Policy Compliance Report

Community Facilities District No. 2023-1 of the County of Orange (Rienda Phase 2B) 2023 Series A Special Tax Bonds

Prepared by:

FIELDMAN | ROLAPP & ASSOCIATES
EXPERIENCE, INTEGRITY & SERVICE

October 3, 2023

Mr. Louis McClure
Finance Team Lead
County of Orange
County Administration North
400 West Civic Center Drive
Santa Ana, CA 92701

Dear Mr. McClure:

On behalf of Fieldman, Rolapp & Associates, Inc. we are pleased to submit this Policy Compliance Report for the proposed issuance of special tax bonds for Community Facilities District No. 2023-1 of the County of Orange (Rienda Phase 2B) (the "Bonds").

The County's Policies, comprised of the Debt Management Policy and the Land Secured Policy (defined herein), have established certain objectives for which the County carries the responsibility to protect taxpayers, homebuyers, and bond investors relative to the issuance of debt. Based on these objectives, the County has established certain requirements, in which the proposed Bonds must meet or exceed prior to the issuance of such debt. Our overall conclusion, based on a review of the sources listed in the report, is that the proposed financing conforms to the County's Policies with respect to the use of land secured financing.

We are pleased to have been of service to the County.

Sincerely,

FIELDMAN, ROLAPP & ASSOCIATES, INC.

Anna V. Sarabian, Ph. D., CIPMA
Principal
(949) 660-7308 direct, (949) 274-0625 cell
asarabian@fieldman.com

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POLICY COMPLIANCE REPORT EXECUTIVE SUMMARY

The County Board of Supervisors adopted Resolution Nos. 23-043 and 23-044 on April 11, 2023 which established the Community Facilities District No. 2023-1 (the "District" or the "CFD"), and authorized the levy of a special tax within the District. On April 11, 2023, an election was held at which the landowners within the District eligible to vote approved the issuance of bonds for the District in an amount not to exceed $95,000,000. Capitalized terms not defined herein have the meanings ascribed to them in the Preliminary Official Statement.

Based on current information, the County anticipates a bond issue in the approximate par amount of $66.15[1] million. This Policy Compliance Report (this "Report") will document that the proposed bond financing for the District meets the requirements of the County's Policies (as defined herein).

POLICY COMPLIANCE REPORT BACKGROUND

<u>Policy Compliance Background</u>

In December 2022, the Orange County Board of Supervisors (the "Board") adopted the Debt Management Policy as part of the Strategic Financial Plan (the "Debt Management Policy"), and on May 2021 the County updated the Land Secured Financing Policy (the "Land Secured Financing Policy" and with the Debt Management Policy, the "County's Policies"). The Debt Management Policy establishes certain acceptable uses of debt, types of financing instruments, and general principles that govern the structuring of County debt issuances and the Land Secured Financing Policy establishes criteria for use of bond financing for public infrastructure funding in private development projects through the utilization of assessment districts (ADs) and community facilities districts (CFDs) and other related statutes. To date, the County has formed twenty-nine CFDs and seven ADs under this program and has enjoyed a high degree of success and acceptance in the marketplace.

The County's Policies were developed as a result of the County's growth in population and economic development that created the need for a wide variety of public facilities which serve developing community needs. The County has maintained a commitment to construct public improvements as development occurs to minimize the effects of growth such as traffic congestion and overcrowded facilities.

The Debt Management Policy outlines certain guidelines regarding the issuance of debt, and the criteria applicable to the proposed Bonds are listed below:

- **Acceptable Uses of Debt**
    - 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.

[1] Preliminary, subject to change.

- **Types of Financing Instruments**
  - The debt must be one of the different types of financing instruments available to the County.
- **Debt Structure**
  - Term of Debt – should not exceed the useful life of the improvement that it finances.
  - Debt Service Structure – escalating debt service permitted if modest and better matches forecasted revenues.
  - Optional Prepayment – long-term debt should include an optional call provision; County will evaluate additional cost demanded of investors.
  - Capitalized Interest – should be minimized.
  - Debt Service Reserve Fund – consistent with federal laws.
  - Credit Enhancement – benefits should outweigh costs.
- **Method of Sale**
  - Debt issues can be sold through a public offering through either a competitive sale or a negotiated 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.

The Land Secured Policy established certain objectives for which the County carries the responsibility to protect taxpayers, homebuyers, and bond investors. Based on these objectives, the County has established certain requirements, in which the County applies specific criteria, or guidelines that the proposed Bonds must meet or exceed prior to the issuance of such debt.

- **Project Viability**
  - Land use determination has progressed to a point that the County can adequately assess and determine land uses and facility requirements.
  - Facilities to be acquired by the County are a higher priority than facilities to be acquired by another public agency or services.
  - Generally, development impact fees are not financed.
  - Public facility improvements which provide a regional benefit are a higher priority than those required for local subdivision development.
  - Generally, the property is proposed to be developed with at least 100 residential units and the financed amount is expected to be at least $15 million.
- **Value-to-Lien Ratio**
  - Value-to-lien ratio (defined as the value of the real property that would be subject to the special tax to pay debt service on the bonds divided by 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) of at least 3:1
  - The proposed bonds do not present any unusual credit risks.
  - The proposed bonds should proceed for specified public policy reasons.
- **Special Tax Formula**
  - 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 Rate and Method of Apportionment (RMA) must be structured to produce special tax 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.

- **Disclosures**
  - Owner(s) to supply all material information for initial disclosure to comply with any applicable federal and state securities laws.
  - Owner(s) to supply all information for continuing disclosure to comply with requirements pursuant to Rule 15c2-12 under the Securities Exchange Act (the "Act") of 1934.
  - Requirements of disclosure to prospective property purchasers contained in the Act be met.
- **Appraisals**
  - 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.

CFD 2023-1 PROJECT OVERVIEW

Description of Proposed Development

The District is located in the southern portion of the County of Orange, to the northeast of the intersection of Legado Road and Saddle Way. The District consists of approximately 49 gross acres, of which approximately 34 acres 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 recreational facilities, parks and open space/conservation property, property owned by the owners association and public property.

The development within the District is planned for six for-sale residential projects consisting of 514 market-rate homes, all of which will be subject to the Special Tax. All property planned for residential development is either under contract, or has been conveyed, by RMV PA3 Development, LLC (the "Developer") to merchant builders or certain of such merchant builders' respective landbanks.

The area in the District has been graded and major infrastructure (sewer, water, storm drains, utilities, and arterial roads) to be installed by the Developer has been substantially completed. The backbone infrastructure necessary to complete development within the District has been substantially completed. As of August 31, 2023, the remaining onsite infrastructure necessary to complete development within the District consisted of final grading of certain portions of the property, certain streets and associated wet and dry utilities, landscaping, parks/trails and a clubhouse and associated amenities. The Developer expects to complete the majority of such remaining infrastructure in 2024 and the amenities in 2025.

The public grand openings for the homes in the District are scheduled to occur at various times between November 2023 and the first quarter of 2024. As of August 31, 2023, two of the five merchant builders within the District had commenced construction of model homes. As of such date, no homes had been conveyed to individual homeowners. As of August 31, 2023, 45 building permits have been issued for the 514 planned residential units within the District.

Source: The Appraiser.

Description of the CFD Facilities

The facilities authorized to be constructed and acquired by the District with the proceeds of the Bonds consist of certain roadways and roadway improvements, tunnels, regional hiking and biking trails, storm drains and basins, 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 sites, school facilities and equipment, facilities and equipment relating to fire protection and suppression, sheriffs substations and equipment and library facilities and equipment, and related infrastructure improvements, both onsite and offsite, and appurtenances and appurtenant work in connection with the foregoing (including utility line relocations and electric, gas and cable utilities) (collectively, the "Facilities").

The estimated cost of the Facilities eligible to be financed with proceeds of the Bonds, based on the current estimated cost of the Facilities, is set forth in the table below. However, the actual cost of the Facilities will depend on various factors, including product mix and the timing of construction within the undeveloped portion of the District, and such costs could be significantly higher. Given that the cost of the Facilities exceeds available proceeds of the Bonds, the costs in excess of available Bond proceeds are expected to be paid for by the Developer. The District may issue Parity Bonds only for the purpose of refunding outstanding Bonds and Parity Bonds. Costs of the Facilities in excess of available proceeds of the Bonds, and any Parity Bonds will be borne by the Developer.

All eligible Facilities are public improvements with a useful life of five or more years and no development impact fees are proposed to be financed. The Facilities to be acquired by the County constitute a larger portion and are a higher priority than Facilities to be acquired by another public agency. Most of the Facilities provide benefits that will affect the larger region, rather than limited to a smaller local subdivision.

Table 1 – Estimated Eligible Facilities

	Estimated Eligible Facilities
I. ONSITE AND OFFSITE FACILITIES – COUNTY FACILITIES	
PROJECT FACILITIES (Acquired by County)[(1)]	
Roadways (including, without limitation, rough grading for roadways and traffic improvements)	
1. Cow Camp Road	$ 9,947,000
2. Gibby Bridge and Road	39,892,000
3. Public Street Improvements (including, without limitation, those listed on Schedule 1)	2,781,000
4. Public Storm Facilities	1,676,000
Subtotal Onsite and Offsite Facilities	$ 54,296,000
II. JCFA – SANTA MARGARITA WATER DISTRICT ("SMWD")	
1. Major Sewer and Water Facilities (constructed by SMWD)	$ 4,250,000
2. Sewer and Water Facilities (constructed by the Company)	3,889,000
Subtotal SMWD Facilities	$ 8,139,000
III. JCFA – CAPISTRANO UNIFIED SCHOOL DISTRICT	
1. K-8 School Facilities	$ 4,300,000
IV. JCFA – ORANGE COUNTY FIRE AUTHORITY ("OCFA")	
1. OCFA Equipment	$ 5,078,000
V. OTHER FACILITIES[(2)]	
1. Dry Utilities	$ 1,165,000
TOTAL[(3)]	**$ 72,978,000**

(1) The amounts in Part I may be reallocated between any of categories 1 through 4 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 amount deposited to the Acquisition and Construction Fund (including any amounts deposited therein as a result of amounts released from the Escrow Fund in accordance with Section 3.11(b)(3)(iii) of the Bond Indenture, and 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) This total exceeds the initial deposit to be made to the Acquisition and Construction Fund to finance the Facilities. Neither the County nor the District is liable to pay any cost of the Facilities from any amount other than the proceeds of the 2023 Series A Bonds deposited to the Acquisition and Construction Fund and the interest earnings deposited therein in accordance with the Bond Indenture.

Source: Acquisition Funding and Disclosure Agreement

PROPERTY OWNER INFORMATION

Master Developer

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

The members of Ladera are members of the O'Neill family and former and current key employees of Rancho Mission Viejo, L.L.C. ("RMV"), a Delaware limited liability company. Ladera was formed in February 1995 to acquire an option to purchase the property comprising Ladera Ranch from Santa Margarita Company, 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 Rienda from DMB San Juan Investment North, LLC, an affiliate of RMV, and to develop the properties in Sendero, Esencia and Rienda.

As outlined in the Bond Purchase Agreements, the Developer will deliver a negative assurance letter regarding the Official Statement and 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.

Developer History of Property Tax Payments

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 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, which would materially adversely affect the development within the District.

Developer's Remaining Infrastructure Requirements

The remaining infrastructure within the District to be completed consists of (a) $4.8 million for grading, roadways, streets, sewer and drainage improvements and utilities; (b) $3.3 million for landscaping, hardscape, parks and trails; (c) $4.1 million for amenities; (d) $1.3 million for engineering, miscellaneous processing and legal fees, and marketing and (e) $0.4 million for indirect construction support and equipment. In addition, there are $4.8 million in mitigation fees (sheriff, library, Transportation Corridor Agency, and school fees), each of which are paid by the Developer on behalf of the merchant builders upon submission of building permits. With the exception of the clubhouse and associated amenities, the remaining infrastructure improvements to be installed by the Developer are anticipated to be completed by the end of 2024. The clubhouse and associated amenities are expected to be complete in 2025. All remining infrastructure costs are planned to be funded by the Developer with cash on hand and available Bond proceeds.

The Developer is also constructing certain offsite infrastructure which is not required to complete the development in the District, but will benefit the development in the District. Such infrastructure includes portions of Cow Camp Road, Gibby Road and Bridge, a pump station, a flood control basin and a water quality basin. The total estimated costs of such infrastructure are approximately $72.7 million, of which appropriately $45.0 million had been spent as of August 31, 2023. Such offsite costs are eligible to be funded from proceeds of the Bonds.

The Developer has posted improvement bonds to guarantee completion of the backbone infrastructure. Additionally, each of the merchant builders has posted improvement bonds to guarantee completion of its in-tract improvements.

Merchant Builders

All property planned for residential development in the six for-sale projects is either under contract, or has been conveyed, by the Developer to merchant builders or certain of such merchant builders' respective landbanks, as described herein. The following table summarizes the residential developments within the District.

Table 2 – Summary of Merchant Builder Developments

Merchant Builder	***Project***	***Product Type[(1)]***	***Number of Units***	***Number of Models Completed[(3)]***	***Number of Building Permits Issued[(3)]***	***Number of Homes Under Construction[(3)]***	***Number of Partially Improved Lots[(3)]***	***Estimated Average Base Sales Price[(2)]***
Lennar								
	Mariposa (MR-6)	Condominiums	106	0	6	6	106	$ 684,000
	Flora (MR-24)	Single Family Detached	69	0	3	3	69	889,000
TRI Pointe	Heatherly (MR-28)	Single Family Detached	82	0	4	4	82	970,333
Shea	Bloom (MR-25)	Single Family Detached	82	0	3	0	82	1,040,000
Pulte[(4)]	Juniper (MR-11)	Single Family Detached (Duplex)	82	0	16	0	82	767,500
Trumark	Willow (MR-8)	Attached Row Townhomes	93	0	13	0	93	687,990
TOTAL			**514**	**0**	**45**	**13**	**514**	

(1) See descriptions of the merchant builders projects below for more information regarding the proposed product types.
(2) Averages as set forth in the Market Absorption Study, which reflects a weighted average taking into account the number of units per floor plan within each project.
(3) As of August 31, 2023. As of such date, certain builders had commenced in-tract improvements and construction of model homes.
(4) As of August 31, 2023, Pulte had acquired property for 40 of the 82 units planned for its project in the District from the Developer. The Developer experts Pulte to acquire the property for the remaining 47 planned units in January 2024.

Source: The Developer, the Appraiser and the Market Absorption Consultant.

Lennar

Lennar is developing two projects in the District (marketed as Mariposa and Flora). Lennar, the Developer and AG EHC II (LEN) CA 3, L.P. (the "Lennar Landbank") entered into an agreement which, among other matters, Lennar's option to purchase such property was assigned to the Lennar Landbank. Such property was acquired by the Lennar Landbank and the Lennar Landbank currently owns the property for Lennar's Mariposa and Flora projects.

The Mariposa project consists of 106 condominiums. As of August 31, 2023, Lennar had completed the substantial majority of the wet utilities and has commenced paving the in-tract streets, commenced construction of one building planned for six model homes and was under contract to purchase the property for the remaining 100 units. A final tract map for the Mariposa project has been recorded.

The Flora project consists of 69 single family detached homes. As of August 31, 2023, Lennar had completed the substantial majority of the wet utilities and has commenced paving the in-tract streets. As of such date, Lennar had commenced construction of three model homes and was under contract to purchase the property for the remaining 66 homes planned within the Flora project. A final tract map for the Flora project has been recorded.

TRI Pointe

TRI Pointe is developing one project in the District (marketed as Heatherly). TRI Pointe Homes, the Developer and RMV MR 28 – Mission Viejo, L.P., a Delaware limited partnership (the "TRI Pointe Homes Landbank") entered into an agreement to which, among other matters, TRI Pointe's option to purchase such property was assigned to the TRI Pointe Homes Landbank. Such property was acquired by the TRI Pointe Homes Landbank and the TRI Pointe Homes Landbank currently owns the property for TRI Pointe's project.

The Heatherly project consists of 82 single family detached homes. As of August 31, 2023, TRI Pointe had completed the substantial majority of the in-tract street and utility improvements within the Heatherly project. As of such date, TRI Pointe had commenced construction of four model homes and the lots planned for the remaining 78 homes within the Heatherly project were in a finished or near-finished condition. A final tract map for the Heatherly project has been recorded.

Shea

Shea is developing one project in the District (marketed as Bloom). The Bloom project consists of 82 single family detached homes. As of August 31, 2023, the property within the Bloom project had been graded and Shea had commenced construction of the in-tract street and utility improvements. Shea expects to commence construction of model homes in the fourth quarter of 2023. A final tract map for the Bloom project is currently expected to be recorded by the end of October 2023.

Pulte

Pulte is developing one project in the District (marketed as Juniper). The Juniper project consists of 82 single family detached duplex homes. As of August 31, 2023, Pulte had completed the substantial majority of the in-tract street and utility improvements within the Juniper project. As of such date, Pulte had obtained building permits for 16 homes within the Juniper project. A final tract map for the Juniper project has been recorded.

Trumark
Trumark is developing one project in the District (marketed as Willow). The Willow project consists of 93 single family detached homes. As of August 31, 2023, the property for the Willow project consisted of finished lots. Trumark commenced trenching for model homes in June 2023, and expects first occupancy in the second quarter of 2024 and sellout in 2025. A final tract map for the Willow project has been recorded.

ENTITLEMENT INFORMATION

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. 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.

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 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.

ABSORPTION

A Market Absorption Study (the "Study"), dated August 9, 2023 and revised on October 3, 2023, was prepared by Empire Economics, Inc. ("Empire") for the District on behalf of the County.

The Study includes a comprehensive analysis of the product mix characteristics as well as the macroeconomic and microeconomic factors that are expected to influence the absorption of the forthcoming homes within the District. Based on the competitive market analysis, which compared the characteristics of the projects in the District to the active comparable projects in CFD No. 2021-1 Rienda Phase 2A, the Study concluded that the District's projects are competitive in the marketplace, with regards to their prices, living areas and special taxes.

Additionally, the stabilization of the mortgage rates and the tight conditions in the resale market currently provide favorable conditions for newly developing housing projects, with regards to price stability and sales rates.

The following section summarizes the expected closings in the Study.

2024: 110 homes with closings starting in 2nd Quarter 2024
All 6 projects on the marketplace commencing escrow closings/move-ins
2025: 219 homes with closings, with all of the projects on the market for the entire year
All 6 projects on the marketplace with escrow closings for the entire year
2026: 160 homes with closings, with most projects approaching their close-outs
All 6 projects on the marketplace with escrow closings
2027: The two projects close their remaining 25 homes
CFD No 2023-1 Rienda 2B Close-out: Spring 2027

To accomplish the assignment of providing market absorption schedules, and doing this in the timeframe where the housing market is expected to continue to be challenged by higher mortgage rates and unemployment, which will result in lower sales and price declines, Empire has built-in safeguards to its forecasting paradigm with regards to potential price reductions as well as slower absorption until the Federal Reserve Board's goal of 2% inflation is achieved.

PRICE POINT STUDY

The Special Taxes are to be levied according to the Rate and Method of Apportionment (the "RMA") approved by the Board of Supervisors of the County and the qualified electors within the District. In accordance with the RMA the County caused a price point study dated August 8, 2023 and revised on September 8, 2023 (the "Price Point Study") to be prepared by Empire. Based on the Price Point Study, the Assigned Special Tax and Backup Special Tax rates for all six tax Zones (as defined in the RMA) will be reduced on the date of issuance of the Bonds in accordance with the RMA. Also in accordance with the RMA, upon the issuance of the Bonds, an amended notice of special tax lien reflecting the revised Assigned Special Tax and Backup Special Tax rates will be recorded in the office of the County Recorder. For Fiscal Year 2023-24, the projected total effective tax rates for all categories of residential units within the District are approximately 2.00% of total projected base sales prices (based on the Price Point Study).

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 the Appraisal Report (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 Appraisal Report conforms to the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, applicable state appraisal regulations, and the Appraisal Standards for Land Secured Financing published by the California Debt and Investment Advisory Commission (CDIAC).

Subject to the contingencies, assumptions and limiting conditions set forth in the Appraisal Report, the Appraiser concluded that, as of August 31, 2023, the market value of the land and improvements within the District was approximately $191,420,000. The table below shows the market value of the property by ownership as set forth in the Appraisal Report.

Table 3- Summary of Appraised Values

Owner[(1)]	***Development Area***	***No. of Units***	***Appraised Value***
Developer	MR-11[(2)]	47	$ 13,640,000
Merchant Builders:			
Lennar	MR-6 and MR-24[(3)]	175	$ 66,600,000
TRI Pointe Homes	MR-28[(3)]	82	35,540,000
Shea	MR-25	82	35,950,000
Pulte	MR-11	35	12,990,000
Trumark	MR-8	93	26,700,000
Merchant Builders Subtotal		**467**	**$177,780,000**
TOTAL		**514**	**$191,420,000**

(1) As of the Date of Value.
(2) Property is under contract to be acquired by Pulte.
(3) Property is currently owned by the respective landbank of such merchant builders.
Source: The Appraiser.

VALUE-TO-LIEN RATIO

Overlapping Debt and Value-to-Lien Ratio

The District is served by two other overlapping public agency jurisdictions: the Capistrano Unified School District, and the Metropolitan Water District. Both agencies have outstanding bonds allocable to the District which are included in the calculation of overlapping debt.

Consistent with the County's policy requirements, the value-to-lien ratio for the proposed bond issue has been estimated at **3.00[1] to 1**, and determined in the following manner:

- Determine the allocable share of other existing land-based debt paid through property tax bills, issued by other jurisdictions that overlap the District.
- Determine the market value of the property through current assessed valuations, an appraisal process, or a combination of both methods.
- Using the value of the property as the numerator and the applicable share of the overlapping debt plus the proposed new District debt as the denominator, calculate the value-to-lien ratio.

The following table reflects the existing indebtedness on the District property and the projected indebtedness for the County's proposed bond issue.

[1] Preliminary, subject to change.

Table 4 – Direct and Overlapping Debt Summary

▪ Overlapping District	Fiscal Year 2023-24 Total Levy	Estimated Levy on Parcels in District(1)	Percent of Levy on Parcels in District(1)	Total Debt Outstanding(2)	District Share of Total Debt Outstanding(3)
Metropolitan Water District	$196,001,141	$1,781	0.0009%	$19,215,000	$ 175
Capistrano Unified SFID No. 1 Series 2001B	2,609,990	1,705	0.0653	1,671,338	1,092
Capistrano Unified SFID No. 1 Series 2022 Refunding	2,321,722	1,517	0.0653	5,041,522	3,293
Estimated Share of Overlapping Debt Allocable to the District					$ 4,560
Plus the Bonds(4)					$63,805,000*
Estimated Share of Direct and Overlapping Debt Allocable to the District					$63,809,560*

* *Preliminary, subject to change.*
(1) Estimated levy amount is based on the Fiscal Year 2023-24 *ad valorem* rates multiplied by the appraised value. Actual *ad valorem* amounts in future years will be based on the County assessed values.
(2) As of September 2, 2023.
(3) Calculated by multiplying the Percent of Levy on Parcels in District column by the Total Debt Outstanding column.
(4) Excludes the Escrow Term Bonds in the principal amount of $2,345,000*.
Source: DTA, Inc.

- The allocable share of overlapping land-based debt from other jurisdictions is equal to $4,560.
- The appraisal value is $191,420,000 as of the Appraisal Date of Value of August 31, 2023.

$$\frac{\text{Value of property}}{\text{Overlapping Land Based Debt} + \text{Proposed New Debt}} = \text{Value-to-Lien Ratio}$$

$$\frac{\$191{,}420{,}000}{\$4{,}560 + \$63{,}805{,}000^*} = \frac{\$191{,}420{,}000}{\$63{,}809{,}560^*} = \mathbf{3.00{:}1}^*$$

* *Preliminary, subject to change.*
Source: DTA, Inc. and the Appraiser.

PROPOSED FINANCING

General

The District's proposed bond financing will be issued in accordance with the provisions of the Mello-Roos Community Facilities Act of 1982, as amended (the "Act")

Proceeds of the Bonds are being issued by the District to (a) pay the costs of forming the District; (b) fund capitalized interest on a portion of the Bonds through August 15, 2024; (c) pay the cost of and expense of acquisition and construction of certain facilities authorized to be financed under the Act in connection with the development of the District; (d) fund a reserve account securing the Bonds; (e) pay costs of issuance of the Bonds; (f) make an initial deposit to the Administrative Expense Account; and (g) if applicable, fund an escrow fund with respect to the Escrow Term Bonds, which includes amounts for capitalized interest on the Escrow Term Bonds up through and including August 15, 2026, subject to prior release as described herein. Based on market interest rates as of September 11, 2023, the estimated sources and uses of funds are as follows.

Table 5 – Estimated Sources and Uses[1]

Sources of Funds:	
Principal Amount of Bonds	$66,150,000.00
Plus/Less Net Original Issue Premium/Discount	-1,022,888.90
Total Sources	$65,127,111.10
Uses of Funds:	
Acquisition and Construction Fund(1)	$55,497,228.07
Interest Account(2)	343,116.15
Administrative Expense Account	35,000.00
Costs of Issuance(3)	641,525.00
Reserve Account(4)	5,892,118.16
Escrow Fund(5)	2,345,000.00
Escrow Interest Account(6)	373,123.72
Total Uses	$65,127,111.10

(1) Acquisition and Construction Fund includes the Project Facilities Account, the Fire Facilities Account, the Other Facilities Account, the School Facilities Account and the Water Facilities Account.
(2) Amounts to fund capitalized interest on a portion of the Bonds through August 15, 2024.
(3) Includes Underwriters' Discount, Bond Counsel fees, Disclosure Counsel Fees, Special Tax Consultant fees, Municipal Advisor fees, Trustee fees, printing costs and other issuance costs.
(4) Amount does not include the Escrow Term Bonds in the calculation of the Reserve Requirement as of the date of issuance of the Bonds. If the amounts are released from the Escrow Fund to the Acquisition and Construction Fund upon satisfaction of certain conditions, a certain amount will be transferred from the Escrow Fund to the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement as of the Escrow Disbursement Date (as defined herein).
(5) Amounts in the Escrow Fund may be released to the Acquisition and Construction Fund upon satisfaction of certain conditions or will be used redeem Escrow Term Bonds in full on the Escrow Redemption Date (August 15, 2026).
(6) Amounts in the Escrow Interest Account have been sized to be sufficient to pay interest on the Escrow Term Bonds up through and including August 15, 2026.
Source: The Underwriters.

At the time of the Bond sale, if the value-to-lien ratio is determined to be less than 3.00 to 1, a portion of the proceeds of the Bonds will be deposited into an escrow fund (the "Escrow Fund") and an account therein (the "Escrow Interest Account") held with the Bond trustee and would not be released until the value of the land and improvements is sufficient to meet the 3.00 to 1 test. If for any reason, the value does not meet the 3.00 to 1 test by July 15, 2026, those funds will be used to redeem a portion of the bonds on August 15, 2026 (such portion of the Bonds are referred to in the attached documents as the "Escrow Term Bonds"). The value of the land and improvements in the CFD is expected to increase with the continued development of the project and the 3.00 to 1 test is expected to be met before July 15, 2026.
As is typical of unrated CFD bond issuances, the Bonds will be sold on a negotiated basis and span a term which is expected to be 30 years, with a final maturity date of August 15, 2053. The principal and interest payable on the bonds will be paid from the collection of special taxes to be levied on property within the District commencing in Fiscal Year 2023-24. The Bonds are unrated and credit enhancement will not be used. The Bonds are optionally callable in 7 years at 103% declining to 100% in 10 years.

Type of Financing

The County is a conduit to facilitate the proposed financing. Neither the faith and credit nor the taxing power of the County, the State of California, or any political subdivision thereof, other than the District, is pledged to the payment of the Bonds. Except for Special Taxes, no

[1] Preliminary, subject to change.

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 limited obligations of the District payable solely from special taxes. Principal and interest on the Bonds are payable solely from the annual Special Taxes to be levied and collected on the real property within the District.

Reserve Fund

A reserve fund will be maintained for the benefit of the bondholders (the "Reserve Account"). 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; or (iii) one hundred twenty-five percent (125%) of average annual debt service on the then Outstanding Bonds and any Parity Bonds. The Reserve Account will be only used for the purpose of paying the principal and interest on the Bonds in the event of insufficient special tax revenues collected for such purpose.

Special Tax Revenue Capacity Coverage

The Bonds will be sized so that the total debt service is less than the total expected CFD special taxes the County is authorized to levy under the RMA. Such maximum special taxing levy capacity (which escalates 2% annually), after subtracting out expected administrative expenses (which also escalates 2% annually), will be equal to 110% of bond debt service.

CONCLUSION

This Report documents that the proposed bond issuance for CFD No. 2023-1 is in full compliance with the County's Policies for CFDs. Based on current information, the County anticipates a bond issue in the approximate par amount of $66.15[1] million. This Report includes summary information which has been extracted from other reports and documents prepared for the County related to this CFD, including the Preliminary Official Statement, and other supporting documentation, which will be presented to PFAC and the Board for approval. The proposed financing for the CFD meets the guidelines of the County's Policies in the following ways:

- **Acceptable Uses of Debt**
  - As described in the "Proposed Financing" section, the proceeds of the Bonds are anticipated to fund eligible Facilities, a Reserve Account, capitalized interest, CFD administration, an Escrow Fund and interest, and costs of issuance including underwriter's discount. As shown in the "Description of the CFD Facilities" subsection, all eligible Facilities are public improvements of useful life of five or more years.
- **Types of Financing Instruments**
  - As described in the "Proposed Financing" section, the Bonds are considered a "Conduit Financing" and allowed under the Debt Management Policy.
- **Debt Structure**
  - As described in the "Proposed Financing" section, the following debt structure characteristics are detailed:
    - Term of Debt – 30 years term of debt with an expected final maturity date of August 15, 2053.
    - Debt Service Structure – Debt service escalates at 2% per year, which best corresponds to the increasing special tax rates imposed on taxable parcels within the District that secure the debt service payments.
    - Optional Prepayment – The Bonds are optionally callable in 7 years at 103% declining to 100% in 10 years.
    - Capitalized Interest – The Bonds will fund fund capitalized interest on a portion of the Bonds through August 15, 2024 and capitalized interest on the Escrow Term Bonds up through and including August 15, 2026, if the Escrow Term Bonds are utilized.
    - Debt Service Reserve Fund – The Reserve Account is funded in cash from bond proceeds and is consistent with federal tax law.
    - Credit Enhancement – The Bonds are unrated and credit enhancement is not used.
- **Method of Sale**
  - As described in the "Proposed Financing" section, the Bonds will be sold on a negotiated basis.
- **Project Viability**
  - As described in the "CFD 2023-1 Project Overview" and "Entitlement Information" sections, the backbone infrastructure necessary to complete development within the District has been substantially completed and final maps for all taxable units have been recorded or about to be recorded.
  - As described in the "Description of the CFD Facilities" subsection, the Facilities to be acquired by the County constitute a larger portion and are a higher priority

[1] Preliminary, subject to change.

    than Facilities to be acquired by another public agency. Most of the Facilities provide benefits that will affect the larger region, rather than limited to a smaller local subdivision and no development impact fees of the County are financed.
  - The CFD is proposed to be developed with over 514 residential units and the financed amount is expected to be approximately $55.5 million.
- **Value-to-Lien Ratio**
  - As shown in the the "Value-to-Lien Ratio" section, the value-to-lien ratio equals 3:1
  - The proposed Bonds do not present any unusual credit risks. The property owners who propose the use of tax-exempt financing to pay for the facilities have the ability to pay the Special Taxes on their undeveloped property within the District. There is no reason to believe that the Developer would not be able to meet its obligations. As shown in the the "Developer History of Property Tax Payments" subsection, the Developer has never defaulted in the payment of a special tax or an assessment on property owned by it and has not, or is not, in default on any loans, lines of credit or other obligation. The Developer has not been served with notice of any claim or suit and has never filed for bankruptcy.
  - The District serves a community need and is consistent with the County's commitment to construct public improvements as development occurs. The development within the CFD is planned for six for-sale residential developments and other lands retained by the Developer for nonresidential use, recreation and park space.
- **Special Tax Formula**
  - As shown in the the "Proposed Financing" section, the Special Taxes have been apportioned to property owners on a reasonable basis, apportioned by tax class in accordance with the square footage of the home by product type, with a tax rate of not greater than 2.00%. The Bonds are structured to provide 110% debt service coverage after factoring in County administrative costs.
  - As shown in the the "Property Owner Information" section, all property owners have demonstrated development experience with a history of timely payment of their special tax obligations.
- **Disclosures**
  - Among other certifications, the 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.
- **Appraisal**
  - Empire Economics and Integra Realty Resources were retained to evaluate the proposed financing from an economic, tax burden, and property value viewpoint. See Sections "Appraisal" and "Absorption" above.