Policy Compliance Report

Community Facilities District No. 2021-1 of the County of Orange (Rienda) Series A of 2022 Special Tax Bonds

Prepared by:

CSG advisors

Dated June 1, 2022

CSG | advisors

June 1, 2022

Mr. Louis McCLure
Finance Team Lead
County of Orange
County Executive Office
333 W. Santa Ana Blvd., 3rd Floor
Santa Ana, CA 92701

Dear Mr. McClure:

CSG Advisors Incorporated, serving as Municipal Advisor on behalf of the County, provides the attached Policy Compliance Report for the proposed issuance of the County of Orange Community Facilities District No. 2021-1 (Rienda) Series A of 2022 Special Tax Bonds (the Bonds).

The proposed Bonds are issued subject to the County's **Debt Management Policy** adopted May 2017 and its **Land Secured Financing Policy** updated as of May 2021 (collectively, the County Debt Policies). The County's Debt Management Policy establishes certain acceptable uses of debt, types of financing instruments, and general principles that govern the structuring of County debt issuances from time to time. The County's Land Secured Financing Policy has established certain *Objectives* of the County relative to the issuance of such debt, for which the County carries the responsibility to protect taxpayers, homebuyers, and bond investors alike. Based on these objectives, the County has established certain *Program Requirements*, in which the County applies specific criteria, or guidelines that the Proposed 2022 Bonds must meet or exceed prior to the issuance of such debt.

This Policy Compliance Report provides a summary of how the plan of finance, the proposed bond structure, and preparation of key financing documents for issuance of the proposed Bonds both meets or exceeds the requirements or guidelines of the County Debt Policies.

We are pleased to have been of service to the County for this proposed financing.

Sincerely,

CSG ADVISORS INCORPORATED

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PART 1 – PROJECT DESCRIPTION & PLAN OF FINANCE

Location. Community Facilities District 2021-1 (Rienda) (the District) is located in the southern portion of the County northeast of the intersection of Los Patrones Parkway and Cow Camp Road. The property in the District is a portion of Planning Area 3, which is the third 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. The development in the District is the first phase of the larger development being marketed as "Rienda." Rienda is currently planned to include approximately 2,700 homes, 950 of which are planned within the District. Other Rancho Mission Viejo projects within the County have included the City of Rancho Santa Margarita, Ladera Ranch, Las Flores, Sendero and Esencia.

The District consists of approximately 113 gross acres. Approximately 64 acres of property in the District are expected to be subject to the Special Tax at build-out. The property within the District which is not subject to the levy of the Special Tax consists primarily of open space/conservation property and property owned by the owners association and public property. An aerial photograph of the District is provided below:

AERIAL VIEW

Master Developer. RMV PA3 Development, LLC is the Master Developer of Rienda. The Master Developer is a limited liability company created under the laws of the State of Delaware. The sole member of the Master Developer is RMV Community Development, LLC, a California limited liability company (RMV CD). RMV CD is the managing member of the Master Developer.

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 and Esencia, communities that are the first two phases of the RMV Ranch Planned Community. DMB Ladera is the developer of Ladera Ranch.

Entitlements & Development Status. Development within the District is expected to include 950 residential units (consisting of 805 market-rate residential units and 145 age-qualified residential units) and an assisted living facility of approximately 605,000 square feet, all of which will be subject to the Special Tax. The balance of the property within the District is anticipated to be used for recreational facilities, parks and open space/conservation property and property owned by the owners association and public property. A brief summary of entitlements and development status within the District are summarized as follows:

- ***Zoning and Land Use***. 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 3, which includes the property in the District, was prepared and approved by the County on September 11, 2019.

- ***Development Agreement***. On November 8, 2004, the County approved a Development Agreement with then 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.

- ***EIR***. 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. There was subsequent litigation that among other items expanded the protection of open space and endangered species.

- ***Development Rights & Obligations***. On January 19, 2021 and February 3, 2022, the Original Property Owners entered into Assignment and Assumption Agreements with the Developer (the Assignment Agreements). Pursuant to the Assignment Agreements, the Original Property Owners assigned to the Developer certain of their rights and obligations under the Development Agreement which were appurtenant and pertained to the lands transferred to the Developer, including the land within the District. These obligations included dedication of certain rights of way, funds for local improvements, funding of certain studies relating to traffic projects, and funding of certain street improvements. Each of these obligations has been fulfilled with respect to the land within the District. The assigned rights included allocation of certain development rights and associated milestones permitted under the Development Agreement, which include a number of permitted dwellings and other property uses sufficient to complete build-out of properties in the District.

- ***Final Tract Map Recordation***. Seven of eleven final tract maps for the residential development have been recorded to date. According to the Master Developer, the remainder final tract maps will be recorded by August 2022.

- ***Backbone Infrastructure***. The development in the District is planned to occur in two phases, with the development in the second phase expected to trail the first phase by approximately six months. The first phase of development is planned to include seven of the 11 for-sale residential developments (totaling 671 for-sale residential units at buildout). The area in the first phase has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Master Developer within the first phase of development has been substantially completed. As of April 14, 2022, all of the merchant builders within the first phase of development had commenced vertical construction of their projects. The area within the second phase of development in the District is planned for four residential projects totaling 279 for-sale homes (145 of which are planned to be age-qualified). Grading of the property in the second phase of development in the District is complete.

- ***Construction, Building Permits & Contracts***. As of April 14, 2022, of the expected 950 residential units, 22 models have been completed, 118 building permits have been issued, and 90 homes are under construction. As of May 22, 2022, 121 homes in the District have been released for sale, 114 of which were in escrow.

Merchant Builders. All the residential development is under contract to Merchant Builders. The following table summarizes the purchase and conveyance status by the Master Developer to the Merchant Builders of the residential units as of April, 2022:

TABLE 1 – MERCHANT BUILDER PURCHASES

Merchant Builder	Units Purchased & Conveyed	Units Under Contract
Lennar	441	42
Tri Pointe	119	135
Meritage	67	
Pulte	73	
Trumark	73	
Total	**773**	**177**

Description of the Eligible CFD Facilities Costs. The expected total cost of the facilities eligible to be financed with the proceeds of the bonds to be issued by the District, which includes the Bonds and any bonds issued by the District, based on the current estimated cost of the Facilities, is approximately $145,000,000. The estimated cost of the facilities eligible to be financed with proceeds of bonds to be issued by the District, based on the current estimated cost of the Facilities, is set forth below.

TABLE 2 – ESTIMATED ELIGIBLE COSTS

I. ONSITE AND OFFSITE FACILITIES – COUNTY FACILITIES	
PROJECT FACILITIES (Acquired by County)[(1)]	
Roadways (including related rough grading for roadways and traffic improvements)	
1. Gibby Road and Bridge	$17,172,000
2. Cow Camp Bridge and Road	48,363,000
3. Los Patrones Parkway Extension – Preliminary Design	625,000
4. Ortega Highway Design	1,689,554
5. Oso/Antonio Intersection Widening	1,993,251
6. Other Public Street Improvements & Signals	11,457,000
Other Facilities	
7. Public Storm Facilities	10,417,000
Subtotal Onsite and Offsite Facilities	$91,716,805
II. JCFA – SANTA MARGARITA WATER DISTRICT	
1. Trampas Reservoir and related water facilities	$5,000,000
2. Sewer and Water Facilities (constructed by SMWD)	13,072,000
3. Sewer and Water Facilities (constructed by RMV)	22,504,000
Subtotal SMWD Facilities	$40,576,000
III. JCFA – CAPISTRANO UNIFIED SCHOOL DISTRICT	$3,374,000
IV. JCFA – ORANGE COUNTY FIRE AUTHORITY	$3,000,000
V. OTHER FACILITIES[(2)]	
1. Dry Utilities	$5,207,000
2. Drainage Basin (Basin 3B-4)[(3)]	814,000
Subtotal Other Facilities	$6,021,000
TOTAL	**$ 144,687,805[(4)]**

(1) The amounts in Part I may be reallocated between any of categories 1 through 7 based on the Purchase Prices approved by the Director so long as the total Purchase Prices approved for the Project Facilities do not exceed the amount on deposit in the Project Facilities Account.

(2) The amount to be disbursed for facilities under Part V may not exceed 5% of the initial amount deposited to the Acquisition and Construction Fund on the date of issuance of the Bonds and, with respect to the facilities under Part V.1, may be made only upon receipt by the Director of evidence satisfactory to it that the requirements of Section 53313.5(e) of the Act have been satisfied.

(3) Facility will not be acquired by the County and will remain privately owned pursuant to Section 53313.5(f) and Section 53313.5(m).

(4) Neither the County nor the District is liable to pay any cost of the Facilities from any amount other than the proceeds of the Bonds deposited to the Acquisition and Construction Fund and the interest earnings deposited therein in accordance with the Bond Indenture.

Price Point Study, Special Tax Rates & Total Tax Burden. The County retained a real estate market economist, Empire Economics, Inc., to prepare an independent analysis of estimated base prices of expected homes to be developed within the District. Empire Economics, Inc. (Empire) presented a final report dated August 4, 2021 of its estimates of base prices, which were used by the Special Tax Consultant, DTA, Inc., to develop special tax rates that conformed to the County Debt Policies. Specifically, the Total Tax Burden (defined as the sum of fees, taxes, assessments, rates & charges on the homebuyer's tax bill divided by the estimated base price of a residential unit) for residential development under County Debt Policies may not exceed 2%. Per request of the developer, the Total Tax Burden was established as a two-tiered approach in which the special tax rates for Market Rate Units and Age-Qualified Units were derived to produce Total Tax Burdens no greater than 2.00% and 1.80%, respectively.

Given the varied nature of the residential product by neighborhood, the Rate & Method of Apportionment (the RMA) defines eight sepate Tax Zones with special tax rates established from Pricing as summarized below:

TABLE 3 – TOTAL TAX BURDEN (TOTAL E.T.R.)

SPECIAL TAX CLASS ZONE	DESCRIPTION	RMA SQUARE FOOT CATEGORY	UNITS OR ACRES	MINIMUM SALES PRICE Apr-22	ASSIGNED/MAXIMUM SPECIAL TAX (FISCAL YEAR 2022-2023) SPECIAL TAX	E.T.R.	TOTAL E.T.R.
1	MARKET	ATTACHED FLATS (> 1,350 SF)	11	$557,086	$5,492	0.9858%	2.000%
1	MARKET	ATTACHED FLATS (1,251 - 1,350 SF)	22	$529,288	$5,217	0.9857%	2.000%
1	MARKET	ATTACHED FLATS (1,151 - 1,250 SF)	0	NA	$5,041	NA	NA
1	MARKET	ATTACHED FLATS (1,051 - 1,150 SF)	44	$489,258	$4,821	0.9854%	2.000%
1	MARKET	ATTACHED FLATS (951 - 1,050 SF)	33	$471,467	$4,646	0.9854%	2.000%
1	MARKET	ATTACHED FLATS (< 951 SF)	22	$409,197	$4,030	0.9849%	2.000%
		SUBTOTAL	132				
2	MARKET	ATTACHED ROW TOWNHOMES (> 1,500 SF)	22	$664,040	$6,550	0.9864%	2.000%
2	MARKET	ATTACHED ROW TOWNHOMES (1,301 - 1,500 SF)	38	$638,258	$6,295	0.9863%	2.000%
2	MARKET	ATTACHED ROW TOWNHOMES (1,101 - 1,300 SF)	44	$574,877	$5,668	0.9860%	2.000%
2	MARKET	ATTACHED ROW TOWNHOMES (< 1,101 SF)	16	$500,377	$4,931	0.9855%	2.000%
		SUBTOTAL	120				
3	MARKET	DETACHED DUPLEX (> 1,800 SF)	34	$739,787	$7,299	0.9866%	2.000%
3	MARKET	DETACHED DUPLEX (1,601 - 1,800 SF)	47	$642,948	$6,341	0.9862%	2.000%
3	MARKET	DETACHED DUPLEX (1,401 - 1,600 SF)	68	$615,091	$6,066	0.9862%	2.000%
3	MARKET	DETACHED DUPLEX (< 1,401 SF)	28	$568,291	$5,603	0.9859%	2.000%
		SUBTOTAL	177				
4	MARKET	DETACHED STUB ALLEY (> 1,750 SF)	29	$730,643	$7,209	0.9867%	2.000%
4	MARKET	DETACHED STUB ALLEY (1,551 - 1,750 SF)	28	$682,999	$6,737	0.9864%	2.000%
4	MARKET	DETACHED STUB ALLEY (1,351 - 1,550 SF)	57	$628,473	$6,198	0.9862%	2.000%
4	MARKET	DETACHED STUB ALLEY (< 1,351 SF)	55	$600,605	$5,923	0.9862%	2.000%
		SUBTOTAL	169				
5	MARKET	DETACHED TRADITIONAL (> 2,600 SF)	27	$989,775	$9,771	0.9872%	2.000%
5	MARKET	DETACHED TRADITIONAL (2,401 - 2,600 SF)	46	$942,925	$9,308	0.9871%	2.000%
5	MARKET	DETACHED TRADITIONAL (2,201 - 2,400 SF)	22	$864,841	$8,536	0.9870%	2.000%
5	MARKET	DETACHED TRADITIONAL (2,001 - 2,200 SF)	42	$812,961	$8,023	0.9869%	2.000%
5	MARKET	DETACHED TRADITIONAL (1,801 - 2,000 SF)	43	$769,552	$7,593	0.9867%	2.000%
5	MARKET	DETACHED TRADITIONAL (< 1,801 SF)	27	$718,732	$7,091	0.9866%	2.000%
		SUBTOTAL	207				
6	ASSISTED LIVING PARCEL		10.58	NA	$65,567	NA	NA
7	AGE QUALIFIED	AQ - CLUSTER (> 1,800 SF)	34	$797,999	$6,235	0.7813%	1.794%
7	AGE QUALIFIED	AQ - CLUSTER (1,601 - 1,800 SF)	0	NA	$6,043	NA	NA
7	AGE QUALIFIED	AQ - CLUSTER (1,401 - 1,600 SF)	0	NA	$5,506	NA	NA
7	AGE QUALIFIED	AQ - CLUSTER (1,201 - 1,400 SF)	18	$680,925	$5,330	0.7828%	1.796%
7	AGE QUALIFIED	AQ - CLUSTER (< 1,201 SF)	37	$648,699	$5,003	0.7712%	1.785%
		SUBTOTAL	89				
8	AGE QUALIFIED	AQ - ALLEY (> 1,950 SF)	22	$810,277	$6,581	0.8122%	1.825%
8	AGE QUALIFIED	AQ - ALLEY (1,751 - 1,950 SF)	10	$799,077	$6,178	0.7731%	1.786%
8	AGE QUALIFIED	AQ - ALLEY (1,551 - 1,750 SF)	24	$736,890	$5,800	0.7871%	1.800%
8	AGE QUALIFIED	AQ - ALLEY (< 1,551 SF)	0	NA	$5,654	NA	NA
		SUBTOTAL	56				
	TOTAL UNITS		**950**				

1. Price based on Empire Economics Price Point Review Study dated March 22, 2022.
2. Tax Burden is described in this table as the Effective Tax Rate (E.T.R.).

In accordance with the RMA, Empire conducted a Review Study dated March 22, 2022 that concluded that the market values had increased by an average of 11% since August 2021 and therefore the special tax rates were confirmed to comply with County Debt Policies.

CFD Formation Proceedings. The District was formed by the County pursuant to the Mello-Roos Act of 1982 (the Act) and constitutes a governmental entity separate and apart from the County. Pursuant to the Act, the County Board of Supervisors to the following actions:

- On October 19, 2021, the Board of Supervisors adopted Resolution No. 21-118 (the Resolution of Intention), stating its intention to form the District and to authorize the levy of a special tax on the taxable property within the District.
- On October 19, 2021, the Board of Supervisors also adopted Resolution No. 21-119, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed $165,000,000 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.
- On November 23, 2021 the Board of Supervisors adopted Resolution Nos. 21-135 and 21-136 (the Resolution of Formation and the Resolution to Incur Debt, respectively) which established the District, authorized the levy of a special tax within the District, determined the necessity to incur bonded indebtedness within the District; conducted an election of the qualified electors of the District.
- On December 14, 2021, the Board, acting as the legislative body of the District, adopted Ordinance No. 21-014 (the "Ordinance") which authorizes the levy of a special tax pursuant to the Rate and Method of Apportionment of Special Tax within the District.
- On December 7, 2021, the Board, acting as legislative body of the District, adopted Resolution No. 21-144, stating its intention to annex certain designated territory to the District upon the unanimous approval of the owners of each parcel to be annexed. Subsequently, the Board, acting as legislative body of the District, adopted Resolution No. 22-008 on January 11, 2022, designating such territory to be annexed to the District upon the unanimous approval of the owners of each parcel to be annexed. On March 8, 2022, the Board, acting as legislative body of the District, adopted Resolution No. 22-028, accepting the unanimous approval of the owners of property to be annexed to the District, and such property has been annexed to the District.

Validation Judgment. On December 22, 2021, 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 authorization of the issuance of bonds for the District and the levy of the special tax within the District. The court subsequently issued a ruling granting the County's application for 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 authorization to incur bonded indebtedness for the District through the issuance of bonds and the levy of the Special Tax within the District were valid and in conformity with the Constitution of the State and applicable laws of the State.

Market Absorption Study. In addition to the Price Point Study, Empire delivered a Market Absorption Study on behalf of the County. In the Market Absorption Study, Empire concluded, based on statistical comparison of the currently active comparable projects to the forthcoming projects in the District using their total housing prices (base price plus Special Tax liens) and their sizes of living area, that the absorption prospects for future closings of the 950 for-sale homes in the District are generally favorable. Based on the assumptions and limiting conditions set forth in the Market Absorption Study, Empire estimated the calendar year absorption schedules for the residential projects as follows:

TABLE 4 – MARKET ABSORPTION

Year	Projected Absorption Schedule
2022	80
2023	282
2024	310
2025	214
2026	64
Total	**950**

Property Appraisal. In order to provide information with respect to the value of the property within the District, the County engaged Integra Realty Resources (the Appraiser) to prepare an 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 the District 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 dated 2004 by the California Debt and Investment Advisory Commission. A summary of appraised values as of the Date of Value of April 14, 2022 by Property Owner are as follows:

TABLE 5 – APPRAISED VALUE

Property Owner	Units/Acres	Appraised Value (April 14, 2022)
RMV Rienda Senior Housing, LLC	10.8 Acres	$8,290,000
RMV PA3 Development LLC (Master Developer)*	177 Units	68,705,257
Lennar	441 Units	144,119,619
Tri Pointe	119 Units	49,116,316
Meritage	67 Units	25,930,000
Pulte	73 Units	42,230,000
Trumark	73Units	47,530,000
Total	950 Units	$385,930,000

* Of the Master Developer Units, 42 are under contract to Lennar, and 135 are under contract to Tri Pointe.

Estimated Sources and Uses of Funds. In order to size the Bonds, the District evaluated the maximum Assigned Special Taxes that could be levied based on projected build out. Assuming an Administrative Expense Requirement of $75,000 (which escalates at 2.00% per Fiscal Year, commencing July 1, 2023) and build out within the District as planned, Net Taxes would not be less than 110% of debt service on the Bonds in each Bond Year which begins in a Fiscal Year. Bonds are further structured to fund costs of issuance and a reserve fund requirement equal to federal tax law requirements (in this case 125% of average annual debt service).

The term of the Bonds is 30 years, with a final maturity date of August 15, 2052. The Bond Indenture does not provide for Parity Debt, except for refunding the Bonds for savings.

Based on market interest rates as of April 21, 2022 plus 50 basis points, the projected sources and uses of funds are estimated as follows. Costs of issuance are not final and subject to actual costs to be determined at the time of bond sale. The actual par amount of bonds will depend upon market conditions as of the date the bonds are priced.

TABLE 6 – ESTIMATED SOURCES AND USES

Sources of Funds	
Par Amount	$115,100,000
Premium*	1,483,000
Total Sources of Funds	$116,583,000
Uses of Funds	
Acquisition & Construction Fund	$105,175,000
Reserve Fund	10,333,000
Costs of Issuance	500,000
Underwriter's Discount	575,000
Total Uses of Funds	$116,583,000

* Premium is generated when, on a net aggregate basis for a single issuance of bonds, the price paid for such bonds is higher than the face value of such bonds.

The estimated cost of the facilities eligible to be financed with proceeds of the Bonds to be issued by the District are summarized in Table 2. Any costs in excess of available proceeds of the Bonds to be issued by the District are expected to be paid for by the Master Developer.

Foreclosure Covenant. For CFD bonds generally, a key feature of bondholder security is a covenant of the County to initiate foreclosure proceedings on delinquent property owners. For the Bonds, the District will covenant that (1) with respect to residential property other than Multi-Unit For-Rent Property located within Zone 6, it will commence judicial foreclosure proceedings against such parcels which are delinquent in payment of four or more installments of Special Taxes by the October 1 following the close of the Fiscal Year in which the fourth delinquent installment of Special Taxes were due and will commence judicial foreclosure proceedings against all such parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Taxes levied on such parcels; and (2) with respect to Multi-Unit For-Rent Property located within Zone 6, it will commence judicial foreclosure proceedings against such parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which such Special Taxes were due, and, in each case, diligently pursue to completion such foreclosure proceedings. Notwithstanding the foregoing, 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.

Value-to-Lien Ratio. When CFD bonds are initially issued – during the development phase of a given CFD – such bonds are typically issued on an unrated basis. Such is the case with the proposed Bonds. A key credit feature and County policy requirement therefore is the Value-to-Lien Ratio. The Value-to-Lien Ratio is the market value of property within the CFD subject to the Special Tax relative to CFD Bonds being issued plus any overlapping debt. Generally, the higher the Value-to-Lien Ratio, the more likely it is that property owners will be expected to pay their special taxes, as prolonged delinquency would result in property foreclosure action by the County. The County's Land Secured Financing Policy requires a minimum Value-to-Lien Ratio of 3:1 on an aggregate basis relative to the CFD bonds issued plus overlapping CFD or assessment liens. Based on the Appraised Value and estimated Par Amount of the Bonds summarized above, the Value-to-Lien Ratio by Property Owner is broken down as follows:

TABLE 7 – VALUE-TO-LIEN RATIO

Property Classification / Owner [1]	Units/Lots at Buildout [2]	FY 22-23 Taxable Acreage	Projected CFD 2021-1 Special Tax Levy [3]	CFD 2021-1 Bonds Outstanding [4]	Overapping Debt	Total Overlapping Debt	Appraised Value [1]	Appraised Value-to-Lien Ratios
Developed Property [6]								
Lennar	20	0.74	$107,091	$1,992,864	$1,875	$1,994,739	$9,714,000	4.87
TriPointe	7	0.30	$42,120	$783,814	$1,020	$784,834	$5,281,400	6.73
Meritage	13	0.89	$86,123	$1,602,669	$1,241	$1,603,910	$6,429,000	4.01
Pulte	3	0.27	$22,707	$422,556	$650	$423,206	$3,368,000	7.96
Subtotal	43	2.20	$258,041	$4,801,903	$4,786	$4,806,689	$24,792,400	5.16
Undeveloped Property [6]								
Building Permit Issued as of the Date of Value [7]								
Lennar	55	1.98	$268,291	$4,992,641	$3,545	$4,996,186	$18,363,000	3.68
TriPointe	9	0.43	$62,843	$1,169,454	$615	$1,170,070	$3,187,800	2.72
Meritage	5	0.37	$46,824	$871,344	$348	$871,692	$1,805,000	2.07
Pulte	6	0.45	$40,763	$758,568	$643	$759,211	$3,329,200	4.39
Subtotal	75	3.23	$418,721	$7,792,007	$5,151	$7,797,159	$26,685,000	3.42
No Building Permit Issued as of the Date of Value								
Lennar	366	20.26	$1,850,617	$34,438,263	$22,401	$34,460,664	$116,043,000	3.37
TriPointe	103	5.63	$633,287	$11,784,873	$7,847	$11,792,721	$40,650,800	3.45
Meritage	49	3.45	$436,637	$8,125,406	$3,416	$8,128,822	$17,696,000	2.18
Pulte	64	4.45	$407,241	$7,578,376	$6,859	$7,585,235	$35,532,800	4.68
Trumark	73	6.65	$608,159	$11,317,275	$9,175	$11,326,450	$47,530,000	4.20
RMV PA3 Development, LLC	177	7.83	$966,817	$17,991,561	$13,264	$18,004,825	$68,710,000	3.82
RMV Rienda Senior Housing, LLC [8]	0	10.58	$605,637	$11,270,335	$1,600	$11,271,935	$8,290,000	0.74
Subtotal	832	58.85	$5,508,394	$102,506,090	$64,562	$102,570,652	$334,452,600	3.26
TOTAL	**950**	**64.28**	**$6,185,156**	**$115,100,000**	**$74,499**	**$115,174,499**	**$385,930,000**	**3.35**

[1] Ownership and value based on Appraisal Report with a date of value of April 14, 2022.
[2] Permitted units shown represent parcels with a building permit issued as of April 14, 2022. Parcels of Undeveloped Property are based on expected product mix information provided by the Market Absorption Consultant.
[3] Based on debt service due on the Series 2022 Bonds plus the Administrative Expenses Cap.
[4] Based on preliminary bond sizing dated April 26, 2022. Allocated based on expected Fiscal Year 2022-2023 Special Tax levy.
[5] As of March 2, 2022. Allocated based on Fiscal Year 2021-2022 levy.
[6] Under the Rate and Method, Developed Property is property for which a building permit was issued as of January 1, 2022. Undeveloped Property is property for which a building permit was not issued as of January 1, 2022.
[7] An additional 75 building permits were issued between January 1, 2022 and April 14, 2022. Such units will be classified as Developed Property beginning in FY 23-24.
[8] Property is included in Zone 6 under the Rate and Method and is expected to be developed into an assisted living community. The Special Tax levy in Zone 6 for Developed

Part 2 – COUNTY POLICY COMPLIANCE DISCUSSION

The proposed Bonds are issued subject to the County's **Debt Management Policy** adopted May 2017 and its **Land Secured Financing Policy** updated as of May 2021 (collectively, the County Debt Policies). The County's Debt Management Policy establishes certain acceptable uses of debt, types of financing instruments, and general principles that govern the structuring of County debt issuances from time to time. The County's Land Secured Financing Policy has established certain *Objectives* of the County relative to the issuance of such debt, for which the County carries the responsibility to protect taxpayers, homebuyers, and bond investors alike. Based on these objectives, the County has established certain *Program Requirements*, in which the County applies specific criteria, or guidelines that the Proposed 2022 Bonds must meet or exceed prior to the issuance of such debt.

Orange County's growth in population and economic development has created the need for a wide variety of public facilities which serve community needs: a network of major highway and connector roads, freeways, flood control facilities, fire stations, libraries, parks, public safety buildings, etc. The County has maintained a commitment to construct public improvements as development occurs, thereby minimizing unpleasant side effects of growth such as traffic congestion and overcrowded facilities. With the approval of Proposition 13 in 1978 local governments could no longer issue general obligation bonds secured by property taxes to pay for public facilities. About the same time, federal and state programs which funded local facilities were cut. As a result, local governments had few choices to finance needed public facilities, particularly in newly developing areas.

One available funding source is to use tax-exempt financing mechanisms secured by the levy of special taxes. Constructing public facilities as development occurs can be facilitated by borrowing the construction funds and is usually accomplished by issuing tax-exempt bonds. Issuing bonds allows public facilities to be constructed and/or acquired before or concurrent with the increasing demand for the public facility due to the development. With this in mind, the County adopted its Land Secured Financing Policy to facilitate the issuance of CFD bonds, which provide a mechanism to finance public facilities which have a general community benefit, as well as having a direct benefit to the property for which special taxes are levied to pay debt service on such CFD bonds,

The Bonds are not a General or Special Obligation of the County or a General Obligation of the District, but are Special Oblgiations payable only from Net Special Taxes levied on taxable parcels within the District, subject to limitations described in the RMA, and certain amount held under the Bond Indenture.

The following Table 8 and Table 9 prepared by CSG summarizes those aspects of the County Debt Policies applicable to the proposed Bonds and how the plan of finance, the bond structure, and preparation of key financing documents for issuance of the proposed Bonds both meets or exceeds the requirements or guidelines of such policies.

TABLE 8 – Debt Management Policy Compliance

Applicable Debt Management Policy	Compliance Discussion
<u>Acceptable Uses</u> • Acquisition of a capital asset with a useful life of five or more years. • Construction or reconstruction of a facility or other public improvement. • The costs associated with a debt-financed project, including project planning, design, engineering and other preconstruction efforts; project-associated furniture, fixtures and equipment; and the costs of the financing itself, including capitalized interest, a debt service reserve, underwriter's discount and other costs of issuance.	See Table 2. All Eligible Costs are public improvements of useful life of five or more years. Also see Table 6 – Estimated Sources and Uses.
<u>Types of Financing Instruments</u> • Conduit Financings • Community Facilties Districts (CFDs)	Conduit financings are sponsored by the County to allow third-parties to access tax-exempt interest rates. These financings are not secured by regular County revenues. CFDs are subject to the County's Land Secured Financing Policy and compliance thereto is described below.
<u>Debt Structure</u> • Term of Debt – should match useful life of assets being financed. • Debt Service Structure – escalating debt service permitted if modest and better matches forecasted revenues. • Optional Prepayment – long-term debt should include an option call provision; County will evaluate additional cost demanded of investors. • Capitalized Interest – should be minimized. • Reserve Fund – consistent with federal laws. • Credit Enhancement – benefits should outweigh costs.	• Term of the Bonds is 30 years with an expected final maturity date of August 15, 2052. • Debt service escalates at 2% per year in tandem with increasing special tax rates imposed on taxable parcels within the District (consistent with prior County CFD bond issuances); bonds are structured with 110% debt service coveage after factoring in the County's costs to administer the CFD. • Bonds are optionally calleable in 7 years at 103% declining to 100% in 10 years. • No capitalized interest.

	• Reserve Fund is funded in cash from bond proceeds, sized to 125% of average annual debt service, and is consistent with federal tax law. • Bonds are unrated and credit enhancement is not available.
Method of Sale – Public Finance will recommend the appropriate method of sale based on the specific offering and market conditions, seeking advice from the County's municipal advisor.	As is typical of unrated CFD bond issuances, the Bonds will be sold on a negotiated basis. Through the County Underwriter Pool, the County engaged Piper Sandler & Co. as Senior Manager, and RBC Capital Markets, LLC as Co-Manager.

Table 9 – Land Secured Financing Policy Compliance

Applicable Land Secured Financing Policy	Compliance Discussion
Project Viability • Land use determination must have progressed to a point that the County can adequately assess and determine land uses and facility requirements. • Facilities priority are County facilities ahead of other public agency facilities. • Generally, development impact fees not financed. • Regional benefit priorized over local subdivision benefit.	• See the Section above Entitlements & Development Status, vertical develop has begun and final maps for all taxable units at recorded or about to be recorded. • Table 2 summarizes Eligible Costs, and County costs would be funded first. • No development impact fees of the County are financed. • The facilities financed by the Bonds predominantly are of benefit beyond the local subdivision.
Value-to-Lien Ratio • Value of the property subject to the special tax to pay debt service on the bonds will be at least three times the principal amount of the sum of the bonds to be sold and the principal amount of all other bonds outstanding that are secured by a special tax or assessment on property within the District • The proposed bonds do not present any unusual credit risks.	• Table 7 demostrates that the Value-to-Lien ratio exceeds 3:1 • Upon buildout, the Property subject to the Special Tax within the District will be substantially greater than the CFD lien, the greatest risk is during the development stage of the District. However, almost all the property has been conveyed to Merchant Builders and the earlier phases of the Ranch (which include CFDs) have a demonstrated history of success.
Special Tax Formula (also known as the RMA) • Reasonable basis for the apportionment of the special tax • Total Tax Burden (defined as the sum of ad valorem taxes, special taxes and assessments, fees and charges projected on a homebuyer tax bill divided by the projected base home price) is not greater than 2% • The RMA must be structured to produce revenues sufficient to fund bond debt service at 110% coverage after factoring in County administrative costs • Property owner must demonstrate ability to pay their special taxes on undeveloped land in the District	• The special tax was apportioned by tax class in accordance with the square footage of the home by product type, with a two-tiered tax rate of not greater than 2.00% Total Tax Burden on market rate development and generally close to 1.80% for age-qualified development. • The tax apportioned to the Senior Assisted Living facility is an amount exected to be supported by an anticipated construction cost value of $198 million. • Bonds are structured to provide 110% debt service coverage after County administrative costs. • All property owners have demonstrated development experience with a history of timely payment of their special tax obligations.
Disclosures • Each owner shall supply all material information to comply with any applicable federal and state securities laws	• Among other certifications, the Master Developer will deliver a letter of representation to the County and the Underwriter that information provided for the bond

	disclosure is true and correct in all material respects and did not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.
<u>Appraisals & Market Absorption</u> • Prior to issuance, an estimate of the market value of the land subject to the Special Tax within the District will be conducted in accordance with County Appraisal Guidelines.	• See the Section "Property Appraisal" above, the County retained the Appraiser to conduct an appraisal of the taxable property in the District. • See also the Section "Market Absorption Study," given the undeveloped status of much of the taxable property in the District, the County also retained Empire Economics to conduct a market absorption study.

CONCLUSION

Based on the Summary in Part 2 above, CSG Advisors Incorporated concludes that the proposed Bonds meet or exceed the applicable County Debt Policies.