landowner”), and David Taussig & Associates, as dissemination agent (the “Dissemination Agent”), in connection with the execution and delivery by Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) of its \$\_\_\_\_\_ Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (Improvement Area No. 2) Series A of 2020 Special Tax Bonds (the “Bonds”). The Bonds are being issued pursuant to Resolution No. \_\_\_\_\_ adopted on July \_\_, 2020, by the Board of Supervisors of the County of Orange, acting as the legislative body of the District, and the Bond Indenture dated as of August 1, 2020 by and between the District and U.S. Bank National Association, as trustee. The Landowner covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Disclosure Agreement is being executed and delivered by the Landowner to assist the Underwriter in the marketing of the Bonds.

**SECTION 2. Definitions.** Unless otherwise defined, the following capitalized terms shall have the meanings set forth in this Section 2. Capitalized terms used and not defined herein shall have the meanings set forth in the Official Statement (defined below).

“Affiliate” shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person’s executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the District be deemed to be an Affiliate of the Landowner for purposes of this Disclosure Agreement. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise. Affiliates of the Landowner include, but are not limited to, RMV Community Development, LLC.

“Annual Report” shall mean any Annual Report provided by the Landowner pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean the Chief Financial Officer or his designee acting on behalf of the Landowner, or such other officer or employee as the Landowner shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean David Taussig & Associates, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Landowner and which has filed with the Landowner and the District a written acceptance of such designation.

“District” shall mean Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia).

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Equity Securities” of any Person shall mean (a) all common stock, preferred stock, participations, shares, general partnership interests or other equity interests in and of such person (regardless of how designated and whether or not voting or non-voting) and (b) all warrants, options and other rights to acquire any of the foregoing.

“Fiscal Year” shall mean the period beginning on January 1 of each year and ending on the next succeeding December 31.

“Government Authority” shall mean any national, state or local government, any political subdivision thereof, any department, agency, authority or bureau of any of the foregoing, or any other Person exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Improvement Area No. 2” shall mean Improvement Area No. 2 of the District.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement, dated \_\_\_\_\_, 2020, relating to the Bonds.

“Parity Bonds” shall mean bonds of the District that are secured on a parity with the Bonds.

“Person” shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Semiannual Report” shall mean any report to be provided by the Landowner on or prior to December 15 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“State” shall mean the State of California.

“Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated, the original underwriter of the Bonds.

### SECTION 3. Provision of Annual Reports and Semiannual Report.

(a) The Landowner shall, or upon receipt of the Annual Report the Dissemination Agent shall, not later than June 15 of each year, commencing June 15, 2021, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If, in any year, June 15 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent’s offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent’s offices are open for business. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement, provided that the audited financial statements, if any, of the Landowner may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date. In addition, until such time as the Landowner’s reporting

requirements terminate pursuant to Section 6 below, the Landowner shall, or upon receipt of the Semiannual Report the Dissemination Agent shall, not later than December 15 of each year, commencing December 15, 2020, provide to the Repository a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If, in any year, December 15 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent's offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent's offices are open for business.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report and Semiannual Report to the Repository, the Landowner shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Landowner is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, is expected to be available. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall notify the Landowner of such failure to receive the report.

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to the Repository by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the form required by the Repository.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of the Repository; and

(ii) promptly after receipt of the Annual Report, file a report with the Landowner and the District certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(e) Notwithstanding any other provision of this Disclosure Agreement, any of the required filings hereunder shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

#### SECTION 4. Content of Annual Report and Semiannual Report.

(a) The Landowner's Annual Report and Semiannual Report shall contain or include by reference the information which is updated through a date which shall not be more than 60 days prior to the date of the filing of the Annual Report or the Semiannual Report, as applicable, as set forth in Exhibit A attached hereto. In addition, with respect to the Annual Report only, the financial statements of the Landowner for its most recently completed Fiscal Year (which currently ends on each December 31) shall be included.

(b) Any and all of the information required to be updated under Section 4(a) hereof may be included by specific reference to other documents, including official statements of debt issues which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Landowner shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Landowner shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material under clauses (b) and (c) as soon as practicable after the occurrence of any of the following events:

1. Failure to pay any real property taxes, special taxes or assessments levied within Improvement Area No. 2 on a parcel owned by the Landowner or any Affiliate;

2. Material default by the Landowner or any Affiliate on any loan with respect to the construction or permanent financing of the Landowner Improvements to which the Landowner or any Affiliate has been provided a notice of default;

3. Material default by the Landowner or any Affiliate on any loan secured by property within Improvement Area No. 2 owned by the Landowner or any Affiliate to which the Landowner or any Affiliate has been provided a notice of default;

4. Payment default by the Landowner or any Affiliate on any loan of the Landowner or any Affiliate (whether or not such loan is secured by property within Improvement Area No. 2) which is beyond any applicable cure period in such loan;

5. The filing of any proceedings with respect to the Landowner or any Affiliate, in which the Landowner or any Affiliate, may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts; and

6. The filing of any lawsuit against the Landowner or any of its Affiliates which, in the reasonable judgment of the Landowner, will adversely affect the completion of the development of parcels owned by the Landowner or its Affiliates within Improvement Area No. 2, or litigation which if decided against the Landowner, or any of its Affiliates, in the reasonable judgment of the Landowner, would materially adversely affect the financial condition of the Landowner or its Affiliates or their respective ability to pay special taxes levied within Improvement Area No. 2.

(b) Whenever the Landowner obtains knowledge of the occurrence of a Listed Event, the Landowner shall as soon as possible determine if such event would be material under applicable federal securities laws. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) If the Landowner determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Landowner shall promptly file a notice of such occurrence with the Dissemination Agent which shall then distribute such notice to the Repository, with a copy to the District.

SECTION 6. Termination of Reporting Obligation. The Landowner's obligations under this Disclosure Agreement shall terminate upon the earlier to occur of the following events:

(a) the legal defeasance, prior redemption or payment in full of all of the Bonds, or

(b) as of the date of the filing for the Semiannual Report or Annual Report (1) with respect to the obligation of the Landowner to update the information with respect to the Business Park, 75% of the proposed space has been leased to tenants, (2) with respect to the obligation of the Landowner to update the information respect to the Retail Center, certificates of occupancy have been issued for 75% of the proposed rentable space, (3) with respect to the obligation of the Landowner to update the information with respect to the Self-Storage



Facility, 75% of the proposed space has been leased to users, and (4) with respect to the obligation of the Landowner to update the information with respect to the Apartment Complex, 75% of the units have been leased to tenants.

If such termination occurs prior to the final maturity of the Bonds, the Landowner shall give notice of such termination in the same manner as for an Annual Report hereunder.

SECTION 7. Dissemination Agent. The Landowner may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Landowner, the Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Landowner pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing (i) thirty days written notice to the Landowner and the Dissemination Agent and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Landowner may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The amendment or waiver either (i) is approved by the owners of the Bonds in the same manner as provided in the Indenture with the consent of owners of the Bonds, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the District and the Dissemination Agent, materially impair the interests of the owners or Beneficial Owners of the Bonds; and

(c) The Landowner, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) above to the District and the Trustee.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Landowner shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Landowner.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Landowner from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Landowner chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Landowner shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

The Landowner acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Landowner, and that under some circumstances compliance with this Disclosure Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the Landowner under such laws.

SECTION 10. Default. In the event of a failure of the Landowner or the Dissemination Agent to comply with any provision of this Disclosure Agreement, any Underwriter or any owner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Landowner or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the Landowner or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Landowner, the Underwriter, owners of the Bonds or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Landowner or an opinion of nationally recognized bond counsel. No person shall have any right to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Agreement. The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the Landowner as constituting the Annual Report required of the Landowner in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Landowner in a timely manner in a form suitable for filing with the Repositories. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

The Dissemination Agent will not, without the Landowner's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Landowner and its controlling persons from all liability arising out of such claim, action or proceedings. If a claim, action or proceeding is settled with the consent of the Landowner or if there is a final judgment (other than a stipulated final judgment without the approval of the Landowner) for the plaintiff in any such claim, action or proceeding, with or without the consent of the Landowner, the Landowner agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 12. Landowner as Independent Contractor. In performing under this Disclosure Agreement, it is understood that the Landowner is an independent contractor and not an agent of the District.

SECTION 13. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Landowner:	RMV PA2 Development, LLC 28811 Ortega Highway San Juan Capistrano, CA 92675 Attn: Chief Financial Officer
Dissemination Agent:	David Taussig & Associates 5000 Birch Street, Suite 6000 Newport Beach, CA 92660 Attn: Andrea Roess
Underwriters:	Stifel, Nicolaus & Company, Incorporated One Montgomery Street, 35th Floor San Francisco, CA 94104 Attn: Public Finance Department

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Landowner, the District, the Dissemination Agent, the Underwriter and owners of the Bonds and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 15. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

RMV PA 2 DEVELOPMENT, LLC, a Delaware limited liability company

By: RANCHO MISSION VIEJO, LLC, a Delaware limited liability company, as agent and manager

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

DAVID TAUSSIG & ASSOCIATES, as Dissemination Agent

By: \_\_\_\_\_  
Authorized Officer

**EXHIBIT A**

**COMMUNITY FACILITIES DISTRICT NO. 2017-1  
OF THE COUNTY OF ORANGE (VILLAGE OF ESENCIA)  
(IMPROVEMENT AREA NO. 2)  
SERIES A OF 2020 SPECIAL TAX BONDS**

This Periodic Report is hereby submitted under Section 4 of the Continuing Disclosure Certificate (the “**Disclosure Certificate**”) dated \_\_\_\_\_, 2020 executed by the undersigned (the “**Property Owner**”) in connection with the issuance of the above-captioned bonds by the by Community Facilities District No. 2017-1 of the County of Orange (Village of Esencia) (the “**District**”) with respect to Improvement Area No. 2.

Capitalized terms used in this Periodic Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

**I. Property Ownership and Development**

The information in this section is provided as of \_\_\_\_\_ (this date must be not more than 60 days before the date of this Periodic Report).

A. Property currently owned by joint venture entities formed by the Developer’s Affiliates in Improvement Area 2 of the District (the “**Property**”):

<b>PLANNED PROJECT</b>	<b>PROPERTY OWNER</b>	<b>ACRES</b>
Self-Storage		
Business Park		
Apartments		
Retail		
Institutional		
Other		

B. Status of building permits, construction, certificates of occupancy and any significant amendments to land use or development entitlements:

<b>PLANNED PROJECT</b>	<b>ACTUAL/PLANNED SF or UNITS<sup>1</sup></b>	<b>STATUS</b>
Self-Storage		
Business Park		
Apartments		
Retail		
Institutional		
Other		

<sup>1</sup> Apartments are shown by units rather than by square feet.

C. Status of property sold, optioned or leased by the Property Owner to unrelated end users or builders:

<b>PLANNED PROJECT</b>	<b>SOLD</b>	<b>OPTIONED</b>	<b>LEASED</b>
<b>Self-Storage</b>	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total
<b>Business Park</b>	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total
<b>Apartments</b>	_____ Acres/Units _____ % of total	_____ Acres/Units _____ % of total	_____ Acres/Units _____ % of total
<b>Retail</b>	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total
<b>Institutional</b>	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total
<b>Other</b>	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total	_____ Acres/Bldg. SF _____ % of total

D. Status of any land purchase contracts, if any, with regard to the Property, whether acquisition of land in Improvement Area 2 of the District by the Property Owner or sales of land in Improvement Area 2 of the District to other property owners, distinguishing between (i) end users and (ii) developers.

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## II. Legal and Financial Status of Property Owner

Unless such information has previously been included or incorporated by reference in a Periodic Report, describe any change in the legal structure of the Property Owner or the financial condition and financing plan of the Property Owner that would materially and adversely interfere with its ability to complete its development plan described in the Official Statement.

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## III. Change in Development or Financing Plans

Unless such information has previously been included or incorporated by reference in a Periodic Report, describe any development plans or financing plans relating to the Property *that are materially different from* the proposed development and financing plan described in the Official Statement.

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## IV. Official Statement Updates

Unless such information has previously been included or incorporated by reference in a Periodic Report, describe any other significant changes in the information relating to the Property Owner or the Property contained in the Official Statement under the heading "PROPERTY OWNERSHIP AND THE

DEVELOPMENT” that would materially and adversely interfere with the Property Owner’s ability to develop and sell or lease the Property as described in the Official Statement.

**V. Other Material Information**

In addition to any of the information expressly required above, provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

**Certification**

The undersigned Property Owner hereby certifies that this Periodic Report constitutes the Periodic Report required to be furnished by the Property Owner under the Disclosure Certificate.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER’S FINANCING PLAN OR FINANCIAL CONDITION, OR THE BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER IN AN OFFICIAL RELEASE, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD OR A NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORY, ARE NOT AUTHORIZED BY THE PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS.

THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS PERIODIC REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE CERTIFICATE.

Dated: \_\_\_\_\_

RMV PA 2 DEVELOPMENT, LLC, a Delaware limited liability company

By: RANCHO MISSION VIEJO, LLC, a Delaware limited liability company, as agent and manager

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:

## APPENDIX H

### 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 to the District which the District believes to be reliable, but the District and the Underwriter does not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for 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 Bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited through the facilities of DTC.

DTC, the world's largest securities 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 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 Bonds 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 prepayments, 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 a maturity are being prepaid, 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 MMI 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 Trustee, 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, the Trustee, 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 District or the Trustee, 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 Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, 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 Trustee. 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 Trustee'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 Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

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

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.



**APPENDIX I**  
**MARKET ABSORPTION STUDY**

## APPENDIX J

## RMV PA 2 DEVELOPMENT, LLC UNAUDITED FINANCIAL INFORMATION

**RMV PA2 Development, LLC**  
**Balance Sheets**  
(Unaudited)

**ASSETS**

		May 31, 2020	December 31, 2019
Cash and Cash Equivalents	Note 1	\$ 39,506,498	\$ 79,657,571
Accounts Receivable from Builders	Note 2	8,659,818	13,156,004
Accounts Receivable from Affiliates		2,344,646	2,854,246
TCA Corridor Fee Credit		17,886,186	17,886,186
Land and Land Improvements	Note 3	41,834,969	39,027,706
Total Assets		<u>\$ 110,232,117</u>	<u>\$ 152,581,713</u>

**LIABILITIES AND MEMBERS' EQUITY**

Accounts Payable & Accrued Liabilities	Note 4	\$ 5,649,886	\$ 16,292,683
Builder Sales Deferred Income		4,111,540	5,026,101
Costs to Complete		<u>31,365,866</u>	<u>38,003,379</u>
		<u>41,127,292</u>	<u>59,322,163</u>
Member's Equity			
RMV Community Development, LLC		(29,578,253)	(4,578,253)
Retained Earnings		<u>98,683,078</u>	<u>97,837,803</u>
		<u>69,104,825</u>	<u>93,259,550</u>
Total Liabilities & Members' Equity		<u>\$ 110,232,117</u>	<u>\$ 152,581,713</u>

**Statements of Operations**  
For the Current Month and Year to Date Period Ended May 31, 2020  
(Unaudited)

	Current Month	Year to Date
<b>Revenue</b>		
Land Sales	\$ 0	7,552,074
Profit Participation	0	(563,094)
Total Income	<u>0</u>	<u>6,988,980</u>
<b>Cost of Sales</b>		
Land Sales	0	6,637,513
Total Cost of Sales	<u>0</u>	<u>6,637,513</u>
<b>Other Income:</b>		
Marketing Reimbursement	195,392	954,742
Interest and Other Income	25,063	219,224
Total Other Income	<u>220,455</u>	<u>1,173,966</u>
<b>Other Expenses:</b>		
Marketing Expense	160,181	587,950
Other G&A	11,519	92,208
Total Other Expenses	<u>171,700</u>	<u>680,158</u>
<b>Net Other</b>	<u>48,755</u>	<u>493,808</u>
Net Income/(Loss)	<u>\$ 48,755</u>	<u>\$ 845,275</u>

**RMV PA2 Development, LLC**  
**Notes to Financial Statements**  
**May 31, 2020**  
(Unaudited)

**Note 1 Cash and Cash Equivalents**

Union Bank Checking	\$4,876,681
Union Bank Money Market	9,047,230
County of Orange Trust Account	40,299
Temporary Investments*	25,542,288
<u>Total</u>	<u>\$39,506,498</u>

\* Temporary Investments represent Commercial Paper with maturities ranging from 1 day to 45 days.

**Note 2 Accounts Receivable from Builders**

Accounts Receivable from Builders represents future contracted takedown payments for Planning Area 2.3 residential land.

**Note 3 Land and Land Improvements**

Land and Land Improvements are carried at cost which, in management's opinion, is not in excess of that which will be realized from the orderly development and disposition of the Project.

Land and Land Improvements includes direct and indirect land costs, offsite and onsite improvement costs, as well as carrying charges during such time as a portion of the Project is under active development.

Selling and marketing costs are generally expensed as incurred unless future benefit from such expenditures can be demonstrated.

The allocation of Land and Land Improvements to Cost of Sales is determined based on the relative sales value.

Land and Land Improvements at May 31, 2020 consist of:

Land	\$248,614,663
Land Improvements	404,822,782
Cost of Sales	<u>(642,968,342)</u>
Total Inventory	\$10,469,103
Costs to Complete	<u>31,365,866</u>
Net Land and Land Improvements	<u>\$41,834,969</u>

**Note 4 Accounts Payable & Accrued Liabilities**

	<u>05/31/20</u>	<u>12/31/19</u>
Accounts Payable	\$5,223,015	\$16,292,683
Accrued Property Tax	426,871	0
	<u>\$5,649,886</u>	<u>\$16,292,683</u>