

14) **Community Facilities District No. 2019-2 (Nichols Ranch) Special Tax Bonds, Series 2024**

Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ACTING AS THE LEGISLATIVE BODY OF THE CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH) AUTHORIZING THE ISSUANCE OF ITS SPECIAL TAX BONDS, SERIES 2024 IN A PRINCIPAL AMOUNT NOT TO EXCEED EIGHT MILLION FIVE HUNDRED THOUSAND DOLLARS (\$8,500,000) AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH.



## REPORT TO CITY COUNCIL

**To:** Honorable Mayor and Members of the City Council

**From:** Jason Simpson, City Manager

**Prepared by:** Shannon Buckley, Assistant City Manager

**Date:** August 13, 2024

**Subject:** Community Facilities District No. 2019-2 (Nichols Ranch) Special Tax Bonds, Series 2024

### **Recommendation**

Adopt A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE, CALIFORNIA, ACTING AS THE LEGISLATIVE BODY OF THE CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH) AUTHORIZING THE ISSUANCE OF ITS SPECIAL TAX BONDS, SERIES 2024 IN A PRINCIPAL AMOUNT NOT TO EXCEED EIGHT MILLION FIVE HUNDRED THOUSAND DOLLARS (\$8,500,000) AND APPROVING CERTAIN DOCUMENTS AND TAKING CERTAIN OTHER ACTIONS IN CONNECTION THEREWITH.

### **Background**

The City of Lake Elsinore (the “City”) formed the City of Lake Elsinore Community Facilities District No. 2019-2 (Nichols Ranch) (the “District”) in 2019 according to the Mello-Roos Community Facilities District Act of 1982, as amended.

The District contains approximately 58.19 gross acres and is in the City on the southeast quadrant of Interstate 15 and Nichols Road, adjacent to the Temescal Valley High School. The property Developer within the District is Meritage Homes of California (“Meritage”). Meritage is marketing the project as “Nichols Ranch.”

The property within the District is planned for 168 single-family detached homes. As of July 1, 2024, Meritage had completed and conveyed 83 homes within the District to individual homeowners, and as of such date, Meritage owned four model homes, 49 homes in various stages of construction, and 32 finished lots. Meritage expects to complete and convey all homes planned within the District to individual homeowners by the end of 2025. The development and ownership status of the planned homes within the District as of July 1, 2024, is shown in the table below.

### Ownership and Development Summary (July 1, 2024)

|                           | <u>Parcels</u> | <u>In Escrow</u> |
|---------------------------|----------------|------------------|
| <b>Individually Owned</b> |                |                  |
| Completed                 | 83             | --               |
| <b>Developer Owned</b>    |                |                  |
| Model Homes               | 4              | --               |
| Under Construction        | 49             | 16               |
| Finished Lots             | <u>32</u>      | <u>--</u>        |
| Subtotal                  | <u>85</u>      | <u>16</u>        |
| <b>TOTAL</b>              | <b>168</b>     | <b>16</b>        |

The Resolution before the City Council authorizes the issuance of special tax bonds (the "2024 Special Tax Bonds") to finance the costs of construction of City facilities, including but not limited to public improvements to be owned by the city and water and sewer facilities to be owned and operated by the Elsinore Valley Municipal Water District. The Resolution also authorizes the approval and execution of certain documents described on the following pages.

### Discussion

The proposed 2024 Special Tax Bonds are estimated to be issued in the principal amount of approximately \$7.815 million with a final maturity of September 1, 2054. The final structure and payment schedule will be determined when the 2024 Special Tax Bonds are priced and sold, which is expected to be in late August 2024. The bond closing is expected to occur approximately two weeks after pricing the 2024 Special Tax Bonds. The table below highlights preliminary financing statistics of the 2024 Special Tax Bonds based on current market conditions.

| <b>Summary of Financing Statistics<sup>1</sup></b> |                   |
|--|-------------------|
| <b>2024 Special Tax Bonds</b>                      |                   |
| Par Amount   | \$7,815,000       |
| True Interest Rate                                 | 5.01%             |
| <b>Estimated Cost to Homeowners</b>                |                   |
| FY 2024-25 Assessment <sup>2</sup>                 | \$2,596 - \$3,118 |

The Fiscal Year 2024-25 estimated Special Tax levy on homes within the District ranges between \$2,596 to \$3,118, depending on the size of the home. Such rates will increase by 2.0% per year.

Given the level of development noted above and under the City policy, Meritage will provide a Letter of Credit that the District may draw upon to cover payment of special taxes levied on property owned by Meritage. The initial term of the Letter of Credit is one year and will be renewed each year until specific development and conveyance thresholds are met.

As required under Section 5852.1 of the California Government Code, the good faith estimates provided by the Municipal Advisor and Underwriter are outlined in Exhibit A to this staff report.

Approval of the Resolution for the issuance of the 2024 Special Tax Bonds approves the form of and/or authorizes the execution and delivery of the following documents:

**Preliminary Official Statement:** The Preliminary Official Statement (the “POS”) is the “offering document” for the 2024 Special Tax Bonds. It describes the District, the 2024 Special Tax Bonds, the proposed development within the District, and any other information that would be material to a prospective investor’s decision on whether to purchase the 2024 Special Tax Bonds. While the City’s counsel, consultants, and underwriter have participated in preparing the POS, the City Council and staff are ultimately responsible for ensuring that the POS is accurate, contains no misleading information, and does not omit any information necessary to make the POS not misleading to investors.

**Bond Indenture:** The Bond Indenture is a contract entered into between the District and Wilmington Trust, National Association, as the appointed Trustee for the 2024 Special Tax Bonds. This document contains terms of the 2024 Special Tax Bonds including, but not limited to, the payment and redemption provisions, the pledge of revenues to pay the 2024 Special Tax Bonds, rights and duties of the Trustee, remedies upon a default in the payment of the 2024 Special Tax Bonds, and other related matters.

**Continuing Disclosure Certificate:** Executed for the benefit of bondholders, the Continuing Disclosure Certificate obligates the District to file an annual report each Fiscal Year, which includes, among other things, the most recent audited financial statements of the City and financial data relating to the District. The District must also report significant events to bondholders if and when they occur.

**Bond Purchase Agreement: According to** the Bond Purchase Agreement, the District agrees to sell the 2024 Special Tax Bonds to the underwriter, and the underwriter agrees to purchase the 2024 Special Tax Bonds, subject to typical closing conditions. City staff, the City’s municipal advisor, and bond counsel will sign off on the final pricing of the 2024 Special Tax Bonds before executing the Bond Purchase Agreement.

Bond Counsel and the City Attorney have reviewed the attached financing documents on behalf of the City. If this Resolution is approved, City staff will continue working with the financing team to finalize all the documents mentioned above. As previously mentioned, the pricing date would target late August 2024.

### **Fiscal Impact**

The 2024 Special Tax Bonds are paid from special taxes levied in the District. There is no fiscal impact on the City's General Fund. The City will, however, be required to provide administration for the District, which will be funded as part of the annual special tax levy.

As previously mentioned, the Fiscal Year 2024-25 estimated Special Tax levy on homes within the district range between \$2,596 and \$3,118. Such special taxes will increase by 2.0% per year under an agreement with the Developer.

### **Attachments**

- Attachment 1 - Good Faith Estimates
- Attachment 2 - Resolution
- Attachment 3 - Preliminary Official Statement
- Attachment 4 - Bond Indenture
- Attachment 5 - Continuing Disclosure Certificate
- Attachment 6 - Bond Purchase Agreement
- Attachment 7 - Appraisal Report

## ATTACHMENT A

### GOOD FAITH ESTIMATES

The good faith estimates set forth herein are provided with respect to the 2024 Special Tax Bonds in accordance with California Government Code Section 5852.1. Such good faith estimates have been provided to the District by Urban Futures, Inc., the District's Municipal Advisor (the "Municipal Advisor") in consultation with Stifel, Nicolaus & Company, Incorporated, the Underwriter for the 2024 Special Tax Bonds.

**Principal Amount.** The Municipal Advisor has informed the District that, based on the District's financing plan and current market conditions, its good faith estimate of the aggregate principal amount of the 2024 Special Tax Bonds to be sold is \$7,815,000 (the "Estimated Principal Amount").

**True Interest Cost of the 2024 Special Tax Bonds.** The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the 2024 Special Tax Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the true interest cost of the 2024 Special Tax Bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the 2024 Special Tax Bonds, is 5.01%.

**Finance Charge of the 2024 Special Tax Bonds.** The Municipal Advisor has informed the District that assuming that the Estimated Principal Amount of the 2024 Special Tax Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the finance charge for the 2024 Special Tax Bonds, which means the sum of all fees and charges paid to third parties (or costs associated with the 2024 Special Tax Bonds), is \$361,763. Additionally, there will be an annual Trustee fee of approximately \$2,000 for as long as the 2024 Special Tax Bonds are outstanding.

**Amount of Proceeds to be Received.** The Municipal Advisor has informed the District that, assuming the Estimated Principal Amount of the 2024 Special Tax Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the amount of proceeds expected to be received by the District for sale of the 2024 Special Tax Bonds, less the finance charge of the 2024 Special Tax Bonds, as estimated above, and any reserves or capitalized interest paid or funded with proceeds of the 2024 Special Tax Bonds, is \$6,799,861.

**Total Payment Amount.** The Municipal Advisor has informed the District that, assuming that the Estimated Principal Amount of the 2024 Special Tax Bonds is sold, and based on market interest rates prevailing at the time of preparation of such estimate, its good faith estimate of the total payment amount, which means the sum total of all payments the District will make to pay debt service on the 2024 Special Tax Bonds, plus the finance charge for the 2024 Special Tax Bonds, as described above, not paid with the proceeds of the 2024 Special Tax Bonds, calculated to the final maturity of the Bonds, is

\$16,391,731. Additionally, there will be an annual Trustee fee of \$2,000 for as long as the 2024 Special Tax Bonds are outstanding.

The foregoing estimates constitute good faith estimates only. The actual principal amount of the 2024 Special Tax Bonds issued and sold, the true interest cost thereof, the finance charges thereof, the amount of proceeds received therefrom and total payment amount with respect thereto may differ from such good faith estimates due to (a) the actual date of the sale of the 2024 Special Tax Bonds being different than the date assumed for purposes of such estimates, (b) the actual principal amount of the 2024 Special Tax Bonds sold being different from the Estimated Principal Amount, (c) the actual amortization of the 2024 Special Tax Bonds being different than the amortization assumed for purposes of such estimates, (d) the actual market interest rates at the time of sale of the 2024 Special Tax Bonds being different than those estimated for purposes of such estimates, (e) other market conditions, or (f) alterations in the District's financing plan, or a combination of such factors. The actual date of sale of the 2024 Special Tax Bonds and the actual principal amount of 2024 Special Tax Bonds sold will be determined by the District based on the timing of the need for proceeds of the 2024 Special Tax Bonds and other factors. The actual interest rates borne by the 2024 Special Tax Bonds will depend on market interest rates at the time of sale thereof. The actual amortization of the 2024 Special Tax Bonds will also depend, in part, on market interest rates at the time of sale thereof. Market interest rates are affected by economic and other factors beyond the control of the District.

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LAKE  
ELSINORE, CALIFORNIA, ACTING AS THE LEGISLATIVE  
BODY OF COMMUNITY FACILITIES DISTRICT OF THE CITY OF  
LAKE ELSINORE NO. 2019-2 (NICHOLS RANCH)  
AUTHORIZING THE ISSUANCE OF ITS SPECIAL TAX BONDS,  
SERIES 2024 IN A PRINCIPAL AMOUNT NOT TO EXCEED  
EIGHT MILLION FIVE HUNDRED THOUSAND DOLLARS  
(\$8,500,000) AND APPROVING CERTAIN DOCUMENTS AND  
TAKING CERTAIN OTHER ACTIONS IN CONNECTION  
THEREWITH**

**Whereas**, on October 22, 2019, the City Council of the City of Lake Elsinore (the “City Council”) adopted Resolution No. 2019-083 stating its intention to form Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “CFD” or the “District”) pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Act”); and

**Whereas**, on October 22, 2019, the Council also adopted Resolution No. 2019-084 stating its intention to incur bonded indebtedness within the District in the amount not to exceed \$10,000,000 to finance the facilities and improvements identified in Resolution No. 2019-083 and the incidental expenses to be incurred in financing such facilities and improvements and forming and administering the District; and

**Whereas**, after a noticed public hearing, on December 10, 2019, the Council adopted Resolution Nos. 2019-095 and 2019-096 which formed the District and called a special election on December 10, 2019, within the District on three propositions relating to the levying of the special taxes, the incurring of bonded indebtedness and the establishment of an appropriations limit for the District, which were approved by more than two-thirds vote by the qualified electors on December 10, 2019; and

**Whereas**, subsequent to the formation of the District, the District received a petition signed by the property owner within the District, requesting that the District (i) approve a new rate and method of apportionment for the District and (ii) increase the amount of bonded indebtedness authorized to be incurred by the District from \$10,000,000 to \$11,000,000, to finance the Improvements and the Incidental Expenses (collectively, the “Change Proceedings”); and

**Whereas**, on January 12, 2021, following the close of a noticed public hearing, the Council adopted Resolution No. 2021-16, which called a special election on January 12, 2021 within the District on the approval of the Change Proceedings; and

**Whereas**, on January 12, 2021, a special election was held within the District at which the qualified electors approved by more than a two-thirds vote, the Change Proceedings; and

**Whereas**, the legislative body of the District desires to issue a first series of bonds for the District at this time under the Act to finance certain public facilities which the District is authorized to finance; and

**Whereas**, the District desires to accomplish the financing of certain public facilities through the issuance of bonds in an aggregate principal amount not to exceed \$8,500,000 designated as the “Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024” (the “Bonds”); and



**Whereas**, in order to effect the issuance of the Bonds, the District desires to enter into various agreements and approve certain documents in substantially the forms presented herein; and

**Whereas**, based on the appraisal of real property prepared by Kitty Siino & Associates, Inc. (the "Appraisal") of property within the District, the value of the real property in the District subject to the special tax to pay debt service on the Bonds is more than three times the sum of the principal amount of the Bonds and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act or a special assessment levied on property within the District as calculated in the manner set forth in Section 53345.8(a) of the Act; and

**Whereas**, the City Council has determined in accordance with Section 53360.4 of the Act that a negotiated sale of the Bonds to Stifel, Nicolaus & Company, Incorporated (the "Underwriter") in accordance with the terms of the Bond Purchase Agreement for the Bonds to be entered into by the District and the Underwriter (the "Bond Purchase Agreement") approved as to form by this City Council herein will result in a lower overall cost to the District than a public sale; and

**Whereas**, pursuant to Government Code Section 8855, the District is required to adopt a debt management policy; and

**Whereas**, the District has determined to adopt the City's Debt Management Policy adopted by the City Council of the City on July 11, 2017 as the debt management policy of the District;

**NOW, THEREFORE, THE CITY COUNCIL, ACTING AS THE LEGISLATIVE BODY OF CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH), DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOW:**

**Section 1.** Each of the above recitals is true and correct.

**Section 2.** The issuance of the Bonds is hereby authorized in an aggregate principal amount not to exceed \$8,500,000, with the exact principal amount to be determined by the official signing the Bond Purchase Agreement in accordance with Section 5 below. The City Council hereby determines that it is prudent in the management of the District's fiscal affairs to issue the Bonds. The Bonds shall mature on the dates and pay interest at the rates set forth in the Bond Purchase Agreement to be executed on behalf of the District in accordance with Section 5 hereof. All other provisions of the Bonds shall be governed by the terms and conditions of the Bond Indenture (the "Indenture"), which Indenture shall be substantially in the form on file with the City Clerk, with such additions thereto and changes therein as the officer or officers executing the same deem necessary to enhance the security for the Bonds, to cure any ambiguity or defect therein, to insert the offering price(s), interest rate(s), selling compensation, principal amount per maturity, redemption dates and prices and such other related terms and provisions as limited by Section 5 hereof or to conform any provisions therein to the Bond Purchase Agreement or the Official Statement delivered to the Underwriter of the Bonds. Approval of such changes shall be conclusively evidenced by the execution and delivery of the Indenture by one of the following: the Mayor, the City Manager, the Assistant City Manager, or their written designees (each, an "Authorized Officer" and collectively, the "Authorized Officers"), each of whom is authorized to execute the Indenture. Capitalized terms used in this Resolution which are not defined herein have the meanings ascribed to them in the Indenture.

**Section 3.** The Bonds shall be executed on behalf of the District by the manual or facsimile signature of the Mayor of the City or his or her written designee and be attested by the manual

or facsimile signature of the City Clerk. Wilmington Trust, National Association is hereby appointed to act as trustee, registrar and transfer agent for the Bonds.

**Section 4.** The covenants set forth in the Indenture to be executed in accordance with Section 2 above are hereby approved, shall be deemed to be covenants of the City Council and shall be complied with by the District and its officers. The Indenture shall constitute a contract between the District and the Owners of the Bonds.

**Section 5.** The form of the Bond Purchase Agreement presented at this meeting is hereby approved and each of the Authorized Officers is hereby authorized to execute the Bond Purchase Agreement, with such additions thereto and changes therein relating to dates and numbers as are necessary to conform the Bond Purchase Agreement to the dates, amounts and interest rates applicable to the Bonds as of the sale date. Approval of such additions and changes shall be conclusively evidenced by the execution and delivery of the Bond Purchase Agreement by one or more of such Authorized Officers; provided, however, that the Bond Purchase Agreement shall be signed only if the Underwriter's discount does not exceed 1.30% of the principal amount of the Bonds and only if the true interest cost on the Bonds does not exceed 5.50%. Each of the Authorized Officers is authorized to determine the day on which the Bonds are to be priced in order to attempt to produce the lowest borrowing cost for the District and may reject any terms presented by the Underwriter if determined not to be in the best interest of the District.

**Section 6.** The form of the Continuing Disclosure Certificate presented at this meeting is hereby approved and each of the Authorized Officers is hereby authorized and directed to execute the Continuing Disclosure Certificate in the form hereby approved, with such additions therein and changes thereto as the officer or officers executing the same deem necessary to cure any defect or ambiguity therein, with such approval to be conclusively evidenced by the execution and delivery of such certificate.

**Section 7.** The form of the Preliminary Official Statement presented at this meeting is hereby approved and the Underwriter is hereby authorized to distribute the Preliminary Official Statement to prospective purchasers of the Bonds in the form hereby approved, together with such additions thereto and changes therein as are determined necessary by the Authorized Officers to make such Preliminary Official Statement final as of its date for purposes of Rule 15c2-12 of the Securities and Exchange Commission. Each of the Authorized Officers is hereby authorized to execute a final Official Statement in the form of the Preliminary Official Statement, together with such changes as are determined necessary by the Authorized Officers, to make such Official Statement complete and accurate as of its date. The Underwriter is further authorized to distribute the final Official Statement for the Bonds and any supplement thereto to the purchasers of the Bonds upon the execution of the final Official Statement as described above.

**Section 8.** In accordance with the requirements of Section 53345.8 of the Act, based on the Appraisal, the legislative body of the District hereby determines that the value of the real property in the District subject to the special tax to pay debt service on the Bonds is more than three times the principal amount of the Bonds and the principal amount of all other bonds outstanding that are secured by a special tax levied pursuant to the Act or a special assessment levied on property within the District, all as calculated in the manner provided in Section 53345.8(a) of the Act.

**Section 9.** Each Authorized Officer is authorized to provide for all services necessary to effect

the issuance of the Bonds. Such services shall include, but not be limited to, printing the Bonds, obtaining legal services, trustee and paying agent services and any other services deemed appropriate as set forth in a certificate of such Authorized Officer. Each Authorized Officer is authorized to pay for the cost of such services, together with other costs of issuance, from Bond proceeds deposited pursuant to the Indenture.

**Section 10.** The Authorized Officers, the City Clerk and the other officers and staff of the City and the District responsible for the fiscal affairs of the District are hereby authorized and directed to take any actions and execute and deliver any and all documents as are necessary to accomplish the issuance, sale and delivery of the Bonds in accordance with the provisions of this Resolution and the fulfillment of the purposes of the Bonds as described in the Indenture, including, in the discretion of any of the Authorized Officers, the execution of a letter of credit or cash depository agreement with the developer within the District and Wilmington Trust, National Association relating to any security provided by the developer with respect to the special taxes to be levied within the District, and providing certificates to the Underwriter as to the accuracy of any information relating to the District which is included within the Official Statement. Any document authorized herein to be signed by the City Clerk may be signed by a duly appointed deputy clerk.

**Section 11.** The District hereby adopts the City's Debt Management Policy, as amended, supplemented and restated from time to time, as the debt management policy of the District pursuant to California Government Code Section 8855.

**Section 12.** The City Council acknowledges that the good faith estimates required by Section 5852.1 of the California Government Code are disclosed in the staff report and are available to the public at the meeting at which this Resolution is approved.

**Section 13.** This Resolution shall be effective upon its adoption.

**Passed and Adopted** on this 13<sup>th</sup> day of August, 2024.

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Steve Manos, Mayor

**Attest:**

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Candice Alvarez, MMC  
City Clerk

STATE OF CALIFORNIA     )  
COUNTY OF RIVERSIDE    ) ss.  
CITY OF LAKE ELSINORE    )

I, Candice Alvarez, MMC, City Clerk of the City of Lake Elsinore, California, do hereby certify that Resolution No. 2024-\_\_\_\_\_ was adopted by the City Council of the City of Lake Elsinore, California, at the Regular meeting of August 13, 2024 and that the same was adopted by the following vote:

AYES:  
NOES:  
ABSENT:  
ABSTAIN:

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Candice Alvarez, MMC  
City Clerk

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful.

**PRELIMINARY OFFICIAL STATEMENT DATED AUGUST \_\_, 2024**

**NEW ISSUE—BOOK-ENTRY ONLY**

**NO RATING**

*In the opinion of Stradling Yocca Carlson & Rauth LLP, 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 (and original issue discount) on the Bonds described herein 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 (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption "TAX EXEMPTION" with respect to tax consequences relating to the Bonds, including with respect to the alternative minimum tax imposed on certain large corporations.*

**\$7,995,000\***

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

**Dated: Delivery Date**

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

The Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024 (the "Bonds") are being issued by Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the "District") to: (i) finance certain public improvements needed with respect to the development of property located within the District, including public improvements to be owned by the City and water and sewer facilities to be owned and operated by the Elsinore Valley Municipal Water District; (ii) fund a reserve account for the Bonds; (iii) fund capitalized interest on a portion of the Bonds through March 1, 2025; and (iv) pay costs of issuance for the Bonds. The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the "Act"), and pursuant to that certain Bond Indenture, dated as of September 1, 2024 (the "Indenture"), by and between the District and Wilmington Trust, National Association, as trustee (the "Trustee").

The Bonds are payable from Net Taxes (as defined herein) derived from a certain annual Special Tax (as defined herein) to be levied on taxable parcels within the District and from certain other funds pledged under the Indenture, all as further described herein. The Special Tax is to be levied according to the rate and method of apportionment approved by the City Council of the City and the qualified electors within the District. See the caption "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes" and Appendix A — "RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

The Bonds will be issued 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 the Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on each March 1 and September 1, commencing March 1, 2025. 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.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE COUNTY OF RIVERSIDE, 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 CITY OR GENERAL OBLIGATIONS OF THE DISTRICT BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND OTHER AMOUNTS HELD UNDER THE INDENTURE AS MORE FULLY DESCRIBED HEREIN.

*The Bonds are subject to optional redemption, special mandatory redemption and mandatory sinking fund redemption prior to maturity as set forth herein. See the caption "THE BONDS — Redemption."*

**Investment in the Bonds involves 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 caption "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.**

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT INTENDED TO BE A SUMMARY OF THE SECURITY OR TERMS OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.

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**MATURITY SCHEDULE**  
**(See Inside Cover Page)**

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*The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth LLP, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by Leibold, McClendon, & Mann, Irvine, California, City Attorney, and for the District by Stradling Yocca Carlson & Rauth LLP, Disclosure Counsel, for the Underwriter by Kutak Rock LLP, Irvine, California, and for the Trustee by its counsel. It is anticipated that the Bonds in book-entry form will be available for delivery on or about September \_\_, 2024.*

[STIFEL LOGO]

Dated \_\_\_\_\_, 2024

\* Preliminary, subject to change.

**\$7,995,000\***  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)**  
**SPECIAL TAX BONDS, SERIES 2024**

**MATURITY SCHEDULE**

**BASE CUSIP®† \_\_\_\_\_**

**\$ \_\_\_\_\_ Serial Bonds**

| <i><b>Maturity Date</b></i><br><i><b>(September 1)</b></i> | <i><b>Principal</b></i><br><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.†</b></i> |
|--|---|-----------------------------|---------------------|---------------------|--------------------------|
|--|---|-----------------------------|---------------------|---------------------|--------------------------|

\$ \_\_\_\_\_ % Term Bonds due September 1, 20\_\_ Yield: \_\_\_\_\_ % Price: \_\_\_\_\_ CUSIP No.† \_\_\_\_\_

\$ \_\_\_\_\_ % Term Bonds due September 1, 20\_\_ Yield: \_\_\_\_\_ % Price: \_\_\_\_\_ CUSIP No.† \_\_\_\_\_

\* Preliminary, subject to change.

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**CITY OF LAKE ELSINORE  
COUNTY OF RIVERSIDE, CALIFORNIA**

**CITY COUNCIL**

Steve Manos, *Mayor*  
Brian Tisdale, *Mayor Pro Tem*  
Natasha Johnson, *Councilmember*  
Robert E. Magee, *Councilmember*  
Timothy J. Sheridan, *Councilmember*

**CITY ADMINISTRATORS**

Jason Simpson, *City Manager*  
Shannon Buckley, *Assistant City Manager*

**CITY ATTORNEY**

Leibold, McClendon, & Mann  
Irvine, California

**BOND AND DISCLOSURE COUNSEL**

Stradling Yocca Carlson & Rauth LLP  
Newport Beach, California

**MUNICIPAL ADVISOR**

Urban Futures, Inc.  
Walnut Creek, California

**SPECIAL TAX CONSULTANT**

Spicer Consulting Group, LLC  
Murrieta, California

**APPRAISER**

Kitty Siino & Associates, Inc.  
Tustin, California

**TRUSTEE**

Wilmington Trust, National Association  
Costa Mesa, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City and the District. No dealer, broker, salesperson or other person has been authorized by the City, 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 herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, 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 herein, are intended solely as such and are not to be construed as representations of fact.

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.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the District or any other parties described herein since the date hereof. 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 hereby made to such documents on file with the City for further information in connection therewith.

**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.**

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 “THE DISTRICT” 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 EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.**

The City maintains a website. However, the information presented on such website is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.



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[INSERT VICINITY MAP]

[INSERT AERIAL PHOTOGRAPH]

**\$7,995,000\***  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)**  
**SPECIAL TAX BONDS, SERIES 2024**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “District”) of its Special Tax Bonds, Series 2024 in the aggregate principal amount of \$7,995,000\* (the “Bonds”). The proceeds of the Bonds will be used to: (i) finance certain public improvements needed with respect to the development of property located within the District, including public improvements to be owned by the City of Lake Elsinore (the “City”), and water and sewer facilities to be owned and operated by the Elsinore Valley Municipal Water District; (ii) fund a reserve account for the Bonds; (iii) fund capitalized interest on a portion of the Bonds through March 1, 2025; and (iv) pay costs of issuance for the Bonds.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the “Act”), a resolution adopted on August 13, 2024, by the City Council of the City of Lake Elsinore (the “City”), acting as the legislative body of the District, and a Bond Indenture, dated as of September 1, 2024 (the “Indenture”), by and between the District and Wilmington Trust, National Association, as trustee (the “Trustee”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as such term is defined herein) and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Indenture.

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 have the meanings set forth in Appendix E.

**The District**

**General.** The City is located in the western portion of the County of Riverside (the “County”), California (the “State”). The District contains approximately 58.19 gross acres and approximately and is located in the City on the southeast quadrant of the Interstate 15 and Nichols Road, adjacent to the Temescal Valley High School.

The property within the District is being developed by Meritage Homes of California, Inc., a California corporation (“Meritage”) into 168 single-family detached homes in a project being marketed as “Nichols Ranch.” As of July 1, 2024, Meritage had completed and conveyed 83 homes within the District to individual homeowners. As of such date Meritage owned four model homes (none of which were in escrow), 49 homes under construction (16 of which were in escrow) and 32 finished lots (none of which were in escrow). Development has progressed since July 1, 2024. As of July 30, 2024, Meritage had completed and conveyed 93 homes in the District to individual homeowners. Meritage expects to complete and convey all remaining homes to be constructed in the District to individual homeowners by the end of 2025.

The major infrastructure (sewer, water, storm drains, utilities, and arterial roads) necessary to develop the property within the District is substantially complete. Meritage is required to complete a public park prior

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\* Preliminary, subject to change.

to the issuance of the 125<sup>th</sup> certificate of occupancy within the District. The park is nearing completion and Meritage does not expect the timing of the completion of the park to adversely affected the projected schedule of home construction and sales in the District. The in-tract infrastructure within the District is also substantially complete with finishing of certain streets and landscaping remaining. See the captions “THE DISTRICT” and “PROPERTY OWNERSHIP AND THE DEVELOPMENT” for further information with respect to the District, Meritage and development within the District.

***Formation Proceedings.*** The District was formed on December 10, 2019 pursuant to the Act. The Act was enacted 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 to repay such indebtedness.

Pursuant to the Act, on October 22, 2019, the City Council adopted Resolution No. 2019-083 (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, and Resolution No. 2019-084, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed \$10,000,000 for the purpose of financing the purchase, construction, expansion or rehabilitation of certain public facilities to serve the area within the District.

Subsequent to a noticed public hearing on December 10, 2019, the City Council adopted Resolution Nos. 2019-095 and 2019-096 on December 10, 2019 (collectively the “Resolution of Formation”). The Resolution of Formation: (i) established the District; (ii) authorized the levy of a special tax (the “Special Tax”) within the District; (iii) determined the necessity to incur bonded indebtedness in an amount not to exceed \$10,000,000 within the District; and (iv) called an election within the District on the proposition of incurring bonded indebtedness, levying the Special Tax and setting an appropriations limit.

On December 10, 2019, an election was held within the District in which the property owner within the District approved the proposition authorizing the issuance of bonds in an amount not to exceed \$10,000,000. A Notice of Special Tax Lien for the District was recorded in the office of the County Recorder on December 20, 2019, as Document No. 2019-0528619.

Subsequent to the formation of the District as described above, pursuant to a petition signed by the property owner in the District, on December 8, 2020, the City Council, acting as the legislative body of the District, adopted Resolution No. 2020-101 declaring its intention to consider (i) amending the rate and method of apportionment of special tax for the District approved at the December 10, 2019 special election and (ii) increasing the maximum amount of bonded indebtedness to be incurred by the District from \$10,000,000 to \$11,000,000 (collectively, the “Change Proceedings”).

Subsequent to a noticed public hearing on January 12, 2021, the City Council, acting as the legislative body of the District, adopted Resolution No. 2021-16 approving an amended rate and method of apportionment of special tax for the District (the “Rate and Method”) and called an election within the District on the proposition of levying the special taxes in accordance with the Rate and Method and the other matters included within the Change Proceedings, which was approved by the property owner within the District. A copy of the Rate and Method is attached hereto as Appendix A. An Amended Notice of Special Tax Lien for the District was recorded in the office of the County Recorder on January 13, 2021, as Document No. 2021-0022112.

On January 26, 2021, the City Council adopted Ordinance No. 2021-1446 (the “Ordinance”) which authorizes the levy of a special tax pursuant to the Rate and Method approved at the January 12, 2021 election.

## Sources of Payment for the Bonds

***Special Taxes.*** As used in this Official Statement, the term “Special Tax” means the annual Special Tax which has been authorized pursuant to the Act and the Rate and Method to be levied upon taxable property within the District. See the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and Appendix A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” See the caption “THE DISTRICT.”

Under the Indenture, the District has pledged to repay the Bonds and any Parity Bonds (as defined herein) from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and from other amounts in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Indenture. The Special Taxes are the primary source of 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, including amounts held in the Reserve Account therein, to the limited extent described in the Indenture. See the caption “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 it will: (i) commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) commence judicial foreclosure proceedings against all 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 Tax levied; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, 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. See the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*” There is no assurance that the property within the District can be sold for the appraised or assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the District. See the caption “SPECIAL RISK FACTORS — Property Values.”

**EXCEPT FOR THE NET TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM NET TAXES AND AMOUNTS HELD UNDER THE INDENTURE, AS MORE FULLY DESCRIBED HEREIN.**

## Appraisal Report

Kitty Siino & Associates, Inc. (the “Appraiser”) has conducted an Appraisal (the “Appraisal Report”) with a date of value of July 1, 2024 (the “Date of Value”) of certain land and existing improvements within the District to provide an estimate of the market value of the fee simple interest of such land and improvements. The Appraisal Report provides an estimate of the approximate market value of the “as-is” condition of the property in the District subject to the levy of Special Taxes, assuming that development of the property as currently planned will consist of 168 residential units. Based on the contingencies, assumptions and limiting conditions in the Appraisal Report, the Appraiser concluded that the market value of all of the parcels within the District subject to the Special Tax was \$72,777,857 as of the Date of Value.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in APPENDIX D. The District makes no representation as to the accuracy of the Appraisal Report. See “THE DISTRICT — Appraisal Report” and “— Estimated Appraised Value-to-Lien Ratios.” There is no assurance that property within the District 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 “THE DISTRICT,” “SPECIAL RISK FACTORS — Property Values” herein and APPENDIX D.

### **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. See Appendix H — “BOOK-ENTRY ONLY SYSTEM.”

The Bonds are subject to optional redemption, special mandatory redemption and mandatory sinking fund redemption prior to maturity as described herein. See the caption “THE BONDS — Redemption.” For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see the caption “THE BONDS” and Appendix E — “SUMMARY OF THE INDENTURE.”

### **Tax Exemption**

In the opinion of Stradling Yocca Carlson & Rauth LLP, 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 (and original issue discount) on the Bonds described herein 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 (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption “TAX EXEMPTION” with respect to tax consequences relating to the Bonds, including with respect to the alternative minimum tax imposed on certain large corporations.

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 tax consequences incident to the ownership of the Bonds, see the caption “TAX EXEMPTION.”

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

Wilmington Trust, National Association, Costa Mesa, California, will act as Trustee under the Indenture. Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) is 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 LLP, 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 City and the District by Leibold, McClendon, & Mann, Irvine, California, City Attorney, for the Underwriter by Kutak Rock LLP, Irvine, California, and for the Trustee by its counsel. Other professional services have been performed by Spicer Consulting Group, LLC, Murrieta, California, as Special Tax Consultant (the “Special Tax Consultant”), Urban Futures, Inc., Walnut Creek, California, as Municipal Advisor, and by Kitty Siino & Associates, Tustin, California, as Appraiser.



For information concerning circumstances 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 the caption “FINANCIAL INTERESTS.”

### **Continuing Disclosure**

Pursuant to a Continuing Disclosure Certificate to be executed by the District (the “District Continuing Disclosure Certificate”), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”), maintained on the Internet at <http://emma.msrb.org>, certain annual financial information and operating data and notices of certain enumerated events. These covenants are being made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission (“Rule 15c2-12”).

The Underwriter does not consider Meritage to be an “obligated person” with respect to the Bonds for purposes of the Rule. Notwithstanding the foregoing, to assist in the marketing of the Bonds, Meritage will agree to provide, or cause to be provided to EMMA, certain updates with respect to the development within the District and notices of certain enumerated events. See Appendix G for a description of the specific nature of the semiannual reports and enumerated event notices to be filed by Meritage.

See “CONTINUING DISCLOSURE,” Appendix F — “FORM OF DISTRICT CONTINUING DISCLOSURE CERTIFICATE” and Appendix G — “FORM OF DEVELOPER CONTINUING DISCLOSURE CERTIFICATE.”

### **Parity Bonds for Refunding Purposes Only**

The District will covenant in the Indenture not to issue additional indebtedness secured by the Net Taxes on a parity with the Bonds (“Parity Bonds”) other than for refunding all or a portion of the Bonds or Parity Bonds. See the caption “SOURCES OF PAYMENT FOR THE BONDS — Parity Bonds for Refunding Purposes Only.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may also be levied in the future on the property within the District, which could adversely affect the willingness of the landowners to pay the Special Taxes when due. See the captions “THE DISTRICT — Direct and Overlapping Debt” and “SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness.”

### **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 caption “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors.

### **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 City Council, 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 in this Official Statement have the meanings set forth in Appendix E.

Copies of the Indenture and other documents and information are available for inspection and copies may be obtained from the City, 130 S. Main Street, Lake Elsinore, California, 92530, Attention: City Clerk.

## **FINANCING PLAN**

### **Estimated Sources and Uses of Funds**

The following table sets forth the expected sources and uses of Bond proceeds and certain other funds on hand.

#### **Sources of Funds**

Principal Amount of Bonds  
Less Net Original Issue Discount  
Total Sources

#### **Uses of Funds:**

Acquisition and Construction Fund  
Reserve Account  
Interest Account<sup>(1)</sup>  
Cost of Issuance<sup>(2)</sup>  
Total Uses

<sup>(1)</sup> Reflects capitalized interest on a portion of the Bonds through March 1, 2025.

<sup>(2)</sup> To pay costs of issuance of the Bonds, including legal fees, underwriter's discount, printing costs, Appraiser, Special Tax Consultant and Trustee fees.

## **THE BONDS**

### **General Provisions**

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing March 1, 2025 (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. Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of such Bond, unless: (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day (each, 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 occurring after the issuance of such Bond, in which event interest will be payable from the dated date of such Bond, as applicable; provided, however, that if at the time of authentication of such Bond, interest is in default, interest on such Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on such Bond, interest on such Bond will be payable from its dated date.

Interest on any Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Principal of, premium, if any, due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Costa Mesa, 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 will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Bondowner at its address on the registration books kept by the Trustee. Pursuant to a written request prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds or of any issue of Parity Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States.

*[Remainder of Page Intentionally Left Blank]*

## Debt Service Schedule

The following table presents the annual debt service on the Bonds (including sinking fund redemptions), assuming that there are no optional or special mandatory redemptions. See the caption “—Redemption” below.

| <i>Year Ending<br/>September 1</i> | <i>Principal</i> | <i>Interest</i> | <i>Total Debt Service</i> |
|------------------------------------|------------------|-----------------|---------------------------|
|------------------------------------|------------------|-----------------|---------------------------|

**Total**

## Redemption

**Optional Redemption.** The Bonds may be redeemed at the option of the District from any source of funds on any Interest Payment Date on or after September 1, 20\_\_, in whole or in part, from such maturities as are selected by the District and by lot within a maturity, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

| <i>Redemption Date</i> | <i>Redemption Price</i> |
|------------------------|-------------------------|
|                        | 103%                    |
|                        | 102                     |
|                        | 101                     |
|                        | 100                     |

In the event that the District elects to redeem Bonds as provided above, the District will give written notice to the Trustee of its election to so redeem, the redemption date and the principal amount of the Bonds of each maturity to be redeemed. The notice to the Trustee will be given at least 45 but no more than 60 calendar days prior to the redemption date, or by such later date as is acceptable to the Trustee.

***Mandatory Sinking Fund Redemption.*** The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established under the Indenture, on September 1, 20\_\_, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20\_\_ Term Bonds so called for redemption will be selected by the Trustee by lot and will 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:

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

***Sinking Fund Redemption Date  
(September 1)***

***Sinking Fund Payments***

\$

\*

\* Maturity.

The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established under the Indenture, on September 1, 20\_\_, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20\_\_ Term Bonds so called for redemption will be selected by the Trustee by lot and will 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:

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

***Sinking Fund Redemption Date  
(September 1)***

***Sinking Fund Payments***

\$

\*

\* Maturity.

If the District purchases Term Bonds during the Fiscal Year immediately preceding one of the sinking fund redemption dates specified above, the District will notify the Trustee at least 45 days prior to the redemption date as to the principal amount purchased, and the amount purchased will be credited at the time of purchase to the next Sinking Fund Payment for the Term Bond so purchased, to the extent of the full principal amount of the purchase. All Term Bonds purchased will be cancelled pursuant to the Indenture.

In the event of a partial optional redemption or special mandatory redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds will be reduced, as nearly as practicable, on a pro rata basis.

***Special Mandatory Redemption from Special Tax Prepayments.*** The Bonds are subject to special mandatory redemption as a whole or in part on a pro rata basis among maturities and by lot within a maturity, on any Interest Payment Date on or after March 1, 2025, and will be redeemed by the Trustee, from any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in the District made in accordance with the Rate and Method (the “Prepayments”) deposited to the Redemption Account pursuant to the Indenture, plus amounts transferred from the Reserve 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:

| <b><i>Redemption Date</i></b> | <b><i>Redemption Price</i></b> |
|-------------------------------|--------------------------------|
|                               | 103%                           |
|                               | 102                            |
|                               | 101                            |
|                               | 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 Independent Financial 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 Community Facilities District 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 or proceeds of bonds of other community facilities districts.

***Notice of Redemption.*** So long as the Bonds are held in book-entry form, notice of redemption will be sent by the Trustee to DTC and not to the Beneficial Owners of the Bonds under the DTC book-entry only system. Neither the District nor the Trustee is responsible for notifying the Beneficial Owners, who are to be notified in accordance with the procedures in effect for the DTC book-entry system. See Appendix H — “BOOK-ENTRY ONLY SYSTEM.”

The Trustee will give notice, in the name of the District, of the redemption of Bonds. Such notice of redemption will: (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 of the 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 specified by the Trustee. Such notice will 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. At

least 30 days but no more than 45 days prior to the redemption date, the Trustee will mail a copy of such notice of redemption, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register, and to the original purchaser of any Bonds; 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 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 nor any defect in such notice will affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as provided in the Indenture will be conclusive as against all parties and the Owner is not entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice will be given by the Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption will be sent not later than the date that notice of redemption is given to the Owners pursuant to the Indenture by first class mail or facsimile to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds as determined by the Trustee and to one or more of the national information services that the Trustee determines are in the business of disseminating notice of redemption of obligations such as the Bonds.

Upon the payment of the redemption price of any Bonds being redeemed, each check or other transfer of funds issued for such purpose will to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if the District determines that such moneys will not be received on the redemption date, said notice will be of no force and effect and the Trustee will not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and the District determines that such moneys are not so received, the redemption will not be made, and the Trustee will within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

***Selection of Bonds for Redemption.*** If less than all of the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Trustee will treat such Bonds, as applicable, as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000. The procedure for the selection of Parity Bonds for redemption may be modified as set forth in the Supplemental Indenture for such Parity Bonds. The Trustee will promptly notify the District in writing of the Bonds, or portions thereof, selected for redemption.

***Partial Redemption of Bonds.*** Upon surrender of any Bond to be redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity.

***Effect of Notice and Availability of Redemption Money.*** Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption: (i) the Bonds, or portions thereof, designated for redemption will, on the date fixed for redemption, become due and payable at the redemption

price thereof as provided in the Indenture, anything in the Indenture or in the Bonds to the contrary notwithstanding; (ii) upon presentation and surrender thereof at the office of the Trustee, the redemption price of such Bonds will be paid to the Owners thereof; (iii) as of the redemption date the 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; and (iv) 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.

### **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.** Subject to the limitations set forth in the following paragraph, the registration of any Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the office of the Trustee, accompanied by delivery of written instrument of transfer in a form acceptable to the Trustee and duly executed by the Owner or his or her duly authorized attorney.

Bonds may be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds for other authorized denominations of the same maturity and issue. The Trustee may not collect from the Owner any charge for any new Bond issued upon any exchange or transfer, but will require the Owner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds are surrendered for registration of transfer or exchange, the District will execute and the Trustee will authenticate and deliver a new Bond or Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Trustee is not required to register transfers or make exchanges of: (i) Bonds for a period of 15 days next preceding 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.

The Special Taxes are the primary source of security for the repayment of the Bonds. Under the Indenture, the District has pledged to repay the Bonds from the Net Taxes (which are Special Tax revenues remaining after the payment of the annual Administrative Expenses in an amount not to exceed the Administrative Expenses Cap (as defined in the Indenture)) and from amounts held in the Special Tax Fund (other than amounts held in the Administrative Expense Account therein). Special Tax revenues include the proceeds of the annual Special Tax levy received by the District, including any scheduled payments and Prepayments thereof, and the net proceeds of the redemption of delinquent Special Taxes or sale of property sold as a result of foreclosure of the lien of delinquent Special Taxes to the amount of said lien, and penalties and interest thereon; provided that any delinquent Special Tax sold to an independent third-party or to the City for 100% of the delinquent amount will no longer be pledged under the Indenture to the payment of the Bonds or Parity Bonds.

In the event that the Special Tax revenues are not received 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.



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

### **Special Taxes**

***Authorization and Pledge.*** In accordance with the provisions of the Act, the City established the District on December 10, 2019 for the purpose of financing of various public improvements required in connection with the proposed development within the District. At a special election held on January 12, 2021 in connection with the Change Proceedings conducted with respect to the District in accordance with the Act, the qualified elector within the District voted to approve the Rate and Method which authorized the Special Tax to be levied to repay indebtedness of the District, including the Bonds.

The Bonds will be repaid only from annual Net Taxes derived from the levy and collection of Special Taxes pursuant to the Rate and Method. The Rate and Method permits the prepayment of Special Taxes for an Assessor's Parcel (as defined in the Rate and Method), and any such Prepayments will be applied to redeem Bonds and Parity Bonds, if any. The Net Taxes collected from the annual Special Tax levy and the proceeds of any Prepayment have been pledged under the Indenture to the repayment of the Bonds and Parity Bonds.

The Special Taxes levied in any Fiscal Year may not exceed the maximum rates authorized pursuant to the Rate and Method. See “— *Rate and Method of Apportionment of Special Tax*” and Appendix A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” There is no assurance that the Net Taxes will, in all circumstances, be adequate to pay the principal of and interest on the Bonds when due. See the caption “SPECIAL RISK FACTORS — Insufficiency of Special Tax Revenues.”

***Rate and Method of Apportionment of Special Tax.*** The Rate and Method applicable to the District is contained in Appendix A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” The meaning of the defined terms used in this section are as set forth in Appendix A.

In general, the Rate and Method imposes a different Maximum Special Tax on Taxable Property within the District depending upon whether such Taxable Property is classified as: (i) “Developed Property” (in general, all Assessor's Parcels which is included in a Final Map recorded prior to the January 1 preceding the Fiscal Year in which the Special Tax is being levied and a building permit for new construction has been issued before May 1 preceding such Fiscal Year), (ii) “Approved Property” (in general, parcels of Taxable Property included in a Final Map recorded prior to the January 1 preceding the Fiscal Year in which the Special Tax is being levied but for which no building permit was issued before May 1 preceding such Fiscal Year), (iii) “Undeveloped Property” (in general, Taxable Property that is not “Developed Property,” “Approved Property” or “Provisional Undeveloped Property”) or (iv) “Provisional Undeveloped Property” (in general, Taxable Property that would otherwise be classified as Exempt Property but cannot be classified as Exempt Property because to do so would reduce the Acreage of all Taxable Property below the required minimum Acreage set forth in the Rate and Method). Different Maximum Special Taxes are also applicable to Developed Property depending upon: (a) its status as either “Residential Property” or “Non-Residential Property,” (b) in the case of Residential Property, its status as “Single Family Residential Property” or “Multifamily Property” or (c) in the case of Single Family Residential Property, the Building Square Footage of the structure.

Pursuant to the Rate and Method the District is required to determine the “Special Tax Requirement” for each Fiscal Year. The Special Tax Requirement for the District is the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds and Parity Bonds due in the calendar year that commences in such Fiscal Year, (ii) Administrative Expenses, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount equal to establish or replenish any reserve funds established in

association with the Bonds and Parity Bonds, (v) an amount equal to any anticipated shortfall due to Special Tax delinquencies, and (vi) the collection or accumulation of funds for the acquisition or construction of facilities authorized by the District, provided that the inclusion of such amount does not cause an increase in the levy of Special Tax on Approved Property or Undeveloped Property as set forth in the Rate and Method, less (vii) any amounts available to pay debt service or other periodic costs on the Bonds pursuant to the Indenture.

The Special Tax Requirement for the District is to be satisfied first by levying the Special Tax Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax. If additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax will be levied Proportionately on each Assessor's Parcel of Approved Property at up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel. If additional moneys are still needed to satisfy the Special Tax Requirement, the Special Tax will be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel. If additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is the Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to 100% of the Backup Special Tax. Finally, if additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax will be levied Proportionately on each Assessor's Parcel of Provisional Undeveloped Property at up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel. Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property as a result of a delinquency in the payment of the Special Tax applicable to any other Assessor's Parcel be increased by more than 10% above the amount that would have been levied in that Fiscal Year had there never been any such delinquency or default

Within the District, 123 of the 168 taxable parcels are classified as Developed Property for the Fiscal Year 2024-25 Special Tax levy.

For Fiscal Year 2024-25, the Assigned Special Tax for Developed Property within the District that is classified as Single Family Residential Property range from \$2,442.90 per taxable unit with a Building Square Footage of less than 1,700 square feet to \$3,117.83 per taxable unit with a Building Square Footage of greater than 2,900 square feet. For Fiscal Year 2024-25 the Maximum Special Tax Rate for Approved Property within the District ranges from \$3,051.16 to \$3,056.23 per taxable unit. For Fiscal Year 2024-25, the Assigned Special Tax for Non Residential Property which is Developed Property is \$22,638.75 per acre.

On each July 1 the Assigned Special Tax rates for Developed Property and the Maximum Special Tax rate for Approved Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

Annual Debt Service for the Bonds has been structured so that Developed Property at buildout levied at the Assigned Special Tax rate, assuming no delinquencies, will generate in each Fiscal Year not less than the Administrative Expenses Cap plus 110% of debt service payable with respect to the Bonds in the calendar year that begins in that Fiscal Year, assuming that Special Taxes are levied and collected on such Developed Property pursuant to the Rate and Method.

Table 1 below sets forth the Assigned Special Tax for Developed Property, the Maximum Special Tax rates for Approved Property and Non-Residential Property, the Fiscal Year 2024-25 Special Tax levy and the percent of such levy based on land use type.

**TABLE 1**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)**  
**ASSIGNED SPECIAL TAX RATES FOR FISCAL YEAR 2024-25**

| <i>Land Use Type</i>     | <i>Residential<br/>Floor Area<br/>(sq. ft.)</i> | <i>Maximum/<br/>Assigned<br/>Special Tax<br/>Rates Fiscal<br/>Year 2024-25<sup>(1)</sup></i> | <i>Special Tax<br/>Levy Rates<br/>Fiscal Year<br/>2024-25</i> | <i>Percent of<br/>Maximum/<br/>Assigned Rate</i> | <i>No. of<br/>Acres</i> | <i>No. of<br/>Units</i> | <i>Aggregate<br/>Estimated<br/>Special Taxes<br/>Fiscal Year<br/>2024-25 <sup>(2)</sup></i> | <i>Percent of<br/>Total</i> |
|--------------------------|---|--|---|--|-------------------------|-------------------------|---|-----------------------------|
| Residential Property     | < 1,700   | \$2,442.90   | \$ 0.00   | 0.0%   | N/A                     | 0                       | \$ 0.00   | 0.0%                        |
| Residential Property     | 1,700 - 1,900                                   | 2,524.61   | 0.00  | 0.0  | N/A                     | 0                       | 0.00  | 0.0                         |
| Residential Property     | 1,901 - 2,100                                   | 2,595.71   | 2,595.71  | 100.0  | N/A                     | 15                      | 38,935.72   | 11.2                        |
| Residential Property     | 2,101 - 2,300                                   | 2,677.43   | 2,677.43  | 100.0  | N/A                     | 28                      | 74,967.98   | 21.5                        |
| Residential Property     | 2,301 - 2,500                                   | 2,851.47   | 2,851.47  | 100.0  | N/A                     | 42                      | 119,761.57  | 34.4                        |
| Residential Property     | 2,501 - 2,700                                   | 2,903.47   | 2,903.47  | 100.0  | N/A                     | 7                       | 20,324.26   | 5.8                         |
| Residential Property     | 2,701 - 2,900                                   | 3,015.95   | 3,015.95  | 100.0  | N/A                     | 23                      | 69,366.92   | 19.9                        |
| Residential Property     | > 2,900   | 3,117.83   | 3,117.83  | 100.0  | N/A                     | 8                       | 29,942.63   | 7.2                         |
| Approved Property        | N/A   | 3,064.30   | 0.00  | 0.0  | N/A                     | 45                      | 0.00  | 0.0                         |
| Non-Residential Property | N/A   | 22,638.75  | 0.00  | 0.0  | <u>0.00</u>             | <u>0</u>                | <u>0.00</u>   | <u>0.0</u>                  |
| Total                    |   |  |   |  | N/A                     | 168                     | \$348,751.15  | 100.0%                      |

<sup>(1)</sup> Maximum Rate for Land Use Type Approved Property and Non-Residential Property.

<sup>(2)</sup> Includes estimated Administrative Expenses of \$30,600.

***Backup Special Tax Rates.*** The Backup Special Tax for an Assessor's Parcel within a Final Map classified or to be classified as Single Family Property is calculated by multiplying the Maximum Special Tax per acre of Undeveloped Property by the acreage of Single Family Residential Property expected to exist in such Final Map at the time of calculation and dividing such product by the number of residential units expected to exist in such Final Map at the time of calculation.

In the event any portion of the Final Map is changed or modified, the Backup Special Tax for all Assessor's Parcels within such changed or modified area shall be \$22,638.75 per acre for Fiscal Year 2024-25. In the event any superseding Final Map is recorded as a Final Map within the boundaries of the District, the Backup Special Tax for all Assessor's Parcels within such Final Map shall be \$22,638.75 per acre for Fiscal Year 2024-25. The Backup Special Tax shall not apply to Multifamily Residential Property, or Non-Residential Property. On each July 1 the Backup Special Tax rate will increase by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

***Prepayment of Special Taxes.*** The Maximum Special Tax obligation may be prepaid and permanently satisfied for (i) Assessor's Parcels of Developed Property, (ii) Assessor's Parcels of Approved Property or Undeveloped Property for which a building permit has been issued, (iii) Approved Property or Undeveloped Property for which a building permit has not been issued, and (iv) Assessor's Parcels of Public Property or Property Owner's Association Property, or Provisional Undeveloped Property that are not Exempt Property. In addition, the Maximum Special Tax obligation for an Assessor's Parcel of Developed Property, Approved Property or Undeveloped Property may be partially prepaid. 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), 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 — *Special Mandatory Redemption from Special Tax Prepayments.*"

***Estimated Debt Service Coverage.*** Based on the number of building permits issued within the District as of May 1, 2024 (the date pursuant to the Rate and Method for determining the number of parcels of Developed Property within the District for the following Fiscal Year), 123 parcels within the District are classified as Developed Property and the remaining 45 taxable parcels within the District are classified as Approved Property for the Fiscal Year 2024-25 Special Tax levy. Annual Debt Service for the Bonds in each future Fiscal Year has been structured so that Special Taxes levied on Developed Property at buildout (168 parcels) at the Assigned Special Tax for Facilities rates, assuming no delinquencies, will generate in each Fiscal Year not less than 110% of debt service payable with respect to the Bonds in the calendar year that begins in that Fiscal Year, plus the Administrative Expenses Cap. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies. The Assigned Special Tax for Facilities rates for Developed Property and for Approved Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

In connection with the issuance of the Bonds, the Special Tax Consultant will certify that the Maximum Special Tax that may be levied in each Fiscal Year on Assessor's Parcels within the District classified as Taxable Property will be at least equal to the sum of: (i) 110% of Maximum Annual Debt Service on the Bonds; plus (ii) the Administrative Expenses Cap. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies.

***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 will not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the District 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, in the event the Special Tax is levied at less than the Assigned Special Tax rate, it is possible that the District may not be able to increase the tax levy to the Assigned Special Tax in all years.

***Levy, Collection and Application 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, although it is possible that the District could elect to provide handbills to property owners within the District.

The District will covenant in the Indenture that each year 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 Parity Bonds, to replenish the Reserve Account to the Reserve Requirement and to pay Administrative Expenses.

The District will make certain covenants in the Indenture which are intended to ensure 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, Parity Bonds and Administrative Expenses when due.

First, the District will covenant in the Indenture that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

Second, the District will covenant in the Indenture, to the maximum extent that the law permits it to do so, not to initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that: (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expenses Cap plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (ii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds.

Third, the District will covenant in the Indenture that, in the event that any initiative is adopted by the qualified electors within the District which purports to reduce the maximum Special Tax below the levels specified in the preceding paragraph or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants. The District can provide no assurance that any such legal action will be successful. See the caption "SPECIAL RISK FACTORS — Proposition 218."

Fourth, the District will covenant in the Indenture that it will not adopt any policy pursuant to the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District has first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Net Taxes to pay the principal of and interest on the Bonds and Parity Bonds when due.

See Appendix E under the caption "COVENANTS AND WARRANTY."

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners in the District. See the captions "THE DISTRICT — Direct and Overlapping Debt" and "SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness." 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 under the caption "SPECIAL RISK FACTORS."

***Proceeds of Foreclosure Sales.*** The net proceeds received following a judicial foreclosure sale of property within the District resulting from a property owner's failure to pay the Special Taxes when due are

included within the Net Taxes pledged to the payment of principal of and interest on the Bonds and any Parity Bonds under the Indenture.

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 Taxes levied, the City Council, 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 in the Indenture for the benefit of the owners of the Bonds and any Parity Bonds that it will: (i) commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) commence judicial foreclosure proceedings against all 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 Tax levied; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, 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.

The District will covenant in the Indenture that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds. See APPENDIX E — “SUMMARY OF THE INDENTURE — COVENANTS AND WARRANTY — Covenants” 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 unless the foreclosure proceedings produce sufficient net foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See the caption “SPECIAL RISK FACTORS — Enforcement Delays – Bankruptcy.” 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 net proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See the caption “SPECIAL RISK FACTORS — Property Values.” Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any 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.

**Collection of Special Taxes and Flow of Funds.** The Special Taxes will be 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, although it is possible that the District could elect to provide handbills to property owners within the District. When the County apportions Special Taxes to the District, the District will transmit the Special Taxes to the Trustee for deposit in the Special Tax Fund established by the Indenture.

Except for Prepayments, which will be deposited to the Redemption Account of the Special Tax Fund, 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 to be held in trust for the Owners. The Trustee will transfer the Special Taxes on deposit in the Special Tax Fund on the dates, in the amounts and in the following order of priority, to:

First: To the Administrative Expense Account in an amount up to the Administrative Expenses Cap.

- Second: To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date is equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account will be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.
- Third: To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2026, is equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.
- Fourth: To the Redemption Account, the amount needed to make the balance in the Redemption Account one Business Day prior to each September 1 on which a Sinking Fund Payment is due equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency will be made up by an immediate transfer from the Reserve Account, if funded, pursuant to the Indenture; and thereafter, to pay the principal and premium, if any, due in connection with an optional redemption of Bonds or Parity Bonds.
- Fifth: To the Reserve Account of the Special Tax Fund to the extent necessary to replenish the Reserve Account to the Reserve Requirement.
- Sixth: To the Administrative Expense Account of the Special Tax Fund the amount of any Administrative Expenses for the current Bond Year in excess of the Administrative Expenses Cap as directed by the City.
- Seventh: To the Rebate Fund established by the Indenture to the extent directed by the City pursuant to the Indenture.
- Eighth: To the Surplus Fund established by the Indenture such remaining amounts in the Special Tax Fund after making the foregoing transfers on September 1.

### **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 and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. The term "Reserve Requirement" is defined in the Indenture to mean, that amount as of any date of calculation, equal to the lesser of: (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any; (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; provided, however, that the Reserve Requirement shall not exceed \$ \_\_\_\_\_ except in connection with the issuance of Parity Bonds. The Reserve Requirement may be satisfied in whole or in part by cash, a Reserve Policy (as defined in the Indenture), or a combination thereof. On the date of issuance of the Bonds, the Reserve Requirement will be satisfied from a deposit of \$ \_\_\_\_\_ into the Reserve Account from proceeds of the Bonds.

Subject to the limits on the maximum annual Special Tax levy set forth in the Rate and Method and in the Indenture, the District will covenant in the Indenture to levy Special Taxes in an amount 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: (i) to pay debt service on the Bonds, or any Parity Bonds, including Sinking Fund Payments, to the extent that other monies are not available therefor; (ii) to redeem Bonds or Parity Bonds in the event of prepayment of Special Taxes, to optionally redeem Bonds or Parity Bonds or in connection with a partial defeasance of Bonds or Parity Bonds, in accordance with the Indenture; and (iii) to pay any rebate requirements. See Appendix E under the caption “CREATION OF FUNDS AND APPLICATION OF PROCEEDS — Reserve Account of the Special Tax Fund.”

### **No Teeter Plan**

Although the Riverside County Board of Supervisors has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) which allows each entity levying secured property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected, as provided for in Section 4701 et seq. of the California Revenue and Taxation Code, the District is not included in the County Teeter Plan. Consequently, the District may not draw on the County Tax Loss Reserve Fund in the event of delinquencies in Special Tax payments within the District.

### **Parity Bonds for Refunding Purposes Only**

The District will covenant in the Indenture not to issue Parity Bonds except as provided in the Indenture and only for the purposes of refunding all or a portion of the Bonds and any Parity Bonds. See Appendix E under the caption “DEFEASANCE AND PARITY BONDS.”

### **Meritage Letter of Credit**

Meritage has provided an irrevocable letter of credit (the “Letter of Credit”) to secure payment of Special Taxes levied on the property in the District owned by it, which identifies the Trustee as beneficiary. The amount available to be drawn under the Letter of Credit (the “Stated Amount”) is equal to the estimated Special Tax levy attributable to the parcels owned by Meritage as of July 30, 2024 in the two fiscal years following the issuance of the Bonds. The initial Stated Amount of the Letter of Credit shall be \$354,273.77. The initial term of the Letter of Credit is one year from its date of issuance, and Meritage will maintain and cause the issuing bank to annually renew the Letter of Credit each year prior to the expiration date until the property then owned by Meritage is responsible for less than twenty percent (20%) of the Maximum Special Tax levy in the District in the then current and succeeding Fiscal Year. Notwithstanding the foregoing, the District may elect to waive the requirement for Meritage to maintain the Letter of Credit or may release the Letter of Credit at any time without the consent of the Owners or Beneficial Owners of the Bonds. The Letter of Credit is not pledged to the repayment of debt service on the Bonds.

## **THE DISTRICT**

### **General Description of the District**

The City is located in the western portion of the County. The District contains approximately 58.19 gross acres and approximately and is located in the City on the southeast quadrant of the Interstate 15 and Nichols Road, adjacent to the Temescal Valley High School.

The property within the District is being developed by Meritage into 168 single-family detached homes in a project being marketed as “Nichols Ranch.” As of July 1, 2024, Meritage had completed and conveyed 83 homes within the District to individual homeowners. As of such date Meritage owned four model homes (none of which were in escrow), 49 homes under construction (16 of which were in escrow) and 32 finished lots (none of which were in escrow). Meritage expects to complete and convey all remaining homes to be constructed in the District to individual homeowners by the end of 2025.



The major infrastructure (sewer, water, storm drains, utilities, and arterial roads) necessary to develop the property within the District is substantially complete. Meritage is required to complete a public park prior to the issuance of the 125<sup>th</sup> certificate of occupancy within the District. The park is nearing completion and Meritage does not expect the timing of the completion of the park to adversely affected the projected schedule of home construction and sales in the District. The in-tract infrastructure within the District is also substantially complete with finishing of certain streets and landscaping remaining.

Water and sewer service to the property within the District is currently supplied by the Elsinore Valley Municipal Water District. Electricity is currently supplied by Southern California Edison and gas by Southern California Gas Company. Public education instruction is provided by the Lake Elsinore Unified School District.

The property within the District is not located in an Alquist-Priolo Earthquake Study Zone and is not located within one-half mile of an active earthquake fault. The District is located in an area 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 in the District was previously mapped within a flood zone. A letter of map revision was filed and accepted by the Federal Emergency Management Agency and the property in the District is no longer mapped within a flood zone. Flood insurance is not required for the homes in the District. Notwithstanding the foregoing, property in the District may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. See “SPECIAL RISK FACTORS — Natural Disasters.”

A map showing the location of the District and an aerial photograph thereof appear following the Table of Contents.

#### **Authorized Uses of Bond Proceeds**

Proceeds of the Bonds are authorized to be used to pay for the costs of construction of City facilities, including certain storm drain and street improvements and the costs of certain water and sewer system improvements to be owned and operated by the Elsinore Valley Municipal Water District. See the caption “FINANCING PLAN.”

#### **Appraisal Report**

The estimated assessed value of the property within the District, as shown on the County’s assessment roll for Fiscal Year 2023-24 is approximately \$4,987,187, which as a result of timing of the County’s determination of the assessed values for Fiscal Year 2023-24, does not reflect the substantial development activity that has taken place since such value was determined.

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 taxable property within the District, the City engaged 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 City and has no material relationships with the City or the owners of the land within the District other than the relationship represented by the engagement to prepare the Appraisal Report. The City instructed the Appraiser to prepare its analysis and report in conformity with City-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 D — “APPRAISAL REPORT” to this Official Statement.

The purpose of the Appraisal Report was to estimate the market value of the property within the District subject to the lien of the Special Taxes. The estimate of market value takes into consideration and assumes the improvements to be funded with the proceeds of the Bonds have been installed and that the remaining costs to develop each of the projects within the District provided to the Appraiser by Meritage are correct. As a result,

the value conclusions are based upon a hypothetical condition that all improvements and benefits to the District, which are to be funded with the proceeds of the Bonds, are completed and in place.

Subject to the assumptions and limiting conditions set forth in the Appraisal Report, the Appraiser concluded that, as of July 1, 2024, the market value of the Taxable Property within the District was \$72,777,857. In valuing the property within the District, the Appraiser used a sales comparison approach for the property to be developed and, with respect to the Meritage-owned models and homes over 95% complete, a discounted cash flow analysis was applied. The discounted cash flow analysis accounts for remaining development costs, marketing and carrying costs and a discount rate through the estimated absorption period for such models and production units. Production units which were under 95% complete were valued on a finished lot basis.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in Appendix D. The City, the Underwriter and the District make no representation as to the accuracy of the Appraisal Report. There is no assurance that the property within the District 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 the landowner. See “SPECIAL RISK FACTORS — Property Values,” Appendix D — “APPRAISAL REPORT.”

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

The aggregate appraised value of property within the District is \$72,777,857. Dividing the aggregate estimate of value by the principal amount of the Bonds results in value to lien ratio of 9.10-to-1\* for the District. There is currently no other direct or overlapping special tax or assessment debt on the property within the District. Including the overlapping general obligation debt in the District and the Bonds, the estimated appraised value to lien ratio for the District is approximately 9.08-to-1\*. See “SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness.” The assessed value of the property within the District is \$4,987,187 for Fiscal Year 2023-24, which as a result of timing of the County’s determination of the assessed values for Fiscal Year 2023-24, does not reflect the substantial development activity that has taken place since such value was determined.

Based on ownership status as of July 1, 2024 (and assuming none of the 16 homes in escrow close to individual homeowners), individual homeowners and Meritage are expected to be responsible for approximately 67.4% and 32.6%, respectively, of the Fiscal Year 2024-25 Special Tax levy.

Table 2 below sets forth the appraised value-to-lien ratio of the Taxable Property within the District based on the appraised values set forth in the Appraisal Report, the principal amount of the Bonds and overlapping general obligation debt. Table 3 below sets forth the estimated appraised value-to-lien ratios for Developed Property within the District by various ranges based upon the principal amount of the Bonds and overlapping general obligation debt. Other than the Bonds, there is currently no overlapping land-secured special tax and assessment debt on the property within the District.

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\* Preliminary, subject to change.

**TABLE 2**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)**  
**ESTIMATED VALUE-TO-LIEN RATIOS**  
**ALLOCATED BY PROPERTY OWNER**

| <i>Property Owner<sup>(1)</sup></i> | <i>No. of<br/>Parcels</i> | <i>Appraised<br/>Property<br/>Value<sup>(2)</sup></i> | <i>% of<br/>Appraised<br/>Value</i> | <i>Maximum<br/>Tax<sup>(3)</sup></i> | <i>Percentage<br/>of<br/>Maximum<br/>Tax</i> | <i>Fiscal Year<br/>2024-25<br/>Levy <sup>(4)</sup></i> | <i>% of<br/>Estimated<br/>Fiscal Year<br/>2024-25<br/>Levy</i> | <i>CFD 2019-2<br/>2024 Bonds <sup>(5)*</sup></i> | <i>All Other<br/>Overlapping<br/>Debt<sup>(6)</sup></i> | <i>Total Debt<br/>Issued*</i> | <i>Appraised<br/>Value-to-<br/>Lien Ratio*</i> |
|-------------------------------------|---------------------------|---|-------------------------------------|--------------------------------------|--|--|--|--|---|-------------------------------|--|
| <b>Developed Property</b>           |                           |   |                                     |                                      |  |  |  |  |   |                               |  |
| Individually Owned                  | 83                        | \$48,736,425  | 66.97%                              | \$ 253,835                           | 49.45%                                       | \$ 235,204   | 67.53%   | \$ 5,398,970                                     | \$ 16,108   | \$5,415,077                   | 9.00:1   |
| Meritage Homes                      | <u>40</u>                 | <u>13,963,760</u>                                     | <u>19.19</u>                        | <u>122,092</u>                       | <u>23.79</u>                                 | <u>113,095</u>   | <u>32.47</u>   | <u>2,596,030</u>                                 | <u>7,745</u>  | <u>2,603,776</u>              | <u>5.36:1</u>                                  |
| Subtotal Developed                  | 123                       | \$62,700,185  | 86.15%                              | \$ 375,927                           | 73.24%                                       | \$ 348,299   | 100.00%  | \$ 7,995,000                                     | \$ 23,853   | \$8,018,853                   | 7.82:1   |
| <b>Approved Property</b>            |                           |   |                                     |                                      |  |  |  |  |   |                               |  |
| Meritage Homes Owned                | <u>45</u>                 | <u>\$10,077,672</u>                                   | <u>13.85%</u>                       | <u>\$ 137,373</u>                    | <u>26.76%</u>                                | <u>\$ 0</u>  | <u>0.00%</u>   | <u>\$ 0</u>                                      | <u>\$ 0</u>   | <u>\$ 0</u>                   | <u>N/A</u>                                     |
| Subtotal Approved Developer Owned   | 45                        | \$10,077,672  | 13.85%                              | \$ 137,373                           | 26.76%                                       | \$ 0   | 0.00%  | \$ 0   | \$ 0  | \$ 0                          | N/A  |
| Total                               | 168                       | \$72,777,857  | 100.00%                             | \$ 513,301                           | 100.00%                                      | \$ 348,299   | 100.00%  | \$ 7,995,000                                     | \$ 23,853   | \$8,018,853                   | 9.08:1   |

\* Preliminary, subject to change.

(1) Property ownership status as of July 1, 2024. Development within the District has progressed since the Date of Value. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT” below.

(2) Based on the appraised value set forth in the Appraisal Report as of the July 1, 2024, the Date of Value.

(3) Based on the Backup Special Tax rate on Developed Property and the Maximum Special Tax Rate on Approved Property. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — Rate and Method of Apportionment of Special Tax.”

(4) Fiscal Year 2024-25 Special Tax Levy based upon development status as of July 1, 2024 and an Administrative Expense Cap for Fiscal Year 2024-25 of \$30,600. The estimated levy on Developed Property shown is equal to 100% of the Assigned Special Tax rates on Developed Property. Interest on a portion of the Bonds is capitalized through March 1, 2025. The District will not levy Special Taxes on Approved Property in Fiscal Year 2024-25. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — Rate and Method of Apportionment of Special Tax.”

(5) Allocated based on the Fiscal Year 2024-25 Special Tax levy.

(6) Includes overlapping debt set forth in Table 4 below.

Source: County of Riverside Assessor’s Office; Spicer Consulting Group, LLC.

**TABLE 3**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)**  
**VALUE-TO-LIEN STRATIFICATION FOR DEVELOPED PROPERTY\***

| <i>Value-to-Lien Category</i>      | <i>No. of<br/>Parcels of<br/>Developed<br/>Property</i> | <i>% of<br/>Developed<br/>Property</i> | <i>Appraised<br/>Value <sup>(1)</sup></i> | <i>% of<br/>Appraised<br/>Value</i> | <i>CFD 2019-2<br/>Estimated<br/>Fiscal Year<br/>2024-25<br/>Levy</i> | <i>Percent<br/>Share of<br/>Estimated<br/>Fiscal Year<br/>2024-25<br/>Levy</i> | <i>CFD 2019-2<br/>2024 Bonds <sup>(2)</sup></i> | <i>Percent<br/>Share of<br/>CFD 2019-2<br/>2024 Bonds</i> | <i>All Other<br/>Overlapping<br/>Debt<sup>(3)</sup></i> | <i>Overlapping<br/>Debt</i> | <i>Aggregate<br/>Value-to-<br/>Lien</i> |
|------------------------------------|---|--|---|-------------------------------------|--|--|---|---|---|-----------------------------|---|
| Less than 3.00:1 <sup>(4)</sup>    | 0   | 0.00%                                  | \$ 0                                      | 0.00%                               | \$ 0   | 0.00%  | \$ 0  | 0.00%   | \$ 0  | \$ 0                        | N/A                                     |
| Between 3.00:1 to 6.00:1           | 17  | 13.82                                  | 3,807,121                                 | 6.07                                | 47,925   | 13.76  | 1,100,095                                       | 13.76   | 3,282   | 1,103,377                   | 3.45:1                                  |
| Between 6.01:1 to 9.00:1           | 59  | 47.97                                  | 31,658,019                                | 50.49                               | 172,127  | 49.42  | 3,951,071                                       | 49.42   | 11,788  | 3,962,859                   | 7.99:1                                  |
| Greater than 9.00:1 <sup>(4)</sup> | 47  | 38.21                                  | 27,235,045                                | 43.44                               | 128,247  | 36.82  | 2,943,834                                       | 36.82   | 8,783   | 2,952,617                   | 9.22:1                                  |
| Totals                             | 123   | 100.00%                                | \$62,700,185                              | 100.00%                             | \$ 348,299   | 100.00%  | \$7,995,000                                     | 100.00%   | \$ 23,853   | \$8,018,853                 | 7.82:1                                  |

\* Preliminary, subject to change.

(1) Based on the appraised value set forth in the Appraisal Report as of July 1, 2024, the Date of Value.

(2) Allocated based on Fiscal Year 2024-25 Special Tax levy based upon development status as of July 1, 2024.

(3) Includes overlapping debt set forth in Table 4 below.

(4) The minimum value to lien is 3.12:1\*. The maximum value to lien in the Greater than 9.00:1 category is 9.48:1\*.

Source: County of Riverside Assessor's Office; Spicer Consulting Group, LLC.

## Direct and Overlapping Debt

The District is included within the boundaries of overlapping local agencies providing governmental services. Some of these local agencies have outstanding bonds, and/or the authority to issue bonds, payable from taxes or assessments. The existing and authorized indebtedness payable from taxes and assessments that may be levied upon the property within the District is shown in Table 4 below. In addition to current debt, new community facilities districts and/or special assessment districts could be formed in the future encompassing all or a portion of the property within the District; and such districts or the agencies that formed them could issue more bonds and levy additional special taxes or assessments.

**TABLE 4**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)**  
**DIRECT AND OVERLAPPING DEBT**  
**AS OF MAY 1, 2023**

|   |             |                   |                    |                     |                          |                      |
|---|-------------|-------------------|--------------------|---------------------|--------------------------|----------------------|
| <b>I. Appraisal Value <sup>(1)</sup></b>  |             |                   |                    |                     |                          | \$72,777,857         |
| <b>II. Land Secured Bond Indebtedness</b>   |             |                   |                    |                     |                          |                      |
| <i>Outstanding Direct and Overlapping Bonded Debt</i>                               | <i>Type</i> | <i>Issued</i>     | <i>Outstanding</i> | <i>% Applicable</i> | <i>Amount Applicable</i> |                      |
| City of Lake Elsinore CFD No. 2019-2, Series 2024                                   | CFD         | \$7,995,000       | \$ 7,995,000       | 100.000%            | <u>\$ 7,995,000*</u>     |                      |
| <b>Total Land Secured Bonded Debt</b>   |             |                   |                    |                     | <b>\$ 7,995,000*</b>     |                      |
| <i>Authorized but Unissued Direct and Overlapping Indebtedness</i>                  | <i>Type</i> | <i>Authorized</i> | <i>Unissued</i>    | <i>% Applicable</i> | <i>Amount Applicable</i> |                      |
| City of Lake Elsinore CFD No. 2019-2, Series 2024 <sup>(2)</sup>                    | CFD         | \$11,000,000      | \$ 0               | 100.000%            | <u>\$ 0</u>              |                      |
| <b>Total Unissued Land Secured Indebtedness</b>                                     |             |                   |                    |                     | <b>\$ 0</b>              |                      |
| <b>TOTAL OUTSTANDING AND UNISSUED LAND SECURED INDEBTEDNESS</b>                     |             |                   |                    |                     |                          | <b>\$ 7,995,000*</b> |
| <b>III. General Obligation Bond Indebtedness</b>                                    |             |                   |                    |                     |                          |                      |
| <i>Outstanding Direct and Overlapping Bonded Debt</i>                               | <i>Type</i> | <i>Issued</i>     | <i>Outstanding</i> | <i>% Applicable</i> | <i>Amount Applicable</i> |                      |
| Metropolitan Water Debt Service   | GO          | \$850,000,000     | \$ 19,215,000      | 0.004%              | <u>\$ 675</u>            |                      |
| Mt. San Jacinto Jr. College Debt Service  | GO          | 295,000,000       | 242,210,000        | 0.004%              | <u>9,576</u>             |                      |
| Lake Elsinore Unified School District Debt Service                                  | GO          | 68,915,000        | 47,005,000         | 0.029%              | <u>13,602</u>            |                      |
| <b>Total Outstanding General Obligation Bonded Debt <sup>(2)</sup></b>              |             |                   |                    |                     | <b>\$ 23,853</b>         |                      |
| <i>Authorized but Unissued Direct and Overlapping Indebtedness</i>                  | <i>Type</i> | <i>Authorized</i> | <i>Unissued</i>    | <i>% Applicable</i> | <i>Amount Applicable</i> |                      |
| Metropolitan Water Debt Service   | GO          | \$850,000,000     | \$ 0               | 0.004%              | <u>\$ 0</u>              |                      |
| Mt. San Jacinto Jr. College Debt Service  | GO          | 295,000,000       | 0                  | 0.004%              | <u>0</u>                 |                      |
| Lake Elsinore Unified School District Debt Service                                  | GO          | 105,000,000       | 36,085,000         | 0.029%              | <u>10,442</u>            |                      |
| <b>Total Unissued General Obligation Indebtedness <sup>(2)</sup></b>                |             |                   |                    |                     | <b>\$ 10,442</b>         |                      |
| <b>TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION INDEBTEDNESS</b>               |             |                   |                    |                     |                          | <b>\$ 34,295</b>     |
| <b>TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT</b>                  |             |                   |                    |                     |                          | <b>\$ 8,018,853*</b> |
| <b>TOTAL OF ALL OUTSTANDING DIRECT AND UNISSUED DIRECT OVERLAPPING INDEBTEDNESS</b> |             |                   |                    |                     |                          | <b>\$ 8,029,295*</b> |

#### IV. Ratios to Appraisal Value

Outstanding Land Secured Bonded Debt.....9.10:1\*  
Total Outstanding Bonded Debt .....9.08:1\*

\* Preliminary, subject to change.

(1) Based on the appraised value set forth in the Appraisal Report as of July 1, 2024, the Date of Value.

(2) Parity Bonds may be issued for refunding purposes only.

Source: County of Riverside Assessor's Office; Spicer Consulting Group, LLC.

Table 5 below describes the estimated Fiscal Year 2024-25 effective tax burden for Meritage's development in the District based on the average appraised value of homes within each of Meritage's floor plans in the District as of the Date of Value, the actual Fiscal Year 2024-25 Special Tax levy and Fiscal Year 2023-24 actual levies for all other overlapping taxing jurisdictions. Based on the foregoing and the projected debt service on the Bonds, the Administrative Expenses Cap of \$30,600 (which amount shall escalate at 2.00% per Fiscal Year), in Fiscal Year 2024-25, the projected effective tax rates to be levied on Developed Property in the District will range from approximately 1.90% to 1.93%.

**TABLE 5**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)**  
**ESTIMATED FISCAL YEAR 2024-25 TAX OBLIGATION**  
**FOR A SAMPLE OF DEVELOPED PROPERTY**

| Plan Type<br>CFD Tax Category                          | MERITAGE HOMES                   |                                  |                                  |                                      |                                  |                                  |                                  |
|--|----------------------------------|----------------------------------|----------------------------------|--------------------------------------|----------------------------------|----------------------------------|----------------------------------|
|  | HIGHLAND                         |                                  |                                  |                                      | HILLTOP                          |                                  |                                  |
|  | Plan 1<br>2,301 to<br>2,500 S.F. | Plan 2<br>2,501 to<br>2,700 S.F. | Plan 3<br>2,701 to<br>2,900 S.F. | Plan 4<br>Greater than<br>2,900 S.F. | Plan 1<br>1,901 to<br>2,100 S.F. | Plan 2<br>2,101 to<br>2,300 S.F. | Plan 3<br>2,301 to<br>2,500 S.F. |
| Home Size <sup>(1)</sup>                               | 2,308                            | 2,532                            | 2,744                            | 2,932                                | 2,020                            | 2,165                            | 2,417                            |
| Appraisal Value <sup>(2)</sup>                         | \$577,000                        | \$595,020                        | \$603,680                        | \$615,720                            | \$565,600                        | \$573,725                        | \$592,165                        |
| <b>Ad Valorem Property Taxes:</b>                      |                                  |                                  |                                  |                                      |                                  |                                  |                                  |
| General Purpose  | \$ 5,770                         | \$ 5,950                         | \$ 6,037                         | \$ 6,157                             | \$ 5,656                         | \$ 5,737                         | \$ 5,922                         |
| Metro Water West (0.00350%)                            | 20                               | 21                               | 21                               | 22                                   | 20                               | 20                               | 21                               |
| Mt. San Jacinto Jr College (0.01320%)                  | 76                               | 79                               | 80                               | 81                                   | 75                               | 76                               | 78                               |
| Lake Elsinore Unified School District (0.01900%)       | 110                              | 113                              | 115                              | 117                                  | 107                              | 109                              | 113                              |
| <b>Total General Property Taxes</b>                    | <b>\$ 5,976</b>                  | <b>\$ 6,163</b>                  | <b>\$ 6,252</b>                  | <b>\$ 6,377</b>                      | <b>\$ 5,858</b>                  | <b>\$ 5,942</b>                  | <b>\$ 6,133</b>                  |
| <b>Assessment, Special Taxes &amp; Parcel Charges:</b> |                                  |                                  |                                  |                                      |                                  |                                  |                                  |
| Flood Control Stormwater / Cleanwater / Santa Ana      | \$ 4                             | \$ 4                             | \$ 4                             | \$ 4                                 | \$ 4                             | \$ 4                             | \$ 4                             |
| Northwest Mosquito and Vector Control                  | 11                               | 11                               | 11                               | 11                                   | 11                               | 11                               | 11                               |
| MWD Standby Charge                                     | 9                                | 9                                | 9                                | 9                                    | 9                                | 9                                | 9                                |
| EVMWD Standby Charge                                   | 10                               | 10                               | 10                               | 10                                   | 10                               | 10                               | 10                               |
| EVMWD Regional Sewer                                   | 10                               | 10                               | 10                               | 10                                   | 10                               | 10                               | 10                               |
| EVMWD CFD 98-1   | 55                               | 55                               | 55                               | 55                                   | 55                               | 55                               | 55                               |
| CSA #152 City of Lake Elsinore Stormwater              | 14                               | 14                               | 14                               | 14                                   | 14                               | 14                               | 14                               |
| City of Lake Elsinore Citywide LLMD                    | 25                               | 25                               | 25                               | 25                                   | 25                               | 25                               | 25                               |
| Proposed CFD No. 2015-1 - Safety Services              | 945                              | 945                              | 945                              | 945                                  | 945                              | 945                              | 945                              |
| Proposed CFD No. 2015-2 - Maintenance Services         | 1,208                            | 1,208                            | 1,208                            | 1,208                                | 1,208                            | 1,208                            | 1,208                            |
| City of Lake Elsinore CFD 2019-2 <sup>(3)</sup>        | 2,851                            | 2,903                            | 3,016                            | 3,118                                | 2,596                            | 2,677                            | 2,851                            |
| <b>Total Assessments &amp; Special Taxes</b>           | <b>\$ 5,143</b>                  | <b>\$ 5,195</b>                  | <b>\$ 5,307</b>                  | <b>\$ 5,409</b>                      | <b>\$ 4,887</b>                  | <b>\$ 4,968</b>                  | <b>\$ 5,143</b>                  |
| <b>Projected Total Property Tax</b>                    | <b>\$ 11,119</b>                 | <b>\$ 11,357</b>                 | <b>\$ 11,559</b>                 | <b>\$ 11,786</b>                     | <b>\$ 10,745</b>                 | <b>\$ 10,911</b>                 | <b>\$ 11,276</b>                 |
| <b>Projected Effective Tax Rate</b>                    | <b>1.93%</b>                     | <b>1.91%</b>                     | <b>1.91%</b>                     | <b>1.91%</b>                         | <b>1.90%</b>                     | <b>1.90%</b>                     | <b>1.90%</b>                     |

<sup>(1)</sup> Reflects the average home size of each plan type within the District.

<sup>(2)</sup> Based on the appraised value set forth in the Appraisal Report as of July 1, 2024, the Date of Value.

<sup>(3)</sup> Reflects Fiscal Year 2024-25 Special Tax levy based on development as of July 1, 2024 and includes the Fiscal Year 2024-25 Administrative Expenses Cap of \$30,600.

Source: County of Riverside Assessor's Office; Spicer Consulting Group, LLC.

## Delinquency History

Fiscal Year 2023-24 was the first year of the Special Tax levy. The District levied Special Taxes in Fiscal Year 2023-24 in the amount of \$206,765.94 and there were no delinquencies. In each Fiscal Year, the first installment of the Special Tax levy will become delinquent if not paid on or prior to December 10 and the second installment will become delinquent if not paid on or before April 10

## PROPERTY OWNERSHIP AND THE DEVELOPMENT

*The information about the property in the District under this caption has been provided by representatives of Meritage, and has not been independently confirmed or verified by the Underwriter, the City or the District. The Underwriter, the City, and the District make no representation as to the accuracy or adequacy of the information contained in this caption. There may be material adverse changes in this information after the date of this Official Statement. Neither the Bonds nor the Net Taxes securing the Bonds and any Parity Bonds are personal obligations of Meritage or any affiliate thereof or any other property owner and, in the event that any 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 any property owner or any affiliate thereof. See the caption "SPECIAL RISK FACTORS."*

*Notwithstanding the belief of Meritage that it will have sufficient funds to complete its planned development in the District, no assurance can be given that amounts necessary to fund the remaining planned development by Meritage in the District will be available when needed. None of Meritage, or any other entity or person is under any legal obligation of any kind to expend funds for the development of the property as planned by Meritage in the District. Any contributions by Meritage or any other entity or person to fund the costs of its development are entirely voluntary. If and to the extent the aforementioned sources are inadequate to pay the costs to complete the planned development by Meritage within the District, the remaining portions of such development may not be completed. Meritage has no legal obligation to Bondholders to make any such funds available for construction or development, or the payment of ad valorem property taxes or the Special Taxes. See the caption "SPECIAL RISK FACTORS."*

### **General**

The District contains approximately 58.19 gross acres and approximately and is located in the City on the southeast quadrant of the Interstate 15 and Nichols Road, adjacent to the Temescal Valley High School.

The major infrastructure (sewer, water, storm drains, utilities, and arterial roads) necessary to develop the property within the District is substantially complete. Meritage is required to complete a public park prior to the issuance of the 125<sup>th</sup> certificate of occupancy within the District. The park is nearing completion and Meritage does not expect the timing of the completion of the park to adversely affected the projected schedule of home construction and sales in the District. The in-tract infrastructure within the District is also substantially complete with finishing of certain streets and landscaping remaining.

### **Planned Development Within the District**

**General.** The property within the District is being developed by Meritage into 168 single-family detached homes in a project being marketed as "Nichols Ranch." As of July 1, 2024, Meritage had completed and conveyed 83 homes within the District to individual homeowners. As of such date Meritage owned four model homes (none of which were in escrow), 49 homes under construction (16 of which were in escrow) and 32 finished lots (none of which were in escrow). Meritage expects to complete and convey all remaining homes to be constructed in the District to individual homeowners by the end of 2025.

Meritage's project in the District includes two product lines – Hilltop and Highland. The tables below show certain information with respect to the homes in each product line as of July 30, 2024.

**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)  
HILLTOP  
(As of July 30, 2024)**

| <i>Plan</i>  | <i>Total<br/>Units<br/>Planned</i> | <i>Estimated<br/>Home<br/>Square<br/>Footage</i> | <i>Closings</i> | <i>Owned by Meritage</i>  |                          |   |
|--------------|------------------------------------|--|-----------------|---|--------------------------|---|
|              |                                    |  |                 | <i>Completed<br/>Homes/Homes<br/>Under<br/>Construction<sup>(1)</sup></i> | <i>Finished<br/>Lots</i> | <i>Base Home<br/>Prices<sup>(2)</sup></i> |
| 1            | 19                                 | 2,020  | 13              | 3   | 3                        | \$616,695                                 |
| 2            | 27                                 | 2,177  | 17              | 8   | 2                        | 636,495                                   |
| 3            | 31                                 | 2,427  | <u>20</u>       | <u>9</u>  | <u>2</u>                 | 653,495                                   |
| <b>Total</b> | <b>77</b>                          |  | <b>50</b>       | <b>20</b>   | <b>7</b>                 |   |

(1) Completed Homes/Homes Under Construction consist of two completed model homes and 18 production homes under construction.

(2) Base home prices shown exclude lot premiums, options and extras and any incentives or price reductions. Base sales prices are subject to change.

**COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)  
HIGHLAND  
(As of July 30, 2024)**

| <i>Plan</i>  | <i>Total<br/>Units<br/>Planned</i> | <i>Estimated<br/>Home<br/>Square<br/>Footage</i> | <i>Closings</i> | <i>Owned by Meritage</i>  |                          |   |
|--------------|------------------------------------|--|-----------------|---|--------------------------|---|
|              |                                    |  |                 | <i>Completed<br/>Homes/Homes<br/>Under<br/>Construction<sup>(1)</sup></i> | <i>Finished<br/>Lots</i> | <i>Base Home<br/>Prices<sup>(2)</sup></i> |
| 1            | 27                                 | 2,320  | 12              | 8   | 7                        | \$670,695                                 |
| 2            | 18                                 | 2,541  | 9               | 3   | 6                        | 670,695                                   |
| 3            | 28                                 | 2,771  | 13              | 8   | 7                        | 701,295                                   |
| 4            | 18                                 | 2,948  | <u>9</u>        | <u>4</u>  | <u>5</u>                 | 676,000                                   |
| <b>Total</b> | <b>91</b>                          |  | <b>43</b>       | <b>23</b>   | <b>25</b>                |   |

(1) Completed Homes/Homes Under Construction consist of two completed model homes and 21 production homes under construction.

(2) Base home prices shown exclude lot premiums, options and extras and any incentives or price reductions. Base sales prices are subject to change.

**Meritage**

**General.** Meritage Homes of California, Inc., a California corporation (previously defined as “Meritage”) is a subsidiary of Meritage Homes Corporation (“Meritage Homes Corporation”), a Maryland corporation. Meritage Homes Corporation is a homebuilder focused primarily on high-growth regions of the western and southern United States. Meritage Homes Corporation operates as a holding company, has no independent assets or operations, and is traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “MTH.” Homebuilding, construction, development and sales activities are conducted through subsidiaries. As of July 1, 2024, Meritage Homes Corporation was actively selling homes in three geographic regions: West (Arizona, California and Colorado), Central (Texas) and East (Florida, Georgia, North Carolina, South Carolina and Tennessee).

Meritage Homes Corporation is subject to the informational reporting requirements of the Exchange Act, and in accordance therewith is obligated to file reports, proxy statements and other information with the



SEC. Such filings set forth, among other things, certain data relative to the consolidated results of operations and financial position of Meritage Homes Corporation and its subsidiaries (e.g., see Meritage Homes Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2023, as filed with the SEC on February 14, 2024 and Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024, as filed with the SEC on April 26, 2024) as of the dates described therein. The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including Meritage Homes Corporation. The address of such Internet website is [www.sec.gov](http://www.sec.gov). All documents subsequently filed by Meritage Homes Corporation pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in such manner as the SEC prescribes. Copies of Meritage Homes Corporation's annual report, quarterly reports and current reports, including any amendments, will be available from Meritage Homes Corporation's website at [www.meritagehomes.com](http://www.meritagehomes.com).

*The foregoing internet websites are included for reference only and the information on these internet sites is not a part of this Official Statement and is not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on such internet websites. Neither Meritage nor Meritage Home Corporation is obligated to advance funds for construction or development or to pay ad valorem property taxes or the Special Taxes and investors should not rely on the information and financial statements contained on such internet sites in evaluating whether to buy, hold or sell the Bonds.*

**Financing Plan.** Through August 1, 2024, Meritage had spent approximately \$8,107,430 in acquiring its land in the District and approximately \$63,785,628 in site development costs, permits and impact fees, home construction costs, and other development, marketing and sales costs (exclusive of internal financing repayment, corporate overhead and other carry costs) related to its development within the District. Meritage expects to spend approximately \$9,194,102 in additional site development costs, permit and impact fees, home construction costs, and other development, marketing and sales costs (exclusive of corporate overhead and other carry costs) between August 1, 2024 and full build-out of the homes proposed to be constructed in the District.

To date, Meritage has financed its land acquisition, site development and home construction costs related to its property within the District through internally generated funds. Meritage expects to use internal funding (which may include home sales revenues from its project within the District) to complete its development activities within the District. However, home sales revenues from Meritage's activities in the District are not segregated and set aside for completing the homes in the District. Notwithstanding the foregoing, Meritage believes that it will have sufficient funds to complete its construction and sale of homes in the District.

Except as described in this Official Statement and except for those consents, permits, authorizations, certifications and approvals of governmental entities required in the ordinary course of development, Meritage has no actual knowledge of any impediment to construction or obtaining land use entitlements which could be reasonably expected to have a material adverse effect on its ability to complete the planned development of its property within the District as described in the Official Statement. *Although the information in this Official Statement reflects the current development expectations of Meritage, no assurance can be given that home construction and sales will be carried out on the schedule and according to the plans described herein, or that the home construction and sale plans or base prices set forth herein will not change after the date of this Official Statement. Meritage reserves the right to change its development at any time without notice. Additionally, homes under contract to be sold may not result in closed escrows as sales contracts are subject to cancellation. See "SPECIAL RISK FACTORS – Concentration of Property Ownership."*

## **SPECIAL RISK FACTORS**

The Bonds have not been rated by any rating agency, and the purchase of the Bonds involves significant risks that are not appropriate 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. 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 the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “— Property Values” below.

### **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 the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

No assurance can be given that the property owners within the District will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See the caption “— Enforcement Delays — Bankruptcy” for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

### **Insufficiency of Special Tax Revenues**

As discussed below, the Special Taxes may not produce revenues sufficient to pay the debt service on the Bonds either due to nonpayment of the amounts levied or because acreage within the District becomes exempt from taxation due to the transfer of title to a public agency.

In order to pay debt service on the Bonds, it is generally necessary that the Special Taxes be paid in a timely manner. Should the Special Taxes not be paid on time, the District has established a Reserve Account under the Indenture to be maintained 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 in the Indenture to maintain in the Reserve Account an amount equal to the Reserve Requirement, subject, however, to the availability of Net Taxes in amounts sufficient to do so and to the limitation that the District may not levy the Special Tax in any Fiscal Year at a rate in excess of the maximum amounts permitted under the Rate and Method. See Appendix A and Appendix E hereto. As a result, if a significant number of Special Tax delinquencies occurs within the District, the District could be unable to replenish the Reserve Account to the Reserve Requirement due to the limitations on the amount of the Special Tax that may be levied. If such defaults were to continue in successive years, the Reserve Account could be depleted and a default on the Bonds could occur.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts, but it is doubtful that they would be upheld as to, for example, property owned by the federal government. If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to

the limitation of the Maximum Special Tax, the Special Tax will be reallocated to the remaining taxable parcels within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon their willingness and/or ability to pay the Special Tax. Moreover, if a substantial portion of additional land within the District became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.

The District will covenant in the Indenture that, under certain circumstances, 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 has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the City on behalf of the District of the proceeds of sale. The District may adjust the future Special Tax levied on taxable parcels in the District, subject to limitations described above under the caption “THE DISTRICT — Rate and Method of Apportionment,” to provide an amount required to pay interest on and principal of the Bonds, and the amount, if any, necessary to replenish the Reserve Account to an amount equal to the Reserve Requirement, and to pay all current expenses. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in the District 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 “— Enforcement Delays — Bankruptcy.”

No assurance can be given that the real property subject to sale or foreclosure will be sold, or if sold, that the proceeds of sale will be sufficient to pay any delinquent installments of the Special Tax. The Act does not require the City to purchase or otherwise acquire any lot or parcel of property to be sold at foreclosure if there is no other purchaser at such sale. The Act and the Indenture do specify that the Special Tax will have the same lien priority as for *ad valorem* property taxes in the case of delinquency. Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post judgment interest and authorized costs, unless the consent of the owners of 75% of the Outstanding Bonds is obtained.

Prior to July 1, 1983, the right of redemption from foreclosure sales was limited to a period of one year from the date of sale. Under legislation effective July 1, 1983, the statutory right of redemption from such foreclosure sales has been repealed. However, a period of 20 days must elapse after the date on which the notice of levy of the interest in real property was served on the judgment debtor before the sale of such lot or parcel can be made. Furthermore, if the purchaser at the sale is the judgment creditor (e.g., the District), an action may be commenced by the delinquent property owner within 90 days after the date of sale to set aside such sale. The constitutionality of the aforementioned legislation, which repeals the one year redemption period, has not been tested and there can be no assurance that, if tested, such legislation will be upheld. (Section 701.680 of the Code of Civil Procedure of the State.)

### **Impact of Economic Conditions on the Development in the District**

Certain events and factors which negatively affect the regional, State and national economies could have an adverse effect on the pace at which the current or any future developers in the District can complete the remaining infrastructure and future homes, and demand by, and the ability of individuals to purchase homes within the District. Such events and factors could include rising inflation and interest rates, persistent supply

chain issues and global market instability caused by geopolitical events. Any adverse impact of the foregoing and other economic factors on the project in the District and the real estate market in general cannot be predicted.

### **Increasing Mortgage Interest Rates**

Since approximately November 2021, interest rates for mortgage loans have increased significantly. Increases in mortgage interest rates could have a negative impact on the estimated absorption rates of the planned for-sale residential units in the District described herein. With respect to entry-level households, increased mortgage interest rates may adversely impact the affordability of homes and may increase mortgage payment levels for owning a lower-priced home relative to renting a residence, thereby making purchasing less attractive. With respect to move-up households, higher mortgage interest rates may impact the desire of current homeowners to move from their present home due to the fact that their present home likely has a relatively low mortgage interest rate. In addition, in such instances, a new home would likely have a higher interest rate on a new mortgage loan as well as a higher purchase price and property taxes. Such considerations may decrease the desire for move-up households to purchase a new home. The foregoing factors could reduce demand for and/or the ability to achieve the sales prices of the planned for-sale homes within the District as described herein.

### **Concentration of Ownership**

Based on ownership status as of July 1, 2024 (and assuming none of the 16 homes or lots under construction and in escrow close to individual homeowners), individual homeowners and Meritage are expected to be responsible for approximately 67.4% and 32.6%, respectively, of the Fiscal Year 2024-25 Special Tax levy.

The timely payment of principal of and interest on the Bonds depends upon the willingness and ability of the current and future property owners in the District to pay the Special Taxes prior to delinquency. General and local economic conditions and governmental requirements or restrictions may affect the willingness of the current property owners, or any successor property owners, to pay the Special Taxes, and there is no assurance that the current property owners, or any successor property owners, will pay such Special Taxes even if financially able to do so. Due to the concentration of ownership of the property within the District, a failure by Meritage or any successor property owner thereto to pay the Special Taxes may result in a default in the payment of debt service on the Bonds. See “PROPERTY OWNERSHIP AND THE DEVELOPMENT.”

See “SOURCES OF PAYMENT FOR THE BONDS — Meritage Letter of Credit” for a description of the letter of credit provided by Meritage to secure the payment of Special Taxes levied on the property in the District owned by Meritage.

### **Property Values**

The value of the property within the District 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 “THE DISTRICT — Appraisal Report” and APPENDIX D — “APPRAISAL REPORT.”

The Appraiser has estimated, on the basis of certain assumptions and limiting conditions contained in the Appraisal Report, that as of the Date of Value, the market value of the land and improvements within the District was approximately \$72,777,857. See “THE DISTRICT — Appraisal Report.” The Appraisal Report indicates the Appraiser’s opinion as to the market value of the properties 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.

Prospective purchasers of the Bonds should not assume that the taxable land within the District could be sold for the appraised amount or for the assessed values at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value of the property in the District, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See Appendix D 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 taxable land and improvements within the District from the market value estimated by the Appraiser.

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 "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*"

### **Natural Disasters**

The District, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within the District. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. The property within the District is not located in an Alquist-Priolo Earthquake Study Zone and is not located within one-half mile of an active earthquake fault.

The area in the District was previously mapped within a flood zone. A letter of map revision was filed and accepted by the Federal Emergency Management Agency and the property in the District is no longer mapped within a flood zone. Flood insurance is not required for the homes in the District.

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 in recent years damaged or destroyed property in areas that were not previously considered to be at risk from such events.

In 2018, the Holy Fire was a wildfire which burned in the Cleveland National Forest in Orange and Riverside counties. Certain portions of the City were placed under evacuation orders. While no structures within the City were lost as a result of such wildfire, the City incurred significant costs as a result of such event, which costs were substantially reimbursed to the City from the State and federal governments.

The District is located in an area which the Department of Forestry and Fire Protection of the State of California has designated as a very high fire hazard severity zone. There is a risk of residential property within the District being destroyed by wildfires and no assurance can be given as to the severity or frequency of wildfires within the vicinity of the District. Additionally, property located adjacent to burn areas can be subject to mudslides and flooding, which can cause significant damage and destruction to property.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. 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 the District 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.

## **Hazardous Substances**

While government taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may also be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions 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 “Super Fund 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 in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, is to reduce the marketability and value by the costs of remedying the condition.

The District is not aware of the presence of any federally or state classified hazardous substances in violation of any environmental laws, located on the property within the District. However, it is possible that such materials do currently exist and that the District is not aware of them.

It is possible that property in the District may be liable for hazardous substances in the future as a result of the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or the existence, currently, on the property of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, 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 have the effect of reducing the value of the applicable property.

## **Enforcement Delays – Bankruptcy**

In the event of a delinquency in the payment of the Special Taxes, the District is required to commence enforcement proceedings under the circumstances described under the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*” However, prosecution of such proceedings could be delayed due to crowded local court calendars or by bankruptcy, insolvency and other laws generally affecting creditors’ rights (such as the Soldiers’ and Sailors’ Relief Act of 1940) and by the laws of the State relating to judicial and non-judicial foreclosure. Although bankruptcy proceedings would not cause the liens of the Special Taxes to become extinguished, bankruptcy of a person or entity with an interest in the applicable property could result in a delay in the enforcement proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delay could increase the likelihood of delay or default in payment of the principal of and interest on the Bonds. The various legal opinions to be delivered in connection with the issuance of the Bonds, including Bond Counsel’s approving legal opinion, are qualified as to the enforceability of the Bonds and the Indenture by reference to bankruptcy, reorganization, moratorium, insolvency and other laws affecting the rights of creditors generally or against public entities such as the District.

## **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 the District 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 THE INDENTURE — COVENANTS AND WARRANTY — Covenants” 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 “— FDIC/Federal Government Interests in Parcels” 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.

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

The ability of the District to collect interest and penalties specified by the Act and to foreclose the lien of delinquent Special Taxes may be limited in certain respects with regard to parcels in which the Federal Deposit Insurance Corporation (the "FDIC"), or other federal government entities such as Fannie Mae or Freddie Mac, has or obtains an interest.

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

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

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

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

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in 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. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see "—Insufficiency of Special Tax Revenues."

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

### **Direct and Overlapping Indebtedness**

The ability of an owner of property within the District to pay the applicable Special Taxes could be affected by the existence of other taxes and assessments imposed upon taxable parcels. See "THE DISTRICT — Direct and Overlapping Debt" herein. The City and other public agencies whose boundaries overlap those of the District could impose additional taxes or assessment liens on the property within the District in order to finance public improvements or services to be located or provided inside of or outside of such area. The lien created on the property within the District through the levy of such additional taxes may be on a parity with the lien of the Special Taxes applicable to the property within the District.

The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of property owners to pay the Special Taxes and increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes. The District will covenant in the Indenture not to issue Parity Bonds other than for refunding all of a portion of the Bonds or Parity Bonds.

### **Payment of Special Taxes is not a Personal Obligation of the Property Owners**

An owner of a taxable parcel is not personally obligated to pay Special Taxes. Rather, Special Taxes are 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 Special Taxes, the District has no recourse against the property owner.

### **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.

### **Limited Obligations**

The Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Net Taxes, neither the credit nor the taxing power of the District or the City 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 City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or the District's property or upon any of the City's or the District's income, receipts or revenues, except the Net Taxes and other amounts pledged under the Indenture.

The District's legal obligations with respect to any delinquent Special Taxes are limited to: (i) payments from the Reserve Account to the extent of funds on deposit therein; and (ii) the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes are delinquent. See the caption "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*" The Bonds cannot be accelerated in the event of any default.



The obligation to pay Special Taxes does not constitute a personal obligation of the current or subsequent owners of the respective parcels which are subject to such liens. See the caption “— Payment of the Special Tax is Not a Personal Obligation of the Property Owners.” Enforcement of Special Tax payment obligations by the District is limited to judicial foreclosure in the Superior Court of California, County of Riverside. There is no assurance that any current or subsequent owner of a parcel subject to a Special Tax lien will be able to pay the amounts due or that such owner will choose to pay such amounts even though financially able to do so.

Failure by owners of the parcels to pay Special Tax installments when due, delay in foreclosure proceedings, or the inability of the District to sell parcels that have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of Special Taxes levied against such parcels may result in the inability of the District to make full or timely payments of debt service on the Bonds, which may in turn result in the depletion of the Reserve Account. See the caption “— Enforcement Delays — Bankruptcy.”

### **Ballot Initiatives**

Articles XIII A, XIII B, XIII C, and XIII D of the California Constitution were adopted pursuant to measures qualified for the ballot pursuant to the State’s constitutional initiative process. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or other local agencies to increase revenues or to increase appropriations.

### **Proposition 218**

An initiative measure entitled “The Right to Vote on Taxes Act” (“Proposition 218”) was approved by the voters at the November 5, 1996 statewide general election. Among other things, Proposition 218 added a new Article XIII C to the California Constitution which 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. While the application of Proposition 218 in this context has not yet been interpreted by the courts and the matter is not completely free from doubt, it is not likely that Proposition 218 has conferred on the voters the power to effect a repeal or reduction of the Special Tax if the result thereof would be to impair the security of the Bonds.

It may be possible, however, for voters or the City Council, 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. Therefore, no assurance can be given with respect to the future levy of Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. 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 for the District, unless, in connection therewith, (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expenses Cap plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (ii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. The District also will covenant that, in the event an initiative is adopted which purports to reduce or otherwise 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.

## 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 issued a ruling in *Horizon Capital Investments, LLC v. City of Sacramento et al.* (Case No. 34-2017-80002661), which was a case involving 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 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. 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. Voters in the District approved the Special Tax on January 12, 2021. Based on Sections 53341 and 53359 of the Act and analysis of existing laws, regulations, rulings and court decisions, the District believes that no successful challenge to the Special Tax 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.

### **Loss of Tax Exemption**

As discussed under the heading “TAX MATTERS,” interest on the Bonds could cease to be excluded from 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 or the City. In addition, it is possible that future changes in applicable federal tax laws could cause interest on the Bonds to be included in gross income for federal income taxation or could otherwise reduce the equivalent taxable yield of such interest and thereby reduce the value of the Bonds.

### **No Ratings – Limited Secondary Market**

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

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

### **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 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.

### **Potential Early Redemption of Bonds from Prepayments or Community Facilities District Bond Proceeds**

Property owners within the District are permitted to prepay their Special Taxes at any time. Such prepayments could also be made from the proceeds of bonds issued by or on behalf of an overlapping 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 — *Special Mandatory Redemption from Special Tax Prepayments.*”

## **Cybersecurity**

The City, like many other public and private entities, rely on computer and other digital networks and systems to conduct their operations. The City is potentially subject to multiple cyber threats, including without limitation hacking, viruses, ransomware, malware and other attacks. No assurance can be given that the efforts of the City to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City, or the administration of the Bonds. The City is also reliant on other entities and service providers in connection with the administration of the Bonds, including without limitation the County tax collector for the levy and collection of Special Taxes and the Trustee. No assurance can be given that the City and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond owners.

## **CONTINUING DISCLOSURE**

### **District Continuing Disclosure**

Pursuant to a Continuing Disclosure Certificate, dated as of September 1, 2024 (the “Disclosure Certificate”), to be executed and delivered by the District at the time of issuance of the Bonds, the District will covenant for the benefit of the holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District by February 15 following the end of the District’s Fiscal Year (currently its Fiscal Year ends on June 30) (the “Annual Report”), commencing with the report for the Fiscal Year ending June 30, 2024, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the District with EMMA. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in Appendix F — “FORM OF DISTRICT CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12.

The District has not had any continuing disclosure undertakings outstanding during the previous five-year period. Although the City and its affiliated entities other than the District (such as the Lake Elsinore Facilities Financing Authority, the Lake Elsinore Public Financing Authority, the City’s former redevelopment agency and its successor agency (the “Agency”), and other community facilities districts formed by the City) are not obligated persons pursuant to Rule 15c2-12 with respect to the Bonds, during the last five years the City and such affiliated entities failed to comply in certain respects with continuing disclosure obligations related to outstanding bonded indebtedness (the City Council of the City serves as the governing board of the Lake Elsinore Facilities Financing Authority, the Lake Elsinore Public Financing Authority, the Agency and all of the City’s community facilities districts). The failures to comply include late filings with respect to several annual reports, and failure to provide notice of late annual financial information, more specifically:

(1) Updated tabular and other operating information relating to the City, the Agency and community facilities districts for Fiscal Years 2018-19 and 2019-20 were filed late.

(2) Failure to provide notices of the late filing of certain of the annual financial information that is described in item (1) above.

(3) Several of the annual reports included incomplete information relating to community facilities districts, including tax prepayment information, improvement fund balances and special tax delinquency information.

The City and its affiliated entities have made additional filings to provide certain of the previously omitted information.

The City has retained Spicer Consulting Group, LLC to serve as Dissemination Agent for the continuing disclosure undertaking related to the Bonds, and has adopted policies and procedures with respect to its continuing disclosure practices.

### **Developer Continuing Disclosure**

The Underwriter does not consider Meritage to be an “obligated person” with respect to the Bonds for purposes of the Rule. Notwithstanding the foregoing, to provide updated information with respect to the development within the District, Meritage will execute a continuing disclosure certificate (the “Developer Continuing Disclosure Certificate”) pursuant to which it will covenant to provide semiannual reports until satisfaction of certain conditions set forth in the Developer Continuing Disclosure Certificate. The semiannual reports to be provided by Meritage will contain updates regarding the development within the District as outlined in Section 4 of the Developer Continuing Disclosure Certificate attached hereto as APPENDIX G. In addition to its semiannual reports, Meritage will agree to provide notices of certain events set forth in the Developer Continuing Disclosure Certificate.

Meritage’s obligations under the Developer Continuing Disclosure Certificate will terminate upon the earliest to occur of: (a) the legal defeasance, prior redemption or payment in full of all the Bonds; or (b) at such time as Meritage has conveyed 135 residential units in the District to individual homeowners.

Meritage notes the following with respect to its prior continuing disclosure obligations entered into in connection with the following issuances: (1) with respect to the \$10,905,000 City of Roseville Creekview Community Facilities District No. 1 (Public Facilities) Improvement Area No. 1 Special Tax Bonds Series 2020, Meritage was late in filing the first periodic report due on November 1, 2021; Meritage filed the curative report on April 28, 2022; (2) with respect to the \$14,735,000 Improvement Area No. 1 of the City of Dixon Community Facilities District No. 2019-1 (Homestead) Special Tax Bonds, Series 2020, Meritage was late in filing its first periodic report due June 15, 2021. The oversight was discovered in August 2021, and Meritage Homes promptly filed a curative report on August 23, 2021 or approximately two months after the due date..

### **TAX EXEMPTION**

In the opinion of Stradling Yocca Carlson & Rauth LLP, 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 (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. However, it should be noted that, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), generally certain corporations with more than \$1,000,000,000 of average annual adjusted financial statement income, interest (and original issue discount) with respect to the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

The excess of the stated redemption price at maturity of a Bond over the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) 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 applicable Bond.

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 City and others and is subject to the condition that the District, the City and others making such representations comply with all requirements of 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 City 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 INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF 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 LLP.

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 City 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 OPINION**

The legal opinion of Bond Counsel approving the validity of the Bonds, in substantially the form set forth as Appendix C hereto, will be made available to purchasers of the Bonds at the time of original delivery of the Bonds. Certain legal matters will be passed upon for the City and the District by Leibold, McClendon, & Mann, Irvine, California, City Attorney, and for the District by Stradling Yocca Carlson & Rauth LLP, Disclosure Counsel, for the Underwriter by Kutak Rock LLP, Irvine, California, and for the Trustee by its counsel. Bond Counsel undertakes no responsibility to the purchasers of the Bonds for the accuracy, completeness or fairness of this Official Statement.

### **ABSENCE OF LITIGATION**

In connection with the issuance of the Bonds, the City Attorney will deliver an opinion to the effect that, to their actual knowledge, after due inquiry and investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened, or any unfavorable decision, ruling or finding, against or affecting the District, which would adversely impact the District's ability to complete the transactions described in, or contemplated by, the Indenture or this Official Statement, restrain or enjoin the collection of the Special Taxes, or in any way contest or affect the validity of the Bonds, the Indenture, the Special Taxes, or the transactions described herein.

### **NO RATING**

The District has not made, and does not contemplate making, an application to any rating organization for the assignment of a rating on 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 the \$\_\_\_\_\_ aggregate principal amount of the Bonds, less an Underwriter's discount of \$\_\_\_\_\_ and less net original issue discount of \$\_\_\_\_\_). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter's compensation is contingent upon the successful issuance of the Bonds.

Under certain circumstances, the Underwriter may offer and sell the Bonds to certain dealers and others at prices lower or yields higher than those stated on the page immediately following the cover page of this Official Statement. The offering prices may be changed from time to time by the Underwriter.

## **FINANCIAL INTERESTS**

The fees being paid to the Underwriter and its counsel, Bond Counsel, Disclosure Counsel and the Trustee are contingent upon the issuance and delivery of the Bonds. From time to time, Stradling Yocca Carlson & Rauth LLP, represents the Underwriter on matters unrelated to the Bonds.

## **MUNICIPAL ADVISOR**

The District has retained Urban Futures, Inc., Walnut Creek, California, as Municipal Advisor for the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

Urban Futures, Inc., is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal or other public securities.

## **MISCELLANEOUS**

So far as any statements made in this Official Statement involve matters of opinion, assumptions, projections, anticipated events or estimates, whether or not expressly stated, they are set forth as such and not as presentations of fact, and actual results may differ substantially from those set forth therein. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the Owners of the Bonds.

The summaries of certain provisions of the Bonds, statutes and other documents or agreements referred to in this Official Statement do not purport to be complete, and reference is made to each of them for a complete statement of their provisions. Copies are available for review by making requests to the City.

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

COMMUNITY FACILITIES DISTRICT NO. 2019-2 OF  
THE CITY OF LAKE ELSINORE (NICHOLS RANCH)

By: \_\_\_\_\_  
City Manager of the City of Lake Elsinore



## APPENDIX A

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

#### CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH)

A Special Tax (all capitalized terms are defined in Section A, “Definitions”, below) shall be applicable to each Assessor’s Parcel of Taxable Property located within the boundaries of the City of Lake Elsinore Community Facilities District No. 2019-2 (Nichols Ranch) (“CFD No. 2019-2”). The amount of Special Tax to be levied in each Fiscal Year on an Assessor’s Parcel shall be determined by the City Council of the City of Lake Elsinore, acting in its capacity as the legislative body of CFD No. 2019-2, by applying the appropriate Special Tax for Developed Property, Approved Property, Undeveloped Property, and Provisional Undeveloped Property that is not Exempt Property as set forth below. All of the real property, unless exempted by law or by the provisions hereof in Section F, 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 or instrument. The square footage of an Assessor’s Parcel is equal to the Acreage multiplied by 43,560.

**“Act”** means the Mello-Roos Communities Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of 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 CFD No. 2019-2: the costs of computing the Special Taxes and preparing the Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City or otherwise); the costs of remitting Special Taxes to the Trustee; the costs of the Trustee (including legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2019-2 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2019-2 or any designee thereof of complying with disclosure requirements of the City, CFD No. 2019-2 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 City, CFD No. 2019-2 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City’s annual administration fees and third party expenses. Administration Expenses shall also include amounts estimated by the CFD Administrator or advanced by the City or CFD No. 2019-2 for any other administrative purposes of CFD No. 2019-2, including attorney’s fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

**“Approved Property”** means all Assessor’s Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1<sup>st</sup> preceding the Fiscal Year in which the Special Tax is being levied, (ii) and has an assigned Assessor’s Parcel Number from the County shown on an Assessor’s Parcel Map for the individual lot included on the Final Map, and (iii) that have not been issued a building permit on or before May 1<sup>st</sup> preceding the Fiscal Year in which the Special Tax is being levied.

**“Assessor’s Parcel”** means a lot or parcel of land designated 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.

**“Assessor’s Parcel Number”** means that number assigned to an Assessor’s Parcel by the County for purposes of identification.

**“Assigned Special Tax”** means the Special Tax of that name described in Section D below.

**“Backup Special Tax”** means the Special Tax of that name described in Section D below.

**“Boundary Map”** means a recorded map of the CFD which indicates the boundaries of the CFD.

**“Bonds”** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to which Special Tax of CFD No. 2019-2 have been pledged.

**“Building Permit”** means the first legal document issued by a local agency giving official permission for new construction. For purposes of this definition, “Building Permit” may or may not include any subsequent building permit document(s) authorizing new construction on an Assessor’s Parcel that are issued or changed by the City after the first original issuance, as determined by the CFD Administrator as necessary to fairly allocate Special Tax to the Assessor’s Parcel, provided that following such determination the Maximum Special Tax that may be levied on all Assessor’s Parcels of Taxable Property will be at least 1.1 times maximum annual debt service on all outstanding Bonds plus the estimated annual Administrative Expenses.

**“Building Square Footage” or “BSF”** means the square footage of assessable internal living space, exclusive of garages or other structures not used as living space, as determined by reference to the Building Permit for such Assessor’s Parcel.

**“Calendar Year”** means the period commencing January 1 of any year and ending the following December 31.

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

**“CFD” or “CFD No. 2019-2”** means Community Facilities District No. 2019-2 (Nichols Ranch) established by the City under the Act.

**“City”** means the City of Lake Elsinore.

**“City Council”** means the City Council of the City of Lake Elsinore, acting as the Legislative Body of CFD No. 2019-2.

**“Condominium Plan”** means a condominium plan as set forth in the California Civil Code Section 4200 et seq.

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

**“Developed Property”** means all Assessor’s Parcels that: (i) are included in a Final Map that was recorded prior to the January 1<sup>st</sup> preceding the Fiscal Year in which the Special Tax is being levied, and (ii) has an Assessor’s Parcel Number from the County shown on an Assessor’s Parcel Map for the individual lot included on the Final Map, and (iii) a Building Permit for new construction was issued on or before May 1<sup>st</sup> preceding the Fiscal Year in which the Special Tax is being levied.

**“Exempt Property”** means all Assessor’s Parcels designated as being exempt from Special Taxes as provided for in Section F.

**“Final Map”** means a subdivision of property by recordation of a final map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) or recordation of a Condominium Plan pursuant to California Civil Code Section 4200 et seq. that creates individual lots for which Building Permits may be issued without further subdivision.

**“Fiscal Year”** means the period commencing on July 1<sup>st</sup> of any year and ending the following June 30<sup>th</sup>.

**“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.

**“Land Use Category”** means any of the categories listed in Table 1 of Section D.

**“Maximum Special Tax”** means for each Assessor’s Parcel, the maximum Special Tax, determined in accordance with Section D below, that can be levied by CFD No. 2019-2 in any Fiscal Year on such Assessor’s Parcel.

**“Multifamily Property”** means all Assessor’s Parcels of Developed Property for which a Building Permit has been issued for the purpose of constructing a building or buildings comprised of attached Residential Units available for rental by the general public, not for sale to an end user, and under common management, as determined by the CFD Administrator.

**“Non-Residential Property”** or **“NR”** means all Assessor’s Parcels for which a building permit(s) was issued or will be issued for a non-residential use. The CFD Administrator shall make the determination if an Assessor’s Parcel is Non-Residential Property.

**“Partial Prepayment Amount”** means the amount required to prepay a portion of the Special Tax obligation for an Assessor’s Parcel, as described in Section G.2.

**“Prepayment Amount”** means the amount required to prepay the Special Tax obligation in full for an Assessor’s Parcel, as described in Section G.1.

**“Proportionately”** means for Taxable Property that is (i) Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is the same for all Assessor’s Parcels of Developed Property, (ii) Approved Property, that the ratio of the actual Special Tax levy to the Maximum Special Tax is the same for all Assessor’s Parcels of Approved Property, and (iii) Undeveloped Property, or Provisional Undeveloped Property, that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is the same for all Assessor’s Parcels of Undeveloped Property, or Provisional Undeveloped Property, as applicable.

**“Provisional Undeveloped Property”** means all Assessor’s Parcels of Taxable Property that would otherwise be classified as Exempt Property pursuant to the provisions of Section F, but cannot be classified as Exempt Property because to do so would be reduce the Acreage of all Taxable Property below the required minimum Acreage set forth in Sections F.

**“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 Units.

**“Residential Unit”** or **“RU”** means a residential unit that is used or intended to be used as a domicile by one or more persons, as determined by the CFD Administrator.

**“Single Family Residential Property”** means all Assessor’s Parcels of Residential Property other than Multifamily Property.

**“Special Tax”** means any of the special taxes authorized to be levied within CFD No. 2019-2 pursuant to the Act to fund the Special Tax Requirement.

**“Special Tax Requirement”** means the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds due in the Calendar Year that commences in such Fiscal Year, (ii) Administrative Expenses, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount required to replenish any reserve funds established in association with the Bonds, (v) an amount equal to any anticipated shortfall due to Special Tax delinquencies, and (vi) for the collection or accumulation of funds for the acquisition or construction of facilities authorized by CFD No. 2019-2 or the payment of debt services on Bonds anticipated to be issued, provided that the inclusion of such amount does not cause an increase in the levy of Special Tax on Approved Property or Undeveloped Property as set forth in Steps Two or Three of Section E., less (vii) any amounts available to pay debt service or other periodic costs on the Bonds pursuant to the Indenture.

**“Taxable Property”** means all Assessor’s Parcels within CFD No. 2019-2, which are not Exempt Property.

**“Taxable Unit”** means either a Residential Unit or an Acre.

**“Tract(s)”** means an area of land within a subdivision identified by a particular tract number on a Final Map approved for the subdivision.

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

**“Undeveloped Property”** means all Assessor’s Parcels of Taxable Property which are not Developed Property, Approved Property, Provisional Undeveloped Property.

## **B. SPECIAL TAX**

Commencing Fiscal Year 2021-2022 and for each subsequent Fiscal Year, the City Council shall levy Special Taxes on all Taxable Property, up to the applicable Maximum Special Tax, to fund the Special Tax Requirement.

## **C. ASSIGNMENT TO LAND USE CATEGORY FOR SPECIAL TAX**

Each Fiscal Year, beginning with Fiscal Year 2021-2022, each Assessor’s Parcel within CFD No. 2019-2 shall be classified as Taxable Property or Exempt Property. In addition, each Assessor’s Parcel of Taxable Property shall be further classified as Developed Property, Approved Property, Undeveloped Property or Provisional Undeveloped Property.

Assessor’s Parcels of Developed Property shall further be classified as Residential Property or Non-Residential Property. Each Assessor’s Parcel of Residential Property shall further be classified as a Single Family Residential Property, or Multifamily Property. Each Assessor’s Parcel of Single Family Residential Property shall be further categorized into Land Use Categories based on its Building Square Footage and assigned to its appropriate Assigned Special Tax rate.

In the event that an Assessor’s Parcel for which one or more Building Permits have been issued and the County has not yet assigned final Assessor’s Parcel Number(s) to the Residential Unit(s) (in accordance with the Final Map or Condominium Plan) on such Assessor’s Parcel, the amount of the Special Tax levy on such Assessor’s Parcel for each Fiscal Year shall be determined as follows: (1) the CFD Administrator shall first determine an amount of the Maximum Special Tax levy for such Assessor’s Parcel, based on the classification of such Assessor’s Parcel as Undeveloped Property; (2) the amount of the Special Tax levy for the Residential Units on such Assessor’s Parcel for which Building Permits have been issued shall be determined based on the Developed Property Special Tax rates and shall be taxed as Developed Property in accordance with Step 1 of Section E below; and (3) the amount of the Special Tax levy on the Taxable Property in such Assessor’s Parcel not subject to the Special Tax levy in clause (2) shall be equal to: (A) the percentage of the Maximum Special Tax rate

levied on all other Undeveloped Property multiplied by the total of the amount determined in clause (1), less the amount determined in clause (2).

#### **D. MAXIMUM SPECIAL TAX**

##### **1. Developed Property**

The Maximum Special Tax for each Assessor's Parcel of Single Family Residential Property in any Fiscal Year shall be the greater of (i) the Assigned Special Tax or (ii) the Backup Special Tax.

The Maximum Special Tax for each Assessor's Parcel of Non-Residential or Multifamily Residential Property shall be the applicable Assigned Special Tax described in Table 1 of Section D.

##### **a. Assigned Special Tax**

Each Fiscal Year, each Assessor's Parcel of Single Family Residential Property, Multifamily Property or Non-Residential shall be subject to an Assigned Special Tax. The Assigned Special Tax applicable to an Assessor's Parcel of Developed Property shall be determined pursuant to Table 1 below.

**TABLE 1  
ASSIGNED SPECIAL TAX FOR DEVELOPED PROPERTY**

| <b>Land Use Category</b>              | <b>Taxable Unit</b> | <b>Building Square Footage</b> | <b>Assigned Special Tax Per Taxable Unit</b> |
|---------------------------------------|---------------------|--------------------------------|--|
| 1. Single Family Residential Property | RU                  | Less than 1,700 sq. ft         | \$2,302.00                                   |
| 2. Single Family Residential Property | RU                  | 1,700 sq. ft to 1,900 sq. ft   | \$2,379.00                                   |
| 3. Single Family Residential Property | RU                  | 1,901 sq. ft to 2,100 sq. ft   | \$2,446.00                                   |
| 4. Single Family Residential Property | RU                  | 2,101 sq. ft to 2,300 sq. ft   | \$2,523.00                                   |
| 5. Single Family Residential Property | RU                  | 2,301 sq. ft to 2,500 sq. ft   | \$2,687.00                                   |
| 6. Single Family Residential Property | RU                  | 2,501 sq. ft to 2,700 sq. ft   | \$2,736.00                                   |
| 7. Single Family Residential Property | RU                  | 2,701 sq. ft to 2,900 sq. ft   | \$2,842.00                                   |
| 8. Single Family Residential Property | RU                  | Greater than 2,900 sq. ft      | \$2,938.00                                   |
| 9. Multifamily Property               | Acre                | N/A                            | \$21,333.00                                  |
| 10. Non-Residential Property          | Acre                | N/A                            | \$21,333.00                                  |

On each July 1, commencing July 1, 2022, the Assigned Special Tax rate for Developed Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

##### **b. Multiple Land Use Categories**

In some instances an Assessor's Parcel of Developed Property may contain more than one Land Use Type. The Maximum Special Tax levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax for all Land Use Categories located on the Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

##### **c. Backup Special Tax**

The Backup Special Tax for an Assessor's Parcel within a Final Map classified or to be classified as Single Family Property shall be calculated according to the following formula.

$$B = (U \times A) / L$$

The terms above have the following meanings:

B = Backup Special Tax per Assessor's Parcel within the Final Map

U = Maximum Special Tax per Acre of Undeveloped Property per Section D.3 below

A = Acreage of Single Family Residential Property expected to exist in such Final Map at the time of calculation, as determined by the Administrator

L = Number of Residential Units expected to exist in such Final Map at the time of calculation, as determined by the Administrator.

In the event any portion of the Final Map is changed or modified, the Backup Special Tax for all Assessor's Parcels within such changed or modified area shall be \$21,333 per Acre.

In the event any superseding Final Map is recorded as a Final Map within the Boundaries of the CFD, the Backup Special Tax for all Assessor's Parcels within such Final Map shall be \$21,333 per Acre. The Backup Special Tax shall not apply to Multifamily Residential Property, or Non-Residential Property.

On each July 1, commencing July 1, 2022, the Backup Special Tax rate shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

## **2. Approved Property**

The Maximum Special Tax for each Assessor's Parcel of Approved Property expected to be classified as Single Family Property shall be the Backup Special Tax computed pursuant to Section D.1.c above.

The Maximum Special Tax for each Assessor's Parcel of Approved Property expected to be classified as Multifamily Residential Property or Non-Residential Property shall be \$21,333 per Acre.

On each July 1, commencing July 1, 2022, the Maximum Special Tax rate for Approved Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

## **3. Undeveloped Property and Provisional Undeveloped Property that is not Exempt Property pursuant to the provisions of Section F**

The Maximum Special Tax for each Assessor's Parcel of Undeveloped Property and Provisional Undeveloped Property that is not Exempt Property shall be equal to the product of \$21,333 multiplied by the Acreage of such Assessor's Parcel.

On each July 1, commencing July 1, 2022, the Maximum Special Tax rate for Undeveloped and Provisional Undeveloped Property shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

## **E. METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

Commencing Fiscal Year 2021-2022 and for each subsequent Fiscal Year, the City Council shall levy Special Taxes on all Taxable Property in accordance with the following steps:

Step One: 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 rates in Table 1 to satisfy the Special Tax Requirement.

Step Two: If additional moneys 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

Approved Property at up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.

- Step Three: If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Annual Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.
- Step Four: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax levy on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to 100% of the Backup Special Tax as needed to satisfy the Special Tax Requirement.
- Step Five: If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Provisional Undeveloped Property up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special Taxes levied in any Fiscal Year against any Assessor's Parcel of Residential Property as a result of a delinquency in the payment of the Special Tax applicable to any other Assessor's Parcel be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year had there never been any such delinquency or default.

## **F. EXEMPTIONS**

The City shall classify as Exempt Property, in the following order of priority, (i) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by the State of California, Federal or other local governments, including school districts, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by a homeowners' association, (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, (v) Assessor's Parcels which are privately owned and are encumbered by or restricted solely for public uses, or (vi) Assessor's Parcels restricted to other types of public uses determined by the City Council, provided that no such classification would reduce the sum of all Taxable Property to less than 22.74 Acres.

Notwithstanding the above, the City Council shall not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than 22.74 Acres. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 22.74 Acres will be classified as Provisional Undeveloped Property, and will be subject to Special Tax pursuant to Step Five in Section E.

## **G. PREPAYMENT OF SPECIAL TAX**

The following additional definitions apply to this Section G:

**"CFD Public Facilities"** means \$8,000,000 expressed in 2021 dollars, which shall increase by the Construction Inflation Index on July 1, 2022, and on each July 1 thereafter, or such lower amount (i) determined by the City Council as sufficient to provide the public facilities under the authorized bonding program for CFD No. 2019-2, or (ii) determined by the City Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Tax levied under this Rate and Method of Apportionment.

**“Construction Fund”** means an account specifically identified in the Indenture or functionally equivalent to hold funds, which are currently available for expenditure to acquire or construct public facilities eligible to be financed by CFD No. 2019-2.

**“Construction Inflation Index”** means the annual percentage change in the Engineering News-Record Building Cost Index for the Riverside-San Bernardino-Ontario area, 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 City that is reasonably comparable to the Engineering News-Record Building Cost Index for the Riverside-San Bernardino-Ontario area.

**“Future Facilities Costs”** means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts funded by the Outstanding Bonds, and minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment.

**“Outstanding Bonds”** means all previously issued Bonds issued and secured by the levy of Special Tax which will remain outstanding after the first interest and/or principal payment date following the current Fiscal Year, excluding Bonds to be redeemed at a later date with the proceeds of prior prepayments of Special Tax.

### **1. Prepayment in Full**

The Maximum Special Tax obligation may be prepaid and permanently satisfied for (i) Assessor’s Parcels of Developed Property, (ii) Assessor’s Parcels of Approved Property or Undeveloped Property for which a Building Permit has been issued, (iii) Approved Property or Undeveloped Property for which a Building Permit has not been issued and (iv) Assessor’s Parcels of Public Property or Property Owner’s Association Property, or Provisional Undeveloped Property that are not Exempt Property pursuant to Section F. The Maximum Special Tax obligation applicable to an Assessor’s Parcel may be fully prepaid and the obligation to pay the Special Tax for such Assessor’s Parcel 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 Maximum Special Tax obligation for such Assessor’s Parcel shall provide the CFD Administrator with written notice of intent to prepay, and within 5 business days of receipt of such notice, the CFD Administrator shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the Prepayment Amount (as defined below) for the Assessor’s Parcel. Within 15 days of receipt of such non-refundable deposit, the CFD Administrator shall notify such owner of the Prepayment Amount for the Assessor’s Parcel. Prepayment must be made not less than 60 days prior to the redemption date for any Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

|         |                                  |
|---------|----------------------------------|
|         | Bond Redemption Amount           |
| plus    | Redemption Premium               |
| plus    | Future Facilities Amount         |
| plus    | Defeasance Amount                |
| plus    | Administrative Fees and Expenses |
| less    | Reserve Fund Credit              |
| Equals: | Prepayment Amount                |

The Prepayment Amount shall be determined as of the proposed prepayment date as follows:

1. Confirm that no Special Tax delinquencies apply to such Assessor’s Parcel.



2. For an Assessor's Parcel of Developed Property, compute the Maximum Special Tax for the Assessor's Parcel. For an Assessor's Parcel of Approved Property or Undeveloped Property for which a Building Permit has been issued, compute the Maximum Special Tax for the Assessor's Parcel as though it was already designated as Developed Property, based upon the Building Permit which has been issued for the Assessor's Parcel. For an Assessor's Parcel of Approved Property or Undeveloped Property for which a Building Permit has not been issued, Public Property, Property Owner's Association Property, or Provisional Undeveloped Property to be prepaid compute the Maximum Special Tax for the Assessor's Parcel.

3. Divide the Maximum Special Tax derived pursuant to paragraph 2 by the total amount of Special Taxes that could be levied at the Maximum Special Tax at build out of all Assessor's Parcels of Taxable Property based on the applicable Maximum Special Tax for Assessor's Parcels of Developed Property not including any Assessor's Parcels for which the Special Tax obligation has been previously prepaid.

4. Multiply the quotient derived pursuant to paragraph 3 by the principal amount of the Outstanding Bonds to determine the amount of Outstanding Bonds to be redeemed with the Prepayment Amount (the "Bond Redemption Amount").

5. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").

6. Determine the Future Facilities Costs.

7. Multiply the quotient derived pursuant to paragraph 3 by the amount determined pursuant to paragraph 6 to determine the amount of Future Facilities Costs for the Assessor's Parcel (the "Future Facilities Amount").

8. Determine 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 on which Bonds can be redeemed from Special Tax prepayments.

9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.

10. Determine the amount the CFD Administrator reasonably expects to derive from the investment of the Bond Redemption Amount and the Redemption Premium from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the Prepayment Amount.

11. Add the amounts derived pursuant to paragraphs 8 and 9 and subtract the amount derived pursuant to paragraph 10 (the "Defeasance Amount").

12. Verify the administrative fees and expenses of the CFD, including the cost of computation of the Prepayment Amount, the cost to invest the Prepayment Amount, the cost of redeeming the Outstanding Bonds, and the cost of recording notices to evidence the prepayment of the Maximum Special Tax obligation for the Assessor's Parcel and the redemption of Outstanding Bonds (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. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Amount and the Administrative Fees and Expenses, less the Reserve Fund Credit.

15. From the Prepayment Amount, the Bond Redemption Amount, the Redemption Premium, and Defeasance Amount shall be deposited into the appropriate fund as established under the Indenture and be used to redeem Outstanding Bonds or make debt service payments. The Future Facilities Amount shall be deposited into the Construction Fund. The Administrative Fees and Expenses shall be retained by the CFD.

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

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

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Special Tax that may be levied on all Assessor's Parcels of Taxable Property after the proposed prepayment will be at least 1.1 times maximum annual debt service on the Bonds that will remain outstanding after the prepayment plus the estimated annual Administrative Expenses.

Tenders of Bonds in prepayment of the Maximum Special Tax obligation may be accepted upon the terms and conditions established by the City Council pursuant to the Act. However, the use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the City Council.

## **2. Prepayment in Part**

The Maximum Special Tax obligation for an Assessor's Parcel of Developed Property, Approved Property or Undeveloped Property may be partially prepaid. For purposes of determining the partial prepayment amount, the provisions of Section G.1 shall be modified as provided by the following formula:

$$PP = ((P_E - A) \times F) + A$$

These terms have the following meaning:

PP = Partial Prepayment Amount

P<sub>E</sub> = the Prepayment Amount calculated according to Section G.1

F = the percent by which the owner of the Assessor's Parcel(s) is partially prepaying the Maximum Special Tax obligation

A = the Administrative Fees and Expenses determined pursuant to Section G.1

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Special Tax obligation for the Assessor's Parcel shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax obligation, (ii) the percentage of the Maximum Special Tax obligation such owner wishes to prepay, and (iii) the company or agency that will be acting as the escrow agent, if any. Within 5 days of receipt of such notice, the CFD Administrator shall notify such property owner of the amount of the non-refundable deposit

determined to cover the cost to be incurred by the CFD in calculating the amount of a partial prepayment. Within 15 business days of receipt of such non-refundable deposit, the CFD Administrator shall notify such owner of the amount of the Partial Prepayment Amount for the Assessor's Parcel. A Partial Prepayment Amount must be made not less than 60 days prior to the redemption date for the Outstanding Bonds to be redeemed with the proceeds of the Partial Prepayment Amount.

With respect to any Assessor's Parcel for which the Maximum Special Tax obligation is partially prepaid, the CFD Administrator shall (i) distribute the Partial Prepayment Amount as provided in Paragraph 15 of Section G.1, and (ii) indicate in the records of the CFD that there has been a Partial Prepayment for the Assessor's Parcel and that a portion of the Maximum Special Tax obligation equal to the remaining percentage (1.00 - F) of the Maximum Special Tax obligation will continue to be levied on the Assessor's Parcel pursuant to Section E.

#### **H. TERMINATION OF SPECIAL TAX**

For each Fiscal Year that any Bonds are outstanding the Special Tax shall be levied on all Assessor's Parcels subject to the Special Tax. The Special Tax shall cease not later than the 2060-2061 Fiscal Year, however, Special Tax will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all the required interest and principal payments on the CFD No. 2019-2 Bonds have been paid; (ii) all authorized facilities of CFD No. 2019-2 have been acquired and all reimbursements to the developer have been paid, (iii) no delinquent Special Tax remain uncollected and (iv) all other obligations of CFD No. 2019-2 have been satisfied.

#### **I. 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. 2019-2 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.

#### **J. APPEALS OF SPECIAL TAXES**

Any taxpayer may file a written appeal of the Special Taxes on his/her Assessor's Parcel(s) with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall grant a credit to eliminate or reduce future Special Taxes on the appellant's Assessor's Parcel(s). No refunds of previously paid Special Taxes shall be made.

The CFD Administrator shall interpret this Rate and Method of Apportionment and make determinations relative to the annual levy and administration of the Special Taxes and any taxpayer who appeals, as herein specified.

## APPENDIX B

### CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING

*The following information relating to the City of Lake Elsinore (the “City”) and the County of Riverside, California (the “County”), California (the “State”) is supplied solely for purposes of information. Neither the City nor the County is obligated in any manner to pay principal of or interest on the Bonds or to cure any delinquency or default on the Bonds. The Bonds are payable solely from the sources described in the Official Statement.*

#### General

The City was founded in 1883 and incorporated as a general law city effective April 23, 1888 in San Diego County. In 1893, the Elsinore Valley, previously located in San Diego County, became part of the new County of Riverside. The City encompasses approximately 43 square miles, with over 10 miles of lakeshore, and is located at the southwestern end of the County, 73 miles southeast of downtown Los Angeles and 74 miles north of downtown San Diego.

#### Population

The following table offers population figures for the City, the County and the State for 2019 through 2023.

| <i>Area</i>           | <i>2019</i> | <i>2020</i> | <i>2021</i> | <i>2022</i> | <i>2023</i> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|
| City of Lake Elsinore | 63,154      | 63,453      | 64,762      | 71,989      | 71,973      |
| County of Riverside   | 2,422,146   | 2,442,304   | 2,454,453   | 2,430,976   | 2,439,234   |
| State of California   | 39,695,376  | 39,782,870  | 39,466,855  | 39,078,674  | 38,940,231  |

Source: California State Department of Finance, Demographic Research Unit. 2010 Census Benchmark. Population and Housing Estimates for Cities, Counties, and the State — January 1, 2022 and 2023

#### Building Activity

The following tables provide summaries of the building permit valuations and the number of new dwelling units authorized in the City and County from 2018 through 2022.

#### BUILDING PERMIT VALUATIONS

##### City of Lake Elsinore

2018-2022

(Dollars in Thousands)

|                    | <i>2018</i>   | <i>2019</i>   | <i>2020</i>  | <i>2021</i>   | <i>2022</i>   |
|--------------------|---------------|---------------|--------------|---------------|---------------|
| Valuation (\$000): |               |               |              |               |               |
| Residential        | \$102,858     | \$ 94,437     | \$101,321    | \$ 61,598     | \$105,539     |
| Non-residential    | <u>13,307</u> | <u>26,442</u> | <u>4,248</u> | <u>12,276</u> | <u>18,301</u> |
| Total*             | \$116,165     | \$120,879     | \$105,569    | \$ 73,874     | \$123,840     |
| Residential Units: |               |               |              |               |               |
| Single family      | 345           | 327           | 410          | 218           | 297           |
| Multiple family    | <u>0</u>      | <u>83</u>     | <u>0</u>     | <u>0</u>      | <u>13</u>     |
| Total              | 345           | 410           | 410          | 218           | 310           |

\* Totals may not add to sums because of rounding.  
Source: Construction Industry Research Board.

**BUILDING PERMIT VALUATIONS**  
**County of Riverside**  
**2018-2022**  
**(Dollars in Thousands)**

|                    | <i><b>2018</b></i> | <i><b>2019</b></i> | <i><b>2020</b></i> | <i><b>2021</b></i> | <i><b>2022</b></i> |
|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Valuation (\$000): |                    |                    |                    |                    |                    |
| Residential        | \$2,558,081        | \$2,275,405        | \$2,519,303        | \$2,262,642        | \$2,921,112        |
| Non-residential    | <u>1,959,680</u>   | <u>1,285,856</u>   | <u>1,153,778</u>   | <u>1,154,998</u>   | <u>1,701,615</u>   |
| Total*             | <u>\$4,517,761</u> | <u>\$3,561,261</u> | <u>\$3,673,081</u> | <u>\$3,417,640</u> | <u>\$4,622,727</u> |
| Residential Units: |                    |                    |                    |                    |                    |
| Single family      | 7,540              | 6,563              | 8,443              | 7,360              | 8,863              |
| Multiple family    | <u>1,628</u>       | <u>1,798</u>       | <u>723</u>         | <u>1,126</u>       | <u>2,861</u>       |
| Total              | 9,168              | 8,361              | 9,166              | 8,486              | 11,724             |

\* Totals may not add to sums because of rounding.  
Source: Construction Industry Research Board.

**Employment**

The following tables show the largest employers located in the City and County as of June 30, 2023.

**LARGEST EMPLOYERS**  
**City of Lake Elsinore**  
**(as of June 30, 2023)**

| <i><b>Rank</b></i> | <i><b>Name of Business</b></i>              | <i><b>Employees</b></i> | <i><b>Type of Business</b></i> |
|--------------------|---|-------------------------|--------------------------------|
| 1.                 | Lake Elsinore Unified School District       | 2,541                   | School District                |
| 2.                 | M & M Framing                               | 471                     | Construction                   |
| 3.                 | Stater Bros                                 | 353                     | Supermarkets                   |
| 4.                 | Costco                                      | 306                     | Retail Stores                  |
| 5.                 | Walmart                                     | 295                     | Retail Stores                  |
| 6.                 | Lake Elsinore Hotel & Casino                | 243                     | Casino & Resort                |
| 7.                 | Riverside County – Dept. of Social Services | 224                     | Government                     |
| 8.                 | Elsinore Valley Municipal Water District    | 169                     | Water District                 |
| 9.                 | Home Depot                                  | 160                     | Building Supplies              |
| 10.                | City of Lake Elsinore                       | 159                     | Government                     |

Source: City of Lake Elsinore Comprehensive Annual Financial Report for the year ending June 30, 2023.

**LARGEST EMPLOYERS**  
**County of Riverside**  
**(as of June 30, 2023)**

| <i><b>Rank</b></i> | <i><b>Name of Business</b></i>             | <i><b>Employees</b></i> | <i><b>Type of Business</b></i> |
|--------------------|--|-------------------------|--------------------------------|
| 1.                 | County of Riverside                        | 25,366                  | County Government              |
| 2.                 | Amazon                                     | 14,317                  | Online Retailer                |
| 3.                 | March Air Reserve Base                     | 9,600                   | Military Reserve Base          |
| 4.                 | Nestle UA                                  | 8,874                   | Food and Beverage Company      |
| 5.                 | University of California, Riverside        | 8,623                   | University                     |
| 6.                 | State of California                        | 8,383                   | State Government               |
| 7.                 | Wal-Mart                                   | 7,494                   | Supermarket                    |
| 8.                 | Moreno Valley Unified School District      | 6,020                   | School District                |
| 9.                 | Kaiser Permanente Riverside Medical Center | 5,817                   | Medical Center                 |
| 10.                | Corona-Norco Unified School District       | 5,478                   | School District                |

Source: County of Riverside Comprehensive Annual Financial Report for the year ending June 30, 2023.

**Employment and Industry**

Employment data by industry is not separately reported on an annual basis for the City but is compiled for the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (the “MSA”), which includes all of Riverside and San Bernardino Counties. In addition to varied manufacturing employment, the MSA has large and growing commercial and service sector employment, as reflected in the table below.

The following table represents the Annual Average Labor Force and Industry Employment for the period from 2018 through 2023.

**RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA  
INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE**

|   | <i>2019</i>    | <i>2020</i>    | <i>2021</i>    | <i>2022</i>    | <i>2023</i>    |
|---|----------------|----------------|----------------|----------------|----------------|
| Civilian Labor Force                      | 2,071,600      | 2,091,700      | 2,120,600      | 2,148,700      | 2,171,500      |
| Civilian Employment                       | 1,987,500      | 1,885,400      | 1,964,300      | 2,058,400      | 2,068,800      |
| Civilian Unemployment                     | 84,000         | 206,200        | 156,300        | 90,200         | 102,700        |
| Civilian Unemployment Rate                | 4.1%           | 9.9%           | 7.4%           | 4.2%           | 4.7%           |
| <br>Total Farm                            | <br>15,400     | <br>14,100     | <br>13,700     | <br>13,800     | <br>13,100     |
| Total Nonfarm                             | 1,552,700      | 1,495,800      | 1,575,100      | 1,659,800      | 1,679,800      |
| Total Private                             | 1,291,500      | 1,247,800      | 1,333,100      | 1,409,800      | 1,418,900      |
| Goods Producing                           | 209,700        | 202,200        | 207,700        | 216,300        | 216,100        |
| Mining and Logging                        | 1,200          | 1,300          | 1,400          | 1,500          | 1,500          |
| Construction                              | 107,200        | 104,900        | 110,100        | 114,700        | 115,700        |
| Manufacturing                             | 101,300        | 96,000         | 96,100         | 100,000        | 98,900         |
| Service Providing                         | 1,343,000      | 1,293,700      | 1,367,400      | 1,443,500      | 1,463,700      |
| Trade, Transportation and Utilities       | 395,100        | 406,900        | 443,200        | 464,900        | 456,500        |
| Wholesale Trade                           | 67,700         | 65,600         | 67,400         | 69,500         | 68,700         |
| Retail Trade                              | 180,700        | 168,800        | 177,000        | 181,000        | 182,700        |
| Transportation, Warehousing and Utilities | 146,600        | 172,500        | 198,800        | 214,400        | 205,100        |
| Information                               | 14,100         | 12,400         | 12,500         | 13,000         | 13,300         |
| Financial Activities                      | 45,000         | 44,100         | 45,200         | 46,000         | 44,900         |
| Professional and Business Services        | 155,300        | 152,100        | 166,600        | 173,900        | 164,800        |
| Educational and Health Services           | 250,300        | 248,800        | 254,300        | 267,500        | 287,500        |
| Leisure and Hospitality                   | 175,900        | 141,300        | 160,200        | 180,900        | 186,500        |
| Other Services                            | 46,200         | 40,200         | 43,600         | 47,400         | 49,300         |
| Government                                | <u>261,200</u> | <u>248,000</u> | <u>242,000</u> | <u>250,000</u> | <u>260,900</u> |
| Total, All Industries                     | 1,568,100      | 1,509,900      | 1,588,800      | 1,673,500      | 1,692,900      |

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households and persons involved in labor-management trade disputes. Employment reported by place of work. Items may not add to total due to independent rounding. The "Total, All Industries" data is not directly comparable to the employment data found in this Appendix B.

Source: State of California, Employment Development Department, March 2022 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the period from 2018 through 2022 for the City, the County, the State and the nation as a whole.

**CITY OF LAKE ELSINORE,  
COUNTY OF RIVERSIDE,  
STATE OF CALIFORNIA AND UNITED STATES  
Average Annual Civilian Labor Force, Employment and Unemployment**

| <i>Year and Area</i>               | <i>Labor Force</i> | <i>Employment<sup>(1)</sup></i> | <i>Unemployment<sup>(2)</sup></i> | <i>Unemployment Rate (%)<sup>(3)</sup></i> |
|------------------------------------|--------------------|---------------------------------|-----------------------------------|--|
| <b>2018</b>                        |                    |                                 |                                   |  |
| City of Lake Elsinore              | 30,000             | 28,800                          | 1,200                             | 4.0%                                       |
| County of Riverside                | 1,092,400          | 1,044,600                       | 47,800                            | 4.4  |
| State of California                | 19,398,200         | 18,582,800                      | 815,400                           | 4.2  |
| United States                      | 162,075,000        | 155,761,000                     | 6,314,000                         | 3.9  |
| <b>2019</b>                        |                    |                                 |                                   |  |
| City of Lake Elsinore              | 30,800             | 29,600                          | 1,200                             | 3.9%                                       |
| County of Riverside                | 1,104,000          | 1,057,900                       | 46,100                            | 4.2  |
| 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  |
| <b>2020</b>                        |                    |                                 |                                   |  |
| City of Lake Elsinore              | 31,300             | 28,100                          | 3,100                             | 10.1%                                      |
| County of Riverside                | 1,107,700          | 997,700                         | 110,000                           | 9.9  |
| State of California                | 18,821,200         | 16,913,100                      | 1,908,100                         | 10.1                                       |
| United States                      | 160,472,000        | 147,795,000                     | 12,947,000                        | 8.1  |
| <b>2021</b>                        |                    |                                 |                                   |  |
| City of Lake Elsinore              | 30,100             | 27,800                          | 2,300                             | 7.6%                                       |
| County of Riverside                | 1,129,600          | 1,046,700                       | 82,800                            | 7.3  |
| State of California                | 18,923,200         | 17,541,900                      | 1,381,200                         | 7.3  |
| United States                      | 161,204,000        | 152,581,000                     | 8,623,000                         | 5.3  |
| <b>2022</b>                        |                    |                                 |                                   |  |
| City of Lake Elsinore              | 30,700             | 29,400                          | 1,300                             | 4.2%                                       |
| County of Riverside                | 1,152,100          | 1,104,100                       | 48,000                            | 4.2  |
| State of California <sup>(4)</sup> | --                 | --                              | --                                | --   |
| United States <sup>(4)</sup>       | --                 | --                              | --                                | --   |

Note: Data is not seasonally adjusted.

(1) Annual averages, unless otherwise specified.

(2) Includes persons involved in labor-management trade disputes.

(3) The unemployment rate is computed from unrounded data; therefore, it may differ from rates computed from rounded figures in this table.

(4) The Average Annual Civilian Labor Force, Employment and Unemployment figures for the State of California and the United States for the 2022 have not yet been published by the U.S. Department of Labor, Bureau of Labor Statistics.

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. 2021 Benchmark.

## Personal Income

Personal Income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment,



personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

The personal income of an area is the income that is received by, or on behalf of, all the individuals who live in the area; therefore, the estimates of personal income are presented by the place of residence of the income recipients.

Total personal income in the County increased by 31.14% between 2018 and 2022. The following tables summarize personal income for the County for 2018 through 2022.

**PERSONAL INCOME**  
**Riverside County**  
**2018-2022**  
**(Dollars in Thousands)**

| <i>Year</i> | <i>Riverside County</i> | <i>Annual<br/>Percent Change</i> |
|-------------|-------------------------|----------------------------------|
| 2018        | \$ 96,994,918           | N/A                              |
| 2019        | 103,614,307             | 6.8%                             |
| 2020        | 116,939,915             | 12.9                             |
| 2021        | 126,261,006             | 8.0                              |
| 2022        | 127,195,983             | 0.7                              |

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

The following table summarizes per capita personal income for the County, California and the United States for 2018-2022. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

**PER CAPITA PERSONAL INCOME**  
**Riverside County, State of California and the United States**  
**2018-2022**

| <i>Year</i> | <i>Riverside County</i> | <i>California</i> | <i>United States</i> |
|-------------|-------------------------|-------------------|----------------------|
| 2018        | \$40,582                | \$60,984          | \$53,309             |
| 2019        | 43,073                  | 64,174            | 55,547               |
| 2020        | 48,265                  | 70,061            | 59,151               |
| 2021        | 51,468                  | 76,991            | 64,427               |
| 2022        | 51,415                  | 77,036            | 65,473               |

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

## Taxable Sales

The table below presents taxable sales for the years 2017 through 2021 for the City.

**TAXABLE SALES**  
**City of Lake Elsinore**  
**2017-2021**  
**(Dollars in Thousands)**

| <i>Year</i> | <i>Permits</i> | <i>Taxable Transactions</i> |
|-------------|----------------|-----------------------------|
| 2017        | 1,529          | \$ 854,947                  |
| 2018        | 1,626          | 869,151                     |
| 2019        | 1,692          | 905,476                     |
| 2020        | 1,843          | 1,015,341                   |
| 2021        | 1,907          | 1,294,278                   |

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Source: Taxable Sales in California, California Department of Tax and Fee Administration for 2017-2021. Ci

The table below presents taxable sales for the years 2018 through 2022 for the County.

**TAXABLE SALES**  
**County of Riverside**  
**2018-2022**  
**(Dollars in Thousands)**

| <i>Year</i> | <i>Permits</i> | <i>Taxable Transactions</i> |
|-------------|----------------|-----------------------------|
| 2018        | 61,433         | \$38,919,497                |
| 2019        | 64,063         | 40,557,844                  |
| 2020        | 69,284         | 42,313,474                  |
| 2021        | 64,335         | 43,414,533                  |
| 2022        | 66,738         | 46,908,344                  |

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Source: Taxable Sales in California, California Department of Tax and Fee Administration for 2018-2022.

## APPENDIX C

### FORM OF OPINION OF BOND COUNSEL

*Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth LLP, Bond Counsel, proposes to render its final approving opinion in substantially the following form:*

[Closing Date]

City of Lake Elsinore  
Community Facilities District No. 2019-2 (Nichols Ranch)  
Lake Elsinore, California

Re:     \$ \_\_\_\_\_ *Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Lake Elsinore (the “City”) taken in connection with the formation of Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “District”) and the authorization and issuance of the District’s Special Tax Bonds, Series 2024 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 City, 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), a resolution adopted by the City Council of the City, acting in its capacity as the legislative body of the District (the “City Council”) on August 13, 2024 (the “Resolution”), and a Bond Indenture (the “Indenture”) dated as of September 1, 2024, by and between the District and Wilmington Trust, National Association, as trustee (the “Trustee”). All capitalized terms not defined herein shall have the meaning set forth 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. The Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Net Taxes, neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2)     The Indenture has been duly executed and delivered by the District. The Indenture creates a valid pledge of, and the Bonds are secured by, the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture. The Indenture is enforceable in accordance with its terms; 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 or as to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) 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; however, it should be noted that, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), interest (and original issue discount) with respect to the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed on such corporations.

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

(5) 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 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner’s basis in the applicable Bond.

(6) The amount by which a Bond 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 Bond 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 Bond Owner 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 opinions expressed in paragraphs (3) and (5) 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 City 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 City have covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4), (5) and (6) above, we express no opinion as to any tax consequences related to the Bonds.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Tax Certificate executed by the District and the City and other documents related to the Bonds may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on any Bond if any such change occurs or action is taken or omitted upon advice or approval of bond counsel other than Stradling Yocca Carlson & Rauth LLP.

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. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

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 matters contained in the Official Statement or other offering material.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such 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).

Respectfully submitted,

**APPENDIX D**  
**APPRAISAL REPORT**

**APPENDIX E**  
**SUMMARY OF THE INDENTURE**

## APPENDIX F

### FORM OF DISTRICT CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”), dated as of September 1, 2024, is executed and delivered by Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “District”) in connection with the issuance of the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024 (the “Bonds”). The Bonds are being issued pursuant to a Resolution of Issuance adopted by the City Council of the City of Lake Elsinore, acting as the legislative body of the District on August 13, 2024 and a Bond Indenture by and between the District and Wilmington Trust, National Association, as Trustee, dated as of September 1, 2024 (the “Indenture”).

The District covenants as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture and the Rate and Method of Apportionment, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any Bond for federal income purposes.

“City” shall mean the City of Lake Elsinore, County of Riverside, California.

“Disclosure Representative” shall mean the City Manager of the City, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, Spicer Consulting Group, LLC, or any successor Dissemination Agent designed in writing by the District.

“EMMA” shall mean 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), or any other repository of disclosure information that may be designated by the Securities and Exchange Commission in the future.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until 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>.

“Official Statement” shall mean the District’s official statement with respect to the Bonds.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated.

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Tax approved pursuant to the Resolution of Formation.

“Resolution of Formation” means the resolutions adopted by the City Council pursuant to which the City Council formed the District and undertook certain change proceedings with respect to the District.

“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.

### SECTION 3. Provision of Annual Reports.

(a) Not later than February 15 of each year commencing February 15, 2024, the District shall, or shall cause the Dissemination Agent to, provide to EMMA and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is other than the District, then not later than 15 business days prior to the date referred to in the prior sentence hereof, the District shall provide the Annual Report (in a form suitable for filing with EMMA) to the Dissemination Agent. 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 Certificate; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

(b) In the event that the Dissemination Agent is an entity other than the District, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District will be filing the Annual Report in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send a notice in a timely manner to EMMA, in the form required by EMMA. If the District acts as its own Dissemination Agent, it shall file a notice with EMMA no later than the date specified in subsection (a) for filing an Annual Report if the District fails to file the Annual Report by that date.

(d) If the Dissemination Agent is other than the District, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the repository if other than the MSRB through EMMA; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided to EMMA and the date it was provided.

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

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the District, if any, for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements, if any are prepared, are not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Indenture as of the September 2 preceding the filing of the Annual Report;

(iii) the aggregate assessed valuation of the Taxable Property within the District;

(iv) any changes to the Rate and Method of Apportionment of the Special Tax approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;

(v) a table setting forth the annual Special Tax delinquency rate within the District at June 30 for each fiscal year on which a delinquency exists, listing for each fiscal year the total Special Tax levy, the amount delinquent and the percent delinquent;

(vi) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes within the District; and

(vii) an update of the value-to-lien of the property within the District based on the assessed value and the Special Tax levy for then current fiscal year, which update may be provided in a form similar to Table 2 in the Official Statement; provided that such update need not include overlapping special tax, assessment or general obligation indebtedness.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB through EMMA. The District 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 District shall give, or cause the Dissemination Agent to give, notice to EMMA in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
6. defeasances;
7. tender offers;
8. bankruptcy, insolvency, receivership or similar proceedings;
9. ratings changes; and
10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) Additionally, the District shall give or cause the Dissemination Agent to give notice to EMMA in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds, if material:

1. mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;
2. appointment of a successor or additional fiscal agent or the change of the name of a fiscal agent;
3. nonpayment related defaults;
4. modifications to the rights of Bondholders;
5. bond calls;
6. release, substitution or sale of property securing repayment of the Bonds; and
7. incurrence of a Financial Obligation of the obligated person, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders.

(c) In the event that the District's fiscal year changes, the District shall report or shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as Listed Events would be reported pursuant to this Section.

(d) The District hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the District, and the Dissemination Agent, if other than the District, shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the District and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Spicer Consulting Group, LLC. The Dissemination Agent may resign by providing (i) thirty days written notice to the District, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, by written agreement of the parties, without the consent of the Owners, and any provision of this Disclosure Certificate may be waived, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the District or the type of business conducted thereby, (2) the undertakings in this Disclosure Certificate as so amended or waived would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (3) the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners or (ii) does not, in the determination of the District, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

(b) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. If the District 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 Certificate, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Certificate, 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 District and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the District is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent shall be paid (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District pursuant to this Disclosure Certificate. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. 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 Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds; and it shall create no rights in any other person or entity.

SECTION 13. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

This Disclosure Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 2019-2 OF  
THE CITY OF LAKE ELSINORE (NICHOLS RANCH)

By: \_\_\_\_\_  
Disclosure Representative

**APPENDIX G**

**FORM OF DEVELOPER CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX H

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter takes any 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.*

The Depository Trust Company ("DTC"), New York, NY, 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 annual maturity, and will be deposited with 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 certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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.



**BOND INDENTURE**

Between

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE  
(NICHOLS RANCH)**

and

**WILMINGTON TRUST, NATIONAL ASSOCIATION,  
as Trustee**

**\$ \_\_\_\_\_  
COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

**Dated as of September 1, 2024**

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## BOND INDENTURE

THIS BOND INDENTURE dated as of September 1, 2024, by and between COMMUNITY FACILITIES DISTRICT NO. 2019-2 OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH) (the “District”) and WILMINGTON TRUST, NATIONAL ASSOCIATION, as trustee (the “Trustee”), governs the terms of the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024 and any Parity Bonds issued in accordance herewith from time to time.

### **RECITALS :**

A. The City Council of the City of Lake Elsinore, located in the County of Riverside, California (the “City Council”), has undertaken proceedings and declared the necessity to issue bonds on behalf of the District pursuant to the terms and provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2, Title 5, of the Government Code of the State of California (the “Act”).

B. Based upon Resolution Nos. 2019-096, 2019-097 and 2021-16 adopted by the City Council on December 10, 2019 and on January 12, 2021, and elections held on December 10, 2019 and on January 12, 2021, authorizing the levy of a special tax and the issuance of bonds, the District is authorized to issue bonds in one or more series pursuant to the Act, in an aggregate principal amount not to exceed \$11,000,000.

C. Pursuant to Resolution No. 2024-\_\_ adopted on August 13, 2024, by the City Council, acting as the legislative body of the District, the District is authorized to issue the Bonds (as defined herein) in an aggregate principal amount of \$\_\_\_\_\_ to finance various Project Costs (as defined herein);

D. The District has determined that all requirements of the Act for the issuance of the Bonds have been satisfied.

NOW, THEREFORE, in order to establish the terms and conditions upon and subject to which the Bonds are to be issued, and in consideration of the premises and of the mutual covenants contained herein and of the purchase and acceptance of the Bonds by the Owners thereof, and for other valuable consideration, the receipt of which is hereby acknowledged, the District does hereby covenant and agree, for the benefit of the Owners of the Bonds and any Parity Bonds (as defined herein) which may be issued hereunder from time to time, as follows:

## ARTICLE I

### **DEFINITIONS**

**Section 1.1. Definitions.** Unless the context otherwise requires, the following terms shall have the following meanings:

Account. The term “Account” means any account created pursuant to this Indenture.

Act. The term “Act” means the Mello-Roos Community Facilities Act of 1982, as amended, being Section 53311 *et seq.* of the California Government Code.

Acquisition and Construction Fund. The term “Acquisition and Construction Fund” means the fund by that name established pursuant to Section 3.1 hereof.

Administrative Expense Account. The term “Administrative Expense Account” means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

Administrative Expenses. The term “Administrative Expenses” means the administrative costs with respect to the calculation and collection of the Special Taxes, including all attorneys’ fees and other costs related thereto, the fees and expenses of the Trustee, any fees and related costs for credit enhancement for the Bonds or any Parity Bonds which are not otherwise paid as Costs of Issuance, any costs related to the District’s compliance with state and federal laws requiring continuing disclosure of information concerning the Bonds and the District, and any other costs otherwise incurred by City staff on behalf of the District in order to carry out the purposes of the District as set forth in the Resolution of Formation and any obligation of the District hereunder.

Administrative Expenses Cap. The term “Administrative Expenses Cap” means \$30,600, which amount shall escalate at 2.00% per Fiscal Year, commencing July 1, 2025.

Alternate Penalty Account. The term “Alternate Penalty Account” means the account by that name created and established in the Rebate Fund pursuant to Section 3.1 hereof.

Annual Debt Service. The term “Annual Debt Service” means the principal amount of any Outstanding Bonds or Parity Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any Outstanding Bonds or Parity Bonds in such Bond Year, if the Bonds and any Parity Bonds are retired as scheduled.

Authorized Investments. The term “Authorized Investments” means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

- (1) For all purposes, including defeasance investments in refunding escrow accounts:
  - (a) cash; or
  - (b) obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S., including U.S. treasury obligations, all direct or fully guaranteed obligations, Farmers Home Administration, General Services Administration, guaranteed Title XI financing, Government National Mortgage Association (GNMA) and State and Local Government Series; or
  - (c) obligations of government-sponsored agencies that are not backed by the full faith and credit of the U.S. Government: Federal Home Loan Mortgage Corporation (FHLMC) debt obligations, Farm Credit System (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives), Federal Home Loan Banks (FHL Banks), Federal National Mortgage Association (FNMA) debt obligations, Financing Corp. (FICO) debt obligations, Resolution Funding Corp. (REFCORP) debt obligations and U.S. Agency for International Development (U.S.A.I.D.) guaranteed notes.

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) obligations of any of the following federal agencies, which obligations represent the full faith and credit of the United States of America: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHAs), Federal Housing Administration and Federal Financing Bank;

(b) direct obligations of any of the following federal agencies, which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the Resolution Funding Corporation (REFCORP) and senior debt obligations of the Federal Home Loan Bank System;

(c) U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have a rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase in the single highest classification "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated "AAM," "AAM-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(f) pre-refunded municipal obligations defined as follows: any bonds or other obligations of any state of the United States of America, or any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice, and

(i) which are rated, based on irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P and Moody's or any successors thereto; or

(ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1)(b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate; and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "Aa2/AA" or higher by both Moody's and S&P;

(h) Investment Agreements (supported by appropriate opinions of counsel); and

(i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name.

The value of the above investments shall be determined as follows:

(a) for the purpose of determining the amount in any fund, all Authorized Investments credited to such fund shall be valued at market value. The Trustee shall determine the market value based on accepted industry standards, including the Trustee's internal systems, and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Bank of America Merrill Lynch or Salomon Smith Barney. Notwithstanding anything to the contrary herein, in making any valuation of investments hereunder, the Trustee may utilize computerized securities pricing services that may be available to it, including those available through its regular accounting system, and rely thereon;

(b) as to certificates of deposit and bankers acceptances: the face amount thereof, plus accrued interest thereon; and

(c) as to any investment not specified above: the value thereof established by prior agreement between the City and the Trustee.

Authorized Representative of the District. The term "Authorized Representative of the District" means the Mayor, City Manager, Assistant City Manager, or City Clerk of the City, or any other officer or employee authorized by the City Council of the City or by an Authorized Representative of the District to undertake the action referenced in this Agreement as required to be undertaken by an Authorized Representative of the District.

Bond Counsel. The term "Bond Counsel" means Stradling Yocca Carlson & Rauth LLP, or another attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

Bond Register. The term "Bond Register" means the books which the Trustee shall keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds shall be recorded.

Bond Year. The term "Bond Year" means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that the first Bond Year for the Bonds or an issue of Parity Bonds shall begin on the Delivery Date and end on the first September 1 which is not more than 12 months after the Delivery Date.

Bonds. The term "Bonds" means the District's Special Tax Bonds, Series 2024 issued on September \_\_\_, 2024 in the aggregate principal amount of \$\_\_\_\_\_.

Business Day. The term "Business Day" means a day which is not a Saturday or Sunday or a day of the year on which banks or trust companies in New York, New York, Los Angeles, California,



or the city where the corporate trust office of the Trustee is located, are not required or authorized by law, regulation or executive order, to close or to remain closed.

Certificate of an Authorized Representative. The term “Certificate of an Authorized Representative” means a written certificate or warrant request executed by an Authorized Representative of the District.

City. The term “City” means the City of Lake Elsinore, County of Riverside, State of California.

City Council. The term “City Council” means the City Council of the City.

City Facilities Account. The term “City Facilities Account” means the account by that name created and established in the Acquisition and Construction Fund pursuant to Section 3.1 hereof.

Code. The term “Code” means the Internal Revenue Code of 1986, as amended, and any Regulations, rulings, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or Internal Revenue Service interpreting and construing it.

Continuing Disclosure Certificate. The term “Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate dated as of September 1, 2024, as originally executed by the District and as it may be from time to time amended or supplemented in accordance with its terms.

Costs of Issuance. The term “Costs of Issuance” means the costs and expenses incurred in connection with the formation of the District and the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee and its counsel, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and Parity Bonds, fees of financial consultants, costs of the appraisal and all other related fees and expenses, including reimbursement to property owners within the District for design, engineering and legal costs, as set forth in a Certificate of an Authorized Representative of the District.

Costs of Issuance Account. The term “Costs of Issuance Account” means the account by that name created and established in the Acquisition and Construction Fund pursuant to Section 3.1 hereof.

Delivery Date. The term “Delivery Date” means, with respect to the Bonds and each issue of Parity Bonds, the date on which the bonds of such issue were issued and delivered to the initial purchasers thereof.

Depository. The term “Depository” means The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the Bonds, or any other securities depository acting as Depository under Article II hereof.

District. The term “District” means Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) established pursuant to the Act and the Resolution of Formation.

Event of Default. The term “Event of Default” means an event described in Section 8.1 hereof.

Fiscal Year. The term “Fiscal Year” means the period beginning on July 1 of each year and ending on the next following June 30.

Gross Taxes. The term “Gross Taxes” means the amount of all Special Taxes received by the District, together with the proceeds collected from the sale of property pursuant to foreclosure for the delinquency of such Special Taxes remaining after the payment of all costs related to such foreclosure actions.

Indenture. The term “Indenture” means this Bond Indenture, together with any Supplemental Indenture approved pursuant to Article 6 hereof.

Independent Financial Consultant. The term “Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the District, who, or each of whom: (1) is in fact independent and not under the domination of the District or the City; (2) does not have any substantial interest, direct or indirect, in the District or the City; and (3) is not connected with the District or the City as a member, officer or employee of the District or the City, but who may be regularly retained to make annual or other reports to the District or the City.

Interest Account. The term “Interest Account” means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

Interest Payment Date. The term “Interest Payment Date” means March 1, 2025 and each March 1 and September 1 thereafter; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the Business Day next succeeding such date.

Investment Agreement. The term “Investment Agreement” means one or more agreements for the investment of funds of the District complying with the criteria therefor as set forth in subsection (2)(h) of the definition of Authorized Investments herein.

Maximum Annual Debt Service. The term “Maximum Annual Debt Service” means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds and any Parity Bonds by adding the following for each Bond Year: (1) the principal amount of all Outstanding Bonds and Parity Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and (2) the interest payable on the aggregate principal amount of all Bonds and Parity Bonds Outstanding in such Bond Year if the Bonds and Parity Bonds are retired as scheduled.

Moody’s. The term “Moody’s” means Moody’s Investors Service, Inc., its successors and assigns.

Net Taxes. The term “Net Taxes” means Gross Taxes minus amounts set aside to pay Administrative Expenses.

Nominee. The term “Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to Section 2.16 hereof.

Ordinance. The term “Ordinance” means Ordinance No. 2021-1446 adopted by the City Council on January 26, 2021 providing for the levying of the Special Tax.

Outstanding. The terms “Outstanding” or “Outstanding Bonds and Parity Bonds” means all Bonds and Parity Bonds theretofore issued by the District, except: (i) Bonds and Parity Bonds theretofore cancelled or surrendered for cancellation in accordance with Section 10.1 hereof; (ii) Bonds and Parity Bonds for payment or redemption of which monies shall have been theretofore deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in this Indenture or any applicable Supplemental Indenture for Parity Bonds; and (iii) Bonds and Parity Bonds which have been surrendered to the Trustee for transfer or exchange pursuant to Section 2.9 hereof or for which a replacement has been issued pursuant to Section 2.10 hereof.

Owner. The term “Owner” means the person or persons in whose name or names any Bond or Parity Bond is registered.

Parity Bonds. The term “Parity Bonds” means all bonds, notes or other similar evidences of indebtedness hereafter issued, payable out of the Net Taxes and which, as provided in this Indenture or any Supplemental Indenture, rank on a parity with the Bonds.

Participants. The term “Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds or Parity Bonds as securities depository.

Person. The term “Person” means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

Prepayments. The term “Prepayments” means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in the District made in accordance with the RMA.

Principal Account. The term “Principal Account” means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

Principal Office of the Trustee. The term “Principal Office of the Trustee” means the office of the Trustee located in Costa Mesa, California, or such other office or offices as the Trustee may designate from time to time, or the office of any successor Trustee where it principally conducts its business of serving as trustee under indentures pursuant to which municipal or governmental obligations are issued.

Project. The term “Project” means those public facilities described in the Resolution of Formation which are to be acquired or constructed within and outside of the District, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within the District from time to time.

Project Costs. The term “Project Costs” means the amounts necessary to finance the Project, to create and replenish any necessary reserve funds, to pay the initial and annual costs associated with the Bonds or any Parity Bonds, including, but not limited to, remarketing, credit enhancement, Trustee and other fees and expenses relating to the issuance of the Bonds or any Parity Bonds and the formation of the District, and to pay any other “incidental expenses” of the District, as such term is defined in the Act.

Rating Agency. The term “Rating Agency” means Moody’s or S&P, or both, as the context requires.

Rebate Account. The term “Rebate Account” means the account by that name created and established in the Rebate Fund pursuant to Section 3.1 hereof.

Rebate Fund. The term “Rebate Fund” means the fund by that name established pursuant to Section 3.1 hereof in which there are established the Accounts described in Section 3.1 hereof.

Rebate Regulations. The term “Rebate Regulations” means any final, temporary or proposed Regulations promulgated under Section 148(f) of the Code.

Record Date. The term “Record Date” means the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

Redemption Account. The term “Redemption Account” means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

Regulations. The term “Regulations” means the regulations adopted or proposed by the Department of Treasury from time to time with respect to obligations issued pursuant to Section 103 of the Code.

Representation Letter. The term “Representation Letter” means the Blanket Letter of Representations from the District to the Depository as described in Section 2.13 hereof.

Reserve Account. The term “Reserve Account” means the account by that name created and established in the Special Tax Fund pursuant to Section 3.1 hereof.

“Reserve Policy” means a letter of credit, insurance policy, surety bond or other such funding instrument issued by a municipal bond insurance company rated least “Aa2” or higher by Moody’s or “AA” or higher by S&P, delivered to the Trustee for the purpose of providing all or a portion of the Reserve Requirement for Bonds and Parity Bonds.

Reserve Requirement. The term “Reserve Requirement” means that amount as of any date of calculation equal to the lesser of: (i) 10% of the initial principal amount of the Bonds and Parity Bonds, if any; (ii) Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds, if any; provided, however, that the Reserve Requirement shall not exceed \$\_\_\_\_\_ except in connection with the issuance of Parity Bonds.

Resolution of Formation. The term “Resolution of Formation” means collectively, Resolution No. 2019-096 adopted by the City Council on December 10, 2019 and Resolution No. 2021-16 adopted by the City Council on January 12, 2021, pursuant to which the City Council formed the District and undertook certain change proceedings with respect to the District.

RMA. The term “RMA” means the Amended and Restated Rate and Method of Apportionment of Special Tax for the District approved by the qualified electors of the District at the January 12, 2021 election.

Sinking Fund Payment. The term “Sinking Fund Payment” means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedules set forth in Section 4.1(b) hereof and any annual sinking fund payment schedule to retire any Parity Bonds which are designated as Term Bonds.

Six-Month Period. The term “Six-Month Period” means the period of time beginning on the Delivery Date of each issue of Bonds or Parity Bonds, as applicable, and ending six consecutive months thereafter, and each six-month period thereafter until the latest maturity date of the Bonds and the Parity Bonds (and any obligations that refund an issue of the Bonds or Parity Bonds).

Special Tax Administrator. The term “Special Tax Administrator” means the individual or entity appointed by the City to administer the calculation and collection of the Special Taxes.

Special Tax Fund. The term “Special Tax Fund” means the fund by that name created and established pursuant to Section 3.1 hereof.

Special Taxes. The term “Special Taxes” means the Special Tax for Facilities (as defined in the RMA) authorized to be levied by the District on property within the District in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the January 12, 2021 election in the District, including any scheduled payments and any Prepayments thereof, the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and penalties and interest thereon; provided that any delinquent Special Tax sold to an independent third-party or to the City for 100% of the delinquent amount shall no longer be pledged hereunder to the payment of the Bonds or Parity Bonds.

S&P. The term “S&P” means S&P Global Ratings, a Standard & Poor’s Financial Services LLC business, its successors and assigns.

Subaccount. The term “Subaccount” means any subaccount created pursuant to this Indenture.

Supplemental Indenture. The term “Supplemental Indenture” means any supplemental indenture amending or supplementing this Indenture.

Surplus Fund. The term “Surplus Fund” means the fund by that name created and established pursuant to Section 3.1 hereof.

Tax Certificate. The term “Tax Certificate” means the certificate by that name to be executed by the District on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

Tax-Exempt. The term “Tax-Exempt” means, with reference to an Authorized Investment, an Authorized Investment the interest earnings on which are excludable from gross income for federal income tax purposes pursuant to Section 103(a) of the Code, other than one described in Section 57(a)(5)(C) of the Code.

Taxable Property. The term “Taxable Property” has the meaning ascribed to it in the RMA.

Term Bonds. The term “Term Bonds” means the Bonds maturing on September 1, 2038, September 1, 2043, September 1, 2048 and September 1, 2053, and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

Trustee. The term “Trustee” means Wilmington Trust, National Association, a national banking association duly organized and existing under the laws of the United States, at its principal corporate trust office in Costa Mesa, California, and its successors or assigns, or any other bank or trust company which may at any time be substituted in its place as provided in Sections 7.2 or 7.3, and any successor thereto.

Underwriter. The term “Underwriter” means, with respect to the Bonds, Stifel, Nicolaus & Company, Incorporated, and with respect to each issue of Parity Bonds, the institution or institutions, if any, with whom the District enters into a purchase contract for the sale of such issue.

Water Facilities Account. The term “Water Facilities Account” means the account by that name created and established in the Acquisition and Construction Fund pursuant to Section 3.1 hereof.

## ARTICLE II

### **GENERAL AUTHORIZATION AND BOND TERMS**

**Section 2.1. Amount, Issuance, Purpose and Nature of Bonds and Parity Bonds.** Under and pursuant to the Act, the Bonds in the aggregate principal amount of \$\_\_\_\_\_, together with any Parity Bonds authorized by the City Council in accordance with Section 9.2 hereof, shall be issued for the purposes of financing and/or refinancing the Project, paying Costs of Issuance, funding the Reserve Account and paying capitalized interest; provided that the aggregate principal amount of the Bonds and any Parity Bonds shall not exceed the total indebtedness presently authorized or subsequently authorized by the qualified electors within the District in accordance with the Act. The Bonds and any Parity Bonds shall be and are limited obligations of the District and shall be payable as to the principal thereof and interest thereon and any premiums upon the redemption thereof solely from the Net Taxes and the other amounts in the Special Tax Fund (other than amounts in the Administrative Expense Account of the Special Tax Fund).

**Section 2.2. Type and Nature of Bonds and Parity Bonds.** Neither the faith and credit nor the taxing power of the City, the State of California, or any political subdivision thereof other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Net Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are not general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expense Account), as more fully described herein. The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions within the meaning of any

constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien, or encumbrance upon any of the District's property, or upon any of its income, receipts or revenues, except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are, under the terms of this Indenture and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon, and neither the members of the legislative body of the District or the members of the City Council nor any persons executing the Bonds or any Parity Bonds are liable personally on the Bonds or any Parity Bonds, by reason of their issuance.

Notwithstanding anything to the contrary contained in this Indenture, the District shall not be required to advance any money derived from any source of income other than the Net Taxes for the payment of the interest on or the principal of the Bonds or any Parity Bonds, or for the performance of any covenants contained herein. The District may, however, advance funds for any such purpose, provided that such funds are derived from a source legally available for such purpose.

**Section 2.3. Equality of Bonds and Parity Bonds and Pledge of Net Taxes.** Pursuant to the Act and this Indenture, the Bonds and any Parity Bonds shall be equally payable from and secured by a first pledge of and lien on the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account), without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution, or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof, shall be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expense Account) which are hereby set aside for the payment of the Bonds and any Parity Bonds; provided that any delinquent Special Tax sold to an independent third-party or to the City for 100% of the delinquent amount shall no longer be pledged hereunder to the payment of the Bonds or Parity Bonds. Amounts in the Special Tax Fund (other than the Administrative Expense Account therein) shall constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds and, so long as any of the Bonds and any Parity Bonds or interest thereon remain Outstanding, shall not be used for any other purpose, except as permitted by this Indenture or any Supplemental Indenture. Notwithstanding any provision contained in this Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund shall no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund, the Acquisition and Construction Fund or the Administrative Expense Account of the Special Tax Fund shall be construed as a trust fund held for the benefit of the Owners.

Nothing in this Indenture or any Supplemental Indenture shall preclude: (i) subject to the limitations contained hereunder, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption and payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as hereafter amended, or under any other law of the State of California; or (ii) the issuance, subject to the limitations contained herein, of Parity Bonds which shall be payable from Net Taxes.

**Section 2.4. Description of Bonds; Interest Rates.** The Bonds and any Parity Bonds shall be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds and any Parity Bonds of each issue shall be numbered as desired by the Trustee.

The Bonds shall be designated "Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024." The Bonds shall be dated as of their

Delivery Date and shall mature and be payable on September 1 in the years and in the aggregate principal amounts and shall be subject to and shall bear interest at the rates set forth in the table below payable on March 1, 2025 and each Interest Payment Date thereafter:

| <i><b>Maturity Date</b></i><br><i><b>September 1</b></i> | <i><b>Principal</b></i><br><i><b>Amount</b></i> | <i><b>Interest</b></i><br><i><b>Rate</b></i> |
|--|---|--|
|--|---|--|

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<sup>T</sup> Term Bonds.

Interest shall be payable on each Bond and Parity Bond from the date established in accordance with Section 2.5 below on each Interest Payment Date thereafter until the principal sum of such Bond or Parity Bond has been paid; provided, however, that if at the maturity date of any Bond or Parity Bond (or if the same is redeemable and shall be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof in full, in accordance with the terms of this Indenture, such Bonds and Parity Bonds shall then cease to bear interest. Interest due on the Bonds and Parity Bonds shall be calculated on the basis of a 360-day year comprised of twelve 30-day months.

**Section 2.5. Place and Form of Payment.** The Bonds and Parity Bonds shall be payable both as to principal and interest, and as to any premiums upon the redemption thereof, in lawful money of the United States of America. The principal of the Bonds and Parity Bonds and any premiums due upon the redemption thereof shall be payable upon presentation and surrender thereof at the Principal Office of the Trustee, or at the designated office of any successor Trustee. If the Nominee of the Bonds or Parity Bonds is registered to Cede & Co., payment of principal and any premiums shall be made without presentment. Interest on any Bond or Parity Bond shall be payable from the Interest Payment Date next preceding the date of authentication of such Bond or Parity Bond, unless: (i) such date of authentication is an Interest Payment Date, in which event interest shall 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 shall 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 occurring after the issuance of such Bond or Parity Bond, in which event interest shall be payable from the dated date of such Bond or Parity Bond, as applicable; provided, however, that if at the time of authentication of such Bond or Parity Bond, interest is in default, interest on such Bond or Parity Bond shall be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no



interest has been paid or made available for payment on such Bond or Parity Bond, interest on such Bond or Parity Bond shall be payable from its dated date. Interest on any Bond or Parity Bond shall be paid to the person whose name shall appear in the Bond Register as the Owner of such Bond or Parity Bond as of the close of business on the Record Date. Such interest shall be paid by check of the Trustee mailed by first class mail, postage prepaid, to such Owner at his or her address as it appears on the Bond Register. In addition, 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 or of any issue of Parity Bonds, payment shall be made on the Interest Payment Date by wire transfer in immediately available funds to an account within the United States of America designated by such Owner.

**Section 2.6. Form of Bonds and Parity Bonds.** The definitive Bonds may be printed from steel engraved or lithographic plates or may be typewritten. The Bonds and the certificate of authentication shall be substantially in the form attached hereto as Exhibit A, which form is hereby approved and adopted as the form of such Bonds and of the certificate of authentication. Each issue of Parity Bonds and the certificate of authentication therefor shall be in the form provided in the Supplemental Indenture for such issue of Parity Bonds.

Until definitive Bonds or Parity Bonds, as applicable, shall be prepared, the District may cause to be executed and delivered in lieu of such definitive Bonds or Parity Bonds temporary bonds in typed, printed, lithographed or engraved form and in fully registered form, subject to the same provisions, limitations and conditions as are applicable in the case of definitive Bonds or Parity Bonds, except that they may be in any denominations authorized by the District. Until exchanged for definitive Bonds or Parity Bonds, as applicable, any temporary bond shall be entitled and subject to the same benefits and provisions of this Indenture as definitive Bonds and Parity Bonds. If the District issues temporary Bonds or Parity Bonds, it shall execute and furnish definitive Bonds or Parity Bonds, as applicable, without unnecessary delay and thereupon any temporary Bond or Parity Bond may be surrendered to the Trustee at its office, without expense to the Owner, in exchange for a definitive Bond or Parity Bond of the same issue, maturity, interest rate and principal amount in any authorized denomination. All temporary Bonds or Parity Bonds so surrendered shall be cancelled by the Trustee and shall not be reissued.

**Section 2.7. Execution and Authentication.** The Bonds and Parity Bonds shall be signed on behalf of the District by the manual or facsimile signature of the Mayor of the City and countersigned by the manual or facsimile signature of the City Clerk, or any duly appointed Deputy Clerk, in their capacity as officers of the District, and the seal of the City or the District (or a facsimile thereof) may be impressed, imprinted, engraved or otherwise reproduced thereon, and attested by the signature of the City Clerk. In case any one or more of the officers who shall have signed or sealed any of the Bonds or Parity Bonds shall cease to be such officer before the Bonds or Parity Bonds so signed and sealed have been authenticated and delivered by the Trustee (including new Bonds or Parity Bonds delivered pursuant to the provisions hereof with reference to the transfer and exchange of Bonds or Parity Bonds or lost, stolen, destroyed or mutilated Bonds or Parity Bonds), such Bonds and Parity Bonds shall nevertheless be valid and may be authenticated and delivered as herein provided, and may be issued as if the person who signed or sealed such Bonds or Parity Bonds had not ceased to hold such office.

Only the Bonds as shall bear thereon such certificate of authentication in the form set forth in Exhibit A attached hereto shall be entitled to any right or benefit under this Indenture, and no Bond

shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee.

**Section 2.8. Bond Register.** The Trustee will keep or cause to be kept, at its office, sufficient books for the registration and transfer of the Bonds and any Parity Bonds which shall upon reasonable prior notice be open to inspection by the District during all regular business hours, and, subject to the limitations set forth in Section 2.9 below, upon presentation for such purpose, the Trustee shall, under such reasonable regulations as it may prescribe, register or transfer or cause to be transferred on said Bond Register, Bonds and any Parity Bonds as herein provided.

The District and the Trustee may treat the Owner of any Bond or Parity Bond whose name appears on the Bond Register as the absolute Owner of that Bond or Parity Bond for any and all purposes and the District and the Trustee shall not be affected by any notice to the contrary. The District and the Trustee may rely on the address of the Owner as it appears in the Bond Register for any and all purposes. It shall be the duty of the Owner to give written notice to the Trustee of any change in the Owner's address so that the Bond Register may be revised accordingly.

**Section 2.9. Registration of Exchange or Transfer.** Subject to the limitations set forth in the following paragraph, the registration of any Bond or Parity Bond may, in accordance with its terms, be transferred upon the Bond Register by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond or Parity Bond for cancellation at the office of the Trustee, accompanied by delivery of written instrument of transfer in a form acceptable to the Trustee and duly executed by the Owner or his or her duly authorized attorney.

Bonds or Parity Bonds may be exchanged at the office of the Trustee for a like aggregate principal amount of Bonds or Parity Bonds for other authorized denominations of the same maturity and issue. The Trustee shall not collect from the Owner any charge for any new Bond or Parity Bond issued upon any exchange or transfer, but shall require the Owner requesting such exchange or transfer to pay any tax or other governmental charge required to be paid with respect to such exchange or transfer. Whenever any Bonds or Parity Bonds shall be surrendered for registration of transfer or exchange, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds or a new Parity Bond or Parity Bonds, as applicable, of the same issue and maturity, for a like aggregate principal amount; provided that the Trustee shall not be required to register transfers or make exchanges of: (i) Bonds or Parity Bonds for a period of 15 days next preceding any selection of the Bonds or Parity Bonds to be redeemed; or (ii) any Bonds or Parity Bonds chosen for redemption.

**Section 2.10. Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds.** If any Bond or Parity Bond shall become mutilated, the District shall execute, and the Trustee shall authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Trustee of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Trustee shall be cancelled by the Trustee pursuant to Section 10.1 hereof. If any Bond or Parity Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the Trustee shall be given, the District shall execute and the Trustee shall authenticate and deliver a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Trustee shall determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or

stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen shall be equally and proportionately entitled to the benefits hereof with all other Bonds and Parity Bonds issued hereunder. The Trustee shall not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered hereunder or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding hereunder, but both the original and replacement Bond or Parity Bond shall be treated as one and the same. Notwithstanding any other provision of this Section, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds or Parity Bonds.

**Section 2.11. Validity of Bonds and Parity Bonds.** The validity of the authorization and issuance of the Bonds and any Parity Bonds shall not be affected in any way by any defect in any proceedings taken by the District for the financing of the Project, or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and shall not be dependent upon the completion of the financing of the Project or upon the performance by any Person of his obligation with respect to the Project, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State shall be conclusive evidence of their validity and of the regularity of their issuance.

**Section 2.12. Book-Entry System.** The Bonds shall be initially delivered in the form of a separate single fully registered Bond (which may be typewritten) for each maturity of the Bonds. Upon initial delivery, the ownership of each such Bond shall be registered in the registration books kept by the Trustee in the name of the Nominee as nominee of the Depository. Except as provided in Section 2.14 hereof, all of the Outstanding Bonds shall be registered in the registration books kept by the Trustee in the name of the Nominee. At the election of the District, any Parity Bonds may also be issued as book-entry bonds registered in the name of the Nominee as provided herein, in which case the references in Sections 2.12 through 2.15 to “Bonds” shall be applicable to such Parity Bonds.

With respect to Bonds registered in the registration books kept by the Trustee in the name of the Nominee, the District and the Trustee shall have no responsibility or obligation to any such Participant or to any Person on behalf of which such a Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the District and the Trustee shall have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the Bonds; (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any notice with respect to the Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in the Bonds to be redeemed in the event that the Bonds are redeemed in part; or (iv) the payment to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Trustee, of any amount with respect to principal of, premium, if any, or interest due with respect to the Bonds. The District and the Trustee may treat and consider the Person in whose name each Bond is registered in the registration books kept by the Trustee as the holder and absolute owner of such Bond for the purpose of payment of the principal of, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond and for all other purposes whatsoever. The Trustee shall pay all principal of, premium, if any, and interest due on the Bonds only to or upon the order of the respective Owner, as shown in the registration books kept by the Trustee, or their respective

attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the District's obligations with respect to payment of the principal, premium, if any, and interest due on the Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the registration books kept by the Trustee, shall receive a Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to this Indenture. Upon delivery by the Depository to the Trustee and the District of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions herein with respect to Record Dates, the word Nominee in this Indenture shall refer to such new nominee of the Depository.

**Section 2.13. Representation Letter.** In order to qualify the Bonds and any Parity Bonds which the District elects to register in the name of the Nominee for the Depository's book-entry system, an Authorized Representative of the District is hereby authorized to execute from time to time and deliver to such Depository the Representation Letter. The execution and delivery of the Representation Letter shall not in any way limit the provisions of Section 2.12 or in any other way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in the Bonds other than the Owners, as shown on the registration books kept by the Trustee. The District agrees to take all action necessary to continuously comply with all representations made by it in the Representation Letter. In addition to the execution and delivery of the Representation Letter, the Authorized Representatives of the District are hereby authorized to take any other actions, not inconsistent with this Indenture, to qualify the Bonds for the Depository's book-entry program.

**Section 2.14. Transfers Outside Book-Entry System.** In the event that: (i) the Depository determines not to continue to act as securities depository for the Bonds; or (ii) the District determines that the Depository shall no longer so act, then the District will discontinue the book-entry system with the Depository. If the District fails to identify another qualified securities depository to replace the Depository then the Bonds so designated shall no longer be restricted to being registered in the registration books kept by the Trustee in the name of the Nominee, but shall be registered in whatever name or names Persons transferring or exchanging Bonds shall designate, in accordance with the provisions of Section 2.9 hereof.

**Section 2.15. Payments to the Nominee.** Notwithstanding any other provisions of this Indenture to the contrary, so long as any Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest due with respect to such Bond and all notices with respect to such Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed by the Depository.

**Section 2.16. Initial Depository and Nominee.** The initial Depository under this Indenture shall be The Depository Trust Company, New York, New York. The initial Nominee shall be Cede & Co., as Nominee of The Depository Trust Company, New York, New York.

### **ARTICLE III**

#### **CREATION OF FUNDS AND APPLICATION OF PROCEEDS**

##### **Section 3.1. Creation of Funds; Application of Proceeds.**

(a) There are hereby created and established and shall be maintained by the Trustee the following funds and accounts:

(1) The Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Fund (the “Special Tax Fund”) (in which there shall be established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account, and an Administrative Expense Account).

(2) The Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Rebate Fund (the “Rebate Fund”) (in which there shall be established a Rebate Account and an Alternate Penalty Account).

(3) The Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Acquisition and Construction Fund (the “Acquisition and Construction Fund”) (in which there shall be established a Costs of Issuance Account, a City Facilities Account and a Water Facilities Account).

(4) The Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Surplus Fund (the “Surplus Fund”).

The amounts on deposit in the foregoing funds, accounts and subaccounts shall be held by the Trustee. The Trustee shall invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of this Article III and shall disburse investment earnings thereon in accordance with the provisions of Section 3.10 hereof.

In connection with the issuance of any Parity Bonds, which may be issued only for the purpose of refunding the Bonds as described in Section 9.2, the Trustee, at the direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

(b) The proceeds of the sale of the Bonds shall be received by the Trustee on behalf of the District and deposited and transferred as follows:

(1) \$\_\_\_\_\_ shall be transferred to the Costs of Issuance Account of the Acquisition and Construction Fund to pay the Costs of Issuance of the Bonds;

(2) \$\_\_\_\_\_ shall be transferred to the Reserve Account of the Special Tax Fund to fund the Reserve Requirement;

(3) \$\_\_\_\_\_ shall be transferred to the Interest Account to pay a portion of the interest on the Bonds due through March 1, 2025; and

(4) \$\_\_\_\_\_ shall be transferred to the Acquisition and Construction Fund of which \$\_\_\_\_\_ shall be deposited in the City Facilities Account and \$\_\_\_\_\_ shall be deposited in the Water Facilities Account.

The Trustee may, in its discretion, establish temporary funds or accounts in its books and records to facilitate such transfers.

### **Section 3.2. Deposits to and Disbursements from Special Tax Fund.**

(a) Except for Prepayments, which shall be deposited to the Redemption Account of the Special Tax Fund, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- (1) the Administrative Expense Account of the Special Tax Fund up to 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 Administrative Expense Account of the Special Tax Fund to the extent that Administrative Expenses exceed or are expected to exceed the Administrative Expense Cap;
- (7) the Rebate Fund; and
- (8) the Surplus Fund.

(b) At maturity of all of the Bonds and Parity Bonds and, after all principal and interest then due on the Bonds and Parity Bonds then Outstanding have been paid or provided for and any amounts owed to the Trustee have been paid in full, moneys in the Special Tax Fund and any accounts therein may be used by the District for any lawful purpose.

**Section 3.3. Administrative Expense Account of the Special Tax Fund.** The Trustee shall transfer from the Special Tax Fund and deposit in the Administrative Expense Account of the Special Tax Fund from time to time amounts necessary to make timely payment of Administrative Expenses as set forth in a Certificate of an Authorized Representative of the District; provided, however, that, except as set forth in the following sentence, the total amount transferred with respect to a Bond Year shall not exceed the Administrative Expenses Cap until such time as there has been deposited to the Interest Account and the Principal Account an amount, together with any amounts already on deposit therein, that is sufficient to pay the interest and principal on all Bonds and Parity Bonds due in such Bond Year and to restore the Reserve Account to the Reserve Requirement. Notwithstanding the foregoing, amounts in excess of the Administrative Expenses Cap may be transferred to the Administrative Expense Account to the extent necessary to collect delinquent Special Taxes. Moneys in the Administrative Expense Account of the Special Tax Fund may be invested in any Authorized Investments as directed in writing by an Authorized Representative of the District and shall be disbursed as directed in a Certificate of an Authorized Representative.

**Section 3.4. Interest Account and Principal Account of the Special Tax Fund.** The principal of and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption, shall be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively.

For the purpose of assuring that the payment of principal of and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer required by Section 3.3, at least one Business Day prior to each March 1 and September 1, the Trustee shall make the following transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds or any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account and the Administrative Expense Account) are inadequate to make the foregoing transfers, then any deficiency shall be made up by transfers from the Reserve Account:

(a) To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date shall be equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date and any installment of interest due on a previous Interest Payment Date which remains unpaid. Moneys in the Interest Account shall be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.

(b) To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2026, shall equal the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.

### **Section 3.5. Redemption Account of the Special Tax Fund.**

(a) With respect to each September 1 on which a Sinking Fund Payment is due, after the deposits have been made to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund as required by Sections 3.3 and 3.4 hereof, the Trustee shall next transfer into the Redemption Account of the Special Tax Fund from the Special Tax Fund the amount needed to make the balance in the Redemption Account one Business Day prior to each September 1 on which a Sinking Fund Payment is due equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1; provided, however, that, if amounts in the Special Tax Fund are inadequate to make the foregoing transfers, then any deficiency shall be made up by an immediate transfer from the Reserve Account, if funded, pursuant to Section 3.6 below. Moneys so deposited in the Redemption Account shall be used and applied by the Trustee to call and redeem Term Bonds in accordance with the Sinking Fund Payment schedules set forth in Section 4.1(b) hereof, and to redeem Parity Bonds in accordance with any Sinking Fund Payment schedule in the Supplemental Indenture for such Parity Bonds.

(b) After making the deposits to the Administrative Expense Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to Sections 3.3 and 3.4 above and to the Redemption Account for Sinking Fund Payments then due pursuant to subparagraph (a) of this Section, and in accordance with the District's election to call Bonds for optional redemption as set forth in Section 4.1(a) hereof, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee shall transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative

Expense Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement.

(c) Prepayments deposited to the Redemption Account shall be applied on the redemption date established pursuant to Section 4.1(c) hereof to the payment of the principal of, premium, if any, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments.

(d) Moneys set aside in the Redemption Account shall be used solely for the purpose of redeeming Bonds and Parity Bonds and shall be applied on or after the redemption date to the payment of principal of and premium, if any, on the Bonds or Parity Bonds to be redeemed upon presentation and surrender of such Bonds or Parity Bonds, and, in the case of an optional redemption or a special mandatory redemption from Prepayments, to pay the interest thereon; provided, however, that in lieu or partially in lieu of such call and redemption, moneys deposited in the Redemption Account may be used to purchase Outstanding Bonds or Parity Bonds in the manner hereinafter provided. Purchases of Outstanding Bonds or Parity Bonds may be made by the District at public or private sale as and when and at such prices as the District may in its discretion determine but only at prices (including brokerage or other expenses) not more than par plus accrued interest, plus, in the case of moneys set aside for an optional redemption or a special mandatory redemption, the premium applicable at the next following call date according to the premium schedule established pursuant to Section 4.1(a) or 4.1(c) hereof, as applicable, or in the case of Parity Bonds the premium established in any Supplemental Indenture. Any accrued interest payable upon the purchase of Bonds or Parity Bonds may be paid from the amount reserved in the Interest Account of the Special Tax Fund for the payment of interest on the next following Interest Payment Date.

**Section 3.6. Reserve Account of the Special Tax Fund.** There shall be maintained in the Reserve Account of the Special Tax Fund an amount equal to the Reserve Requirement. The Reserve Requirement may be satisfied in whole or in part by cash, a Reserve Policy, or a combination thereof. The amounts in the Reserve Account shall be applied as follows:

(a) Moneys in the Reserve Account shall be used solely for the purpose of paying the principal of, including Sinking Fund Payments, and interest on the Bonds and any Parity Bonds when due in the event that the moneys in the Interest Account and the Principal Account of the Special Tax Fund are insufficient therefor or moneys in the Redemption Account of the Special Tax Fund are insufficient to make a Sinking Fund Payment when due and for the purpose of making any required transfer to the Rebate Fund pursuant to Section 3.7 hereof upon written direction from the District. If the amounts in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund are insufficient to pay the principal of, including Sinking Fund Payments, or interest on any Parity Bonds when due, or amounts in the Special Tax Fund are insufficient to make transfers to the Rebate Fund when required, the Trustee shall withdraw from the Reserve Account, first from the cash on deposit therein, and second from a draw on the Reserve Policy, if any, for deposit in the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund or the Rebate Fund, as applicable, moneys necessary for such purposes.

(b) Whenever moneys are withdrawn from the Reserve Account, after making the required transfers referred to in Sections 3.3, 3.4 and 3.5 above, the Trustee shall transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds which the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement by first, repaying any amounts due under the



Reserve Policy, and second to fund the Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund shall be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expense Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund together with any other amounts transferred to replenish the Reserve Account are inadequate to restore the Reserve Account to the Reserve Requirement, including any amounts necessary to pay costs related to the Reserve Policy, if any, then the District shall include the amount necessary to restore the Reserve Account to the Reserve Requirement, in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

(c) In connection with a redemption of Bonds pursuant to Section 4.1(a) or 4.1(c) or Parity Bonds in accordance with any Supplemental Indenture, or a partial defeasance of Bonds or Parity Bonds in accordance with Section 9.1 hereof, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District shall set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred pursuant to this Indenture to partially defease Bonds or Parity Bonds, and the Trustee shall make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

(d) To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement not transferred in accordance with the preceding provisions of this Section shall be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and shall be transferred to the Acquisition and Construction Fund or an Account therein, as directed by an Authorized Representative of the District, until all amounts have been disbursed from the Acquisition and Construction Fund (or such fund is closed) and thereafter to the Interest Account of the Special Tax Fund.

### **Section 3.7. Rebate Fund.**

(a) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated as the Rebate Fund and shall establish a separate Rebate Account and Alternate Penalty Account therein. All money at any time deposited in the Rebate Account or the Alternate Penalty Account of the Rebate Fund shall be held by the Trustee in trust, for payment to the United States Treasury. A separate subaccount of the Rebate Account and the Alternate Penalty Account shall be established for the Bonds and each issue of Parity Bonds the interest on which is excluded from gross income for federal income tax purposes. All amounts on deposit in the Rebate Fund with respect to the Bonds or an issue of Parity Bonds shall be governed by this Section 3.7 and the Tax Certificate for such issue, unless the District obtains an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the Bonds and Parity Bonds will not be adversely affected if such requirements are not satisfied.

(1) Rebate Account. The following requirements shall be satisfied with respect to each subaccount of the Rebate Account:

(i) Annual Computation. Within 55 days of the end of each Bond Year, the District shall calculate or cause to be calculated the amount of rebatable arbitrage for the Bonds and each issue of Parity Bonds to which this Section 3.7 is applicable, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage described in the Tax Certificate for each issue (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the “1½% Penalty”) has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the “Rebatable Arbitrage”). The District shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) Annual Transfer. Within 55 days of the end of each Bond Year for which Rebatable Arbitrage must be calculated as required by the Tax Certificate for each issue, upon the written direction of an Authorized Representative of the District, an amount shall be deposited to each subaccount of the Rebate Account by the Trustee from any funds so designated by the District if and to the extent required, so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated by or on behalf of the District in accordance with clause (i) of this subsection (a)(1) with respect to the Bonds and each issue of Parity Bonds to which this Section 3.7 is applicable. In the event that immediately following any transfer required by the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit to the credit of the applicable subaccount of the Rebate Account exceeds the amount required to be on deposit therein, upon written instructions from an Authorized Representative of the District, the Trustee shall withdraw the excess from the appropriate subaccount of the Rebate Account and then credit the excess to the Special Tax Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in each subaccount of the Rebate Account:

(X) not later than 60 days after the end of: (A) the fifth Bond Year for the Bonds and each issue of Parity Bonds to which this Section 3.7 is applicable; and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year for the Bonds and each issue of Parity Bonds, as applicable; and

(Y) not later than 60 days after the payment or redemption of all of the Bonds or an issue of Parity Bonds, as applicable, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a)(1)

shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

(2) Alternate Penalty Account.

(i) Six-Month Computation. If the 1½% Penalty has been elected for the Bonds or an issue of Parity Bonds, within 85 days of each particular Six-Month Period, the District shall determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six-Month Period. The District shall obtain expert advice in making such determinations.

(ii) Six-Month Transfer. Within 85 days of the close of each Six-Month Period, the Trustee, at the written direction of an Authorized Representative of the District, shall deposit an amount in the appropriate subaccounts of the Alternate Penalty Account from any source of funds held by the Trustee pursuant to this Indenture and designated by the District in such written directions or provided to it by the District, if and to the extent required, so that the balance in each subaccount of the Alternate Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in subsection (a)(2)(i) above. In the event that immediately following any transfer provided for in the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit in a subaccount of the Alternate Penalty Account exceeds the amount required to be on deposit therein to make the payments required by subsection (iii) below, the Trustee, at the written direction of an Authorized Representative of the District, may withdraw the excess from the applicable subaccount of the Alternate Penalty Account and credit the excess to the Special Tax Fund.

(iii) Payment to the Treasury. The Trustee shall pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in a subaccount of the Alternate Penalty Account, not later than 90 days after the close of each Six-Month Period the 1½% Penalty, if applicable and payable, computed with respect to the Bonds and any issue of Parity Bonds in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time of any payment required to be made from a subaccount of the Alternate Penalty Account, the amount in such subaccount is not sufficient to make such payment when such payment is due, the District shall calculate the amount of such deficiency and direct the Trustee, in writing, to deposit an amount equal to such deficiency into such subaccount of the Alternate Penalty Account from any funds held by the Trustee pursuant to this Indenture and designated by the District in such written directions prior to the time such payment is due. Each payment required to be made pursuant to this subsection (a)(2) shall be made to the Internal Revenue Service, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund with respect to the Bonds or an issue of Parity Bonds after redemption and payment of such issue and after making the payments described in subsections (a)(1)(iii) or (a)(2)(iii) (whichever is applicable), may be withdrawn by the Trustee at the written direction of the District and utilized in any manner by the District.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in this Section or this Indenture to the contrary, the obligation to comply with the requirements of this Section shall

survive the defeasance and final payment of the Bonds and any Parity Bonds with respect to which an Account has been created in the Rebate Fund.

(d) Amendment Without Consent of Owners. This Section 3.7 may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any issue of Parity Bonds issued on a tax-exempt basis.

(e) Trustee. The Trustee shall have no responsibility to monitor or calculate any amounts payable to the U.S. Treasury pursuant to this Section and shall be deemed constructively to have complied with its obligations hereunder if it follows the written instructions of the District given pursuant to this Section.

**Section 3.8. Surplus Fund.** After making the transfers required by Sections 3.3, 3.4, 3.5, 3.6 and 3.7 hereof, as soon as practicable after each September 1, the Trustee shall transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to Section 5.2(b) hereof. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District: (i) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund 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; (ii) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (iii) to the Administrative Expense Account of the Special Tax Fund 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; (iv) to the Acquisition and Construction Fund to pay Project Costs; or (v) after all Project Costs have been paid, to the District, for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District shall notify the Trustee in a Certificate of an Authorized Representative and the Trustee shall segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund shall be invested at the written direction of the District in Authorized Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes. Such amounts shall be disbursed as directed by an Authorized Representative of the District.

### **Section 3.9. Acquisition and Construction Fund.**

(a) The moneys in the Costs of Issuance Account shall be disbursed by the Trustee pursuant to a Certificate of an Authorized Representative of the District, and any balance remaining therein after 180 days shall be transferred by the Trustee to an Account within the Acquisition and Construction Fund as directed in writing by an Authorized Representative of the District. Following such transfer to the Acquisition and Construction Fund, the Costs of Issuance Account shall be closed.

(b) The moneys in the Acquisition and Construction Fund and the Accounts therein (other than the Costs of Issuance Account) shall be applied exclusively to pay the Project Costs. Amounts for Project Costs shall be disbursed by the Trustee from the Acquisition and Construction Fund or the Accounts therein (other than the Costs of Issuance Account), as specified in a Request for Disbursement of Project Costs, substantially in the form of Exhibit B-1 attached hereto. A properly executed Request for Disbursement of Project Costs must be submitted in connection with each requested disbursement and the Trustee may rely thereon without investigating the accuracy thereof. Amounts in an Account of the Acquisition and Construction Fund may be transferred to another Account or Accounts therein pursuant to a Certificate of an Authorized Representative of the District.

(c) Upon receipt of a Certificate of an Authorized Representative of the District stating that all or a specified portion of the amount remaining in the Acquisition and Construction Fund or the Accounts therein (other than the Costs of Issuance Account) is no longer needed to pay Project Costs, the Trustee shall: (i) transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Acquisition and Construction Fund or the Accounts therein (other than the Costs of Issuance Account) to the Interest Account, the Principal Account or Redemption Account of the Special Tax Fund, to the Costs of Issuance Account or to the Surplus Fund, as directed in such certificate, provided that in connection with any direction to transfer amounts to the Surplus Fund there shall have been delivered to the Trustee with such certificate an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes; and (ii) thereafter, close the Acquisition and Construction Fund.

**Section 3.10. Investments.** Moneys held in any of the Funds, Accounts and Subaccounts under this Indenture shall be invested at the written direction of the District upon at least two (2) Business Days' notice in accordance with the limitations set forth below only in Authorized Investments which shall be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments shall be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on a Fund, Account or Subaccount shall be applied as follows: (i) investment earnings on all amounts deposited in the Acquisition and Construction Fund (including the Accounts therein), the Special Tax Fund, the Surplus Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) shall be deposited in those respective Funds, Accounts and Subaccounts; and (ii) investment earnings on all amounts deposited in the Reserve Account shall be deposited therein to be applied as set forth in Section 3.6. Moneys in the Funds, Accounts and Subaccounts held under this Indenture may be invested by the Trustee as directed in writing by the District, from time to time, in Authorized Investments subject to the following restrictions (provided

that the Trustee is not required to verify compliance with such restrictions and may rely on the District's written instructions as evidence of such compliance):

(a) Moneys in the Acquisition and Construction Fund and the Accounts therein shall be invested in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available without penalty, as close as practicable to the date the District estimates the moneys represented by the particular investment will be needed for withdrawal from the Acquisition and Construction Fund or the Accounts therein. Notwithstanding anything herein to the contrary, amounts in the Acquisition and Construction Fund or the Accounts therein three years after the Delivery Date for the Bonds and the proceeds of each issue of Parity Bonds issued on a tax-exempt basis which are remaining on deposit in the Acquisition and Construction Fund on the date which is three years following the date of issuance of such issue of Parity Bonds shall be invested by the District only in Authorized Investments the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.

(b) Moneys in the Interest Account, the Principal Account, and the Redemption Account of the Special Tax Fund shall be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due.

(c) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments (other than the Authorized Investment described in clause (2)(i) of the definition thereof) which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an Investment Agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with Section 3.6 hereof; and provided that no such Authorized Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds shall mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(d) Moneys in the Rebate Fund shall be invested only in Authorized Investments of the type described in clause (1) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to Section 3.7 hereof or in Authorized Investments of the type described in clause (2)(e) of the definition thereof.

(e) In the absence of written investment directions from the District, the Trustee shall hold the funds uninvested.

The Trustee shall sell, or present for redemption, any Authorized Investment whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such funds and accounts or from such funds and accounts. Notwithstanding anything in this Indenture to the contrary, the Trustee shall not be responsible for any loss from investments, sales or transfers

undertaken in accordance with the provisions of this Indenture. Any Authorized Investments that are registrable securities shall be registered in the name of the Trustee.

The Trustee may act as principal or agent in the making or disposing of any investment and shall be entitled to its customary fee for making such investment. The Trustee may sell at the best market price obtainable, or present for redemption, any Authorized Investment so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Authorized Investment is credited, and, subject to the provisions of Section 7.4, the Trustee shall not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established hereunder, but shall account for each separately. The Trustee is hereby authorized, in making or disposing of any investment permitted by this Section, to deal with itself (in its individual capacity) or which any one or more of its affiliates, whether it or such affiliate is acting as an agent of the Trustee or for any third person or dealing as principal for its own account. The parties acknowledge that the Trustee is not providing investment supervision, recommendations, or advice.

The District acknowledges that, to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

## **ARTICLE IV**

### **REDEMPTION OF BONDS AND PARITY BONDS**

#### **Section 4.1. Redemption of Bonds.**

(a) Optional Redemption. The Bonds may be redeemed at the option of the District from any source of funds on any Interest Payment Date on or after September 1, 20\_\_, in whole or in part, from such maturities as are selected by the District and by lot within a maturity, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

| <i>Redemption Date</i> | <i>Redemption Price</i> |
|------------------------|-------------------------|
|                        | 103%                    |
|                        | 102                     |
|                        | 101                     |
|                        | 100                     |

In the event that the District elects to redeem Bonds as provided above, the District shall give written notice to the Trustee of its election to so redeem, the redemption date and the principal amount of the Bonds of each maturity to be redeemed. The notice to the Trustee shall be given at least 45 but no more than 60 calendar days prior to the redemption date, or by such later date as is acceptable to the Trustee.

(b) Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established hereunder, on September 1, 20\_\_ and on each September 1 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:

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

***Sinking Fund Redemption Date  
(September 1)***

***Sinking Fund Payments***

\$

\*

\_\_\_\_\_  
\* Maturity.

The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established hereunder, on September 1, 20\_\_ and on each September 1 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:

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

***Sinking Fund Redemption Date  
(September 1)***

***Sinking Fund Payments***

\$

\*

\_\_\_\_\_  
\* Maturity.

If the District purchases Term Bonds during the Fiscal Year immediately preceding one of the sinking fund redemption dates specified above, the District shall notify the Trustee at least 45 days prior to the redemption date as to the principal amount purchased, and the amount purchased shall be credited at the time of purchase to the next Sinking Fund Payment for the Term Bond so purchased, to the extent of the full principal amount of the purchase. All Bonds purchased pursuant to this subsection shall be cancelled pursuant to Section 10.1 hereof.



In the event of a partial optional redemption or special mandatory redemption of the Term Bonds, each of the remaining Sinking Fund Payments for such Term Bonds shall be reduced, as nearly as practicable, on a pro rata basis.

(c) Special Mandatory Redemption. The Bonds are subject to special mandatory redemption as a whole or in part on a pro rata basis among maturities and by lot within a maturity, on any Interest Payment Date on or after March 1, 2025, and shall be redeemed by the Trustee, from Prepayments deposited to the Redemption Account pursuant to Section 3.2, plus amounts transferred from the Reserve Account pursuant to Section 3.6(c), 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 Date</i> | <i>Redemption Price</i> |
|------------------------|-------------------------|
|                        | 103%                    |
|                        | 102                     |
|                        | 101                     |
|                        | 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 Independent Financial 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.

(d) The redemption provisions for Parity Bonds shall be set forth in a Supplemental Indenture.

**Section 4.2. Selection of Bonds and Parity Bonds for Redemption.** If less than all of the Bonds or Parity Bonds Outstanding are to be redeemed, the portion of any Bond or Parity Bond of a denomination of more than \$5,000 to be redeemed shall be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds or Parity Bonds for redemption, the Trustee shall treat such Bonds or Parity Bonds, as applicable, as representing that number of Bonds or Parity Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds or Parity Bonds to be redeemed in part by \$5,000. The procedure for the selection of Parity Bonds for redemption may be modified as set forth in the Supplemental Indenture for such Parity Bonds. The Trustee shall promptly notify the District in writing of the Bonds or Parity Bonds, or portions thereof, selected for redemption.

**Section 4.3. Notice of Redemption.** When Bonds or Parity Bonds are due for redemption under Section 4.1 above or under another redemption provision set forth in a Supplemental Indenture relating to any Parity Bonds, the Trustee shall give notice, in the name of the District, of the redemption of such Bonds or Parity Bonds. Such notice of redemption shall: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds or Parity Bonds

selected for redemption, except that where all of the Bonds or all of an issue of Parity Bonds are subject to redemption, or all of 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 or Parity Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds or Parity Bonds are to be redeemed; (v) in the case of Bonds or Parity Bonds to be redeemed only in part, state the portion of such Bond or Parity Bond which is to be redeemed; (vi) state the date of issue of the Bonds or Parity Bonds as originally issued; (vii) state the rate of interest borne by each Bond or Parity Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds or Parity Bonds being redeemed as shall be specified by the Trustee. Such notice shall further state that on the date fixed for redemption, there shall become due and payable on each Bond, Parity 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 shall cease to accrue and be payable. At least 30 days but no more than 45 days prior to the redemption date, the Trustee shall mail a copy of such notice of redemption, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register, and to the original purchaser of any Bonds or Parity Bonds; provided, however, so long as the Bonds and Parity 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 actual receipt by the Owner of any Bond or Parity Bond of notice of such redemption shall not be a condition precedent to redemption, and neither the failure to receive nor any defect in such notice shall affect the validity of the proceedings for the redemption of such Bonds or Parity Bonds, or the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as herein provided shall be conclusive as against all parties and the Owner shall not be entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice shall be given by the Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed.

Each further notice of redemption shall be sent not later than the date that notice of redemption is given to the Owners pursuant to the first paragraph of this Section by first class mail or facsimile to the Depository and to any other registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Bonds and Parity Bonds as determined by the Trustee and to one or more of the national information services that the Trustee determines are in the business of disseminating notice of redemption of obligations such as the Bonds and Parity Bonds.

Upon the payment of the redemption price of any Bonds and Parity Bonds being redeemed, each check or other transfer of funds issued for such purpose shall to the extent practicable bear the CUSIP number identifying, by issue and maturity, the Bonds and Parity Bonds being redeemed with the proceeds of such check or other transfer.

With respect to any notice of optional redemption of Bonds or Parity Bonds, such notice may state that such redemption shall be conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds or Parity Bonds to be redeemed and that, if the District determines that such moneys will not be received on the redemption date, said notice shall be of no force and effect and the

Trustee shall not be required to redeem such Bonds or Parity Bonds. In the event that such notice of redemption contains such a condition and the District determines that such moneys will not be received, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

**Section 4.4. Partial Redemption of Bonds or Parity Bonds.** Upon surrender of any Bond or Parity Bond to be redeemed in part only, the District shall execute and the Trustee shall authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds or a new Parity Bond or Parity Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity or, in the case of surrender of a Parity Bond, a new Parity Bond or Parity Bonds subject to the foregoing limitations.

**Section 4.5. Effect of Notice and Availability of Redemption Money.** Notice of redemption having been duly given, as provided in Section 4.3 hereof, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) the Bonds and Parity Bonds, or portions thereof, designated for redemption shall, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in this Indenture or in any Supplemental Indenture with respect to any Parity Bonds, anything in this Indenture or in the Bonds or the Parity Bonds to the contrary notwithstanding;

(b) upon presentation and surrender thereof at the office of the Trustee (except as provided in Section 4.1(b)), the redemption price of such Bonds and Parity Bonds shall be paid to the Owners thereof;

(c) as of the redemption date the Bonds or the Parity Bonds, or portions thereof so designated for redemption shall be deemed to be no longer Outstanding and such Bonds or Parity Bonds, or portions thereof, shall cease to bear further interest; and

(d) as of the date fixed for redemption no Owner of any of the Bonds, Parity Bonds or portions thereof so designated for redemption shall be entitled to any of the benefits of this Indenture or any Supplemental 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.

## **ARTICLE V**

### **COVENANTS AND WARRANTY**

**Section 5.1. Warranty.** The District shall preserve and protect the security pledged hereunder to the Bonds and any Parity Bonds against all claims and demands of all persons.

**Section 5.2. Covenants.** So long as any of the Bonds or Parity Bonds issued hereunder are Outstanding and unpaid, the District makes the following covenants with the Owners under the provisions of the Act and this Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the

District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District covenants that it will receive all Special Taxes in trust for the Owners and will deposit all Special Taxes with the Trustee immediately upon their apportionment to the District, and the District shall have no beneficial right or interest in the amounts so deposited except as provided by this Indenture. All such Special Taxes shall be disbursed, allocated and applied solely to the uses and purposes set forth herein, and shall be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District covenants that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued hereunder, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with this Indenture to the extent that Net Taxes and other amounts pledged hereunder are available therefor, and that the payments into the Funds and Accounts created hereunder will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, and this Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of this Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued hereunder.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in this Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing herein shall prevent the District from issuing or incurring indebtedness which is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds, subject to compliance with the District's bonded indebtedness limit.

(b) Levy of Special Tax. Beginning in Fiscal Year 2024-25 and so long as any Bonds or Parity Bonds issued under this Indenture are Outstanding, the District covenants to levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay: (1) the principal of and interest on the Bonds and any Parity Bonds when due; (2) the Administrative Expenses; and (3) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement, including any amounts to pay costs related to the Reserve Policy, if any. The District further covenants that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding.

(c) Commence Foreclosure Proceedings. The District covenants for the benefit of the Owners of the Bonds and any Parity Bonds that it will: (i) commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) commence judicial foreclosure proceedings against all 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 Tax levied; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, 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. 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.

The District may treat any delinquent Special Tax sold to an independent third-party or to the City for at least 100% of the delinquent amount as having been paid. Proceeds of any such sale up to 100% of the delinquent amount will be deposited in the Special Tax Fund.

The District covenants that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

(d) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expense Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, that nothing herein contained shall require the District to make any such payments so long as the District in good faith shall contest the validity of any such claims.

(e) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries shall be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts shall at all times during business hours be subject to the inspection of the Trustee or of the Owners or the Owners of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of this Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District covenants to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and specifically covenants, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action or refrain from taking any action or make any use of the proceeds of the Bonds or any Parity Bonds or of any other monies or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code.

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, or take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code.

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds or take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code.

(5) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any Parity Bonds or any other amounts or property, regardless of the source, or take any action or refrain from taking any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds.

(6) Miscellaneous. The District will take no action or refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference herein.

(7) Other Tax-Exempt Issues. The District will not use proceeds of other tax-exempt securities to redeem any Bonds or Parity Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis.

(8) Subsequent Opinions. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth LLP, where such opinion is required in connection with a change or amendment to this Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by Stradling Yocca Carlson & Rauth LLP, that interest on the Bonds is excluded from gross income for federal income tax purposes.

(g) Reduction of Maximum Special Taxes. The District hereby finds and determines that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels requiring the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District hereby determines that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in this Section 5.2(g) would interfere with the timely retirement of the Bonds and Parity Bonds. The District determines it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District hereby does covenant, that it shall not initiate proceedings to reduce the maximum Special Tax rates for the District, unless, in connection therewith, the District receives a certificate from one or more Independent Financial Consultants which, when taken together, certify that: (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expense Cap plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (ii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds.

(h) Covenants to Defend. The District covenants that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in Section 5.2(g) above or to limit the power of the District to levy the Special Taxes for the purposes set forth in Section 5.2(b) above, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) Limitation on Right to Tender Bonds. The District hereby covenants that it will not adopt any policy pursuant to Section 53344.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial 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 Net Taxes to pay the principal of and interest on the Bonds and Parity Bonds when due.

(j) Continuing Disclosure. The District covenants to comply with the terms of the Continuing Disclosure Certificate and with the terms of any agreement executed by the District with respect to any Parity Bonds to assist the Underwriter in complying with Rule 15c2-12 adopted by the Securities and Exchange Commission; provided, however, that a failure to comply shall not be considered an event of default hereunder and the Owners shall be limited to enforcing the terms thereof in accordance with the terms of the Continuing Disclosure Certificate.

(k) Further Assurances. The District shall make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture and for the better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in this Indenture.

## ARTICLE VI

### AMENDMENTS TO INDENTURE

**Section 6.1. Supplemental Indentures or Orders Not Requiring Owner Consent.** The District may from time to time, and at any time, without notice to or consent of any of the Owners, adopt Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions herein which may be inconsistent with any other provision herein, or to make any other provision with respect to matters or questions arising under this Indenture or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Owners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the District contained in this Indenture other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with this Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of this Indenture;

(d) to modify, amend or supplement this Indenture in such manner as to permit the qualification hereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding;

(e) to modify, alter or amend the RMA in any manner, so long as the Trustee receives a certificate of an Independent Financial Consultant stating that: (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expense Cap plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; and (ii) based on the current development plan for parcels within the District, do not reduce the maximum Special Taxes which could be levied upon Taxable Property within the District to an amount which is less than the Administrative Expense Cap plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment;

(f) to modify, alter, amend or supplement this Indenture in any other respect which is not materially adverse to the Owners; or

(g) to modify, alter, amend or supplement this Indenture in any other respect, as may be required to fund all or a portion of the Reserve Requirement with a Reserve Policy.

#### **Section 6.2. Supplemental Indentures or Orders Requiring Owner Consent.**

Exclusive of the Supplemental Indentures described in Section 6.1, the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding shall have the right to consent to and approve the adoption by the District of such Supplemental Indentures as shall be deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that nothing herein shall permit, or be construed as permitting: (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District shall desire to adopt a Supplemental Indenture, which pursuant to the terms of this Section shall require the consent of the Owners, the District shall so notify the Trustee and shall deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee shall, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Owners at their addresses as they appear in the Bond Register. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the office of the Trustee for inspection by all Owners. The failure of any Owners to receive such notice shall not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding as required by this Section. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee shall receive



an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments shall refer to the proposed Supplemental Indenture described in such notice, and shall specifically consent to and approve the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, shall thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds which are owned by the District or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, shall be disregarded and shall be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Indenture and the receipt of consent to any such Supplemental Indenture from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds in instances where such consent is required pursuant to the provisions of this Section, this Indenture shall be, and shall be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under this Indenture of the District and all Owners of Outstanding Bonds and Parity Bonds shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

**Section 6.3. Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds.** After the effective date of any action taken as hereinabove provided, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of such Owner's Bond or Parity Bond for the purpose at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action shall be made on such Bonds or Parity Bonds. If the District shall so determine, new Bonds or Parity Bonds so modified as, in the opinion of the District, shall be necessary to conform to such action shall be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds shall be exchanged at the office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

The Trustee shall have the right to require such opinions of counsel as it deems necessary concerning: (i) the lack of material adverse effect of the amendment on Owners; and (ii) the fact that the amendment will not affect the tax status of interest with respect to the Bonds.

## **ARTICLE VII**

### **TRUSTEE**

**Section 7.1. Trustee.** Wilmington Trust, National Association shall be the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District hereunder. The Trustee represents that it has (or is a member of a bank holding company system whose bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000. The District may, at any time, appoint a successor Trustee satisfying the requirements

of Section 7.2 below for the purpose of receiving all money which the District is required to deposit with the Trustee hereunder and to allocate, use and apply the same as provided in this Indenture.

The Trustee is hereby authorized to and shall mail by first class mail, postage prepaid, or wire transfer in accordance with Section 2.5 above, interest payments to the Owners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Trustee is hereby authorized to pay the principal of and premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds all as provided in this Indenture, and to provide for the authentication of Bonds and Parity Bonds, and shall perform all other duties assigned to or imposed on it as provided in this Indenture. The Trustee shall keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Trustee is hereby authorized to pay and redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Trustee shall cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of Section 10.1 hereof.

The District shall from time to time, subject to any agreement between the District and the Trustee then in force, timely pay to the Trustee following demand therefor compensation for its services, reimburse the Trustee for all its advances and expenditures, including, but not limited to, advances to and fees, costs and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties hereunder, and indemnify and save the Trustee, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities, including, without limitation, fees, costs and expenses of its attorneys (not arising from its own gross negligence or willful misconduct) which it may incur in the exercise and performance of its powers and duties hereunder. The foregoing obligation of the District to indemnify the Trustee shall survive the removal or resignation of the Trustee or the discharge of the Bonds and Parity Bonds.

**Section 7.2. Removal of Trustee.** The District may at any time at its sole discretion, upon 30 days' notice, remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a written notice of its decision to remove the Trustee and may appoint a successor or successors thereto; provided that any such successor shall be a bank or trust company having (or whose parent bank holding company has) a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. Any removal shall become effective only upon acceptance of appointment by the successor Trustee. If any bank or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee and notice of the successor Trustee's identity and address being sent by the successor Trustee to the Owners.

**Section 7.3. Resignation of Trustee.** The Trustee may at any time resign and be discharged from its duties and obligations hereunder by giving written notice to the District. Upon receiving such notice of resignation, the District shall promptly appoint a successor Trustee

satisfying the criteria in Section 7.2 above by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon acceptance of appointment by the successor Trustee. If no successor Trustee shall have been appointed by the District within thirty (30) days of giving such notice or removal or resignation, then the Trustee, or any Owner may petition, at the sole expense of the District, a court of competent jurisdiction for the appointment of a successor Trustee and other appropriate relief, and such court may thereupon, after such notice (if any) as it may deem proper, appoint a successor Trustee under this Indenture.

**Section 7.4. Liability of Trustee.** The recitals of fact and all promises, covenants and agreements contained herein and in the Bonds and any Parity Bonds shall be taken as statements, promises, covenants and agreements of the District, and the Trustee assumes no responsibility or liability for the correctness of the same and makes no representations whatsoever as to the validity or sufficiency of this Indenture, the Bonds or any Parity Bonds, and shall incur no responsibility or liability in respect thereof, other than in connection with its express duties or obligations specifically set forth herein, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Trustee. The Trustee shall not have nor be under any responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own gross negligence or willful misconduct. The Trustee shall not be liable for any action taken or omitted by it or any of its officers, employees or agents in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture. The Trustee shall not be liable for any actions taken or omitted to be taken, or any error of judgment made in good faith by a responsible officer, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts.

The Trustee shall be entitled to request and receive written instructions from the District and/or Owners and shall have no responsibility or liability for any losses or damages of any nature that may arise from any action taken or not taken by the Trustee in accordance with the written direction of any such party. The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in accordance with the written direction of the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of an Owner and/or the District, pursuant to the provisions of this Indenture, unless such party shall have offered to the Trustee security or indemnity (satisfactory to the Trustee in its sole and absolute discretion) against the costs, expenses and liabilities which may be incurred by it in compliance with such request or direction.

Neither the Trustee nor any of its directors, officers, employees, agents or affiliates shall be responsible for nor have any duty to monitor the performance or any action of the District or any of its directors, members, officers, agents, affiliates or employees, nor shall it have any liability in connection with the malfeasance or nonfeasance by such party. The Trustee may assume performance by all such persons of their respective obligations. The Trustee shall have no enforcement or notification obligations relating to breaches of representations or warranties of any other person. The Trustee shall be conclusively protected in acting upon any notice, resolution, request, consent, order, judgement, decree, certificate, report, Bond, Parity Bond or other paper or document signed or presented by the proper party or parties as provided hereunder, not only as to due

execution, validity and effectiveness, but also as to the truth and accuracy of any information contained therein. The Trustee may, at the expense of the District, request, rely on and act in accordance with officer's certificates and/or opinions of counsel, and shall incur no liability and shall be fully protected in acting or refraining from acting in accordance with such officer's certificates and opinions of counsel.

The Trustee shall not be bound to recognize any person as the Owner of a Bond or Parity Bond unless and until such Bond or Parity Bond is submitted for inspection, if required, and his title thereto is satisfactorily established to the Trustee, if disputed.

Whenever in the administration of its express obligations under this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, the Trustee may, at the expense of the District, request, rely on and act in accordance with officer's certificates and/or opinions of counsel (unless other evidence in respect thereof be herein specifically prescribed), and shall incur no liability and shall be fully protected in acting or refraining from acting in accordance with such officer's certificates and opinions of counsel, but in its discretion the Trustee may but shall not be obligated to accept other evidence of such matter or may require such additional evidence as to it may seem reasonable. It is understood and agreed that no such act shall broaden or imply the Trustee's acceptance of a broadening of the scope of the Trustee's duties and obligations hereunder unless the Trustee shall provide written acceptance thereof.

The Trustee shall have no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it hereunder, or as to the correctness of any amounts received, but its liability shall be limited to the proper accounting for such funds as it actually receives. No provision in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of its rights or powers.

The Trustee shall not be deemed to have knowledge of any default or event of default under this Indenture until an officer at the Trustee's corporate trust office responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Trustee shall have received written notice thereof at its corporate trust office.

The Trustee shall have no responsibility with respect to any information, statement, or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Bonds and any Parity Bonds.

Before taking any action under Article VIII hereof the Trustee may require that indemnity and security satisfactory to the Trustee in its sole and exclusive discretion be furnished to it for and from any expenses and liabilities and to protect it against any liability it may incur hereunder.

The immunities extended to the Trustee also extend to its directors, officers, employees and agents (including its counsel).

The Trustee shall not be liable for any action taken or not taken by it in accordance with the direction of the Owners of 25% (or other percentage provided for herein) in aggregate principal amount of Bonds and Parity Bonds Outstanding relating to the exercise of any right, power or

remedy available to the Trustee. In the event of conflicting instructions hereunder, the Trustee shall have the right to decide the appropriate course of action and will be protected in so doing.

The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty or in any way expand or impliedly expand the scope of the Trustee's duties hereunder, and, with respect to such permissive rights, the Trustee shall not be answerable for other than its gross negligence or willful misconduct.

The Trustee may execute any of the trusts or powers hereof and perform any of its duties through attorneys, agents and receivers and shall not be answerable for the conduct of the same if appointed by it with reasonable care. The Trustee shall be entitled to rely on and shall not be liable for any action taken or omitted to be taken by the Trustee in accordance with the advice of counsel or other professionals retained or consulted by the Trustee.

The Trustee may become the Owner or pledgee of the Bonds and Parity Bonds with the same rights it would have if it were not Trustee.

The Trustee shall perform such duties and only such duties as are specifically set forth in this Indenture and no implied duties or obligations shall be read into this Indenture against the Trustee. These duties shall be deemed purely ministerial in nature, and the Trustee shall not be liable except for the performance of such duties.

If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent person.

The District shall, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents, and employees harmless from and against (whether or not litigated) all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of: (i) the use, maintenance, condition or management of, or from any work or thing done on, the Project; (ii) any breach or default on the part of the District in the performance of any of its obligations under this Indenture and any other agreement made and entered into for purposes of the Bonds and Parity Bonds; (iii) any act of the City, the District or of any of its agents, contractors, servants, employees or licensees with respect to the Project; (iv) any act of any assignee of, or purchaser from, the City, the District or of any of its or their agents, contractors, servants, employees or licensees with respect to the Project; (v) the construction or acquisition of the Project or the expenditure of Project Costs; (vi) the exercise and performance by the Trustee of its powers and duties hereunder or any related document; (vii) the sale of the Bonds and Parity Bonds and the carrying out of any of the transactions contemplated by the Bonds and Parity Bonds or this Indenture; or (viii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made in light of the circumstances in which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale or marketing of the Bonds and Parity Bonds. The indemnification set forth in this Section shall extend to the Trustee's officers, agents, employees, successors and assigns. No indemnification will be made under this Section or elsewhere in this Indenture or other agreements for willful misconduct or negligence by the Trustee, its officers, agents, employees, successors or assigns. The District's obligations hereunder shall remain valid and binding notwithstanding maturity and payment of the Bonds and Parity Bonds, or the resignation or removal of the Trustee.

In accepting the trust hereby created, the Trustee acts solely as Trustee for the Owners and not in its individual capacity, and all persons, including, without limitation, the Owners, the District and the City, having any claim against the Trustee arising from this Indenture shall look only to the funds and accounts held by the Trustee hereunder for payment, except as otherwise provided herein. Under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds and any Parity Bonds.

THE TRUSTEE MAKES NO WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, AS TO THE VALUE, DESIGN, CONDITION, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OR FITNESS FOR THE USE CONTEMPLATED BY THE DISTRICT OF THE PROJECT, OR ANY PORTION THEREOF. In no event shall the Trustee be liable for incidental, indirect, punitive, special or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit), in connection with or arising out of the Project or this Indenture for the existence, furnishing, functioning or use and possession of the Project, irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

The Trustee shall not be liable to the parties hereto or deemed in breach or default hereunder if and to the extent its performance hereunder is prevented by reason of *force majeure*. The term "*force majeure*" means an occurrence that is beyond the control of the Trustee and could not have been avoided by exercising due care. *Force majeure* shall include, but not limited to, any act or provision of any present or future law or regulation or governmental authority; acts of God; earthquakes; fires; floods; wars; terrorism; civil or military disturbances; sabotage; epidemics; quarantine restrictions; riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications service; accidents; labor disputes; acts of civil or military authority or governmental actions; or the unavailability of the Federal Reserve Bank wire or telex or other wire or communication facility, or other similar occurrences.

The Trustee shall be entitled to request and receive written instructions from the District or other parties and shall have no responsibility or liability for any losses or damages of any nature that may arise from any action taken or not taken by the Trustee in accordance with the written direction of the District or such other parties. The Trustee shall have the right to accept and act upon directions given pursuant to this Indenture and delivered using electronic notice; provided, however, that the District shall provide to the Trustee an incumbency certificate listing each Authorized Representative of the District with the authority to provide such directions and containing specimen signatures of such authorized officers, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee directions using electronic notice and the Trustee in its discretion elects to act upon such directions, the Trustee's understanding of such directions shall be deemed controlling. The District understands and agrees that the Trustee cannot determine the identity of the actual sender of such directions and that the Trustee shall conclusively presume that directions that purport to have been sent by an authorized officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Representative of the District. The District shall be responsible for ensuring that only an Authorized Representative of the District shall transmit such directions to the Trustee and that each Authorized Representative of the District treat applicable user and authorization codes, passwords and/or authentication keys with extreme care. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and a compliance with such directions, notwithstanding such directions conflict or are inconsistent with a subsequent written direction. The District agrees (i) to assume all risks arising out of the use of electronic notice to

submit directions to the Trustee, including, without limitation, the risk of the Trustee acting on unauthorized directions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting directions to the Trustee and that there may be more secure methods of transmitting directions than the method(s) selected by the District; and (iii) that the security procedures (if any) to be followed in connection with its transmission of directions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances.

**Section 7.5. Merger or Consolidation.** Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, shall be the successor to the Trustee without the execution or filing of any paper or further act, anything herein to the contrary notwithstanding.

## **ARTICLE VIII**

### **EVENTS OF DEFAULT; REMEDIES**

**Section 8.1. Events of Default.** Any one or more of the following events shall constitute an “Event of Default”:

(a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same shall become due and payable; or

(c) except as described in subsections (a) or (b), default by the District in the observance of any of the agreements, conditions or covenants on its part contained in this Indenture, the Bonds or any Parity Bonds, which default continues for a period of 30 days after the District has been given notice in writing of such default by the Trustee or the Owners of twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and Parity Bonds.

The Trustee agrees to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under subsections (a) or (b) above and within 30 days of the Trustee’s actual knowledge of an Event of Default under subsection (c) above.

**Section 8.2. Remedies of Owners.** Upon the occurrence of an Event of Default, any Owner may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds and Parity Bonds, and to enforce any rights of the Trustee under or with respect to this Indenture, including:

(a) by mandamus or other suit or proceeding at law or in equity to enforce his rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in this Indenture;

(b) by suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) by a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default shall have occurred and be continuing and if requested and directed so to do by the Owners of at least twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this Article VIII, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy herein conferred upon or reserved to the Owners is intended to be exclusive of any other remedy. Every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

**Section 8.3. Application of Revenues and Other Funds After Default.** All amounts received by the Trustee pursuant to any right given or action taken by the Owners under the provisions of this Indenture relating to the Bonds and Parity Bonds shall be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

First, to the payment of the costs, fees and expenses of the Trustee in declaring such Event of Default and in performing its duties and obligations hereunder, including reasonable compensation to its agents, attorneys and counsel;

Second, to the payment of the fees, costs and expenses of the Owners in declaring such Event of Default and in carrying out the provisions of this Article VIII, including reasonable compensation to its agents, attorneys and counsel, and to the payment of all other outstanding fees and expenses of the Trustee; and

Third, to the payment of the whole amount of interest on and principal of the Bonds and Parity Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds and Parity Bonds; provided, however, that in the event that such amounts shall be insufficient to pay the full amount of such interest and principal, then such amounts shall be applied in the following order of priority:

(a) first to the payment of all installments of interest on the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing;

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing; and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.



**Section 8.4. Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its obligations hereunder, whether upon its own discretion or upon the request of the Owners of twenty-five percent (25%) in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it shall have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds hereunder opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding which any Owner of Bonds or Parity Bonds shall have the right to bring to enforce any right or remedy hereunder may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee is hereby appointed (and the successive respective Owners of the Bonds and Parity Bonds issued hereunder, by taking and holding the same, shall be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney-in-fact.

**Section 8.5. Appointment of Receivers.** Upon the occurrence of an Event of Default hereunder, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights and of the Owners of the Bonds and Parity Bonds under this Indenture, the Trustee shall be entitled, as a matter of right to which the District expressly agrees, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged hereunder, pending such proceedings, with such powers as the court making such appointment shall confer.

**Section 8.6. Non-Waiver.** Nothing in this Article VIII or in any other provision of this Indenture, or in the Bonds or the Parity Bonds, shall affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, as herein provided, or to pay the Trustee its fees and expenses as provided in Section 8.3 hereof, out of the Net Taxes and other moneys herein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owners shall not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds or Parity Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or the Owners by the Act or by this Article VIII may be enforced and exercised from time to time and as often as shall be deemed expedient by the Trustee or the Owners, as the case may be.

**Section 8.7. Limitations on Rights and Remedies of Owners.** No Owner of any Bond or Parity Bond issued hereunder shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon this Indenture, unless: (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the

Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity and security reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity and security shall have been made to, the Trustee.

Such notification, request, tender of indemnity and security and refusal or omission are hereby declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy hereunder; it being understood and intended that no one or more Owners of Bonds and Parity Bonds shall have any right in any manner whatever by his or their action to enforce any right under this Indenture, except in the manner herein provided, and that all proceedings at law or in equity to enforce any provision of this Indenture shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity Bond as herein provided or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the written consent of such Owner, notwithstanding the foregoing provisions of this Section or any other provision of this Indenture.

**Section 8.8. Termination of Proceedings.** In case any Owner shall have proceeded to enforce any right under this Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely, then and in every such case, the District, the Trustee and the Owners shall be restored to their former positions and rights hereunder, respectively, with regard to the property subject to this Indenture, and all rights, remedies and powers of the Owners shall continue as if no such proceedings had been taken.

## **ARTICLE IX**

### **DEFEASANCE AND PARITY BONDS**

**Section 9.1. Defeasance.** If the District shall pay or cause to be paid, or there shall otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in this Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity Bond shall cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the District to the Owner of such Bond or Parity Bond under this Indenture and any Supplemental Indenture relating to such Parity Bond shall thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds and Parity Bonds pursuant to this Section, the Trustee shall execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee shall pay over or deliver to the District's general fund all money or securities held by it pursuant to this Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond shall be deemed to have been paid within the meaning expressed in the first paragraph of this Section if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, federal securities described in subparagraph (1) of the definition of Authorized Investments, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expense Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same shall become due and payable.

If paid as provided above, then, at the election of the District, and notwithstanding that any Outstanding Bonds and Parity Bonds shall not have been surrendered for payment, all obligations of the District under this Indenture and any Supplemental Indenture with respect to such Bond or Parity Bond shall cease and terminate, except for the obligation of the Trustee to pay or cause to be paid to the Owners of any such Bond or Parity Bond not so surrendered and paid all sums due thereon, and except for the covenants of the District contained in Section 5.2(f) or any covenants in a Supplemental Indenture relating to compliance with the Code. Notice of such election shall be filed with the Trustee not less than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Trustee. In connection with a defeasance under (c) above, there shall be provided to the District a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Trustee or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds and Parity Bonds to be defeased in accordance with this Section, as and when the same shall become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds or Parity Bonds being defeased have been legally defeased in accordance with this Indenture and any applicable Supplemental Indenture.

Upon a defeasance, the Trustee, upon request of the District, shall release the rights of the Owners of such Bonds and Parity Bonds which have been defeased under this Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance hereunder of all Outstanding Bonds and Parity Bonds, the Trustee shall pay over or deliver to the District any funds held by the Trustee at the time of a defeasance, which are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Trustee shall, at the written direction of the District, mail, first class, postage prepaid, a notice to the Owners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

**Section 9.2. Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness.** The District may at any time after the issuance and delivery of the Bonds hereunder issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Parity Bonds then Outstanding subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

(a) The District shall be in compliance with all covenants set forth in this Indenture and any Supplemental Indenture then in effect and a certificate of the District to that effect shall have been filed with the Trustee; 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 issuance of such Parity Bonds shall have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds shall have been provided for by a Supplemental Indenture duly adopted by the District which shall specify the following:

(1) the purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited;

(2) the authorized principal amount of such Parity Bonds;

(3) the date and the maturity date or dates of such Parity Bonds; provided that: (i) each maturity date shall fall on a September 1; (ii) all such Parity Bonds of like maturity shall be identical in all respects, except as to number; (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, shall be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates; and (iv) the maturity of such Parity Bonds shall not exceed the maturity of the Bonds being refunded;

(4) the description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) the denominations and method of numbering of such Parity Bonds;

(6) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(8) the form of such Parity Bonds; and

(9) such other provisions as are necessary or appropriate and not inconsistent with this Indenture.

(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 be directed by the District to accept any of such documents bearing a prior date):

(1) a certified resolution of the City Council, acting as the legislative body of the District, 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 general counsel to the District to the effect that: (i) the District has the right and power under the Act to execute and deliver the Supplemental Indenture relating to such Parity Bonds, and such Supplemental Indenture has been duly and lawfully executed by the District, and the Indenture and such Supplemental Indenture 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); (ii) this Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in this Indenture, subject to the application thereof to the purposes and on the conditions permitted by this Indenture; and (iii) 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 this Indenture and the Supplemental Indenture executed and delivered in connection with such Parity Bonds and are entitled to the benefits of this Indenture and such Supplemental Indenture, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and this Indenture and such Supplemental Indenture;

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

(5) a certificate of an Independent Financial Consultant certifying 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; and

(6) such further documents, money and securities as are required by the provisions of this Indenture and the Supplemental Indenture providing for the issuance of such Parity Bonds.

## **ARTICLE X**

### **MISCELLANEOUS**

**Section 10.1. Cancellation of Bonds and Parity Bonds.** All Bonds and Parity Bonds surrendered to the Trustee for payment upon maturity or for redemption shall be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized herein and delivered to the Trustee for such purpose shall be, cancelled forthwith and shall not be reissued. The Trustee shall destroy such Bonds and Parity Bonds, as provided by law, and, upon request of the District, furnish to the District a certificate of such destruction.

**Section 10.2. Execution of Documents and Proof of Ownership.** Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by this Indenture to be signed or executed by Owners may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds shall be sufficient for the purposes of this Indenture (except as otherwise herein provided), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument, and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee shall also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same shall be registered in the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, shall be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee shall be affected by any notice to the contrary.

Nothing contained in this Indenture shall be construed as limiting the Trustee or the District to such proof, it being intended that the Trustee or the District may accept any other evidence of the matters herein stated which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond shall bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent.

**Section 10.3. Unclaimed Moneys.** Anything in this Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds which remain unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, shall be repaid by the Trustee to the District, as its absolute property and free from trust, and the Trustee shall thereupon be released and discharged with respect thereto and the Owners shall look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee, at the expense of the District, shall cause to be mailed by first-class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date shall not be less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

**Section 10.4. Provisions Constitute Contract; Governing Law.** The provisions of this Indenture shall constitute a contract between the District and the Owners and the provisions hereof shall be governed by and construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy shall be brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Owners or the Trustee, then the District, the Trustee and the Owners shall be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds, this Indenture shall be irrevocable, but shall be subject to modifications to the extent and in the manner provided in this Indenture, but to no greater extent and in no other manner.

**Section 10.5. Future Contracts.** Nothing herein contained shall be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge hereunder, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes and other amounts pledged hereunder.

**Section 10.6. Further Assurances.** The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Indenture, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in this Indenture.

**Section 10.7. Entire Agreement; Severability.** This Indenture and the exhibits hereto set forth the entire agreement and understanding of the parties related to this transaction and supersedes all prior agreements and understandings, oral or written. If any covenant, agreement or provision, or any portion thereof, contained in this Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of this Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, shall be deemed severable and shall not be affected thereby, and this Indenture, the Bonds and any Parity Bonds issued pursuant hereto shall remain valid and the Owners shall retain all valid rights and benefits accorded to them under the laws of the State of California.

**Section 10.8. Notices.** Any notices required to be given to the District with respect to the Bonds or this Indenture shall be mailed, first class, postage prepaid, or personally delivered to the City Manager of the City of Lake Elsinore, 130 South Main Street, Lake Elsinore California 92530, all notices to the Trustee in its capacity as Trustee shall be mailed, first class, postage prepaid, or personally delivered to the Trustee, Wilmington Trust, National Association, 650 Town Center Drive, Suite 800, Costa Mesa, California 92626.

IN WITNESS WHEREOF, COMMUNITY FACILITIES DISTRICT NO. 2019-2 OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH) has caused this Indenture to be signed by an Authorized Representative of the District and Wilmington Trust, National Association in token of its acceptance of the trust created hereunder, has caused this Indenture to be signed in its corporate name by its officers identified below, all as of the day and year first above written.

COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS  
RANCH)

By: \_\_\_\_\_  
City Manager of the City of Lake Elsinore,  
acting as the legislative body of Community  
Facilities District No. 2019-2 of the City of  
Lake Elsinore (Nichols Ranch)

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Lake Elsinore,  
acting as the legislative body of  
Community Facilities District No. 2019-2  
of the City of Lake Elsinore (Nichols  
Ranch)

WILMINGTON TRUST, NATIONAL  
ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Authorized Signatory



**EXHIBIT A**

**FORM OF SPECIAL TAX BOND**

***UNLESS THIS BOND IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE DISTRICT OR TRUSTEE FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY BOND ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.***

R-\_\_\_\_\_

\$\_\_\_\_\_

**UNITED STATES OF AMERICA  
STATE OF CALIFORNIA  
COUNTY OF RIVERSIDE**

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BOND, SERIES 2024**

|                       |                       |                    |               |
|-----------------------|-----------------------|--------------------|---------------|
| <b>INTEREST RATE:</b> | <b>MATURITY DATE:</b> | <b>DATED DATE:</b> | <b>CUSIP:</b> |
| %                     | September 1, 20__     | September __, 2024 | __            |

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

COMMUNITY FACILITIES DISTRICT NO. 2019-2 OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH) (the "District") which was formed by the City of Lake Elsinore (the "City") and is situated in the County of Riverside, State of California, FOR VALUE RECEIVED, hereby promises to pay, solely from certain amounts held under the Indenture (as hereinafter defined), to the Owner named above, or registered assigns, on the Maturity Date set forth above, unless redeemed prior thereto as hereinafter provided, the Principal Amount set forth above, and to pay interest on such Principal Amount from the Interest Payment Date (as hereinafter defined) next preceding the date of authentication hereof, unless: (i) the date of authentication is an Interest Payment Date, in which event interest shall be payable from such date of authentication; (ii) the date of authentication is after a Record Date (as hereinafter defined) but prior to the immediately succeeding Interest Payment Date, in which event interest shall 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 shall be payable from the Dated Date set forth above. Notwithstanding the foregoing, if at the time of authentication of this Bond interest is in default, interest on this Bond shall be payable from the last Interest Payment Date to which the

interest has been paid or made available for payment or, if no interest has been paid or made available for payment, interest on this Bond shall be payable from the Dated Date set forth above. Interest will be paid semiannually on March 1, 2025 and each March 1 and September 1 thereafter (each an "Interest Payment Date"), at the Interest Rate set forth above, until the Principal Amount hereof is paid or made available for payment.

The principal of and premium, if any, on this Bond are payable to the Owner hereof in lawful money of the United States of America upon presentation and surrender of this Bond at the Principal Office of the Trustee (as such term is defined in the Indenture), initially Wilmington Trust, National Association (the "Trustee"). Interest on this Bond shall be paid by check of the Trustee mailed, by first class mail, postage prepaid, or in certain circumstances described in the Indenture by wire transfer to an account within the United States of America, to the Owner hereof as of the close of business on the fifteenth day of the month preceding the month in which the Interest Payment Date occurs (the "Record Date") at such Owner's address as it appears on the registration books maintained by the Trustee.

This Bond is one of a duly authorized issue of "Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024" (the "Bonds") issued in the aggregate principal amount of \$ \_\_\_\_\_ pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being Section 53311 *et seq.* of the California Government Code (the "Act") for the purpose of financing public improvements, funding a reserve account, funding capitalized interest on the Bonds and paying certain costs related to the issuance of the Bonds. The issuance of the Bonds and the terms and conditions thereof are provided for by a resolution adopted by the City Council of the City, acting in its capacity as the legislative body of the District (the "Legislative Body"), on August 13, 2024, and a Bond Indenture executed in connection therewith dated as of September 1, 2024 (the "Indenture"), by and between the District and the Trustee, and this reference incorporates the Indenture herein, and by acceptance hereof the Owner of this Bond assents to said terms and conditions. The Indenture is adopted under and this Bond is issued under, and both are to be construed in accordance with, the laws of the State of California.

Pursuant to the Act and the Indenture, the principal of, premium, if any, and interest on this Bond are payable solely from the portion of the annual special taxes authorized under the Act to be levied and collected within the District (the "Special Taxes") and certain other amounts pledged to the repayment of the Bonds as set forth in the Indenture. Any amounts for the payment hereof shall be limited to the Net Taxes pledged and collected or foreclosure proceeds received following a default in payment of the Special Taxes and other amounts deposited to the Special Tax Fund (other than the Administrative Expense Account therein) established under the Indenture, except to the extent that other provision for payment has been made by the Legislative Body, as may be permitted by law. The District has covenanted for the benefit of the owners of the Bonds that under certain circumstances described in the Indenture it will commence and diligently pursue to completion appropriate foreclosure proceedings in the event of delinquencies of Special Tax installments levied for payment of principal and interest on the Bonds.

The Bonds may be redeemed at the option of the District from any source of funds on any Interest Payment Date on and after September 1, 20\_\_, in whole or in part, from such maturities as are selected by the District and by lot within a maturity, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

***Redemption Date***

***Redemption Price***

103%  
102  
101  
100

The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established under the Indenture, on September 1, 20\_\_ and on each September 1 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:

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

***Sinking Fund Redemption Date  
(September 1)***

***Sinking Fund Payments***

\$

\*

---

\* Maturity.

The Bonds maturing on September 1, 20\_\_ (the “20\_\_ Term Bonds”) shall be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account established under the Indenture, on September 1, 20\_\_ and on each September 1 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:

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

***Sinking Fund Redemption Date  
(September 1)***

***Sinking Fund Payments***

\$

\*

---

\* Maturity.

The Bonds are subject to special mandatory redemption as a whole, or in part on a pro rata basis among maturities and by lot within a maturity, on any Interest Payment Date on and after

March 1, 2025, and shall be redeemed by the Trustee, from Prepayments deposited to the Redemption Account plus amounts transferred from the Reserve Account in connection with such transfers, 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 Date</i> | <i>Redemption Price</i> |
|------------------------|-------------------------|
|                        | 103%                    |
|                        | 102                     |
|                        | 101                     |
|                        | 100                     |

Notice of redemption with respect to the Bonds to be redeemed shall be mailed to the registered owners thereof not less than 30 nor more than 45 days prior to the redemption date by first class mail, postage prepaid, to the addresses set forth in the 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. Neither a failure of the Owner hereof to receive such notice nor any defect therein will affect the validity of the proceedings for redemption. All Bonds or portions thereof so called for redemption will cease to accrue interest on the specified redemption date, provided that funds for the redemption are on deposit with the Trustee on the redemption date. Thereafter, the registered owners of such Bonds shall have no rights except to receive payment of the redemption price upon the surrender of the Bonds.

This Bond shall be registered in the name of the Owner hereof, as to both principal and interest, and the District and the Trustee may treat the Owner hereof as the absolute owner for all purposes and shall not be affected by any notice to the contrary.

The Bonds are issuable only in fully registered form in the denomination of \$5,000 or any integral multiple thereof and may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations of the same issue and maturity, all as more fully set forth in the Indenture. This Bond is transferable by the Owner hereof, in person or by his attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, upon surrender and cancellation of this Bond. Upon such transfer, a new registered Bond of authorized denomination or denominations for the same aggregate principal amount of the same issue and maturity will be issued to the transferee in exchange therefor.

The Trustee shall not be required to register transfers or make exchanges of: (i) any Bonds for a period of 15 days next preceding any selection of the Bonds to be redeemed; or (ii) any Bonds chosen for redemption.

The rights and obligations of the District and of the registered owners of the Bonds may be amended at any time, and in certain cases without notice to or the consent of the registered owners, to the extent and upon the terms provided in the Indenture.

THE BONDS DO NOT CONSTITUTE GENERAL OBLIGATIONS OF THE CITY OR OF THE DISTRICT. NEITHER THE CITY NOR THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE, OR HAS LEVIED OR PLEDGED, GENERAL OR SPECIAL TAXES, OTHER THAN THE SPECIAL TAXES REFERENCED HEREIN. THE BONDS ARE LIMITED OBLIGATIONS OF THE DISTRICT PAYABLE FROM THE PORTION OF THE SPECIAL TAXES AND OTHER

AMOUNTS PLEDGED UNDER THE INDENTURE BUT ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION OR RESTRICTION.

This Bond shall not become valid or obligatory for any purpose until the certificate of authentication and registration hereon endorsed shall have been dated and signed by the Trustee.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by law to exist, happen and be performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by law, and that the amount of this Bond, together with all other indebtedness of the District, does not exceed any debt limit prescribed by the laws or Constitution of the State of California.

IN WITNESS WHEREOF, Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) has caused this Bond to be dated the Dated Date, to be signed on behalf of the District by the Mayor of the City by her facsimile signature and attested by the facsimile signature of the City Clerk of the City.

\_\_\_\_\_  
Mayor of the City of Lake Elsinore, acting as the  
legislative body of Community Facilities District No.  
2019-2 of the City of Lake Elsinore (Nichols Ranch)

ATTEST:

\_\_\_\_\_  
City Clerk of the City of Lake Elsinore, acting  
as the legislative body of Community  
Facilities District No. 2019-2 of the City of  
Lake Elsinore (Nichols Ranch)

[FORM OF TRUSTEE'S CERTIFICATE  
OF AUTHENTICATION AND REGISTRATION]

This is one of the Bonds described in the within-defined Indenture.

Dated: September \_\_, 2024

WILMINGTON TRUST, NATIONAL  
ASSOCIATION as Trustee

By: \_\_\_\_\_  
Authorized Signatory

[FORM OF LEGAL OPINION]

The following is a true copy of the opinion rendered by Stradling Yocca Carlson & Rauth LLP, in connection with the issuance of, and dated as of the date of the original delivery of, the Bonds. A signed copy is on file in my office.

\_\_\_\_\_  
City Clerk of the City of Lake Elsinore

[FORM OF ASSIGNMENT]

For value received the undersigned do(es) hereby sell, assign and transfer unto

\_\_\_\_\_  
whose tax identification number is \_\_\_\_\_,  
the within-mentioned registered Bond and hereby irrevocably constitute(s) and appoint(s)

\_\_\_\_\_  
attorney to transfer the same on the books of the Trustee with full power of substitution in the  
premises.

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

Signature guaranteed:

\_\_\_\_\_  
NOTE: Signature(s) must be guaranteed by an  
eligible guarantor institution.

NOTE: The signatures(s) on this Assignment  
must correspond with the name(s) as written on  
the face of the within Bond in every particular  
without alteration or enlargement or any change  
whatsoever.

**EXHIBIT B-1**

**FORM OF REQUISITION FOR DISBURSEMENT OF PROJECT COSTS**

**\$ \_\_\_\_\_  
SPECIAL TAX BONDS, SERIES 2024**

**COMMUNITY FACILITIES DISTRICT NO. 2019-2 OF THE  
CITY OF LAKE ELSINORE (NICHOLS RANCH)**

Wilmington Trust, National Association (the “Trustee”), is hereby requested to pay from the [City Facilities][Water Facilities] Account of the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Acquisition and Construction Fund, established by the Bond Indenture, dated as of September 1, 2024, by and between the Trustee and Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “District”), the amount specified to the payee named below for payment of the Project Costs set forth in Attachment No. 1 hereto.

Payee:

Address:

Purpose:

Amount:         \$

The amount is due and payable under purchase order, contract or other authorization and has not formed the basis of any prior request for payment. The conditions for the release of this amount from the [City Facilities][Water Facilities] Account, including those conditions in Section 3.9(b) of the Indenture have been satisfied.

There has not been filed with nor served upon the District notice of any lien, right to lien or attachment upon, or stop notice or claim affecting the right to receive payment of the amount specified above which has not been released or will not be released simultaneously with the payment of such amount, other than materialmen’s or mechanic’s liens accruing by mere operation of law.

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

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS  
RANCH)**

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

## DISTRICT CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”), dated as of September 1, 2024, is executed and delivered by Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “District”) in connection with the issuance of the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024 (the “Bonds”). The Bonds are being issued pursuant to a Resolution of Issuance adopted by the City Council of the City of Lake Elsinore, acting as the legislative body of the District on August 13, 2024 and a Bond Indenture by and between the District and Wilmington Trust, National Association, as Trustee, dated as of September 1, 2024 (the “Indenture”).

The District covenants as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture and the Rate and Method of Apportionment, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

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

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any Bond for federal income purposes.

“City” shall mean the City of Lake Elsinore, County of Riverside, California.

“Disclosure Representative” shall mean the City Manager of the City, or such other officer or employee as the District shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, Spicer Consulting Group, LLC, or any successor Dissemination Agent designed in writing by the District.

“EMMA” shall mean 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), or any other repository of disclosure information that may be designated by the Securities and Exchange Commission in the future.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.



“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until 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>.

“Official Statement” shall mean the District’s official statement with respect to the Bonds.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated.

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Tax approved pursuant to the Resolution of Formation.

“Resolution of Formation” means the resolutions adopted by the City Council pursuant to which the City Council formed the District and undertook certain change proceedings with respect to the District.

“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.

### SECTION 3. Provision of Annual Reports.

(a) Not later than February 15 of each year commencing February 15, 2024, the District shall, or shall cause the Dissemination Agent to, provide to EMMA and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is other than the District, then not later than 15 business days prior to the date referred to in the prior sentence hereof, the District shall provide the Annual Report (in a form suitable for filing with EMMA) to the Dissemination Agent. 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 Certificate; provided that the audited financial statements of the District may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

(b) In the event that the Dissemination Agent is an entity other than the District, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the District shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the District to determine if the District will be filing the Annual Report in compliance with subsection (a). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is other than the District and if the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection

(a), the Dissemination Agent shall send a notice in a timely manner to EMMA, in the form required by EMMA. If the District acts as its own Dissemination Agent, it shall file a notice with EMMA no later than the date specified in subsection (a) for filing an Annual Report if the District fails to file the Annual Report by that date.

(d) If the Dissemination Agent is other than the District, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the repository if other than the MSRB through EMMA; and

(ii) promptly after receipt of the Annual Report, file a report with the District certifying that the Annual Report has been provided to EMMA and the date it was provided.

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

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the District, if any, for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements, if any are prepared, are not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) Financial and Operating Data. The Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Indenture as of the September 2 preceding the filing of the Annual Report;

(iii) the aggregate assessed valuation of the Taxable Property within the District;

(iv) any changes to the Rate and Method of Apportionment of the Special Tax approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;

(v) a table setting forth the annual Special Tax delinquency rate within the District at June 30 for each fiscal year on which a delinquency exists, listing for each fiscal year the total Special Tax levy, the amount delinquent and the percent delinquent;

(vi) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes within the District; and

(vii) an update of the value-to-lien of the property within the District based on the assessed value and the Special Tax levy for then current fiscal year, which update may be provided in a form similar to Table 2 in the Official Statement; provided that such update need not include overlapping special tax, assessment or general obligation indebtedness.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB through EMMA. The District 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 District shall give, or cause the Dissemination Agent to give, notice to EMMA in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
6. defeasances;
7. tender offers;
8. bankruptcy, insolvency, receivership or similar proceedings;
9. ratings changes; and
10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) Additionally, the District shall give or cause the Dissemination Agent to give notice to EMMA in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds, if material:

1. mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;

2. appointment of a successor or additional fiscal agent or the change of the name of a fiscal agent;
3. nonpayment related defaults;
4. modifications to the rights of Bondholders;
5. bond calls;
6. release, substitution or sale of property securing repayment of the Bonds; and
7. incurrence of a Financial Obligation of the obligated person, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders.

(c) In the event that the District's fiscal year changes, the District shall report or shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as Listed Events would be reported pursuant to this Section.

(d) The District hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the District, and the Dissemination Agent, if other than the District, shall not be responsible for determining whether the District's instructions to the Dissemination Agent under this Section comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the District and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Spicer Consulting Group, LLC. The Dissemination Agent may resign by providing (i) thirty days written notice to the District, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, by written agreement of the parties, without the consent of the Owners, and any provision of this Disclosure Certificate may be waived, if all of the following conditions are satisfied: (1) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the District or the type of business conducted thereby, (2) the undertakings in this Disclosure Certificate as so amended or waived would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (3) the amendment or waiver

either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners or (ii) does not, in the determination of the District, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

(b) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(c) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate 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 Certificate. If the District 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 Certificate, the District shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent to comply with any provision of this Disclosure Certificate, 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 District and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the District or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the District is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent shall be paid (i) compensation by the District for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the District pursuant to this Disclosure

Certificate. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. 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 Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds; and it shall create no rights in any other person or entity.

SECTION 13. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

This Disclosure Certificate is executed as of the date and year first set forth above.

COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS  
RANCH)

By: \_\_\_\_\_  
Disclosure Representative

§ \_\_\_\_\_  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

**BOND PURCHASE AGREEMENT**

\_\_\_\_\_, 2024

City of Lake Elsinore  
Community Facilities District No. 2019-2  
(Nichols Ranch)  
130 South Main Street  
Lake Elsinore, California 92530

Ladies and Gentlemen:

Stifel, Nicolaus & Company, Incorporated, as underwriter (the “**Underwriter**”), acting not as a fiduciary or agent for you, but on behalf of itself, offers to enter into this Bond Purchase Agreement (this “**Purchase Agreement**”) with Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “**Community Facilities District**”), which upon acceptance will be binding upon the Underwriter and the Community Facilities District. The agreement of the Underwriter to purchase the Bonds (as hereinafter defined) is contingent upon the Community Facilities District satisfying all of the obligations imposed upon them under this Purchase Agreement. This offer is made subject to the Community Facilities District’s acceptance by the execution of this Purchase Agreement and its delivery to the Underwriter at or before 11:59 P.M., local time, on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon notice delivered to the Community Facilities District at any time prior to the acceptance hereof by the Community Facilities District. All capitalized terms used herein, which are not otherwise defined, shall have the meaning provided for such terms in the Bond Indenture, dated as of September 1, 2024 (the “**Indenture**”), by and between the Community Facilities District and Wilmington Trust, National Association, as trustee (the “**Trustee**”).

1. Purchase, Sale and Delivery of the Bonds.

Subject to the terms and conditions and in reliance upon the representations, warranties and agreements set forth herein: (i) the Underwriter hereby agrees to purchase from the Community Facilities District and the Community Facilities District hereby agrees to sell to the Underwriter all (but not less than all) of the \$ \_\_\_\_\_ aggregate principal amount of the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024 (the “**Bonds**”), dated the Closing Date (as hereinafter defined), bearing interest at the rates and maturing on the dates and in the principal amounts set forth in Exhibit A hereto. The purchase price for the Bonds shall be \$ \_\_\_\_\_ (being 100% of the aggregate principal amount thereof, plus an original issue premium of \$ \_\_\_\_\_ and less an Underwriter’s discount of \$ \_\_\_\_\_).

The Underwriter agrees to make a bona fide public offering of all of the Bonds initially at the public offering prices (or yields) set forth in Exhibit A attached hereto and incorporated herein by

reference. Subsequent to the initial public offering, the Underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the Bonds subject to Section 2 hereof, provided that the Underwriter shall not change the interest rates set forth in Exhibit A. The Bonds may be offered and sold to certain dealers at prices lower than such initial offering prices.

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable from the Net Taxes as provided in the Indenture, the Preliminary Official Statement (as hereinafter defined), and the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the “**Community Facilities District Act**”). The issuance of the Bonds has been duly authorized by the City Council of the City of Lake Elsinore (the “**City**”), as the legislative body for the Community Facilities District, pursuant to a resolution (the “**Community Facilities District Resolution of Issuance**”) adopted on \_\_\_\_\_, 2024.

The net proceeds of the Bonds will be used to: (i) finance certain public improvements needed with respect to the development of property located within the Community Facilities District, including public improvements to be owned by the City and water and sewer facilities to be owned and operated by the Elsinore Valley Municipal Water District; (ii) fund a reserve account for the Bonds; (iii) fund capitalized interest on a portion of the Bonds through March 1, 2025; and (iv) pay costs of issuance for the Bonds.

The Bonds shall be substantially in the form described in, shall be issued and secured under the provisions of, and shall be payable from special taxes as provided in the Indenture (the “**Special Taxes**”).

A. The Community Facilities District hereby acknowledges that the Underwriter is entering into this Purchase Agreement in reliance on the representations, warranties and agreements made by the Community Facilities District herein, and the Community Facilities District shall take all action necessary to enforce its rights hereunder for the benefit of the Underwriter and shall immediately notify the Underwriter if it becomes aware that any representation, warranty or agreement made by the Community Facilities District herein is incorrect in any material respect.

The Community Facilities District acknowledges and agrees that (i) the purchase and sale of the Bonds pursuant to this Purchase Agreement is an arm’s-length commercial transaction between the Community Facilities District and the Underwriter, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as principal and not as the agent or fiduciary of the Community Facilities District, (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the Community Facilities District with respect to (a) the offering of the Bonds or the process leading thereto (whether or not the Underwriter, or any affiliate of the Underwriter, has advised or is currently advising the Community Facilities District on other matters) or (b) any other obligations to the Community Facilities District with respect to the offering contemplated hereby, except the obligations expressly set forth in this Purchase Agreement or otherwise imposed by law, (iv) the Underwriter has financial interests that differ from those of the Community Facilities District and (v) the Community Facilities District has consulted with their own legal, financial and other advisors to the extent they have deemed appropriate in connection with this transaction. The Community Facilities District acknowledges that it has previously provided the Underwriter with an acknowledgement of receipt of the required Underwriter disclosure under Rule G-17 of the Municipal



Securities Rulemaking Board (“MSRB”). The Community Facilities District acknowledges and represents that it has engaged Urban Futures, Inc. as its municipal advisor (the “**Municipal Advisor**”) (as defined in Securities and Exchange Commission Rule 15Ba1) and will rely solely on the financial advice of Urban Futures, Inc. with respect to the Bonds.

B. Pursuant to the authorization of the Community Facilities District, the Underwriter has distributed copies of the Preliminary Official Statement dated \_\_\_\_\_, 2024, relating to the Bonds, which, together with the cover page, inside cover page and appendices thereto is herein called the “**Preliminary Official Statement**.” By its acceptance of this Purchase Agreement, the Community Facilities District hereby ratifies the use by the Underwriter of the Preliminary Official Statement, and the Community Facilities District agrees to execute a final official statement relating to the Bonds (including any supplements and/or amendments thereto, the “**Official Statement**”) which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of Stradling Yocca Carlson & Rauth LLP, Bond Counsel (“**Bond Counsel**”), Stradling Yocca Carlson & Rauth LLP, Disclosure Counsel (“**Disclosure Counsel**”), and the Underwriter, and to provide copies thereof to the Underwriter as set forth herein. The Community Facilities District hereby authorizes and requires the Underwriter to use and promptly distribute, in connection with the offer and sale of the Bonds, the Preliminary Official Statement, the Official Statement and any supplement or amendment thereto. The Community Facilities District further authorizes the Underwriter to use and distribute, in connection with the offer and sale of the Bonds, the Indenture, the Continuing Disclosure Certificate executed by the Community Facilities District in connection with the Bonds (the “**Continuing Disclosure Certificate**”), this Purchase Agreement and all information contained herein, and all other documents, certificates and statements furnished by or on behalf of the Community Facilities District to the Underwriter in connection with the transactions contemplated by this Purchase Agreement.

C. To assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “**Rule**”), the Community Facilities District will undertake pursuant to the Continuing Disclosure Certificate, in the form attached to the Official Statement as Appendix F, to provide annual reports and notices of certain enumerated events. A description of this undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement.

D. Except as the Underwriter and the Community Facilities District may otherwise agree, the Community Facilities District will deliver to the Underwriter, at the offices of Bond Counsel in Newport Beach, California, or at such other location as may be mutually agreed upon by the Underwriter and the Community Facilities District, the documents hereinafter mentioned; and the Community Facilities District will deliver to the Underwriter through the facilities of The Depository Trust Company (“**DTC**”), the Bonds, in definitive form (all Bonds bearing CUSIP numbers), duly executed by the Community Facilities District and authenticated by the Trustee in the manner provided for in the Indenture and the Community Facilities District Act at 8:00 a.m. California time, on \_\_\_\_\_, 2024 (the “**Closing Date**”), and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in paragraph (A) of this Section by wire transfer, payable in federal or other immediately available funds (such delivery and payment being herein referred to as the “**Closing**”). The Bonds shall be in fully registered book-entry form (which may be typewritten) and shall be registered in the name of Cede & Co., as nominee of DTC.

2. Establishment of Issue Price.

A. The Underwriter agrees to assist the Community Facilities District in establishing the issue price of the Bonds and shall execute and deliver to the Community Facilities District at Closing an “issue price” or similar certificate, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto as Exhibit D, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Underwriter, the Community Facilities District and Bond Counsel, to accurately reflect, as applicable, the sales price or prices or the initial offering price or prices to the public of the Bonds.

B. Except as otherwise set forth in Exhibit A attached hereto, the Community Facilities District will treat the first price at which 10% of each maturity of the Bonds (the “**10% test**”) is sold to the public as the issue price of that maturity (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% test). At or promptly after the execution of this Purchase Agreement, the Underwriter shall report to the Community Facilities District the price or prices at which it has sold to the public each maturity of Bonds. If at that time the 10% test has not been satisfied as to any maturity of the Bonds, the Underwriter agrees to promptly report to the Community Facilities District the prices at which it sells the unsold Bonds of that maturity to the public. That reporting obligation shall continue, whether or not the Closing Date has occurred, until the 10% test has been satisfied as to the Bonds of that maturity or until all Bonds of that maturity have been sold to the public.

C. The Underwriter confirms that it has offered the Bonds to the public on or before the date of this Purchase Agreement at the offering price or prices (the “**initial offering price**”), or at the corresponding yield or yields, set forth in Exhibit A attached hereto. Exhibit A also sets forth, as of the date of this Purchase Agreement, the maturities, if any, of the Bonds for which the Underwriter represents that (i) the 10% test has been satisfied (assuming orders are confirmed by the close of the business day immediately following the date of this Purchase Agreement) and (ii) the 10% test has not been satisfied and for which the Community Facilities District and the Underwriter agree that the restrictions set forth in the next sentence shall apply, which will allow the Community Facilities District to treat the initial offering price to the public of each such maturity as of the sale date as the issue price of that maturity (the “**hold-the-offering-price rule**”). So long as the hold-the-offering-price rule remains applicable to any maturity of the Bonds, the Underwriter will neither offer nor sell unsold Bonds of that maturity to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

1. the close of the fifth (5th) business day after the sale date; or
2. the date on which the Underwriter has sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The Underwriter shall promptly advise the Community Facilities District when it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

D. The Underwriter confirms that:

(i) any selling group agreement and any third-party distribution agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will

contain language obligating each dealer who is a member of the selling group and each broker-dealer that is a party to such third-party distribution agreement, as applicable:

(A)(i) to report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Underwriter and (ii) to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter,

(B) to promptly notify the Underwriter of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(C) to acknowledge that, unless otherwise advised by the dealer or broker-dealer, the Underwriter shall assume that each order submitted by the dealer or broker-dealer is a sale to the public.

(ii) any selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred, until either all Bonds of that maturity allocated to it have been sold or it is notified by the Underwriter or the dealer that the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the Underwriter or the dealer, and (B) comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Underwriter or the dealer and as set forth in the related pricing wires.

E. The Community Facilities District acknowledges that, in making the representation set forth in this section, the Underwriter will rely on (i) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and (ii) in the event that a third-party distribution agreement was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires.

F. The Underwriter acknowledges that sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below) shall not constitute sales to the public for purposes of this section. Further, for purposes of this section:

1. “public” means any person other than an underwriter or a related party;

2. “underwriter” means (A) any person that agrees pursuant to a written contract with the Community Facilities District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public);

3. a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other); and

4. “sale date” means the date of execution of this Purchase Agreement by all parties.

3. Representations, Warranties and Covenants of the Community Facilities District. The Community Facilities District represents, warrants and covenants to the Underwriter on behalf of itself and the City that:

A. The City is duly organized and validly existing as a general law city under the Constitution and laws of the State of California and has duly authorized the formation of the Community Facilities District pursuant to resolutions duly adopted by the City Council (the “**Community Facilities District Formation Resolution**” and, together with the Community Facilities District Resolution of Issuance, the “**Community Facilities District Resolutions**”) and the Community Facilities District Act. The City Council, as the legislative body of the City and the Community Facilities District, has duly adopted the Community Facilities District Formation Resolution, and has caused to be recorded in the real property records of the County of Riverside, a notice of special tax lien, and any required amendments thereof (collectively, the “**Notice of Special Tax Lien**”) (the Community Facilities District Formation Resolution and Notice of Special Tax Lien being collectively referred to herein as the “**Formation Documents**”), and has duly adopted a Community Facilities District Resolution of Issuance. Each of its Formation Documents remains in full force and effect as of the date hereof and has not been amended. The Community Facilities District is duly organized and validly existing as a Community Facilities District under the laws of the State of California. The Community Facilities District has, and at the Closing Date will have, as the case may be, full legal right, power and authority: (i) to execute, deliver and perform its obligations under this Purchase Agreement, the Continuing Disclosure Certificate and the Indenture, and to carry out all transactions contemplated by each of such agreements; (ii) to issue, sell and deliver the Bonds as provided herein; and (iii) to carry out, give effect to and consummate the transactions contemplated by the Formation Documents, the Indenture, the Bonds, the Continuing Disclosure Certificate, this Purchase Agreement and the Official Statement.

This Purchase Agreement, the Indenture, the Bonds and the Continuing Disclosure Certificate are collectively referred to herein as the “**Community Facilities District Documents.**”

B. The Community Facilities District and the City, as applicable, have each complied, and will at the Closing Date be in compliance in all material respects, with the Formation Documents and the Community Facilities District Documents, and any immaterial noncompliance by the Community Facilities District and the City, if any, will not impair the ability of the Community Facilities District and the City, as applicable, to carry out, give effect to or consummate the transactions contemplated by the foregoing. From and after the date of issuance of the Bonds, the Community Facilities District will continue to comply with the covenants of the Community Facilities District contained in the Community Facilities District Documents.

C. The information in the Preliminary Official Statement and in the Official Statement relating to the Community Facilities District and the Bonds (other than information under the captions “PROPERTY OWNERSHIP AND THE DEVELOPMENT,” CONTINUING DISCLOSURE — Developer Continuing Disclosure and “UNDERWRITING,” Appendix D and Appendix H, information provided by Meritage Homes of California, Inc. (the “**Developer**”), the Appraiser and the Special Tax Consultant (as such terms are defined herein) and statements pertaining to the book entry system, as to which no view is expressed), is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; and, upon delivery and up to and including 25 days after the End of the Underwriting Period (as defined in paragraph (D) below), the Official Statement will be amended and supplemented so as to contain no misstatement of any material fact or omission of any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

D. Up to and including 25 days after the End of the Underwriting Period (as defined below), the Community Facilities District will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The Community Facilities District will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise materially affecting the use of the Official Statement in connection with the offering, sale or distribution of the Bonds. As used herein, the term “End of the Underwriting Period” means the later of such time as: (i) the Bonds are delivered to the Underwriter; or (ii) the Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the Bonds for sale to the public. Unless the Underwriter gives notice to the contrary, the End of the Underwriting Period shall be deemed to be the Closing Date. Any notice delivered pursuant to this provision shall be written notice delivered to the Community Facilities District at or prior to the Closing Date and shall specify a date (other than the Closing Date) to be deemed the “End of the Underwriting Period.”

E. Except as described in the Preliminary Official Statement and Official Statement, the Community Facilities District is not, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Community Facilities District is a party or is otherwise subject or bound, and the performance of its obligations under the Community Facilities District Documents and compliance with the provisions of each thereof, or the performance of the conditions precedent to be performed by the Community Facilities District pursuant to this Purchase Agreement, will not conflict with or constitute a breach of

or default under any applicable law or administrative rule or regulation of the State, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Community Facilities District is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance by the Community Facilities District of its obligations under the Community Facilities District Documents or the performance of the conditions precedent to be performed by the Community Facilities District pursuant to this Purchase Agreement.

F. Except as may be required under the “blue sky” or other securities laws of any jurisdiction, all approvals, consents, authorizations, elections and orders of, or filings or registrations with, any governmental authority, board, agency or commission having jurisdiction which would constitute a condition precedent to, or the absence of which would materially adversely affect, the performance by the Community Facilities District of its obligations under the Community Facilities District Documents, and the performance of the conditions precedent to be performed by the Community Facilities District pursuant to this Purchase Agreement, have been or will be obtained at the Closing Date and are or will be in full force and effect at the Closing Date.

G. The Community Facilities District Documents conform as to form and tenor to the descriptions thereof contained in the Official Statement.

H. The Bonds are payable from the Special Tax of the Community Facilities District, as set forth in the Indenture, the levy of which has been duly and validly authorized pursuant to the Community Facilities District Act and the Community Facilities District will covenant in the Indenture to levy the Special Taxes within the Community Facilities District in an amount which, together with other available funds, is required for the payment of the principal of, and interest on, the Bonds when due and payable, all as provided in the Indenture.

I. The Indenture creates a valid pledge of, first lien upon and security interest in, the Net Taxes, and in the moneys in the Special Tax Fund (other than the Administrative Expense Account) established pursuant to the Indenture, on the terms and conditions set forth in the Indenture.

J. Except as disclosed in the Preliminary Official Statement, there are, to the best of the Community Facilities District’s knowledge, no entities with outstanding assessment liens against any of the properties within the Community Facilities District or which are senior to or on a parity with the Special Taxes of the Community Facilities District referred to in paragraph (I) hereof.

K. The Preliminary Official Statement was deemed final by a duly authorized officer of the Community Facilities District prior to its delivery to the Underwriter, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of the Rule. The Community Facilities District hereby covenants and agrees that, within seven (7) business days from the date hereof, or upon reasonable written notice from the Underwriter within sufficient time to accompany any confirmation requesting payment from any customers of the Underwriter, the Community Facilities District shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of the Rule and Rules G-12, G-15, G-32 and G-36 of the Municipal Securities Rulemaking Board.

L. At the time of acceptance hereof there is and as of the Closing there will be no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency,

public board or body (collectively and individually, an “**Action**”) pending (notice of which has been served on the Community Facilities District) or to the best knowledge of the Community Facilities District or the City threatened, in which any such Action: (i) in any way questions the existence of the Community Facilities District or the titles of the officers of the Community Facilities District to their respective offices; (ii) affects, contests or seeks to prohibit, restrain or enjoin the issuance or delivery of the Bonds or the payment or collection of Special Taxes or any amounts pledged or to be pledged to pay the principal of and interest on the Bonds, or in any way contests or affects the validity of the Community Facilities District Documents or the consummation of the transactions on the part of the Community Facilities District contemplated thereby; (iii) contests the exemption of interest on the Bonds from federal or State income taxation or contests the powers of the Community Facilities District which may result in any material adverse change relating to the financial condition of the Community Facilities District; or (iv) contests the completeness or accuracy of the Preliminary Official Statement or the Official Statement or any supplement or amendment thereto or asserts that the Preliminary Official Statement or the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and as of the time of acceptance hereof there is and, as of the Closing Date, there will be no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

M. Any certificate signed on behalf of the Community Facilities District by any officer or employee of the Community Facilities District authorized to do so shall be deemed a representation and warranty by the Community Facilities District to the Underwriter on behalf of itself and the Community Facilities District as to the statements made therein.

N. At or prior to the Closing the Community Facilities District will have duly authorized, executed and delivered the Continuing Disclosure Certificate in substantially the form attached as Appendix F to the Official Statement. Based upon a review of its previous undertakings, and except as disclosed in the Preliminary Official Statement, the Community Facilities District has not failed to comply in all respects with any previous undertakings with regard to the Rule to provide annual reports or notices of enumerated events in the last five years.

O. The Community Facilities District will apply the proceeds of the Bonds in accordance with the Indenture and as described in the Official Statement.

P. Until such time as moneys have been set aside in an amount sufficient to pay all then outstanding Bonds at maturity or to the date of redemption if redeemed prior to maturity, plus unpaid interest thereon and premium, if any, to maturity or to the date of redemption if redeemed prior to maturity, the Community Facilities District will faithfully perform and abide by all of the covenants, undertakings and provisions contained in the Indenture.

Q. Between the date of this Purchase Agreement and the date of Closing, the Community Facilities District will not offer or issue any bonds, notes or other obligations for borrowed money not previously disclosed to the Underwriter.

The Community Facilities District hereby approves the preparation and distribution of the Official Statement, consisting of the Preliminary Official Statement with such changes as are noted thereon and as may be made thereto, with the approval of Bond Counsel, Disclosure Counsel and the Underwriter, from time to time prior to the Closing Date.

The execution and delivery of this Purchase Agreement by the Community Facilities District shall constitute a representation by the Community Facilities District to the Underwriter that the representations and warranties contained in this Section 3 with respect to the Community Facilities District are true as of the date hereof.

4. Conditions to the Obligations of the Underwriter. The obligation of the Underwriter to accept delivery of and pay for the Bonds on the Closing Date shall be subject, at the option of the Underwriter, to the accuracy in all material respects of the representations and warranties on the part of the Community Facilities District contained herein, to the accuracy in all material respects of the statements of the officers and other officials of the Community Facilities District made in any certificates or other documents furnished pursuant to the provisions hereof, to the performance by the Community Facilities District of their obligations to be performed hereunder at or prior to the Closing Date, and in reliance upon the representations and covenants of the Developer contained in the certificates delivered as of the Closing Date, and to the following additional conditions:

A. At the Closing Date, the Community Facilities District Resolutions and the Community Facilities District Documents shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to in writing by the Underwriter, and there shall have been taken in connection therewith, with the issuance of the Bonds and with the Bonds, and with the transactions contemplated thereby, and by this Purchase Agreement, all such actions as, in the opinion of Bond Counsel, shall be necessary and appropriate.

B. At the Closing Date, except as described in the Official Statement, the City shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, and the performance of the conditions precedent to be performed hereunder will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the City is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance of the conditions precedent to be performed by the City hereunder.

C. At the Closing Date, except as described in the Official Statement, the Community Facilities District shall not be, in any respect material to the transactions referred to herein or contemplated hereby, in breach of or in default under, any law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Community Facilities District is a party or is otherwise subject or bound, and the performance by the Community Facilities District of its obligations under the Bonds, the Community Facilities District Resolutions, the Indenture, and any other instruments contemplated by any of such documents, and compliance with the provisions of each thereof, or the performance of the conditions precedent to be performed hereunder, will not conflict with or constitute a breach of or default under any applicable law or administrative rule or regulation of the State of California, the United States of America, or of any department, division, agency or instrumentality of either thereof, or under any applicable court or



administrative decree or order, or under any loan agreement, note, resolution, indenture, contract, agreement or other instrument to which the Community Facilities District is a party or is otherwise subject or bound, in any manner which would materially and adversely affect the performance by the Community Facilities District of its obligations under the Indenture, the Bonds or the performance of the conditions precedent to be performed by the Community Facilities District hereunder.

D. The information contained in the Official Statement is, as of the Closing Date and as of the date of any supplement or amendment thereto pursuant hereto, true and correct in all material respects and does not, as of the Closing Date or as of the date of any supplement or amendment thereto, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

E. Between the date hereof and the Closing Date, the market price or marketability, at the initial offering prices set forth on the inside cover page of the Official Statement, of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds, shall not have been materially adversely affected, in the judgment of the Underwriter (evidenced by a written notice to the Community Facilities District terminating the obligation of the Underwriter to accept delivery of and pay for the Bonds), by reason of any of the following:

1. Legislation introduced in or enacted (or resolution passed) by the Congress of the United States of America or recommended to the Congress by the President of the United States, the Department of the Treasury, the Internal Revenue Service, or any member of Congress, or favorably reported for passage to either House of Congress by any committee of such House to which such legislation had been referred for consideration, or a decision rendered by a court established under Article III of the Constitution of the United States of America or by the Tax Court of the United States of America, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Treasury Department of the United States of America or the Internal Revenue Service, with the purpose or effect, directly or indirectly, of imposing federal income taxation upon such interest as would be received by any owners of the Bonds beyond the extent to which such interest is subject to taxation as of the date hereof; or

2. Legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended, or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Official Statement or otherwise is or would be in violation of the federal securities laws as amended and then in effect; or

3. A general suspension of trading on the New York Stock Exchange or other major exchange shall be in force, or minimum or maximum prices for trading shall have been fixed and be in force, or maximum ranges for prices for securities shall have been required and be in force on any such exchange, whether by virtue of determination by that exchange or by order of the SEC or any other governmental authority having jurisdiction; or

4. The introduction, proposal or enactment of any amendment to the Federal or California Constitution or any action by any Federal or California court, legislative body, regulatory body or other authority materially adversely affecting the tax status of the Community Facilities District, its property, income, securities (or interest thereon), the validity or enforceability of Special Taxes, or the ability of the Community Facilities District to issue the Bonds as contemplated by the Indenture and the Official Statement; or
5. Any event occurring, or information becoming known which, in the judgment of the Underwriter, makes untrue in any material respect any statement or information contained in the Preliminary Official Statement or in the Official Statement, or has the effect that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; or
6. Any national securities exchange, the Comptroller of the Currency, or any other governmental authority, shall impose as to the Bonds, or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, the Underwriter; or
7. There shall have occurred (1) an outbreak or escalation of hostilities or the declaration by the United States of a national emergency or war or (2) any other calamity or crisis in the financial markets of the United States or elsewhere or the escalation of such calamity or crisis; or
8. Except as disclosed in or contemplated by the Official Statement, any material adverse change in the affairs of the City or Community Facilities District shall have occurred; or
9. Any event or circumstance shall exist that either makes untrue or incorrect in any material respect any statement or information in the Official Statement (other than any statement provided by the Underwriter) or is not reflected in the Official Statement but should be reflected therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading and, in either such event, the Community Facilities District refuses to permit the Official Statement to be supplemented to supply such statement or information, or the effect of the Official Statement as so supplemented is to materially adversely affect the market price or marketability of the Bonds or the ability of the Underwriter to enforce contracts for the sale of the Bonds; or
10. A general banking moratorium shall have been declared by federal or State authorities having jurisdiction and be in force; or
11. A material disruption in securities settlement, payment or clearance services affecting the Bonds shall have occurred; or
12. Any new restriction on transactions in securities materially affecting the market for securities (including the imposition of any limitation on interest rates) or the extension of credit by, or a charge to the net capital requirements of, underwriters shall have been established by the New York Stock Exchange, the SEC, any other federal or State agency or the Congress of the United States, or by Executive Order; or
13. A decision by a court of the United States shall be rendered, or a stop order, release, regulation or no-action letter by or on behalf of the SEC or any other governmental agency having jurisdiction of

the subject matter shall have been issued or made, to the effect that the issuance, offering or sale of the Bonds, including the underlying obligations as contemplated by this Purchase Agreement or by the Official Statement, or any document relating to the issuance, offering or sale of the Bonds, is or would be in violation of any provision of the federal securities laws at the Closing Date, including the Securities Act, the Exchange Act and the Trust Indenture Act; or

14. Any proceeding shall have been commenced or be threatened in writing by the Securities and Exchange Commission against the City or the Community Facilities District; or

15. The commencement of any Action.

F. At or prior to the Closing Date, the Underwriter shall have received a counterpart original or certified copy of the following documents, in each case satisfactory in form and substance to the Underwriter:

1. The Official Statement, executed on behalf of the Community Facilities District by an authorized officer;

2. The Indenture, duly executed and delivered by the Community Facilities District and the Trustee;

3. The Community Facilities District Resolution, the Community Facilities District Documents and the Formation Documents, together with a certificate dated as of the Closing Date of the City Clerk to the effect that the Community Facilities District Resolutions are true, correct and complete copies of the ones duly adopted by the City Council;

4. The Continuing Disclosure Certificate executed and delivered by an authorized officer the Community Facilities District;

5. An unqualified approving opinion for the Bonds, dated the Closing Date and addressed to the Community Facilities District, of Bond Counsel, to the effect that the Bonds are the valid, legal and binding obligations of the Community Facilities District and that the interest thereon is excluded from gross income for federal income tax purposes and exempt from personal income taxes of the State of California, in substantially the form included as Appendix C to the Official Statement, together with a letter of Bond Counsel, dated the Closing Date and addressed to the Underwriter, to the effect that such opinion addressed to the Community Facilities District may be relied upon by the Underwriter to the same extent as if such opinion was addressed to it;

6. A supplemental opinion or opinions, dated the Closing Date and addressed to the Underwriter, of Bond Counsel, to the effect that:

(i) this Purchase Agreement and the Continuing Disclosure Certificate have been duly authorized, executed and delivered by the Community Facilities District and, assuming due authorization, execution and delivery by the other parties thereto, as applicable, constitute the legal, valid and binding obligations of the Community Facilities District and are enforceable in accordance with their terms, except to the extent that enforceability may be limited by moratorium, bankruptcy, reorganization, insolvency or 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 and by limitations on legal remedies against public agencies in the State;

(ii) the Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Indenture is exempt from qualification under the Trust Indenture Act of 1939, as amended;

(iii) the information contained in the Official Statement on the cover and under the captions "THE BONDS" (other than the caption "Debt Service Schedule"), "SOURCES OF PAYMENT FOR THE BONDS," "TAX EXEMPTION" AND "LEGAL OPINION" and in Appendices C and E to the Official Statement, are accurate insofar as such statements purport to summarize certain provisions of the Bonds, the Indenture, Bond Counsel's final approving opinion, and the Community Facilities District Act.

7. The letter of Disclosure Counsel, dated the Closing Date and addressed to the Community Facilities District and to the Underwriter, to the effect that, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, but on the basis of their participation in conferences with representatives of the Community Facilities District, the Special Tax Consultant and others, and their examination of certain documents, nothing has come to their attention which has led them to believe that the Preliminary Official Statement as of its date and the Official Statement as of its date and as of the Closing Date contained or contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading (except that no opinion or belief need be expressed as to any financial statements or other financial, statistical or engineering data or forecasts, numbers, charts, estimates, projections, assumptions, or expressions of opinion, any information about valuation, appraisals, absorption, archeological or environmental matters, or any information with respect to the City, or any information with respect to prior compliance by the Developer with continuing disclosure undertakings under the Rule or about DTC or the book-entry-only system);

8. A certificate dated the Closing Date and signed by an authorized representative of the Community Facilities District or an authorized designee, on behalf of the Community Facilities District to the effect that: (i) the representations and warranties made by the Community Facilities District contained herein are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date; (ii) to the best knowledge of such officer, no event has occurred since the date of the Official Statement which should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein not misleading in any material respect; and (iii) the Community Facilities District has complied with all the agreements and satisfied all the conditions on its part to be satisfied under this Purchase Agreement, the Community Facilities District Resolutions, and the Community Facilities District Documents at or prior to the Closing Date;

9. An opinion of the City Attorney dated the date of Closing and addressed to the Underwriter and the City, to the effect that:

(i) The City is a municipal corporation and general law city, duly organized and existing under the Constitution and laws of the State of California;

(ii) The Community Facilities District Resolutions have been duly adopted at meetings of the City Council, which were called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout, and the Community

Facilities District Resolutions are in full force and effect and have not been modified, amended, rescinded or repealed since the respective dates of their adoption;

(iii) The Community Facilities District Documents and the Official Statement have been duly authorized, executed and delivered by the City and the Community Facilities District Documents constitute the legal, valid and binding obligations of the Community Facilities District enforceable against the Community Facilities District in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles where equitable remedies are sought and to the exercise of judicial discretion in appropriate cases;

(iv) Except as may be stated in the Official Statement, there is no action, suit, proceeding or investigation before or by any court, public board or body pending (notice of which has been served on the City or the Community Facilities District) or, to such counsel's knowledge, threatened wherein an unfavorable decision, ruling or finding would: (a) affect the creation, organization, existence or powers of the City, or the titles of its members and officers to their respective offices; or (b) affect the validity of the Community Facilities District Documents or restrain or enjoin the repayment of the Bonds or in any way contest or affect the validity of the Community Facilities District Documents or contest the authority of the Community Facilities District to enter into or perform its obligations under any of the Community Facilities District Documents, questions the right of the Community Facilities District to use Special Taxes levied within the Community Facilities District for the repayment of the Bonds or affects in any manner the right or ability of the Community Facilities District to collect the Special Taxes or pledge the Net Taxes levied within the Community Facilities District for the repayment of the Bonds;

10. A certificate dated the Closing Date from Kitty Siino & Associates, Inc. (the "**Appraiser**") to the effect that: (i) the statements in the Official Statement provided by the Appraiser and all information supplied by it for use in the Official Statement were as of the date of the Official Statement and are as of the Closing Date true and correct, and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (ii) no events or occurrences have been ascertained by the Appraiser or have come to the Appraiser's attention that would materially change the opinion set forth in the Appraisal;

11. A certificate dated the Closing Date from Spicer Consulting Group, LLC to the effect that: (i) the Special Tax if collected in the maximum amounts permitted pursuant to the Rate and Method of Apportionment of Special Taxes of the Community Facilities District as of the Closing Date would generate at least 110% of the annual debt service payable with respect to the Bonds plus the Administrative Expenses Cap in each year, based on such assumptions and qualifications as shall be acceptable to the Underwriter; and (ii) the statements in the Official Statement provided by Spicer Consulting Group, LLC concerning Special Taxes in the Community Facilities District and all information supplied by it for use in the Official Statement were as of the date of the Official Statement and are as of the Closing Date true and correct, and do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

12. Certified copies of the general resolution of the Trustee authorizing the execution and delivery of certain documents by certain officers of the Trustee, which resolution authorizes the execution of the Indenture and the authentication of the Bonds;

13. A certificate of the Trustee, dated the Closing Date, to the effect that: (i) the Trustee is authorized to carry out corporate trust powers, and have full power and authority to perform its duties under the Indenture; (ii) the Trustee is duly authorized to execute and deliver the Indenture, to accept the obligations created by the Indenture and to authenticate the Bonds pursuant to the terms of the Indenture; (iii) no consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the authentication of the Bonds or the consummation by the Trustee of the other transactions contemplated to be performed by the Trustee in connection with the authentication of the Bonds and the acceptance and performance of the obligations created by the Indenture; and (iv) to the best of its knowledge, compliance with the terms of the Indenture will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties;
14. An opinion of counsel to the Trustee dated the Closing Date, addressed to the Underwriter, and the Community Facilities District to the effect that the Trustee is a national banking association duly organized and validly existing under the laws of the United States having full power and being qualified to enter into, accept and agree to the provisions of the Indenture, and that the Indenture has been duly authorized, executed and delivered by the Trustee, and, assuming due execution and delivery by the other parties thereto, constitutes the legal, valid and binding obligation of the Trustee, enforceable in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting the enforcement of creditors' rights in general and except as such enforceability may be limited by the application of equitable principles if equitable remedies are sought;
15. A certificate of the Community Facilities District dated the Closing Date, in a form acceptable to Bond Counsel and the Underwriter, that the Bonds are not arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended;
16. An opinion of counsel to the Developer, dated the date of the Closing, addressed to the Underwriter and the Community Facilities District, in form and substance acceptable to the Underwriter and Bond Counsel;
17. A Letter of Representations from the Developer, dated the date of printing the Preliminary Official Statement, substantially in the form attached hereto as Exhibit B;
18. A Closing Certificate of the Developer, dated the date of the Closing, substantially in the form attached hereto as Exhibit C or as such Closing Certificate may be modified with the approval of the Underwriter and Disclosure Counsel;
19. The Continuing Disclosure Certificate executed and delivered by the Developer in substantially the form attached as Appendix G to the Official Statement;
20. An opinion of Kutak Rock LLP, counsel to the Underwriter ("**Underwriter's Counsel**"), dated the date of Closing and addressed to the Underwriter in form and substance acceptable to the Underwriter; and
21. Such additional legal opinions, certificates, instruments and other documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of

the Closing Date, of the material representations and warranties of the Community Facilities District contained herein, and of the statements and information contained in the Official Statement and the due performance or satisfaction by the Community Facilities District at or prior to the Closing of all agreements then to be performed and all conditions then to be satisfied by the Community Facilities District in connection with the transactions contemplated hereby and by the Indenture and the Official Statement.

If the Community Facilities District shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Agreement, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Agreement, this Purchase Agreement shall terminate and neither the Community Facilities District nor the Underwriter shall be under any further obligation hereunder, except that the respective obligations of the Underwriter and the Community Facilities District set forth in Section 5 hereof shall continue in full force and effect.

5. Expenses. Whether or not the transactions contemplated by this Purchase Agreement are consummated, the Underwriter shall be under no obligation to pay, and the Community Facilities District shall pay only from the proceeds of the Bonds, or any other legally available funds of the City, or the Community Facilities District, but only as the Community Facilities District and such other party providing such services may agree, all expenses and costs of the Community Facilities District incident to the performance of its obligations in connection with the authorization, execution, sale and delivery of the Bonds to the Underwriter, including, without limitation, printing costs, rating agency fees and charges, initial fees of the Trustee, including fees and disbursements of their counsel, if any, fees and disbursements of Bond Counsel, Disclosure Counsel and other professional advisors employed by the City, costs of preparation, printing, signing, transportation, delivery and safekeeping of the Bonds and for expenses (included in the expense component of the spread) incurred by the Underwriter on behalf of the City's employees which are incidental to implementing this Purchase Agreement, including, but not limited to, meals, transportation, lodging, and entertainment of those employees. The Underwriter shall pay all out-of-pocket expenses of the Underwriter, including, without limitation, advertising expenses, the California Debt and Investment Advisory Commission fee, CUSIP Services Bureau charges, regulatory fees imposed on new securities issuers and any and all other expenses incurred by the Underwriter in connection with the public offering and distribution of the Bonds, including fees and disbursements of Underwriter's Counsel. Any meals in connection with or adjacent to meetings, rating agency presentations, pricing activities or other transaction-related activities shall be considered an expense of the transaction and included in the expense component of the Underwriter's discount.

6. Notices. Any notice of other communication to be given to the Community Facilities District or the Community Facilities District under this Purchase Agreement may be given by delivering the same in writing to the City of Lake Elsinore, 130 South Main Street, Lake Elsinore, California 92530, Attention: City Manager; any notice or other communication to be given to the Underwriter under this Purchase Agreement may be given by delivering the same in writing to Stifel, Nicolaus & Company, Incorporated, 2121 Avenue of the Stars, Ste. 2150, Los Angeles, California 90067, Attention: Public Finance Department.

7. Parties In Interest. This Purchase Agreement is made solely for the benefit of the Community Facilities District and Underwriter (including any successors or assignees of the Underwriter) and no other person shall acquire or have any right hereunder or by virtue hereof.

8. Survival of Representations and Warranties. The representations and warranties of the Community Facilities District under this Purchase Agreement shall not be deemed to have been discharged, satisfied or otherwise rendered void by reason of the Closing and regardless of any investigations made by or on behalf of the Underwriter (or statements as to the results of such investigations) concerning such representations and statements of the Community Facilities District and regardless of delivery of and payment for the Bonds.
9. Execution in Counterparts. This Purchase Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.
10. Effective. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the Community Facilities District and shall be valid and enforceable as of the time of such acceptance.
11. No Prior Agreements. This Purchase Agreement supersedes and replaces all prior negotiations, agreements and understanding among the parties hereto in relation to the sale of the Bonds by the Community Facilities District.
12. Governing Law. This Purchase Agreement shall be governed by the laws of the State of California.



13. Effective Date. This Purchase Agreement shall become effective and binding upon the respective parties hereto upon the execution of the acceptance hereof by the Community Facilities District and shall be valid and enforceable as of the time of such acceptance.

Very truly yours,

**STIFEL, NICOLAUS & COMPANY,  
INCORPORATED**

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

The foregoing is hereby agreed to and accepted as of the date first above written:

**COMMUNITY FACILITIES DISTRICT  
NO. 2019-2 OF THE CITY OF LAKE  
ELSINORE (NICHOLS RANCH)**

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

Time of Execution: \_\_\_\_\_ p.m. California time

**EXHIBIT A**

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

**MATURITY SCHEDULE**

| <u>Maturity<br/>(September 1)</u> | <u>Principal<br/>Amount</u> | <u>Interest<br/>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>10% Test<br/>Satisfied*</u> | <u>10% Test<br/>Not<br/>Satisfied</u> | <u>Subject to<br/>Hold-The-<br/>Offering-<br/>Price Rule</u> |
|-----------------------------------|-----------------------------|--------------------------|--------------|--------------|--------------------------------|---------------------------------------|--|
| 2025                              |                             |                          |              |              |                                |                                       |  |
| 2026                              |                             |                          |              |              |                                |                                       |  |
| 2027                              |                             |                          |              |              |                                |                                       |  |
| 2028                              |                             |                          |              |              |                                |                                       |  |
| 2029                              |                             |                          |              |              |                                |                                       |  |
| 2030                              |                             |                          |              |              |                                |                                       |  |
| 2031                              |                             |                          |              |              |                                |                                       |  |
| 2032                              |                             |                          |              |              |                                |                                       |  |
| 2033                              |                             |                          |              |              |                                |                                       |  |
| 2034                              |                             |                          |              |              |                                |                                       |  |
| 2035                              |                             |                          |              |              |                                |                                       |  |
| 20__ <sup>(T)</sup>               |                             |                          |              |              |                                |                                       |  |
| 20__ <sup>(T)</sup>               |                             |                          |              |              |                                |                                       |  |
| 20__ <sup>(T)</sup>               |                             |                          |              |              |                                |                                       |  |
| 20__ <sup>(T)</sup>               |                             |                          |              |              |                                |                                       |  |

<sup>(T)</sup> Term Bond.

<sup>(C)</sup> Priced to optional call at [par] on September 1, 20\_\_.

\* At the time of execution of this Purchase Agreement and assuming orders are confirmed by the close of the business day immediately following the date of this Purchase Agreement.

**EXHIBIT B**

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

**LETTER OF REPRESENTATIONS OF MERITAGE HOMES OF CALIFORNIA, INC.**

[POS Date]

City of Lake Elsinore  
Community Facilities District No. 2019-2 (Nichols Ranch)  
130 South Main Street  
Lake Elsinore, California 92530

Stifel, Nicolaus & Company, Incorporated  
2121 Avenue of the Stars, Suite 2150  
Los Angeles, California 90067

Ladies and Gentlemen:

Reference is made to the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) Special Tax Bonds, Series 2024 (the “Bonds”) and to the Bond Purchase Agreement to be entered into in connection therewith (the “Bond Purchase Agreement”). This Letter of Representations of Meritage Homes of California, Inc. (the “Letter of Representations”) is delivered pursuant to and in satisfaction of Section 4(F)(17) of the Bond Purchase Agreement. Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in the Bond Purchase Agreement.

The undersigned certifies that he or she is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of Meritage Homes of California, Inc., a California corporation (the “Developer”), and the undersigned, on behalf of the Developer, further certifies as follows:

1. The Developer is duly organized and validly existing and in good standing under the laws of the State of California, and has all requisite corporate right, power and authority: (i) to execute and deliver this Letter of Representations; (ii) to execute and deliver the Developer Continuing Disclosure Certificate to be executed by the Developer prior to the Closing (the “Continuing Disclosure Certificate”), and (iii) to undertake all of the transactions on its part described in the Preliminary Official Statement.

2. As set forth in the Preliminary Official Statement, title to a certain portion of the property within the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch) (the “Community Facilities District”) is held in the name of the Developer (herein, the “Property”). The undersigned, on behalf of the Developer, makes the representations herein with respect to all such Property. Except as otherwise described in the Preliminary Official Statement,

the Developer is and the Developer's current expectations are that the Developer shall remain the party responsible for the development of the Property. The Developer has not entered into an agreement for development or management of the Property by any other entity, except such subcontracts, consultant agreements and similar agreements for land development activities associated with the Developer's development plan as are entered into in the ordinary course of business.

3. Except as set forth in the Preliminary Official Statement, no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, regulatory agency, or public board or body is pending against the Developer (with proper service of process to the Developer having been accomplished) or, to the Actual Knowledge of the Undersigned<sup>1</sup>, is pending against any current Relevant Entity<sup>2</sup> (with proper service of process to such Relevant Entity having been accomplished) or to the Actual Knowledge of the Undersigned is threatened in writing against the Developer or any such Relevant Entity (a) to restrain or enjoin the collection of Special Taxes or other sums pledged or to be pledged to pay the principal of and interest on the Bonds (e.g., the Reserve Account of the Special Tax Fund established under the Indenture), (b) to restrain or enjoin the development of the Property as described in the Preliminary Official Statement, (c) in any way contesting or affecting the validity of the Special Taxes or the Continuing Disclosure Certificate, (d) to restrain or enjoin the execution of and performance by the Developer of its obligations under the Continuing Disclosure Certificate, or (e) which, if successful, is reasonably likely to materially and adversely affect the Developer's ability to complete the development and sale of the Property as described in the Preliminary Official Statement or to pay the Special Taxes levied against the portion of the Property then owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency.

4. As of the date of the Preliminary Official Statement, to the Actual Knowledge of the Undersigned, the information contained therein solely with respect to the Developer, its Relevant Entities, ownership of the Property, the Developer's development plan and financing plan for the Property, the Developer's lenders, if any, and contractual arrangements of the Developer or any

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1 "Actual Knowledge of the Undersigned" means, as of the date of signing, the actual (as opposed to constructive) knowledge that the individual signing on behalf of the Developer currently has or has obtained through (i) interviews with such current officers and responsible employees of the Developer and its Relevant Entities as the undersigned has determined are reasonably likely, in the ordinary course of their respective duties, to have knowledge of the matters set forth in this Letter of Representations, and/or (ii) review of documents that were reasonably available to the undersigned and which the undersigned has reasonably deemed necessary for the undersigned to sign this Letter of Representations. The undersigned has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of the Developer's current business and operations. The individual signing this Letter of Representations has not contacted any individuals who are no longer employed by or associated with the Developer or its Relevant Entities.

2 "Relevant Entity" means, with respect to the Developer, any other Person (i) who directly, or indirectly through one or more intermediaries, is currently controlling, controlled by or under common control with the Developer, and (ii) for whom information, including financial information or operating data, concerning such Person is material to potential investors in their evaluation of the Community Facilities District and investment decision regarding the Bonds (*i.e.*, information relevant to (a) the Developer's development plans with respect to the Property and ability to pay its Special Taxes on the portion of the Property then owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency, or (b) such Person's assets or funds that would materially affect the Developer's ability to develop the Property as described in the Preliminary Official Statement or to pay its Special Taxes levied against the portion of the Property then owned by the Developer (to the extent the responsibility of Developer) prior to delinquency. "Person" means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof. For purposes hereof, the term "control" (including the terms "controlling," "controlled by" or "under common control with") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

Affiliates (including, if material to the Developer's development plan or financing plan for the Property, loans of such Relevant Entities) as set forth under the sections of the Preliminary Official Statement captioned "PROPERTY OWNERSHIP AND THE DEVELOPMENT and "CONTINUING DISCLOSURE – Developer Continuing Disclosure" (excluding therefrom in all cases information regarding the Appraisal Report, market value ratios and annual special tax ratios, and information which is identified as having been provided by a source other than the Developer), 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.

5. Except as described in the Preliminary Official Statement, there are no material loans outstanding and unpaid and no material lines of credit of the Developer or its Relevant Entities, that are secured by an interest in the Property. Neither the Developer nor, to the Actual Knowledge of the Undersigned, any of its Relevant Entities is currently in material default on any loans, lines of credit or other obligation to repay borrowed money related to the development of the Property or any other project which default is reasonably likely to materially and adversely affect the Developer's ability to develop the Property as described in the Preliminary Official Statement or to pay the Special Taxes levied against the portion of the Property then owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency.

6. To the Actual Knowledge of the Undersigned, the Developer is not aware that any of the Property has a current liability with respect to the presence of a substance presently classified as hazardous under the federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 or applicable California law or is adversely affected by the presence of endangered or threatened species or habitat for endangered or threatened species.

7. The Developer covenants that, while the Bonds or any refunding obligations related thereto are outstanding, the Developer and its Relevant Entities which it controls will not bring any action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body, that in any way seeks to challenge or overturn the formation of the Community Facilities District, to challenge the adoption of the ordinance of the Community Facilities District levying Special Taxes within the Community Facilities District, to invalidate the Community Facilities District or any of the Bonds or any refunding bonds related thereto, or to invalidate the special tax liens imposed under Section 3115.5 of the Streets and Highways Code based on recordation of the notices of special tax lien relating thereto. The foregoing covenant shall not prevent the Developer and its Relevant Entities in any way from bringing any other action, suit, proceeding, inquiry or investigation at law or in equity, before any court, regulatory agency, public board or body including, without limitation, (a) an action or suit contending that the Special Tax has not been levied in accordance with the methodologies contained in the Rate and Method of Apportionment of Special Taxes pursuant to which Special Taxes are levied, (b) an action or suit with respect to the application or use of the Special Taxes levied and collected or (c) an action or suit to enforce the obligations of the City and/or the Community Facilities District under the Community Facilities District Resolutions, the Indenture, the Continuing Disclosure Certificate or any other agreements among the Developer, any Relevant Entity, the City and/or the Community Facilities District or to which the Developer or a Relevant Entity is a party or beneficiary.

8. The Developer consents to the issuance of the Bonds. The Developer acknowledges and agrees that the proceeds of the Bonds will be used as described in the Preliminary Official Statement.

9. The Developer intends to comply with the provision of the Mello-Roos Community Facilities District Act of 1982, as amended relating to the Notice of Special Tax described in Government Code Section 53341.5 in connection with the sale of the Property, or portions thereof.

10. To the Actual Knowledge of the Undersigned, the Developer is able to pay its bills as they become due and no legal proceedings are pending against the Developer (with proper service of process having been accomplished) or, to the Actual Knowledge of the Undersigned, threatened in writing in which the Developer may be adjudicated as bankrupt or discharged from any and all of its debts or obligations, or granted an extension of time to pay its debts or obligations, or be allowed to reorganize or readjust its debts, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

11. To the Actual Knowledge of the Undersigned, Relevant Entities of the Developer are able to pay their bills as they become due and no legal proceedings are pending against any Relevant Entity of the Developer (with proper service of process having been accomplished) or to the Actual Knowledge of the Undersigned, threatened in writing in which the Relevant Entities of the Developer may be adjudicated as bankrupt or discharged from any or all of their debts or obligations, or granted an extension of time to pay their debt or obligations, or be allowed to reorganize or readjust their debts or obligations, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

12. The Developer has been developing or has been involved in the development of numerous projects over an extended period of time. It is likely that the Developer has been delinquent at one time or another in the payment of *ad valorem* property taxes, special taxes or special assessments. However, to the Actual Knowledge of the Undersigned, during the last five years, neither the Developer nor any current Relevant Entity has, during the period of its ownership, been delinquent to any material extent in the payment of any *ad valorem* property tax, special assessment or special tax on property in California owned by the Developer or any such Relevant Entity (during the period of their ownership) included within the boundaries of a community facilities district or an assessment district in California that (a) caused a draw on a reserve fund relating to such assessment district or community facilities district financing or (b) resulted in a foreclosure action being commenced against the delinquent Developer or Relevant Entity by a court filing.

13. The Developer has not filed for the reassessment of the assessed value of portions of the Property, other than in connection with the sale of homes to individual homebuyers.

14. To the Actual Knowledge of the Undersigned, there are no claims, disputes, suits, actions or contingent liabilities by and among the Developer, its Relevant Entities or any contractors working on the development of the Property which is reasonably likely to materially and adversely affect the Developer's ability to develop the Property as described in the Preliminary Official Statement or to pay the Special Taxes levied against the portion of the Property then owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency.

15. Based upon the current development plans, including, without limitation, the current budget and subject to economic conditions and risks generally inherent in the development of real property, including, but not limited to, the risks described in the Preliminary Official Statement under the section entitled "SPECIAL RISK FACTORS," the Developer presently anticipates that

it will have sufficient funds to complete the development of the Property as described in the Preliminary Official Statement and to pay the Special Taxes levied against the portion of the Property then owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency and does not anticipate that the City or the Community Facilities District will be required to resort to a draw on the Reserve Account of the Special Tax Fund for payment of principal of or interest on the Bonds due to the Developer's nonpayment of Special Taxes. However, neither the Developer nor any of its Relevant Entities are obligated to pay the Special Taxes or to make any additional capital contribution or loan to the Developer at any time, and the Developer reserves the right to change its respective development plan and financing plan for the Property at any time without notice, and there is no recourse against the Developer for the failure to pay the Special Taxes other than the filing of a foreclosure action.

16. An appraisal of the taxable properties within the Community Facilities District, dated \_\_\_\_\_, 2024 (the "**Appraisal Report**"), with a date of value of July 1, 2024 (the "**Date of Value**"), was prepared by Kitty Siino & Associates, Inc. (the "**Appraiser**"). The Appraisal Report estimates the market value of the appraised taxable properties within the Community Facilities District as of the Date of Value. To Actual Knowledge of the Undersigned, all information submitted by, or on behalf of and authorized by, the Developer to the Appraiser and contained in the sections of the Appraisal Report highlighted in yellow or circled in Exhibit B attached hereto, was true and correct in all material respects as of the Date of Value and Updated Date of Value, as applicable.

17. Solely as to the limited information described in paragraph 4 above (and subject to the limitations and exclusions contained in Paragraph 4), the Developer agrees to indemnify and hold harmless, to the extent permitted by law, the City and the Community Facilities District, and their officials and employees, and each Person, if any, who controls any of the foregoing within the meaning of Section 15 of the Securities Act of 1933, as amended, or of Section 20 of the Securities Exchange Act of 1934, as amended (each, an "**Indemnified Party**" and, collectively, the "**Indemnified Parties**"), against any and all losses, claims, damages or liabilities, joint or several, to which such Indemnified Party may become subject under any statute or at law or in equity and shall reimburse any such Indemnified Party for any reasonable legal or other expense reasonably incurred by it in connection with investigating any such claim against it and defending any such action, insofar as and solely to the extent such losses, claims, damages, liabilities or actions arise out of or are based upon any untrue statement of a material fact by the Developer or the omission of a material fact by the Developer in the above-referenced information in the Preliminary Official Statement, as of the dates indicated in the Preliminary Official Statement, necessary to make the statements made by the Developer contained therein, in light of the circumstances under which they were made not misleading. This indemnity provision shall not be construed as a limitation on any other liability which the Developer may otherwise have to any Indemnified Party, *provided* that in no event shall the Developer be obligated for double indemnification, or for the negligence or willful misconduct of an Indemnified Party.

If any suit, action, proceeding (including any governmental or regulatory investigation), claim or demand shall be brought or asserted against any Indemnified Party in respect of which indemnification may be sought pursuant to the above paragraph, such Indemnified Party shall promptly notify the Developer in writing; provided that the failure to notify the Developer shall not relieve it from any liability that it may have hereunder except to the extent that it has been materially prejudiced by such failure; and provided, further, that the failure to notify the Developer shall not relieve it from any liability that it may have to an Indemnified Party

otherwise than under the above paragraph unless such liability was also conditioned upon such notice. If any such proceeding shall be brought or asserted against an Indemnified Party and it shall have notified the Developer thereof, the Developer shall retain counsel reasonably satisfactory to the Indemnified Party to represent the Indemnified Party in such proceeding and shall pay the fees and expenses of such counsel related to such proceeding, as incurred. In any such proceeding, any Indemnified Party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party unless (i) the Developer and the Indemnified Party shall have mutually agreed to the contrary; (ii) the Developer has failed within a reasonable time to retain counsel reasonably satisfactory to the Indemnified Party; (iii) the Indemnified Party shall have reasonably concluded that there may be legal defenses available to it that are in conflict with those available to the Developer such that a material conflict of interest exists for such counsel; or (iv) the named parties in any such proceeding (including any impleaded parties) include both the Developer and the Indemnified Party and representation of both parties by the same counsel would be inappropriate due to actual differing interest between them. It is understood and agreed that the Developer shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the fees and expenses of more than one separate firm (in addition to any local counsel) for all Indemnified Parties, and that all such fees and expenses, to the extent reasonable, shall be paid or reimbursed as they are incurred. Any such separate firm shall be designated in writing by such Indemnified Parties. The Developer shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the Developer agrees to indemnify each Indemnified Party from and against any loss or liability by reason of such settlement or judgment. The Developer shall not, without the written consent of the Indemnified Party, effect any settlement of any pending or threatened proceeding in respect of which any Indemnified Party is a party and indemnification could have been sought hereunder by such Indemnified Party, unless such settlement (x) includes an unconditional release of such Indemnified Party, in form and substance reasonably satisfactory to such Indemnified Party, from all liability on claims that are the subject matter of such proceeding as to which the Developer has an obligation to indemnify such Indemnified Party and (y) does not include any statement as to or any admission of fault, culpability or a failure to act by or on behalf of any Indemnified Party.

18. If between the date hereof and the Closing Date any event relating to or affecting the Developer, its Relevant Entities, ownership of the Property, the Developer's development plan, the Developer's financing plan, the Developer's lenders, if any, and contractual arrangements of the Developer or any Relevant Entities (including, if material to the Developer's development plan or the Developer's financing plan, other loans of such Relevant Entities) shall occur of which the Developer has actual knowledge which would cause the information under the sections of the Preliminary Official Statement indicated in Paragraph 4 hereof (and subject to the limitations and exclusions contained in Paragraph 4), to contain an untrue statement of a material fact or to 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, the Developer shall notify the City, the Community Facilities District and the Underwriter and if in the opinion of counsel to the City or the Underwriter such event requires the preparation and publication of a supplement or amendment to the Preliminary Official Statement, the Developer shall reasonably cooperate with the City and the Community Facilities District in the preparation of an amendment or supplement to the Preliminary Official Statement in form and substance satisfactory to counsel to the City, the Community Facilities District and to the Underwriter.



19. The Developer agrees to deliver a Closing Certificate dated the date of issuance of the Bonds at the time of issuance of the Bonds in substantially the form attached as Exhibit A.

20. On behalf of the Developer, the undersigned has reviewed the contents of this Letter of Representations and has consulted with counsel to the Developer regarding the meaning of its contents. The undersigned acknowledges and understands that a variety of state and federal securities laws, including but not limited to the Securities Act of 1933, as amended, and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, as amended, may apply to the Developer and that under some circumstances certification as to the matters set forth in this Letter of Representations, without additional disclosures or other action, may not fully discharge all duties and obligations of the Developer under such securities laws.

The undersigned has executed this Letter of Representations solely in his or her capacity as an authorized officer or representative of the Developer and he or she will have no personal liability arising from or relating to this Letter of Representations. Any liability arising from or relating to this Letter of Representations may only be asserted against the Developer subject to the limitations and procedures set forth above.

**MERITAGE HOMES OF CALIFORNIA, INC., a  
California corporation**

By:\_\_\_\_\_

Name:\_\_\_\_\_

Its:\_\_\_\_\_

[EXECUTION PAGE OF LETTER OF REPRESENTATIONS OF  
MERITAGE HOMES OF CALIFORNIA, INC.]

**EXHIBIT C**

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

**CLOSING CERTIFICATE – MERITAGE HOMES OF CALIFORNIA, INC.**

[Closing Date]

City of Lake Elsinore  
Community Facilities District No. 2019-2 (Nichols Ranch)  
130 South Main Street  
Lake Elsinore, California 92530

Stifel, Nicolaus & Company, Incorporated  
2121 Avenue of the Stars, Suite 2150  
Los Angeles, California 90067

Ladies and Gentlemen:

Reference is made to the above-captioned bonds (the “**Bonds**”) and to the Bond Purchase Agreement, dated [BPA Date] (the “**Bond Purchase Agreement**”), entered into in connection therewith. This Closing Certificate of Meritage Homes of California, Inc. (the “**Closing Certificate**”) is delivered by Meritage Homes of California, Inc., a California corporation (the “**Developer**”) pursuant to the Bond Purchase Agreement. Capitalized terms used herein and not otherwise defined have the meanings ascribed to them in the Letter of Representations of Meritage Homes of California, Inc. (the “**Letter of Representations**”), dated [POS Date], delivered by the Developer.

The undersigned certifies that he or she is familiar with the facts herein certified and is authorized and qualified to certify the same as an authorized officer or representative of the Developer, and the undersigned, on behalf of the Developer, further certifies as follows:

1. The Developer has received the final Official Statement relating to the Bonds, dated [BPA Date] (the “**Official Statement**”). To the Actual Knowledge of the Undersigned, each statement, representation and warranty made in the Letter of Representations is true and correct in all material respects on and as of the date hereof with the same effect as if made on the date hereof, except that all references therein to the Preliminary Official Statement shall be deemed to be references to the final Official Statement.

2. To the Actual Knowledge of the Undersigned, no event has occurred since the date of the Preliminary Official Statement affecting the statements and information described in the sections of the Preliminary Official Statement indicated in Paragraph 4 of the Letter of Representations (and subject to the limitations and exclusions contained in Paragraph 4 of the Letter of Representations) relating to the Developer, its Relevant Entities, ownership of the Property, the Developer’s

development plan, the Developer's financing plan, the Developer's lenders, if any, and contractual arrangements of the Developer or any Relevant Entities (including, if material to the Developer's development plan or the Developer's financing plan, loans of such Relevant Entities), which should be disclosed in the Official Statement for the purposes for which it is to be used in order to make such statements and information contained in the Official Statement not misleading in any material respect.

3. For the period through 25 days after the "**End of the Underwriting Period**" as defined in the Bond Purchase Agreement to mean the Closing Date unless the Underwriter gives written notice to the Developer to the contrary, if any event relating to or affecting the Developer, its Relevant Entities, ownership of the Property, the Developer's development plan and financing plan for the Property, the Developer's lenders, if any, and contractual arrangements of the Developer or any Relevant Entities (including, if material to the Developer's development plan or the Developer's financing plan, loans of such Relevant Entities) shall occur as a result of which it is necessary, in the opinion of the Underwriter or counsel to the City or the Community Facilities District, to amend or supplement the Official Statement in order to make the Official Statement not misleading in the light of the circumstances existing at the time it was delivered to a purchaser, the Developer shall reasonably cooperate with the City, the Community Facilities District and the Underwriter in the preparation and publication of a supplement or amendment to the Official Statement, in form and substance satisfactory to the Underwriter and counsel to the City and the Community Facilities District which will amend or supplement the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Official Statement is delivered to a purchaser, not misleading.

4. The Developer has duly executed and delivered the Continuing Disclosure Certificate.

The undersigned has executed this Closing Certificate solely in his or her capacity as an authorized officer or representative of the Developer and he or she will have no personal liability arising from or relating to this Closing Certificate. Any liability arising from or relating to this Closing Certificate may only be asserted against the Developer.

**MERITAGE HOMES OF CALIFORNIA, INC., a  
California corporation**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Its: \_\_\_\_\_

[EXECUTION PAGE OF CLOSING CERTIFICATE OF MERITAGE HOMES OF CALIFORNIA,  
INC.]

**EXHIBIT B**

**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

**DEVELOPER PROVIDED INFORMATION IN APPRAISAL REPORT**

See attached.

## **EXHIBIT D**

\$ \_\_\_\_\_  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2  
OF THE CITY OF LAKE ELSINORE (NICHOLS RANCH)  
SPECIAL TAX BONDS, SERIES 2024**

### **FORM OF ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of Stifel, Nicolaus & Company, Incorporated (“Stifel”) hereby certifies as set forth below with respect to the sale and issuance of the above-captioned bonds (the “Bonds”).

1. ***Sale of the General Rule Maturities.*** As of the date of this certificate, for each Maturity of the General Rule Maturities, the first price at which at least 10% of such Maturity was sold to the Public is the respective price listed in Schedule A.

2. ***Defined Terms.***

(a) ***General Rule Maturities*** means those Maturities of the Bonds listed in Schedule A hereto as the “General Rule Maturities.”

(b) ***Issuer*** means the Community Facilities District No. 2019-2 of the City of Lake Elsinore (Nichols Ranch).

(c) ***Maturity*** means Bonds with the same credit and payment terms. Bonds with different maturity dates, or Bonds with the same maturity date but different stated interest rates, are treated as separate maturities.

(d) ***Public*** means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term “related party” for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(e) ***Underwriter*** means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Bonds to the Public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents Stifel’s interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Tax Certificate and with respect to compliance with the federal income tax rules affecting the Bonds, and by Stradling Yocca Carlson & Rauth LLP in connection with rendering its opinion that the interest on the Bonds is excluded from gross income for

federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Bonds.

STIFEL, NICOLAUS & COMPANY,  
INCORPORATED

By:\_\_\_\_\_

Name:\_\_\_\_\_

By:\_\_\_\_\_

Name:\_\_\_\_\_

Dated: [Closing Date]

**SCHEDULE A**

**SALE PRICES OF THE GENERAL RULE MATURITIES**

*(To be attached)*

# APPRAISAL REPORT

## CITY OF LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2 (Nichols Ranch)

City of Lake Elsinore, Riverside County,  
California (Appraisers' File No. 2024-1298)



### Prepared For

City of Lake Elsinore  
130 S. Main Street  
Lake Elsinore, CA 92530

### Prepared By

Kitty Siino & Associates, Inc.  
115 East Second Street, Suite 100  
Tustin, California 92780



**KITTY SIINO & ASSOCIATES, INC.**  
**REAL ESTATE APPRAISERS & CONSULTANTS**

August 2, 2024

Mr. Jason Simpson, City Manager  
**City of Lake Elsinore**  
130 S. Main Street  
Lake Elsinore, CA 92530

Reference: Appraisal Report – City of Lake Elsinore  
Community Facilities District No. 2019-2 (Nichols Ranch)  
Nichols Ranch by Meritage Homes  
South side of Nichols Road; East of I-15, City of Lake Elsinore

Dear Mr. Simpson:

At the request and authorization of the City of Lake Elsinore, we have completed an Appraisal Report for Community Facilities District No. 2019-2 (Nichols Ranch) of the City of Lake Elsinore ("Lake Elsinore CFD No. 2019-2"). Lake Elsinore CFD No. 2019-2 consists of a new home community being marketed as Nichols Ranch with two neighborhoods both being developed by Meritage Homes ("Meritage"). The two neighborhoods are known as Highland at Nichols Ranch and Hilltop at Nichols Ranch. Highland consists of a total of 91 proposed homes while Hilltop consists of 77 proposed homes. Highland has four house plans ranging in size from 2,320 to 2,948 square feet while Hilltop has three house plans ranging in size from 2,020 to 2,427 square feet. Within the total 168 proposed homes, 83 are completed and have closed to individual homeowners to date, with an additional 16 homes in escrow which are due to close upon completion. The builder-owned property ranges from completed model homes to homes under construction to generally finished lots.

The valuation method used in this report is the Sales Comparison Approach along with a Discounted Cash Flow Analysis and a Mass Appraisal Technique as defined within this report. The fee simple estate of the subject property has been valued subject to the lien of the Lake Elsinore CFD No. 2019-2 Special Tax Bonds. This report is written with the hypothetical condition that the subject property is enhanced by the improvements and/or fee credits to be funded by the Lake Elsinore CFD No. 2019-2 Special Tax Bonds.

As a result of our investigation, the concluded Minimum Market Value (as defined within this report) for the subject property is:

**Nichols Ranch by Meritage**

|   |                      |
|---|----------------------|
| Meritage Homes Ownership (23 homes & 62 lots) | \$ 24,041,432        |
| Individual Owned (83 homes)                   | <u>\$ 48,736,425</u> |

**Aggregate Value of Lake Elsinore CFD No. 2019-2** **\$ 72,777,857**

The values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of July 1, 2024.

Mr. Jason Simpson  
City of Lake Elsinore  
August 2, 2024  
Page Two

Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. This Appraisal Report is intended to comply with both the Uniform Standards of Professional Appraisal Practice ("USPAP" January 2022) and with the Appraisal Standards of the California Debt and Investment Advisory Commission ("CDIAC"). The appraiser is not responsible for unauthorized use of this report.

This letter of transmittal is part of the attached report, which sets forth the data and analyses upon which our opinion of value is, in part, predicated.

Respectfully submitted,

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**KITTY SIINO & ASSOCIATES, INC.**

A handwritten signature in dark ink, appearing to read "K. Siino". The signature is fluid and cursive, with the first letter of the last name being a large, stylized "S".

Kitty S. Siino, MAI  
California State Certified General  
Real Estate Appraiser (AG004793)

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## **ADDENDA**

Lake Elsinore CFD No. 2019-2 Boundary Map  
Tract Map Nos. 37305 and 37305-1  
Discounted Cash Flow Analyses  
Finished Lot Land Sales Map and Summary Chart  
Improved Residential Sales Map and Summary Chart  
Appraiser's Qualifications

## **ASSUMPTIONS AND LIMITING CONDITIONS**

1. This report might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. It is assumed that the subject property is subject to the special tax lien of Lake Elsinore CFD No. 2019-2.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable; however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of either property, subsoil or structures that would render them more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any sketch or photograph included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps, photographs and exhibits found in this report are provided for reader reference

purposes only. No guarantee regarding accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.

12. It is assumed that the utilization of the land and improvements (if any) are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials that may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
14. Proposed improvements, if any, are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
16. The Americans with Disabilities Act ("ADA") became effective on January 26, 1992 and have been updated several times since then. The appraiser has made no specific compliance survey and analysis of the property to determine whether they conform to the various detailed requirements of the ADA, nor is the appraiser a qualified expert regarding the requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, a possible noncompliance with requirements of the ADA in estimating the value has not been considered.
17. It is assumed there are no environmental concerns that would slow or thwart development of the subject properties and that the soils are adequate to support the highest and best use conclusions.

18. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document for the Lake Elsinore CFD No. 2019-2 Special Tax Bonds.

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#### **HYPOTHETICAL CONDITION**

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1. It is assumed that all improvements and benefits to the subject properties, which are to be funded by the Lake Elsinore CFD No. 2019-2 Special Tax Bond proceeds, are completed and in place.

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#### **EXTRAORDINARY ASSUMPTION**

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1. It is assumed that the cost and sales information provided by the homebuilder are true and accurate. We have reviewed the sales and checked some against public record, however we have not reviewed actual sales documents on each sale. We have reviewed and analyzed the remaining land development costs and they appear reasonable; however, we do not have expertise in cost estimating. If the sales or the costs differ, it will affect the value of the property.







## PURPOSE OF THE APPRAISAL

The purpose of this appraisal report is to estimate the value of the fee simple interest of the subject property, subject to the special tax lien of the Lake Elsinore CFD No. 2019-2 Special Tax Bonds.

## THE SUBJECT PROPERTY

The subject property is encompassed by Lake Elsinore CFD No. 2019-2 and is proposed for 168 single-family residences within the northern most portion of the City of Lake Elsinore located at the southeast quadrant of Interstate-15 and Nichols Road. The subject property is known as the community of Nichols Ranch, being developed by Meritage Homes. The entire community is planned for 168 homes being built-out into two neighborhoods as detailed below.

| Description  | No. Lots   | Ownership   | Condition/Status                      |
|--|------------|-------------|---------------------------------------|
| <b>Hilltop by Meritage – Lots 1-26, 54-55, 120-134 of Tract 37305 and Lots 1-34 of Tract 37305-1</b> |            |             |                                       |
| Lots 1-14, , 16-17, 22-23, 120-134 of Tract 37305 and Lots 24-34 of Tract 37305-1                    | 44         | Individuals | Completed Houses / Closed             |
| Lots 54 and 55 of Tract 37305  | 2          | Meritage    | Model Homes                           |
| Lots 15, 18-21 and 24-26 of Tract 37305  | 8          | Meritage    | Homes over 95% complete (8 in escrow) |
| Lots 1-9 and 17-23 of Tract 37305-1  | 16         | Meritage    | Homes U/C (3 in escrow)               |
| Lots 10-16 of Tract 37305-1  | 7          | Meritage    | Finished Lots                         |
| <b>Subtotal Hilltop</b>  | <b>77</b>  |             |                                       |
| <b>Highland by Meritage – Lots 27-53 and 56-119 of Tract 37305</b>                                   |            |             |                                       |
| Lots 35-37, 60-91, 105, 109-111 of Tract 37305   | 39         | Individuals | Completed Houses / Closed             |
| Lots 58-59 of Tract 37305  | 2          | Meritage    | Model Homes                           |
| Lots 101-104, 106-108; 112-115 of Tract 37305  | 11         | Meritage    | Homes over 95% complete (5 In escrow) |
| Lots 32-34, 92-94, 97-100 and 116-119 of Tract 37305   | 14         | Meritage    | Homes U/C (0 in escrow)               |
| Lots 27-31, 38-53, 56-57 and 95-96 of Tract 37305  | 25         | Meritage    | Finished Lots (0 in escrow)           |
| <b>Subtotal Highland</b>   | <b>91</b>  |             |                                       |
| <b>Total Lots</b>  | <b>168</b> |             |                                       |

## INTENDED USE OF THE REPORT

It is the appraiser's understanding that the client, the City of Lake Elsinore, will utilize this report in disclosure documents related to the sale of the Special Tax Bonds of Lake Elsinore CFD No. 2019-2. This report may be included in the Official Statement or similar



document to be distributed in connection with the marketing and offering of the bonds. It is the appraiser's understanding that there are no other intended uses of this report.

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## DEFINITIONS

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### **Market Value**

The term "Market Value" as used in this report is defined as:

*"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:*

- 1. buyer and seller are typically motivated;*
- 2. both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;*
- 3. a reasonable time is allowed for exposure in the open market;*
- 4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- 5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."*<sup>1</sup>

Inherent in the Market Value definition is exposure time or the time the subject property would have been exposed on the open market prior to the appraisal in order to sell at the concluded values. In the case at hand and considering current market conditions, the exposure time for each single home or the builder's ownership in a bulk sale is less than one year.

### **Aggregate Retail Proceeds**

As used in the Discounted Cash Flow Analysis, Aggregate Retail Proceeds is defined:

*"The sum of the appraised values of the individual units over 95 percent and builder-owned, at date of value. The sum includes an allowance for lot premiums, when applicable. This is not the market value of the project in bulk."*

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<sup>1</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition

### **Bulk Value**

Bulk Value is defined as:

*The value of a group of lots, parcels, or homes to a single purchaser, on a specified date, under the terms and conditions of the definition of market value.*

### **Discounted Cash Flow (DCF) Analysis**

A Discounted Cash Flow Analysis is:

*The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analysis specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate.*

### **Finished Lot**

The term "Finished Lot" is defined as:

*"A parcel which has legal entitlements created by a recorded subdivision map, whose physical characteristics are a fine graded level pad per lot with infrastructure contiguous to each individual lot, asphalt paved roads and the necessary utilities. This term assumes the payment of all applicable development fees with the exception of building permit and plan check fees."*

### **Hypothetical Condition**

The Term "Hypothetical Condition" is defined by USPAP as:

*"That which is contrary to what exists but is supposed for the purpose of the analysis"*

The Hypothetical Condition within this report is that subject property is enhanced by the improvements and/or fee credits to be funded by bonds issued by Lake Elsinore CFD No. 2019-2.

### **Extraordinary Assumption**

The term "extraordinary assumption" is defined by USPAP as:

*"An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusion"*

The Extraordinary Assumption used in this report is that the cost and sales information provided by each of the homebuilders are true and accurate. We have reviewed the sales and checked some against public record, however, we have not reviewed actual sales documents on each sale. We have reviewed the remaining land development costs and they appear reasonable, however, we are not experts in the field of cost estimating. If the sales or costs differ, it will affect the value of the property.

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### **PROPERTY RIGHTS APPRAISED**

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The property rights being appraised are of a fee simple estate interest, subject to easements of record and subject to the Lake Elsinore CFD No. 2019-2 special tax lien.

The definition of “fee simple estate” is defined as:

*“absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”<sup>2</sup>*

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### **EFFECTIVE DATE OF VALUE**

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The subject properties are valued as of July 1, 2024.

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### **DATE OF REPORT**

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The date of this report is August 2, 2024.

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### **SCOPE OF APPRAISAL**

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As previously stated, the purpose of this appraisal is to report the appraiser’s best estimate of the market value for the subject property, Lake Elsinore CFD No. 2019-2, which encompasses the community known as the residential portion of the Nichols Ranch, a planned community in Lake Elsinore. The residential portion of the Nichols Ranch Specific Plan and is proposed for 168 single family detached homes being built out into two neighborhoods by Meritage Homes. This valuation is for the residential

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<sup>2</sup> The Appraisal of Real Estate, 13<sup>th</sup> Edition

property in its current condition assuming the improvements to be funded by the bonds of Lake Elsinore CFD No. 2019-2 are in place or have accrued to the property. Both neighborhoods are currently selling homes. Out of the total 168 proposed homes, 83 homes have closed to individuals at this time and an additional 16 are in escrow and due to close upon completion. This appraisal will be presented in the following format:

- County of Riverside Description
- City of Lake Elsinore Description
- Nichols Ranch / Immediate Surroundings Description
- Brief Description of CFD No. 2019-2
- Subject Property Descriptions
- Riverside County Residential Market Analysis
- Highest and Best Use Analysis
- Valuation Procedure, Analyses and Conclusions
- Appraisal Report Summary

In valuing the subject property, the value estimates will be based upon the highest and best use conclusion using the Sales Comparison Approach. The Sales Comparison Approach to value is defined as:

*“...a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sales prices of the comparables based on the elements of comparison. The Sales Comparison Approach may be used to value improved properties, vacant land or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparables is available.”<sup>3</sup>*

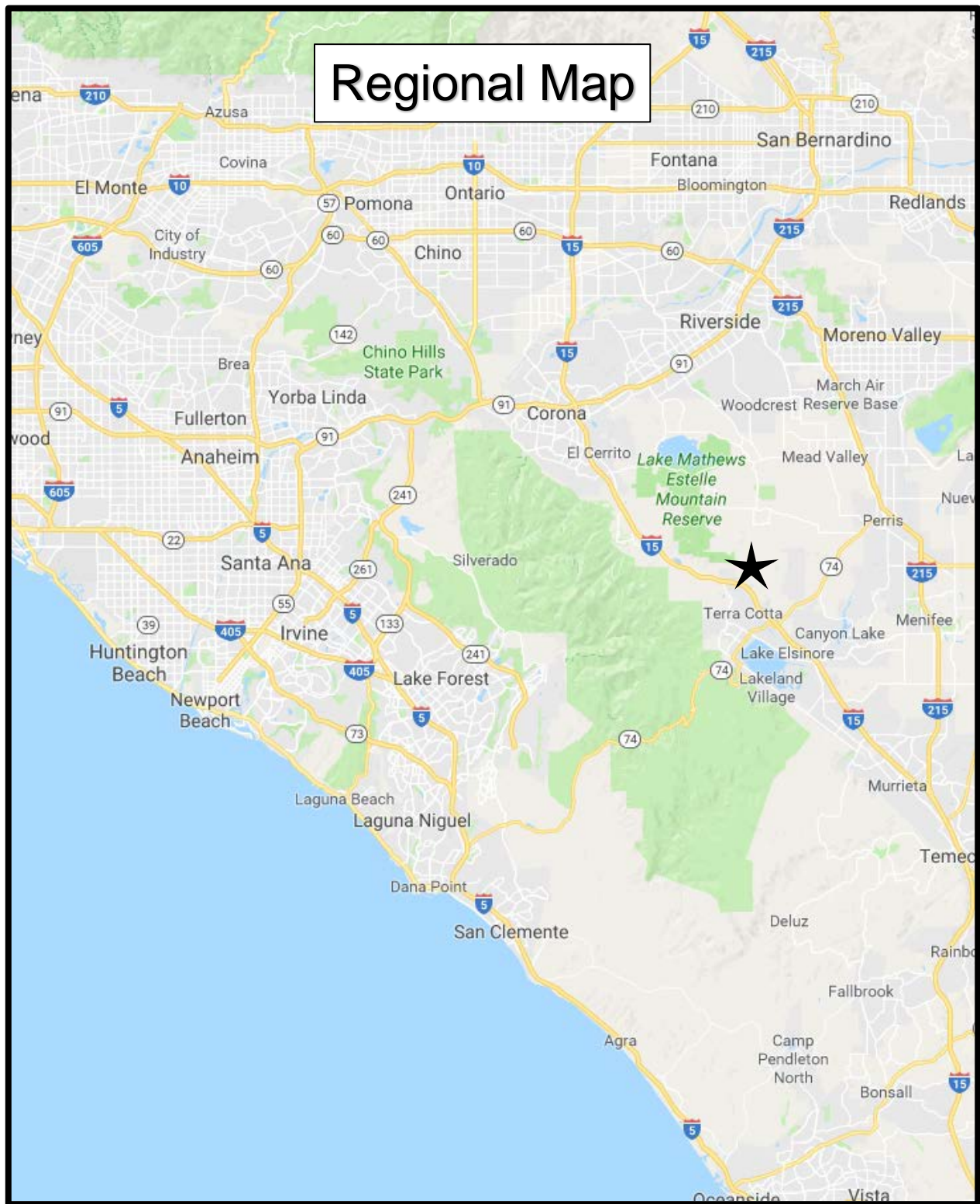
In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject that have recently been sold, are listed for sale or are under contract. Neither a cost or income approach was utilized as they were not considered necessary to arrive at credible results.

The due diligence of this appraisal report included the following:

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<sup>3</sup> Dictionary of Real Estate Appraisal, Fourth Edition, 2002

1. Compiled demographic information and related that data to the subject properties to perform a feasibility/demand analysis.
2. Gathered and analyzed information on the subject marketplace, reviewed several real estate brokerage publications on historical and projected growth in the subject market and researched the micro and macro-economic outlook within Riverside County and the Lake Elsinore area.
3. Toured and inspected the subject property between May 15 and July 1, 2024.
4. Had the site flown by an aerial photographer on June 22, 2024.
5. Interviewed representatives from the builder in order to obtain project information.
6. Reviewed the Nichols Ranch Specific Plan No. 2018-01 adopted June 11, 2019.
7. Reviewed land development cost information from the builders in order to ascertain the remaining costs to complete the development of the lands to true finished lots.
8. Reviewed mapping on the subject property.
9. Reviewed title reports on the subject property.
10. Reviewed FEMA correspondence on the subject property.
11. Reviewed sales brochures on each of the subject neighborhoods.
12. Reviewed actual sales information from the builder on all closed homes and current escrows.
13. Searched the area for relevant comparable new home residential projects, including sales prices and concessions and interviewed representatives from each comparable neighborhood.
14. Searched the area for relevant comparable residential land sales and interviewed representatives regarding the transactions when available.
15. Reviewed Multiple Listing Service ("MLS") information on re-sales and current listings of existing homes within Lake Elsinore CFD No. 2019-2.
16. Inspected the subject property for any for-sale or property listing signs that may not be listed on the MLS yet.



## **COUNTY OF RIVERSIDE AREA DESCRIPTION**

### **Location**

The subject property is located in the northwestern portion of Riverside County (the "County") within the City of Lake Elsinore along Interstate 15 ("I-15"). More specifically, Nichols Ranch is located along the south side of Nichols Road, just east of I-15.

The County encompasses approximately 7,300 square miles, and includes large expanses of undeveloped deserts, valleys, canyons and mountains. The County is a major beneficiary of outward urban pressure from Orange and Los Angeles Counties as well as growth from San Diego County to the south. Although located at the periphery of most urban activity in Southern California, Riverside County, particularly the western area, has been a major growth area and is perceived by most observers as an area expected to continue to grow. Riverside and San Bernardino Counties are considered distinct from Los Angeles and Orange Counties and belong to the same Metropolitan Statistical Area ("MSA"). This area, consisting of San Bernardino and Riverside Counties, is commonly referred to as the Inland Empire.

### **Transportation**

The subject property is situated about one-tenth mile west of I-15 and approximately 16 miles south of State Route 91 (SR-91) and 14 miles north of the southern end of Interstate 215 (I-215). I-15 travels in a northerly/southerly direction and provides access to Barstow and Nevada to the north and San Diego to the south. SR-91 travels in a northeasterly/westerly direction, providing access to Orange and Los Angeles Counties to the west and connecting with the 60 Freeway and I-215 to the north in Riverside County. I-215 branches off from I-15 and provides a north/south alternate connection between I-15 in the Murrieta area and I-15 to the north in the Fontana area in San Bernardino County. State Route 60 provides access to the west (Los Angeles) and to the east where it merges with Interstate 10 ("I-10") providing access to Arizona

The County is served by Amtrak and Metrolink as well as several rail freight lines. The Ontario International Airport provides regional air service and is located approximately

27 miles north of the subject property. Corona Airport is located about 20 miles northwest of the subject property. A general aviation airport that is home to 350-400 aircraft, the Corona Airport is a recreational airport with no commercial flights, however extremely active with approximately 50,000 annual operations. In addition, the County has extensive trucking corridors along the previously referred to interstates, highways and state freeways.

### **Population**

The County has experienced population growth for several decades and is anticipated to continue to do so in the foreseeable future. Per the California Department of Finance, the January 1, 2024, County population was 2.442 million, representing a one-year increase of 0.6 percent. This compares to an average annual growth rate over the past thirteen years of about 0.8 percent, and an average annual growth rate of approximately 2.5 percent for the previous eighteen-year period. It should be noted however, California's overall population increased for the first time in 2024 by 0.2 percent following three years of decreasing population statewide. Current State projections for Riverside County suggest the population is anticipated to reach approximately 2.525 million by 2030, indicating an average annual increase of approximately 0.6 percent over the next six years. The current growth of 0.6 percent is lower than the previous twelve-year annual average of about 0.8 percent likely due to the COVID pandemic disruption, and significantly lower than the previous 18-year average (2.5 percent) likely due to the Great Recession. Future growth is predicted assuming a more stable market than was seen prior to the Great Recession.

### **Economy**

The U.S. economy in the past few years has experienced challenging times due to reactions from the COVID disruption. These economic challenges include significant inflation, increasing interest rates, banks' instability and reaching an agreement on the debt ceiling. During COVID, the Federal, State, County and City Governments ("Governments") originally shut down non-essential businesses and areas where social gatherings occur in order to slow the spread of the virus. This created a strain on small



and large businesses alike. Restaurants and hotels were hit hard, and travel reduced drastically as citizens were urged to stay home. Layoffs occurred with reports of 40 million people filing for unemployment in the first few months of the pandemic. The Governments attempted to curtail the job losses and hardships with the approval of over \$5.6 trillion in COVID relief to our nation. In addition, the Federal Reserve Board ("Board") reduced interest rates and started quantitative easing by buying bonds. This legislation helped shore up the U.S. economy; however, due to the significant amount of new money introduced into the economy, inflation began occurring at a rate not seen for 40 years. As of April 2024, the national inflation rate was at 3.4 percent; up from a low of 2.97 in July 2023, and down from the peak in June 2022 of 9.1 percent. 2021 had an annual inflation rate of 4.7 percent as inflation began after COVID. This compares to a 1.24 annual percentage rate for 2020 and an average of a 1.74 annual percentage rate for the previous ten years. Whether it is a result of the world turmoil, supply chain issues due to COVID or from the additional money entering the economy, inflation has been hitting Americans hard.

In an effort to curb inflation, the Federal Reserve Board ("Board") began raising interest rates. Between March 2022 and August 2023, there were eleven interest rate increases rising the Federal Funds Rate ("FFR") from 0.25 – 0.50 percent to 5.25 – 5.50 percent. The Board has not increased rates since August 2023 due to the decrease in inflation coupled with other signs in the economy. While the eleven increases helped slow inflation, the quick, significant increases strained bank balance sheets. Three major banks failed in early 2023 with the government taking unprecedented action to help shore them up. At the most recent Board meeting (June 2024) they continued to pause the increases for the sixth meeting in a row and suggested that rate cuts will begin later in the year rather than earlier. In addition to causing bank instability, the FFR increases over the past couple years increased a typical 30-year fixed mortgage rate from 2.98 percent as of November 10, 2021, to the high of 7.79 percent as of October 2023; however, the rate has dropped to 6.86 percent as of June 27, 2024 (per Federal Reserve Economic Data-St. Louis). This steep increase over the past two+ years has significantly affected the real estate market.

The COVID disruption to the economy also caused extreme volatility in the stock market with the Dow Jones Industrial Average ("DJIA") dropping from 29,398 in February 2020 to 19,174 in March 2020, a drop of 37 percent. The Government interventions resulted in a bounce back in the DJIA to 27,111 by June 2020 with the stock market then climbing up to a peak of 36,799 in January 2022. In February 2022, Russia began invading Ukraine which caused volatility in world economics followed by U.S. inflation, interest rate increases and instability in the U.S. due to the debt ceiling being reached. In addition, in Israel declared war on Hamas on October 7, 2023, which added to the strain. All of these factors caused a drop in the DJIA of over ten percent from January 2022 to the low on October 27, 2023 (32,418); however, the Federal Reserve Board's pausing of the interest rate increases coupled with strong economic news, brought the stock market to a new all-time high of 40,003 (May 17, 2024) with the current average at 39,034 (as of June 27, 2024). It appears the recent Board's decision not to increase rates further and their suggestion that a decrease may occur within this calendar year has been well received by investors. Current concerns on the U.S. economy include the upcoming presidential election and the nation's debt limit which can only be increased through government approvals. The current partisanship in our government caused a stand-off in increasing the debt limit which has been in danger of being reached numerous times with several temporary deals being reached, however, no permanent agreements at this time.

The significant increase in mortgage rates over the past two years is just one part of the puzzle affecting the impact of new housing on the broader economy. Additional risks include homebuilders trying to find balanced inventory levels, supply chain issues, both wage and price increases, and persistent inflation. Over the past 25 years, the Inland Empire economy has had significant cycles with home prices almost doubling from 1995 to 2005, then falling by over 50 percent during the Great Recession, taking prices back to 2002 levels. Home values appeared to hit bottom in 2009 then remained essentially flat for two to three years with the majority of the Inland Empire housing market seeing an improvement beginning in mid-2012. Contrary to homebuilder's original thoughts of a

slowdown due to the pandemic, new home buyers stepped up in the spring of 2020 and new home sales were significantly higher during the second half of 2020 versus the previous year and continued extremely strong throughout 2021. This exceptional activity in new home sales was the one bright spot in the COVID disruption and is thought to be due to several factors, including: a tight supply of resale homes; historically low interest rates; millennials finally buying homes; and the work from home factor which began during the pandemic and allowed residents to live in more suburban areas without long commutes. As rates began increasing in early 2022, there was a significant slowdown in sales within the Inland Empire. The high mortgage rates have significantly slowed existing homeowners from moving. The limited availability of existing homes on the market has resulted in new homes capturing a much larger share of the total home sales.

While most jobs have come back, job losses were significant during the COVID recession as the Nation's unemployment rate went from 3.5 percent in February 2020 to 14.4 percent in April 2020, with the May 2024 National unemployment rate at 3.4 percent (Employment Development Department, not seasonally adjusted). The unemployment rate for the MSA was estimated at 4.3 percent (as of May 2024 per the Employment Development Department). This reflects a decrease from the peak during the Great Recession of 15.1 percent in 2010 and a decrease from the peak during COVID of 14.9 percent. As of May 2024, Riverside County's unemployment rate was 4.4 and San Bernardino County had a 4.3 percent unemployment rate. The current unemployment rate for the MSA of 4.3 percent is the same as the California rate at 4.3 percent and higher than the May 2024 National rate of 3.4 percent. Below is a table comparing Riverside County's unemployment rate to the unemployment rates of the surrounding counties as of May 2024.

| Jurisdiction          | As of    | Unemployment Rate* |
|-----------------------|----------|--------------------|
| Los Angeles County    | May-2024 | 4.7%               |
| Riverside County      | May-2024 | 4.4%               |
| San Bernardino County | May-2024 | 4.3%               |
| Orange County         | May-2024 | 3.1%               |
| San Diego County      | May-2024 | 3.3%               |

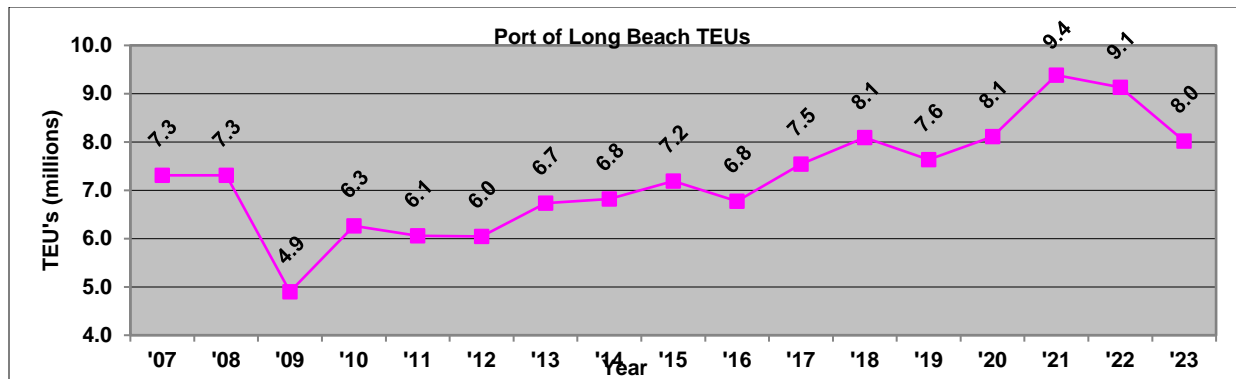
Source: State of California E.D.D.; \*Not Seasonally Adjusted

The latest UCLA Anderson Forecast (“Forecast”) was issued March 13, 2024, and stated the possibility of a recession has faded due to expansionary fiscal policy, new national industrial policy, and the fact that consumers are still spending despite the perception of economic uncertainty. GDP growth in the fourth quarter of 2023 came in at a higher-than-expected 3.2 percent annual rate of growth that was mostly due to strong consumer spending but also to inventory replacement after the holidays. The Forecast is now for the first quarter 2024 growth to be 2.2 percent. They believe the impact of higher interest rates will restrain growth in 2024. Inflation is still higher than the target 2.0 percent primarily because of residential rents, automobile repair and new health insurance premiums. The upside of the Forecast is productivity growth thanks to new technology that drives higher wages and higher GDP. The Forecast mentions that risks to their current forecast include a possible shutdown of government, geopolitical events and the possibility of a different national economic policy in 2025 due to the election.

The UCLA Forecast for California is typically more positive than the overall Nation due to job growth in California; however, this Forecast suggests a slower-growing California economy with the growth not much faster than the U.S. They believe that the unemployment rate for the first quarter of 2024 will average 4.7 percent (currently 5.3 percent) with the 2024 yearly average of 4.6 percent, then 3.8 percent in 2025 and 3.9 percent in 2026. The housing market in California is still misbehaving as higher interest rates should send prices lower; however, the median price of an existing single-family home sold in the state has climbed significantly since December 2022 by 9.3 percent in San Diego; 9.0 percent in Los Angeles and 3.9 percent in San Francisco (as of March per the Forecast). With existing home sales numbers at depression levels, builders are responding with new developments with the Forecast stating that 32 percent of all developers interviewed in Northern California and 55 percent in Southern California are planning to begin one or more new multi-family projects in 2024. The Forecast is estimating 123,000 net new units to be permitted in California in 2024 and grow to 159,500 by the end of 2026.

One bright spot in the current economy is sales of new homes. While existing homeowners are reluctant to put their houses on the market due to their under-four percent mortgages, new home sales continue. Even with rates in the seven percent range, new homes are still selling. This is partially due to the extremely limited availability of existing homes on the market, coupled with homebuilders offering to buy-down interest rates to help new home buyers. While new homes historically captured 10 – 13 percent of total home sales; over the past year new homes are capturing, at times, over 30 percent of total home sales. This rush to new home purchases has put pressure on pricing, even while interest rates have soared. During the Great Recession median housing prices (existing) in Riverside County dropped from a high of \$431,713 in June 2006 to a low of \$171,480 in April 2009. Median prices surpassed the pre-recession high in April 2020 (\$435,000), hit a peak in May 2022 of \$650,000 and decreased until last month with both the April and May 2024 median home price in Riverside County again at the peak of \$650,000 (all statistics per the California Association of Realtors). It should be noted that the median home price in Riverside County is up 5.7 percent year over year. This will be discussed further in the Riverside County Housing Market section later within this report.

As a final indicator of overall economic activity for the region, we have reviewed the rise and fall of TEUs (Twenty-foot Equivalent Units – i.e., containers) being processed in the local ports. This is especially important for the Inland communities, as it represents much of the growth in development of West Coast distribution centers and warehouses in the Inland Empire linked to supply-chain nodes in the Pacific Rim. The chart below shows TEU activity at the Port of Long Beach. Generally, there had been increases since 2009 with the exception of a slight dip in 2016 and again in 2019 which ended with a 5.6 percent downturn. The 2022 calendar year saw a decrease of 2.6 percent from the previous year; however, 2023 saw the largest percentage decrease of 12.2 percent year over year (8,018,668 versus 9,133,657 total TEUs). It should be noted that consumer demand cooled in mid-2022 leaving fewer TEUs needed. For the calendar year 2024, thus far TEUs are up over 16 percent.



## **Government**

A Board of Supervisors oversees the County as the governing body of the County, certain County special districts, and the County Housing Authority. The Board enacts ordinances and resolutions, adopts the annual budget, approves contracts and appropriates funds, determines land use zoning for unincorporated areas, and appoints certain County officers and members of various boards and commissions. The Board of Supervisors is elected from five different districts within the County.

## **Education**

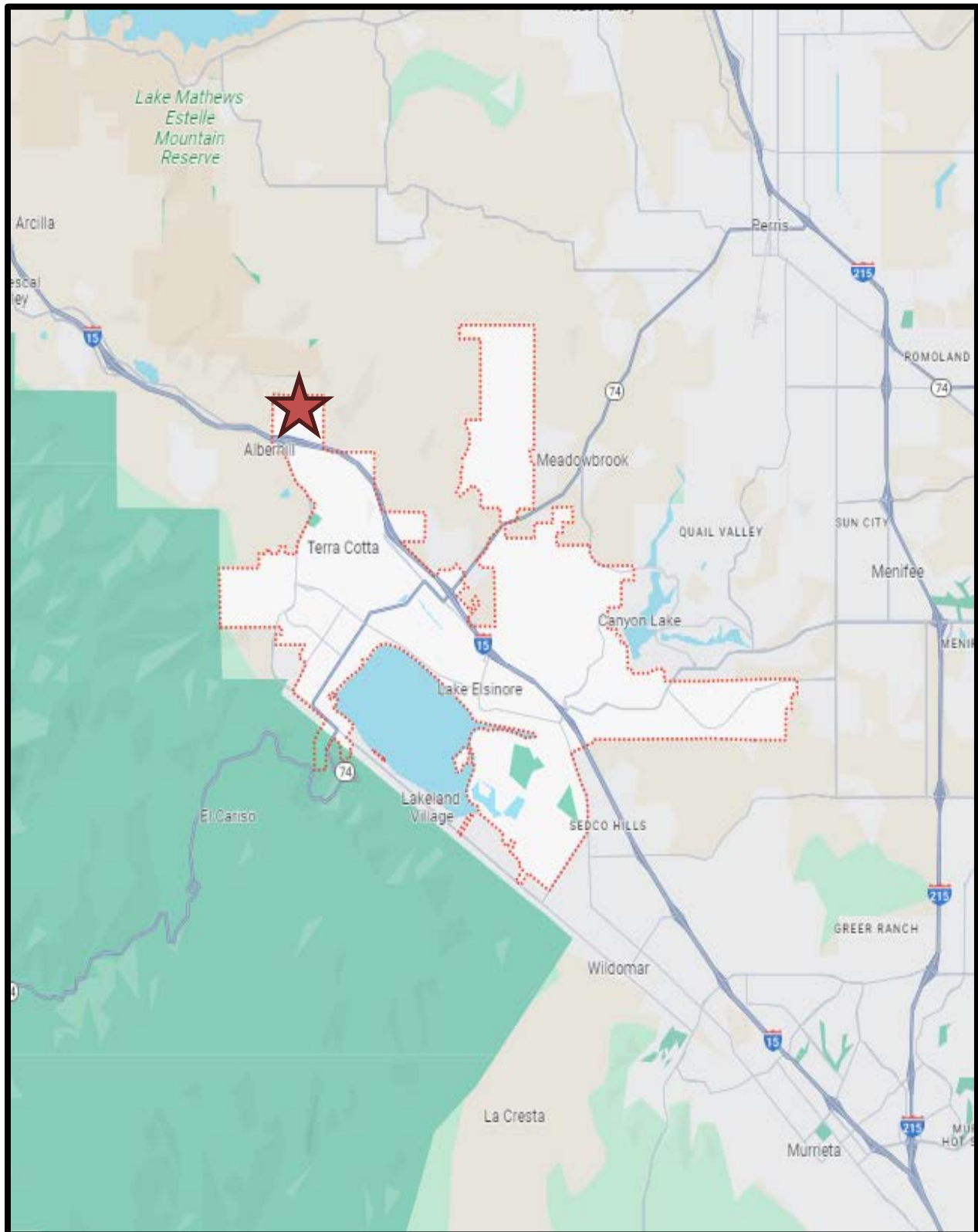
The subject area is served by the Lake Elsinore Unified School District. Community Colleges are available near the subject at Norco College (18 miles northwest), Riverside City College (18 miles north), The Meniffee campus of San Jacinto College (10 miles east) and Santiago Canyon College (21 miles west). Higher education is available, within an hour's drive, at the University of California campuses at Riverside and Irvine, or California State University campuses in San Bernardino, San Marcos, Fullerton and Pomona. In addition, the area offers many excellent private colleges.

## **Conclusion**

Population in the County has increased over the past 20 years with predictions for continued population growth. The Nation's economy has been slowing after the Board increased the FFR over five percent to fight historical inflation which began during COVID. One bright spot during COVID was housing; the region's relative affordability and low interest rates, coupled with the rising prices in the coastal market and the demand for housing, set up a new housing boom. This was followed by a significant drop

in sales due to existing homeowners being unwilling to give up their low-rate mortgages, which turned out to be a boon for new homes. Current concerns for the Inland Empire economy include stubborn inflation, the high prices of homes, higher interest rates, supply chain issues, the upcoming election, possible government shutdowns along with the Russian/Ukraine and Israel/Palestine conflicts, which are all creating volatility in both local and global financial markets. In conclusion, the County is expected to continue to grow in population due to its Southern California location, the availability of land, and the relatively lower land and housing prices in comparison to adjacent Orange, Los Angeles, Riverside and San Diego Counties.

## LAKE ELSINORE AREA MAP





## **CITY OF LAKE ELSINORE DESCRIPTION**

The subject property is located in the northernmost portion of the City of Lake Elsinore ("City"), east of I-15 along the south side of Nichols Road. Lake Elsinore is approximately half-way between the cities of Los Angeles and San Diego, about 25 miles east of the Pacific Ocean. Downtown Riverside, which houses the County seat, is approximately 20 miles north of the City. The City is situated along I-15 at the intersection of State Route 74 and encompasses an estimated 41 square miles. It is surrounded by unincorporated County lands to the north and east, the City of Wildomar to the south, and the Ortega Mountains and the Cleveland National Forest to the west.

### **History**

The Luiseno Native Americans are the earliest known inhabitants of the Elsinore Valley, prior to when settlers came in the early 1800s due to the region's natural springs which were said to have healing qualities. In the 1850s, the area housed a stagecoach stop for the Butterfield Overland Mail route between the Temecula station (20 miles south) and the Temescal Station (10 miles north). The rich and fertile farmlands and natural resources of clay, coal, sand and gravel within the Elsinore Valley kept people in the area. At incorporation in 1888 the City was originally in San Diego County; however, became part of Riverside County upon its creation in 1893. The City was named Elsinore after a city in Denmark which is featured in the Shakespeare play, Hamlet. In the 1920s and 1930s, the area became a Hollywood getaway with many stars building homes in the hills surrounding the Lake.

Lake Elsinore (the "Lake") was originally known as Laguna Grande and is the largest natural lake in Southern California. The Lake is situated at the lowest point within the 750-mile San Jacinto River watershed with headwaters from the western slopes of San Jacinto Peak and Lake Hemet. Lake Elsinore levels are at 1,244 feet above sea level with a volume of 30,000-acre feet that use to change substantially prior to federal grants to prevent the flooding and ebbing of the lake. The largest flooding came in the 1930s when the Lake rose from 8,000-acre feet to 92,000-acre feet. In 1951 the Lake dried up

and remained dry for about 10 years. In 1981 and 1983 the El Nino rains again flooded the area and in 1984 the City was successful in obtaining Federal grants for the major project to regulate the Lake and end the cycle of flooding and drying. Now at 1,255 feet, the Lake spills into the outflow channel known as the Temescal Wash, flowing northwest along I-15 to Temescal Creek which dumps into the Santa Ana River near the city of Corona and flows to Orange County and out into the Pacific Ocean.

### **Population**

The City had enjoyed rapid population growth in the mid-2000's, which altered the appearance of the City from a small lakeside town of 3,800 people in 1976, to a bedroom community of upper middle-class professionals. From 2000 to 2008 the City was the 12<sup>th</sup> fastest growing city in the State going from 28,928 residents in 2000 to 51,821 residents in 2010, suggesting an average annual increase of 6.0 percent. Between 2010 and 2015 the city increased to 59,142 residents (average annual increase of 2.67 percent), with a most recent January 2024 population estimate of 71,452 per the Department of Finance, which represents an annual increase of 0.1 percent since January 2023. This compares to the overall Riverside County growth of 0.06 percent during the past year. The significant growth between 2000 and 2010 includes the residential boom prior to the Great Recession. The population forecast for 2030 per the City of Lake Elsinore website shows approximately 88,500 which suggests an average annual growth of approximately three percent over the next seven years. The stagnant growth in the City over the past year was partially due to limited availability of new homes for sale as the two master plans sold out with only two new home communities selling in early 2022. In the past 18 months the number of new active residential projects within the City has grown from two new home communities to 11, suggesting increasing population growth. Lake Elsinore typically has positive population growth due to the convenient access along the I-15 corridor providing access to the employment centers in Riverside, Orange, Los Angeles, and San Diego Counties.

The subject is currently one of 11 actively selling communities in the City of Lake Elsinore. Alberhill Ranch, a master planned community, is currently selling Fairfield,

Linden and Ridgeline by Pulte Homes along with Crestly by Centex (also owned by Pulte). Richmond American is selling their Running Deer Estates which is nearing build-out. Meritage Homes is selling two communities known as Highland and Hilltop at their Nichols Ranch master plan (subject property). KB Home is selling their Carrera and Villa Real communities at Terracina along with their Crimson Hills neighborhood and TriPointe Homes is selling their Echo Highlands project. For many years previously, Lake Elsinore featured several actively selling new master planned communities including Canyon Hills which sold out in early 2020, and more recently, Summerly, which is located on the south side of the Lake and sold out in 2021. Summerly, including The Links golf course consists of a total of 700 acres, was proposed for over 1,600 residential units and is now fully built out. Canyon Hills includes approximately 4,300 residential units and is also fully built out.

### **Economy**

The City of Lake Elsinore has enjoyed industrial and commercial development along the I-15 Corridor including the Lake Elsinore Outlet Center at Nichols Road which was opened in the 1990s as one of the first Outlet Malls in Southern California. The City has been promoting its economic platform by becoming more business friendly. The 2023 estimated average household income over \$100,000 for the City, as compared to \$104,490 for the County, \$103,856 for the State and \$67,521 for the United States. Per the City of Lake Elsinore's 2021 Comprehensive Annual Financial Report (fiscal year ending June 30, 2021), the top employers were as reported below. (Please note, while the City has released the 2023 Comprehensive Annual Financial Report, it does not include the top employers).

| <b><u>Summary of Major Employers</u></b>    |                                |
|---|--------------------------------|
| <b><u>Employer</u></b>                      | <b><u>No. of Employees</u></b> |
| Lake Elsinore Unified School District       | 2,524                          |
| M & M Framing                               | 450                            |
| Stater Bros (3 locations)                   | 328                            |
| Costco                                      | 312                            |
| Walmart                                     | 295                            |
| Lake Elsinore Hotel & Casino                | 230                            |
| Riverside County (Dept. of Social Services) | 179                            |
| EVMWD                                       | 167                            |
| Home Depot                                  | 143                            |
| City of Lake Elsinore                       | 118                            |

Per the City's Economic Development's General Plan Update 2023 Growth Report, there were 1,130 single family lots under construction and an additional 933 single family lots and 745 multi-family units going through the approval process at the time.

### **Entertainment**

While Lake Elsinore served as a get-away for the movie industry in the 1920s, the area also began emerging as an entertainment/sports area when it hosted Olympic teams for training along with high-speed boat racing on the Lake. In 1964 the Skylark Airport (located southeast of the subject) emerged as a world class skydiving drop zone due to the thermals from the surrounding mountains. This is still one of the most prominent drop zones in Southern California. The Lake Elsinore Motorsports Park for off-road racing is located directly east of the Airport. In 1991 the Lake Elsinore Outlet Center opened boasting 100 outlets (currently 40 stores) and in 1994 Diamond Stadium was constructed which is the home of the Lake Elsinore Storm, an affiliate of minor league baseball. Diamond Stadium is located adjacent to the master planned community of Summerly, southwest about six miles from the subject. The major commercial centers are along I-15 at Central Avenue (Highway 74) with Walmart, Costco, Home Depot and Lowes as anchor tenants.

### **Transportation**

Interstate 15 is the major arterial with access to the City, with State Route 91 approximately 20 miles north and I-215 about 10 miles south. I-15 provides access to State borders to the north in Nevada and to the south where it merges with I-5 before going into Mexico. State Route 91 (20 miles north on I-15) provides freeway access into Orange and Los Angeles Counties to the west and to San Bernardino County to the east. I-215 provides northerly access connecting to State Route 60, which provides access to the west into Los Angeles and to the east where it merges with I-10 and provides access to the Arizona state border. The nearest freeway access points to the subject property is the I-15 Nichols Road on/off ramp, about 0.1 mile west of the subject. State Route 74 to the west is a winding road through the Ortega Mountains (also known as Ortega Highway

west of Lake Elsinore) that provides a more direct access into South Orange County, which is located approximately 19 miles southwest.

### **Schools**

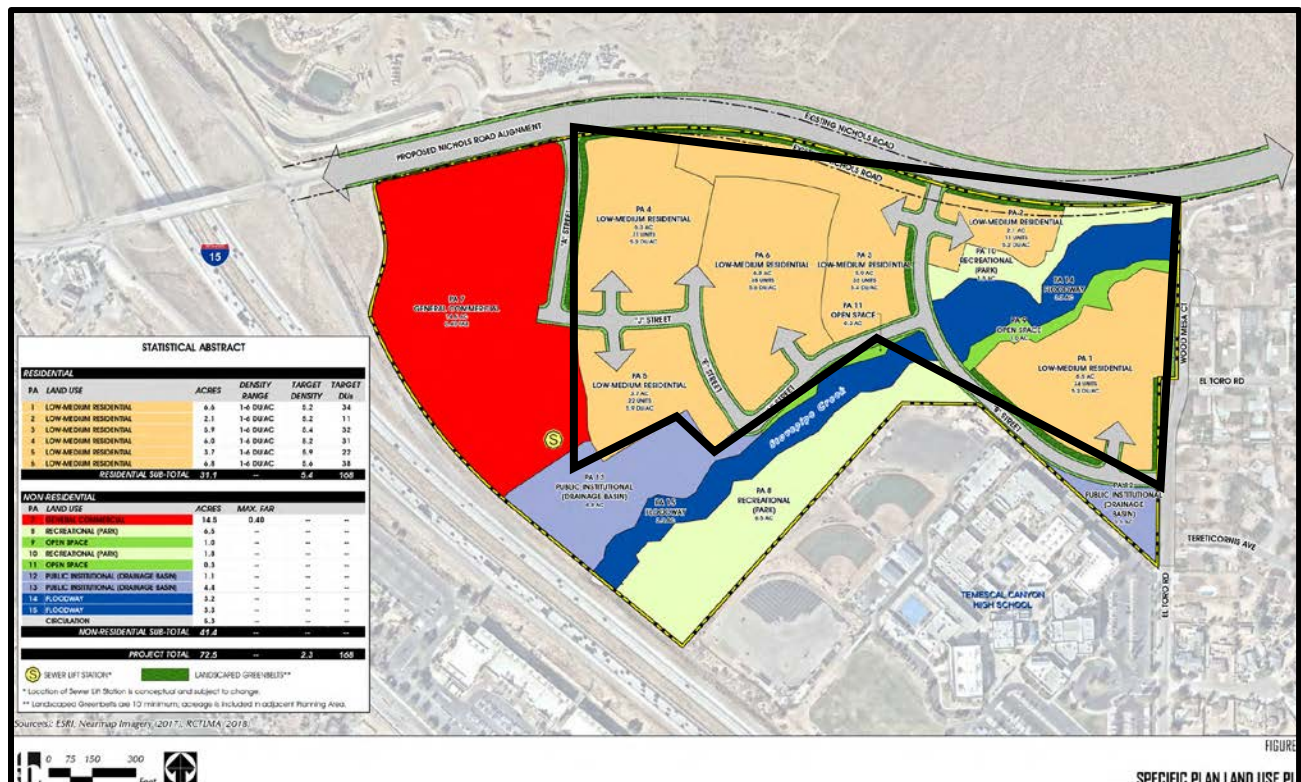
The subject property is served by the Lake Elsinore Unified School District (LEUSE) which has 13 elementary schools, two K-8<sup>th</sup> grade schools, four middle schools along with three high schools and one continuing education high school. In addition LEUSD has a child development pre-school and two alternative schools. The subject will be served by Alberhill Elementary School (1.6 miles west), Elsinore Middle School (about 2.7 miles southeast) and Temescal Canyon High School (adjacent to the south)

### **Conclusion**

In summary, the City of Lake Elsinore experienced above average growth over the past 20 years, however, experienced a slowdown in 2022 which is thought to be due to the limited availability of new homes. Future growth of the City should continue with over 1,100 single family lots under construction and over 900 in planning stages along with 745 multi-family units going through the approval process. Lake Elsinore's housing market is currently healthy and the subject is being well received in the marketplace at this time. Unknowns include the effect of a slowing U.S. and global economy. The City's abundant recreation, expanding employment opportunities, location, reasonable land and home prices and the availability of land for development combine to make the City a prime area for future growth.

## NICHOLS RANCH SPECIFIC PLAN / SURROUNDING AREA

The Nichols Ranch Specific Plan ("Specific Plan") includes approximately 72.5 gross acres proposed for 168 residential units and a 14.5-acre commercial center. This appraisal includes the residential areas only and does not include the commercial center. The entire Nichols Ranch Specific Plan is shown below with the subject property's approximate boundaries outlined in black.



The entire Nichols Ranch Specific Plan is generally bounded to the north by Nichols Road, to the east by existing residential use, to the south by Temescal Valley High School and to the west by I-15. More specifically, the subject area is bounded by existing residential use to the east, parks, open space and a drainage channel to the south, the commercial portion of Nichols Ranch (unimproved) to the east and Nichols Road to the north. I-15 runs in a northwest-southeast direction about one-eighth mile west of the subject. Access is considered good via I-15 to Nichols Road. Neighborhood shopping is available within one mile at Central Avenue with three major neighborhood shopping centers with anchors of Walmart, Costco and Lowes and a Home Depot.

The Specific Plan was adopted by the City Council on June 11, 2019 and is also known as City of Lake Elsinore SP No. 2018-01.

The Nichols Ranch Specific Plan is a master planned community which preserves Stovepipe Creek in its natural state, while establishing residential, commercial and recreational uses. The Plan approved 168 single family homes (subject property), a 14.5-acre future commercial center, 8.3 acres of parks and 7.8 acres of open space. The Specific Plan preserves the natural drainage course and riparian habitat within Stovepipe Creek which bisects a portion of the subject and forms the southern border of the western portion of the subject. There is a 6.5-acre linear park proposed for a par-course fitness station which overlooks Stovepipe Creek. While the residential is divided into six planning areas by the Specific Plan, all planning areas are zoned Low-Medium Residential and total 31.3 acres for 168 dwelling units. Meritage Homes purchased and is developing the six residential planning areas into two neighborhoods, with Planning Areas 1, 2 and 3 generally encompassing the Hilltop neighborhood and Planning Areas 4, 5 and 6 generally encompassing the Highland neighborhood. The exception to this is two lots which house the Hilltop models which are located in Planning Area 4. The overall density for the residential portion of the Specific Plan (the subject property) is 5.4 dwelling units per acre. The additional acreage within the Specific Plan includes 41.2 acres of non-residential land uses which include the 14.5-acre commercial center, the 6.8 acre linear park, 1.6 acres of open space, 5.5 acres of drainage basin, 5.6 acres of floodway and 5.3 acres of circulation (internal streets).

Immediately south of the Nichols Ranch Specific Plan is the Temescal Valley High School beyond which are existing residences and commercial development along Central Avenue, the next exit on I-15 to the south. To the east there are existing residences and some rural housing. North of Nichols Road is a mining operation and asphalt yard. Per the Specific Plan the mining area is covered by the Alberhill Ranch Specific Plan which is now designated as Commercial – Specific Plan (C-SP). Immediately to the west is the commercial portion of the Nichols Ranch (not included in this appraisal) which is generally in a superpad condition (mass graded with adjoining

street of Bedrock Road improved) beyond which is I-15. West of I-15, south of Nichols Road is the Lake Elsinore Outlets, a large outlet shopping center. The outlet center includes national brands such as Gap Factory, Levi's Outlets, Oneill, Lids, Guess Factory, Van's The Children's Place, Carter's and Bath and Body Works along with several local smaller in-line stores and restaurants. West on Nichols Road from I-15 is the community of Alberhill Ranch with four new home communities currently being developed by Pulte Homes along with KB Homes two communities in Terracina.



## LAKE ELSINORE COMMUNITY FACILITIES DISTRICT NO. 2019-2

On October 22, 2019, the City Council of the City of Lake Elsinore adopted a Resolution of Intention to form Community Facilities District No. 2019-2 (Nichols Ranch). At the time of formation, Lake Elsinore CFD 2019-2 comprised five parcels totaling 58.19 gross acres and was encompassed by Tentative Tract Map 37305 proposed for 168 residential units. According to the CFD Report ("Report"), the types of Facilities that are proposed to be financed by the proceeds from CFD No. 2019-2 consist of the construction, purchase, modification, expansion, rehabilitation and/or improvement of (i) drainage, library, park, roadway, traffic, administration and community center facilities, marina and animal shelter facilities, other public facilities of the City, including the foregoing public facilities which are included in the City's fee programs with respect to such facilities and authorized to be financed under the Mello-Roos Community Facilities Act of 1982, as amended (the City Facilities") and (ii) water and sewer facilities including the acquisition of capacity in the sewer system and/or water system of the Elsinore Valley Municipal Water District ("EVMWD") which are included in the EVMWD's water and sewer capacity and connection fee programs (the "Water District Facilities" and together with the City Facilities, the "Facilities"), and all appurtenances and appurtenant work in connection with the foregoing Facilities, including the cost of engineering, planning, designing, materials testing, coordination, construction staking, construction management and supervision for such Facilities. In addition, the Incidental Expenses associated with the Lake Elsinore CFD 2019-2 bonds are to be included.

The cost of Facilities, at time of the CFD Report were estimated to be \$5,300,000 based on fiscal year 2019-20 dollars. The costs, as shown in the Report are as follows:

| <b>City of Lake Elsinore</b>        | <b><u>Total</u></b> | <b><u>Bond Allocation</u></b> |
|-------------------------------------|---------------------|-------------------------------|
| Traffic Impact Fee                  | \$229,992           | \$229,992                     |
| Library                             | \$25,200            | \$25,200                      |
| City Hall & Public Works Facilities | \$135,912           | \$135,912                     |
| Community Center                    | \$91,560            | \$91,560                      |
| Marina Facilities                   | \$130,872           | \$130,872                     |
| Animal Shelter                      | \$58,464            | \$58,464                      |

|                                      |                    |                    |
|--------------------------------------|--------------------|--------------------|
| Fire Facility                        | \$126,168          | \$126,168          |
| Drainage Fee                         | \$467,852          | \$467,852          |
| <b>Total City Fees</b>               | <b>\$1,266,020</b> | <b>\$1,266,020</b> |
| <b>EVMWD</b>                         |                    |                    |
| Water Capacity Fees                  | \$2,242,128        | \$2,242,128        |
| Temescal Valley Project CFD Credit   | (\$456,120)        | (\$456,120)        |
| Water Capacity Fee                   | \$91,720           | \$91,720           |
| Water Capacity Fee Credit            | (\$1,000,000)      | (\$1,000,000)      |
| Sewer Capacity Fee                   | \$1,330,056        | \$1,330,056        |
| Sewer Lift Station                   | \$2,162,500        | \$797,825          |
| Water Main Line – Nichols Road       | \$1,000,000        | \$0                |
| <b>Total EVMWD</b>                   | <b>\$5,370,284</b> | <b>\$3,005,609</b> |
| Total Eligible Fees/Improvements     | \$6,636,304        | \$4,271,629        |
| Incidental Financing Costs           |                    | \$1,028,371        |
| <b>Total Funded by Bond Proceeds</b> |                    | <b>\$5,300,000</b> |
| <b>Total Funded by Developer</b>     |                    | <b>\$2,364,675</b> |

According to the Rate and Method of Apportionment, the assigned Special Tax for Developed Residential Property is shown in the table below. It should be noted that all amounts are in 2019-2020 dollars.

| <u>Land Use</u>           | <u>Bldg Sq. Footage</u> | <u>Special Tax</u> |
|---------------------------|-------------------------|--------------------|
| Single Family Residential | Less than 1,700 SF      | \$1,693            |
| Single Family Residential | 1,700 SF to 1,899 SF    | \$1,712            |
| Single Family Residential | 1,900 SF to 2,099 SF    | \$1,866            |
| Single Family Residential | 2,100 SF to 2,299 SF    | \$1,895            |
| Single Family Residential | 2,300 SF to 2,500 SF    | \$1,953            |
| Single Family Residential | Greater than 2,500 SF   | \$2,049            |
| Multli-Family Property    | N/A                     | \$15,378/Ac        |

Per the latest sources and uses (dated July 16, 2024), the project fund deposit is anticipated to be \$6,799,861 with \$683,558 in Debt Service Reserve Fund, \$94,431 in capitalized interest and \$361,762 in costs of issuance and underwriters discount (all amounts subject to change). The boundary map showing Lake Elsinore CFD No. 2019-2 is shown in the Addenda.

## SUBJECT PROPERTY DESCRIPTION

The subject property consists of the residential area of Nichols Ranch which includes two neighborhoods, Hilltop and Highland by Meritage Homes. The two neighborhoods are shown in the site plans below with the description beginning on the following page.

### Hilltop Site Plan



### Highland Site Plan

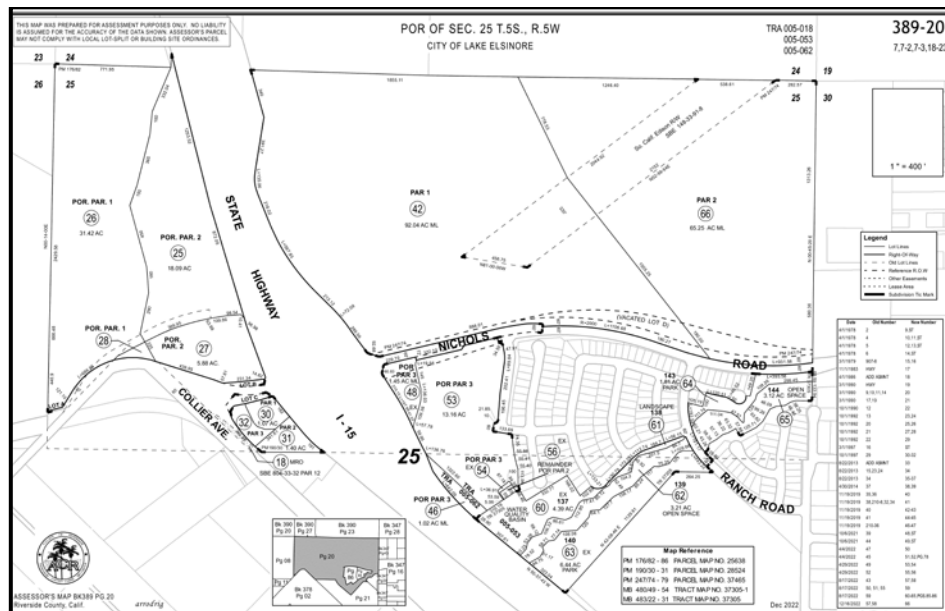


Location: Southeast corner of Bedrock Road and Nichols Road, City of Lake Elsinore.

Legal Property Description: Hilltop is known as Lots 1-26, 54-55 and 120-134 of Tract 37305 and Lots 1-34 of Tract 37305-1 in the City of Lake Elsinore.  
Highland is known as Lots 27-53 and 56-119 of Tract 37305, City of Lake Elsinore.

Property Owner: Meritage Homes as to Lots 15, 18-21, 24-34, 38-59, 92-104, 106-108, 112-119 of Tract 37305 and Lots 1-23 of Tract 37305-1. Individual Homeowners as to Lots 1-14, 16-17, 22-23, 35-37, 60-91, 105, 109-111 and 120-134 of Tract 37305 and Lots 24-34 of Tract 37305-1.

Assessors Parcel Nos.: The Assessor's Parcel Map which is currently available on public record does not show the individual parcels within the tract map as shown below. We were unable to obtain the new Assessor's Parcel Map.



Three-Year Sales History: Per representatives from Meritage Homes, they purchased the property in January 2021 for \$8,110,000. In addition, 83 homes have closed to individual homeowners.

Size and Shape: The subject property is irregular in shape. Per the recorded Tract Maps, Tract Map 37305-1 includes Tract Map 37305 (no dash) and gives the acreage as 58.19 gross acres. Tract 37305-1 identifies Remainder Parcel 1 (6.94 acres) and Remainder Parcel 2 (40.27 acres) which make up Tract No. 37305 (no dash).

|                          |  |
|--------------------------|--|
| Zoning:                  | The subject property is covered by City of Lake Elsinore Specific Plan 2018-01 which is also known as the Nichols Ranch Specific Plan. Per the Specific Plan the subject is shown as low to medium density residential which allows for 1-6 dwelling units per acre with a target density of 5.4 dwelling units per acre. Per the City's Zoning and General Plan Map, the site is shown as SP for Specific Plan.   |
| Entitlements:            | The subject property is entitled by virtue of the previously summarized Specific Plan 2018-1. In addition, Tract Map 37305-1 was recorded on the property on October 27, 2021, dividing the site into 34 residential lots with two remainder parcels. Tract Map 37305 recorded on the property on April 22, 2022, dividing the two remainder parcels from Tract Map 37305-1 into 134 single family detached residential lots. The lots have a minimum lot size of 4,600 square feet however the majority of the lots are in the 5,000 – 6,000 square foot range.   |
| Homeowner's Association: | Per Meritage Homes representatives, the HOA Fees within Nichols Ranch are estimated at \$114 per month.  |
| Topography:              | The subject property was slightly hilly undeveloped land which had Stovepipe Creek crossing the site from the central portion on the east boundary, in a southwest direction to the southwestern portion of the site. There is a large detention basin at the southwest corner of the subject residential property to allow for runoff. The site has been mass graded into 168 single-family detached lots. The lots are each generally level with drainage into an engineered street storm drain system.  |
| Soils Condition:         | <p>We have reviewed a Final Geotechnical Report of Rough Grading for Lots 3-28, 48, 121-124 of Tract 37305 prepared by Petra Geosciences and dated April 18, 2023. The report presented a summary of the observation and testing services provided by Petra. The report has limitations that supervision or direction of the grading contractor was not included. Their observation and testing did not reveal any deviations from the recommendations provided in the referenced geotechnical reports. Based on their findings, the conclusions and recommendations presented within the above noted report along with the referenced reports were prepared in conformance with generally accepted professional engineering practices.</p> <p>It is an assumption of this appraisal that the soils are adequate to support the highest and best use conclusion and that all recommendations made within any reports were or will be adhered to during construction. It should be noted that this report only covered a portion of the lots within the subject property.</p> |

#### Seismic

##### Information:

Per the County of Riverside, the Elsinore Fault is located across I-15 from the subject property. The appraiser is not an earthquake expert and refers the reader to both California and Riverside County for more detailed information.

#### Environmental

##### Concerns:

We have not received an environmental report to review; however, we have received the conditions of approval for TPM 37305 which covers Nichols Ranch. Per the conditions, the 6.49-acre park needs to be completed prior to the 125<sup>th</sup> Certificate of Occupancy being obtained. Per Meritage representatives, the park was recently completed and began the 90-day maintenance prior to City acceptance and the timing should not stop any Certificate of Occupancy's being obtained.

It is an assumption of this appraisal that the subject property is free and clear of any environmental issues which would slow or thwart development of the site, that all recommendations contained in any such reports were adhered to and that the City park is accepted prior to the 125 Certificate of Occupancy being needed. This is suggested by appropriate approvals provided by the County throughout planning and construction along with interviews with the builder.

##### Flood Information:

Per FEMA Map 06065C2028G dated 8/28/2008 the subject within an area of minimal flooding and is not located within a Federal Emergency Management Agency (FEMA) designated flood zone. This is due to LOMR 22-09-1014P which was effective August 18, 2023, and covers the Stovepipe Canyon Creek. Stovepipe Canyon Creek is along the south side of a portion of the subject site.

##### Fire Hazard:

From the CalFire Fire Hazard Severity Zone Map, the subject property is within a Local Responsibility Area and their recommendation appears to be for a designation of a Very High Fire Severity Zone which requires certain construction materials. It is an assumption of this appraisal that the requirements have been included in the construction of the homes. This is suggested by the City approval of the house plans within Nichols Ranch.

#### Easements and Encumbrances:

We have reviewed a Preliminary Title Report prepared by FNTG Builder Services Order Number 00143967-996-SD1-RT4 which covers Tract Map 37305 (no dash) dated August 1, 2022. The exceptions are as follows.

Item Nos. A through F refers to property taxes and special assessments including CFD 98-1 (EVMWD), CFD 2015-1 (Lake Elsinore Fire Safety Services), CFD 2015-2 (Lake Elsinore Maintenance Services) and CFD No. 2019-2 (subject CFD). Item

No. 1 refers to water rights on the property. Item Nos. 2, 5, 6, 9, 10, 12 and 14 refer to easements for public utilities, roads, drainage and access, and for the easements shown on Tract Map 37305. Item Nos. 3 and 13 refers to access rights. Item No. 4 pertains to a waiver of any claims for damages to said land by reason of the location, construction, landscaping or maintenance of I-15. Item 7 refers to an agreement to establish covenants and equitable servitudes between adjoining landowners. Item Nos. 8 and 11 were intentionally omitted. Item No. 15 pertains to the CC & Rs recorded on the property. Item No. 16 pertains to a Notice of Alternative Non-Adversarial and Dispute Resolution Procedures for Nichols Ranch recorded on the property.

It is an assumption of this appraisal report that the subject lands are free and clear of any liens and/or encumbrances other than the aforementioned CFDs and the easements noted within the preliminary reports noted above which are assumed not to hinder development of the site. This is suggested by the approval by the City for development of the 168 lots.

Utilities: All normal utilities will serve the subject property by the following companies:

|              |  |
|--------------|--|
| Electrical:  | Southern California Edison Company       |
| Natural Gas: | The Gas Company                          |
| Sewer/Water: | Elsinore Valley Municipal Water District |
| Schools:     | Lake Elsinore Unified School District    |

Streets/Access: Access to the subject project is via I-15 to Nichols Road, east 0.2 miles to Bedrock Road which forms the eastern border of the subject property and provides the main entrance to the model complex. Additional access is via Nichols Road to Ranch Road and south to River Rock Court (access to Tract No. 37501-1).

I-15 is a major north/south freeway providing access to international borders both north and south.

Nichols Road has on/off ramps at I-15. To the east is the subject site beyond which Nichols Road becomes El Toro Road which provides access to more remote areas outside of the City limits. To the west Nichols Road provides access to the community of Alberhill Ranch and connects with Lake Street, a main entrance into the City of Lake Elsinore

Bedrock Road is an access road to the south off Nichols Road providing access to the subject community and to the future commercial site within Nichols Ranch (not part of this appraisal).

Bedrock Road currently terminates at Horse Creek Road, the main entry into the residential portion of Nichols Ranch.

Internal Streets within the project include Horse Creek Road, Hanging Rock Road, Brush Creek Way, Bigfork Road, Horseshoe Bend Road, Quarry Way, River Bend Road, Ranch Road, Flathead Road and River Rock Court.

**Current Condition:** The subject property has been developed into 168 single-family detached lots, 106 of which have houses that are over 95 percent complete. There are an additional 30 houses under construction (under 95 percent complete) and 32 remaining finished lots.

**Costs to Complete:** Per Meritage representatives there are \$1,395,145 in remaining land development costs which include staking, grading, sewer, water, utilities, concrete, paving, retaining/perimeter walls and concrete, paving and landscaping for the amenities and common areas. In addition, there are \$819,251 in remaining land development fees to be paid by the builder which include School Fees, TUMF Fees and MSHCP Fees. The CFD is anticipated to fund the City Fees and Water/Sewer Fees. Within this report it is a hypothetical condition that Lake Elsinore CFD 2019-2 is in place, thus, only the remaining fees to be paid by the builder are included in our analysis. The remaining land development costs and fees are a cost to the builder and do not affect the individually owned homes. Out of the 168 proposed lots, 83 have closed to individuals leaving 85 lots owned by Meritage. Dividing the total remaining costs of \$2,214,396 (\$1,395,145 plus \$819,251) by the 85 lots suggests an average per lot remaining cost of \$26,051.72.

**Improvement  
Description:**

Nichols Ranch includes two neighborhoods known as Hilltop and Highland, both by Meritage Homes. All of the home exteriors include dual-glazed vinyl windows, rear yard fencing, full front yard landscaping, 2-car garages with interior access, roll-up garage doors with automatic opener and concrete walks and driveway. Interiors include LED lighting, air conditioning, smoke detectors, interior laundry rooms and paneled interior doors. Kitchens include wood cabinets, large kitchen islands, stainless steel Whirlpool appliances and solid stone countertops. Energy efficiency includes spray foam insulation and water efficient faucets. Automation includes advanced thermostats, door sensors, motion detectors, smart door locks, smart home hubs and video doorbells. All homes appear to be in excellent condition with no visible depreciation.

It should be noted that the first homes within both Hilltop and Highland were built under 2019 building codes which had the square footages within Hilltop as 2,020, 2,177 and 2,427 square feet. When



the 2022 building codes went into effect, it changed the square footage of the homes within Hilltop to 2,020, 2,165 and 2,417 square feet either the same or slightly smaller. Within Highland the 2019 building code square footages were 2,320, 2,541, 2771 and 2,948 square feet while the 2022 building codes changed the square footages to 2,308, 2,532, 2,744 and 2,932, all slightly smaller. The marketing brochures list for both neighborhoods, "approximate" square footages, which are slightly different. Per Meritage Homes representatives, the above listed square footages are correct, and the marketing brochures are wrong. This has been corrected on the Nichols Ranch website for the two communities. For purposes of this report, we are using the square footages per the 2022 building codes which are slightly more conservative than the 2019 building codes.

We have reviewed sales information from the builder which included the homes closing from August 31, 2023 through July 1, 2024. Actual sales prices less concessions ranged from \$584,695 to \$667,050. Per the Multiple Listing Service, there have been no re-sales and per our inspection there were no homes listed for re-sale and our inspection did not reveal any homes up for sale. Base asking prices currently range from \$596,000 to \$675,000 while at opening in June 2023 base pricing was \$563,000 to \$649,000 suggesting an increase of 4-5 percent over the past year. On top of base pricing there are lot premiums (due to size) and options/upgrades purchased. The houses which are over 95 percent completed are detailed below.

| Plan             | Room Count | Floors/<br>Parking | Sq.<br>Ft. | Ind.<br>Own      | Bldr.<br>Own     |
|------------------|------------|--------------------|------------|------------------|------------------|
| <b>Hilltop:</b>  |            |                    |            |                  |                  |
| 1                | 4 / 3      | 2 / 2              | 2,020      | 11               | 2                |
| 2                | 4 / 3      | 2 / 2              | 2,165      | 16               | 3*               |
| 3                | 5 / 3      | 2 / 2              | 2,417      | <u>17</u>        | <u>5*</u>        |
| Hilltop Total    |            |                    |            | <u>44</u>        | <u>10</u>        |
| <b>Highland:</b> |            |                    |            |                  |                  |
| 1                | 4 / 3      | 2 / 2              | 2,308      | 11               | 5*               |
| 2                | 4 / 3      | 2 / 2              | 2,532      | <u>9</u>         | <u>0</u>         |
| 3                | 4+ / 3     | 2 / 2              | 2,744      | 11               | 5*               |
| 4                | 5+ / 3     | 2 / 2              | 2,932      | <u>8</u>         | <u>3</u>         |
| Highland Total   |            |                    |            | <u>39</u>        | <u>13</u>        |
| <b>Total</b>     |            |                    |            | <b><u>83</u></b> | <b><u>23</u></b> |

In addition to the above detailed houses there are 30 houses under construction and 32 finished lots.

## **RIVERSIDE COUNTY HOUSING MARKET**

In analyzing the County's housing market, population growth and economic conditions need to first be considered.

### **Population**

The County population grew 0.6 percent between January 2023 and January 2024 (per the California Department of Finance). This compares to an average annual growth rate over the past ten years of about 0.8 percent, and an average annual growth rate of approximately 2.5 percent for the previous eighteen-year period. Predictions are for the County to grow at an average annual rate of 0.6 percent over the next six years. This equates to an increase of approximately 15,000 residents per year, suggesting the need for about 5,500 homes per year within the County. Due to the impact of COVID, new home sales in most cities in the County in 2020 through 2022 were higher than the coastal communities due to affordability, the work from home factor, and the fact that millennials are finally entering the housing market.

### **Economic Conditions**

Over the past twenty-five years the Inland Empire has seen various cycles in the housing market. The Great Recession impacted the Inland Empire significantly and resulted in a longer recovery period than that of other Southern California regions. The rise and then fall of housing prices in the Inland Empire between 2004 and 2009 were considerably steeper than almost anywhere in the State. Unfortunately, this meant that the people who bought near the peak of the market likely faced significant negative equity. After essentially remaining flat for a few years, housing prices began to increase in late 2012 through January 2020. Once the COVID pandemic hit in March 2020, the economy entered what is now known as the COVID disruption. The housing market slowed down significantly early on, but by May 2020, new homes were going under contract and selling at well above average absorption rates from May 2020 through Spring of 2022 in the region. Beginning in mid-2022, the new home market saw a slowdown in absorption rates due to the increasing interest rates, the high prices of homes, and the high rate of inflation which was shaking consumer confidence.

Economic growth in the Inland Empire was strong generally between 2015 (after the Great Recession), and until the economic shutdown due to COVID. The second half of 2020 and all of 2021 saw economic growth, however the first two quarters of 2022 saw GDP shrinking. The most recent unemployment rate for the County is 4.4 percent (per the May 2024 EDD report). The end of 2022 saw lower unemployment rates than the County's pre-COVID unemployment rate in February 2020 of 4.0 percent, however 2023 saw unemployment rising from 3.6 to a high of 5.5 percent. Thus far in 2024, unemployment has decreased about one percent. While unemployment rates are still near historical lows, the inflation factor has significantly affected the economy.

The housing market played a large role in the past two recessions. In the Great Recession, due to increased interest rates and rising home prices between June 2004 and mid-2006, the market reaction was to create non-conventional financing alternatives, such as sub-prime and non-conventional mortgages, to artificially maintain the boom housing market of 2004 and 2005. By 2007, the housing market saw a shake-up because of the problems in the sub-prime and non-conventional mortgage markets, which played a role in the 2008 upheaval of Wall Street and contributed significantly to the U.S. economic downturn of the Great Recession. Due to stricter income verification on new loans and the lack of available credit, coupled with job losses and declining home prices, sales of new homes slowed for the next few years and essentially remained flat until mid-2012 when home prices began a steady climb.

During the COVID disruption, new home sales were one of the brightest spots in both the local and national economies. While new home sales slowed in March and April 2020 due to the onset of the COVID pandemic, both sales and prices increased significantly due to strong demand from May 2020 throughout COVID until spring 2022 when interest rate increases began affecting the home-buying market. The rising interest rates alone did not seem to slow sales in Spring 2022. However, a combination of increasing home prices and falling consumer confidence, added to the significant interest rate increases, slowed new home sales significantly beginning in mid-2022. Due to the significantly higher mortgage interest rates, existing homeowners are not moving which has stifled

the existing home market, making the new home market the only option for some. In January 2022 mortgage rates were 3.22 percent (for a typical 30-year fixed conventional mortgage) while as of July 3, 2024, the rate for the same loan is 6.95 percent. On a \$600,000 mortgage, the monthly payment for this loan has increased from \$2,594 to \$3,949 or over 52 percent.

Per the Zonda National Economic and Housing Market Update in March 2024, the rate of growth of new home sales is off from COVID highs but up from 2022 sales numbers, suggesting a healthy market. Per their survey of over 300 new-home builders nationally, the builders are stating sales are continuing but report they had to adjust pricing and incentives to “find the market.” In the January 2023 survey, 50 percent of builders surveyed were lowering their prices and the remaining 50 percent stated their pricing was flat. In March 2024, the survey resulted in 50 percent of the builders stating their pricing was increasing a little, 46 percent of builders stating their pricing was flat and 4 percent dropping prices. This is a very different dynamic than in January 2023 which was partly due to builder’s readjusting concessions (interest rate buy-downs), and partly due to the market accepting the mortgage rate increases. In today’s market, over 60 percent of new-home builders in the U.S. are offering either full-term or temporary interest rate buy-downs (John Burns Research and Consulting) which is helping to sustain new home sales. Per Zonda, in March 2024, 80 percent of new home builders in the Inland Empire are offering incentives.

The larger public homebuilders began offering significant interest rate buy-downs in early 2023 in order to keep absorption rates steady, which reportedly cost between \$30,000 and \$100,000 in incentives. The builders are attempting to find the “sweet spot” in incentives. In their September 2023 survey of 300 builders nationwide, Zonda asked builders to check all that they were offering and found 70 percent of builders surveyed were offering rate buydowns, 60 percent were offering funds towards closing costs, 33 percent were offering flex dollars, 22 percent were offering lower home prices and 20 percent were offering funds toward options and upgrades. The question is, how long can builders continue to offer these significant incentives. As rates go higher, the extent

that builders can buy-down the mortgage rates goes down. In the April 2024 Zonda survey, 61 percent of builders surveyed stated demand was higher than or on-track with expectations, however 39 percent stated demand was slower than anticipated.

Home loan mortgage rates have been and are still playing a huge part in the housing market. The Board held mortgage rates at all-time lows after the Great Recession and again after the COVID Recession in an attempt to assist the housing market's recovery. Low rates helped home sales during this time. However, first-time buyers are now having a hard time entering the housing market due to rising prices and rising interest rates. Mortgage applications had been spiking in late 2020 and 2021 due to the low rates and the fear rates were going to start ticking up, which began happening in March 2022. The Board has increased the rate eleven times between March 2022 and August 2023, which increased the FFR from 0-0.25 percent to 5.25-5.50 percent. At the latest Board meeting in June 2024, they paused the FFR increases for the sixth time and suggested decreases in 2024 will begin later in the year. The financial markets had been anticipating a possible March decrease which caused volatility in the financial markets. The FFR increases are supposed to help slow the high inflation rate in the Nation, which appears to be occurring as the latest reports are showing inflation in June 2024 at 3.1 percent, significantly down from a high of 9.1 percent in June 2022 however higher than some recent readings.

While new home builders slowed production as sales slowed in 2022, the spring of 2023 brought optimism to builders once again which has continued into the first half of 2024. New home sales were up as buyers adjusted to higher mortgage rates and the existing home inventory hit all-time lows. Existing homeowners that are locked into an under-four percent mortgage are not moving up due to the current seven percent rates. This is creating a supply issue for existing homes. New home sales are benefiting from this supply issue as in some cases, the only option for homebuyers are new homes. Per Zonda, historically, new homes captured 10 to 13 percent of all home sales; however, due to the limited supply of existing homes currently on the market, new homes are capturing closer to 25 percent of all home sales in the Inland Empire.

## **Residential Land Development**

While there had been little land development going on in most of the Inland Empire during the Great Recession years 2008-2011, the second half of 2012 saw a resurgence in the more coveted areas of the Inland Empire. The increase in housing prices since 2012 combined with the limited availability of supply made land development feasible once again for homebuilders. It is thought that the increase in regulations, which has significantly increased the timeline for processing entitlements, has limited the master developers' further entitlement of developable land in California. While prior to the recession it was not unusual to see numerous large master-planned communities selling lots to various builders, there are few currently available in the subject area with Bedford and Terramor (subject property) two of the only master plans selling to various builders in the area. The majority of land sales over the past few years include single tracts of land with maps ready to record or a public builder purchasing a larger piece of land but develops the land for its own use such as Meritage Homes at Nichols Ranch and Pulte Homes at Alberhill Ranch.

Land sales in the Inland Empire slowly grew from 2012 up to a peak in 2017, with 2018 and 2019 showing lower land transactions. Once home sales exploded in May 2020, land sales followed with a significant number of residential land sales to builders in the Inland Empire during the second half of 2020 and throughout 2021. In late 2021 and early 2022, prior to the FFR increases, builders were paying significantly more for residential land that was ready to develop as demand was up and supply was shrinking. The beginning of 2022 continued with residential land sales going under contract until May, when new home sales began to fall sharply. According to Zonda's survey of builders regarding residential land purchases, as of January 2023 only 2 percent of builders surveyed were "full steam ahead," and almost 40 percent were pausing transactions or bidding lower on land transactions. As of March 2024, these percentages had changed drastically with 49 percent stating they are going "full steam ahead" and 46 percent moving "cautiously forward." The increase in optimism from new home builders outlook is partially due to the extreme slowdown of existing home inventory which is fueling new home sales. Per Zonda in the first quarter 2024 there were about 11,478

vacant developed lots in the Inland Empire, which is down 23 percent from the previous year.

### **New Home Sales and Pricing**

We have researched new single-family homes within the subject's market in order to reflect residential trends. It should be noted these sales numbers and prices pertain to new home sales while later in this section we discuss existing home sales. In reviewing new home sales in the Inland Empire market area, per the June 30, 2024, Ryness Report, the year-to-date average sales rate (4.2 sales per month) is three percent higher than the same time period of the previous year (4.07 sales per month). Surprisingly, even with the increases in pricing and mortgage rates, sales of new homes are occurring at a very good pace; however, this is partially due to the extremely limited supply of existing homes which is creating more demand for new homes. New home sales rates started to level off in late Spring 2022, likely due to the increase in mortgage interest rates; however, with the limited existing homes on the market, new homes are enjoying a boost. One negative is that as interest rates rise, purchasing power becomes lower and therefore fewer people purchase new homes and amenities. Along with home sales comes a demand for appliances, furniture, building materials and services such as insurance, mortgage services, inspections, interior designers, and landscapers, all contributing to the area economy.

When comparing the June 30, 2024, Inland Empire Ryness Report to one year prior, there are 13 fewer projects (250 in June 2023 and 237 in June 2024) and sales are about three percent higher year-to-date than the previous year at 4.2 sales per month. Looking back, in 2023 the average sales rate pre project in the Inland Empire was 3.6 sales per month with 2022 at 3.2 sales per month, 2021 at 4.5 homes per month, 2020 at 4.3 homes per month while in 2019, prior to COVID, the average sales rate was 3.3 homes per month per project. Per Zonda's May 2024 Market Report on the Inland Empire, the 12-month annualized average new home sales rate is outpacing both that of California and of the U.S.

New single-family home pricing (combines both attached and detached) in the Inland Empire has also seen changes. The median new home price in the Inland Empire

changed from the peak value of \$437,200 in the third quarter of 2006 to \$268,155 in early 2009 (during the Great Recession, a decrease of 39 percent) while the current Inland Empire median new home price is \$598,490 which is down from a record high of \$650,000 in May 2022 per the California Association of Realtors' latest market report. The current median price reflects an increase of over 100 percent from the bottom of the cycle and an increase of almost 37 percent over its peak during the Great Recession, however a decrease from the 2022 peak of almost eight percent. In reality, this decrease is actually larger as builders are buying down interest rates which costs the builder, at times, up to \$100,000, however, the amount is not reflected in the recorded sales price. New home sales prices fluctuate based on the land value and competition more than on the cost of building the home. While finishes and sizes of homes can change, the basic costs on a per square foot basis typically do not fluctuate as much as land values; however, there have been inflationary increases in construction costs adding to this increase. Construction materials have increased an estimated 40 percent since 2019.

Within our search for the most comparable actively selling new home communities, we searched the subject's Ryness submarket of South Riverside which houses Lake Elsinore, Wildomar, Menifee, the French Valley and Winchester. This submarket has 49 new home communities which have an average sales rate year to date of 4.5 homes per month. This is higher than the Inland Empire average of 4.2 sales per month which reflects favorably on the subject submarket. Out of the 49 total new home communities in the South Riverside submarket, Lake Elsinore houses 11 of them. Pulte and Centex have four neighborhoods in Alberhill Ranch, KB Home has two neighborhoods in Terracina, Meritage has two neighborhoods at Nichols Ranch (subject property), KB Home has Crimson Hills, Richmond American has Running Deer Estates (nearing sell out) and Tri Pointe Homes has Echo Highlands. Due to the plentiful number of new home communities within Lake Elsinore, we did not have to extend our search outside of the City. We have utilized 10 of the Lake Elsinore new home communities (including the subject's two product lines) with base pricing ranging from \$513,500 to \$733,990, with the majority of base pricing in the \$600,000 to \$700,000 range. The subject's most recent base pricing is from \$596,000 to \$675,000, which falls within the comparables price range, with the majority of the floorplans falling in the low to mid-point of the range.



## **Existing Homes Sales and Pricing**

While the previous section looked at new home sales and pricing, this section refers to existing homes in the Inland Empire. According to the California Association of Realtors' most recent sales data, within overall Southern California, the median price paid for an existing single-family home in May 2024 (\$880,000) reflects an increase of ten percent from the previous year (\$800,000 in May 2023) and the same as the previous month. Existing home sales in Southern California overall were down one percent year-over-year as of May 2024, however up 8.9 percent from the previous month. The overall Southern California numbers compare to Riverside County with \$650,000 as the median price paid for an existing home in the County in May 2024, the same as the previous month and up 3.3 percent from one year ago. Sales of existing homes in the County were up 4.4 percent month-over-month and down 7.7 percent year-over-year due to limited inventory, higher mortgage rates, and high home prices. Sales slowed significantly for existing homes in 2022 and 2023 reflecting homeowners not ready to sell due to the changing market. Thus far in 2024 existing home sales have risen, however, they are still below historical averages. Historically, the new home market captures 10-13 percent of the overall home sales; however, in the past year, new home sales are capturing around 25 percent of total home sales. Below is a table showing the sales and prices for the Southern California area by County per the California Association of Realtors.

| <b>Southern California Existing Home Sales</b> |                 |                  |                 |                               |                               |                               |
|--|-----------------|------------------|-----------------|-------------------------------|-------------------------------|-------------------------------|
| <b>County</b>                                  | <b>May 2024</b> | <b>Apr. 2024</b> | <b>May 2023</b> | <b>Price MTM<br/>% Change</b> | <b>Price YTY<br/>% Change</b> | <b>Sales YTY<br/>% Change</b> |
| Los Angeles                                    | \$811,610       | \$825,970        | \$744,770       | (1.7%)                        | 9.0%                          | (2.6%)                        |
| Orange   | \$1,422,500     | \$1,440,000      | \$1,256,500     | (1.2%)                        | 13.2%                         | 12.2%                         |
| Riverside                                      | \$650,000       | \$650,000        | \$629,000       | 0.0%                          | 3.3%                          | (7.7%)                        |
| San Bernardino                                 | \$488,900       | \$516,080        | \$455,000       | (5.3%)                        | 7.5%                          | (2.2%)                        |
| San Diego                                      | \$1,025,000     | \$1,047,500      | \$935,000       | (2.1%)                        | 9.6%                          | 0.7%                          |
| Ventura  | \$925,000       | \$940,000        | \$925,500       | (1.6%)                        | (0.1%)                        | (2.1%)                        |
| Southern Calif.                                | \$880,000       | \$880,000        | \$800,000       | 0.0%                          | 10.0%                         | (1.0%)                        |

Source: California Association of Realtors

It is interesting to note that all Southern California Counties have had prices either stay the same or decrease since last month. Based on May 2024 median existing homes prices, in comparison to the majority of the surrounding counties, Riverside County has

a definite price advantage. The “Riverside County Advantage” (price difference between Riverside and surrounding counties) is \$161,610 as compared to Los Angeles County, \$275,000 as compared to Ventura County, \$375,000 as compared to San Diego County and \$772,500 as compared to Orange County. That is, in May 2024, the median priced home in Riverside County was \$772,500 less (or over 50 percent less) than the median priced home in Orange County (\$1,422,500). However, San Bernardino County has a \$161,100 price advantage over Riverside County. Typically, as the price advantage widens, homebuyers are more open to commuting to further out areas. With the work-from-home concept, the suburban areas have seen more growth which put pressure on home prices in the Inland Empire. It’s worth noting that the majority of Southern California counties showed median price decreases from the previous month suggesting that pricing may have peaked.

In a separate attempt to capture the neighborhood specific price changes, the resale activity of existing homes in the subject area (per Redfin.com's Housing Market Trends) has been reviewed. The number of sales and sale prices of existing homes within market areas in the immediate area of the subject are shown in the table below.

| ZIP Code/Community Name       | Border To Subject | Sales of Homes May 2024 | Sales % Change from May 2023 | May 2024 Price Median | Price % Change from May 2023 | May 2024 PSF Median |
|-------------------------------|-------------------|-------------------------|------------------------------|-----------------------|------------------------------|---------------------|
| 92532 (East Lake Elsinore)    | Subject           | 93                      | 22.4%                        | \$625,000             | 7.8%                         | \$266               |
| 92530 (Lake Elsinore)         | West              | 144                     | 4.3%                         | \$575,000             | 7.5%                         | \$296               |
| 92883 (Temescal Valley)       | North             | 201                     | 34.0%                        | \$751,049             | 8.5%                         | \$339               |
| 92587 (Canyon Lake)           | East              | 70                      | 2.9%                         | \$650,000             | 1.1%                         | \$396               |
| 92584 (Menifee)               | Southeast         | 189                     | (14.1%)                      | \$622,000             | 5.4%                         | \$287               |
| 92595 (Wildomar)              | South             | 89                      | 27.1%                        | \$655,000             | 7.4%                         | \$300               |
| 92570 (Perris-Unincorporated) | Northeast         | 84                      | 47.4%                        | \$595,642             | 5.4%                         | \$333               |

Source: Redfin.com Housing Market Trends May 2024

The median home price of a detached resale home in the subject’s immediate market area is \$625,000, which is mid-range of all of the sales in the subject market area. The above price fluctuations from year to year relate to the California Association of Realtors overall Riverside County detached home resale price increase of 3.3 percent year-over-year and 7.7 percent sales decrease from May 2023 to May 2024.

### **Nichols Ranch - Sales, Pricing and Competition**

Nichols Ranch includes Hilltop and Highland by Meritage Homes. Both began selling their homes in July 2023 with 99 houses sold to date suggesting a sales rate of 8.25 homes per month including both neighborhoods. Detailing each neighborhood, Hilltop has sold 55 homes suggesting an average sales rate of 4.6 homes per month while Highland has sold 3.7 homes per month. Original base pricing in Hilltop was \$563,000 to \$592,000 while current base pricing is \$596,000 to \$624,000 reflecting increases of \$32,000 per plan or in the 5.5 percent range over the past year. Actual closed home pricing ranged from \$561,695 to \$643,295. Actual closed prices include options, upgrades and premiums along with all concessions given by the builder. Highland's original base pricing was \$604,000 to \$649,000 while current base pricing is \$630,000 to \$675,000 reflecting increases of \$26,000 per plan which equates to about 4.0 percent over the past year. Actual closed home prices ranged from \$568,824 to \$667,050. Both neighborhoods are closing with incentives, which are common in today's marketplace. Incentives in the two neighborhoods range from \$18,000 to \$86,000 which is typical for the Inland Empire.

Hilltop, the lower priced and smaller homes, is experiencing sales rates above the local average at 4.6 home sales per month while Highland is experiencing slightly lower absorption rates of 3.7 homes per month compared to the Inland Empire's overall average sales rate (4.2 sales per month). According to the Ryness Report dated June 30, 2024, there are currently 49 new home projects in the South Riverside submarket which includes Lake Elsinore. The 49 projects include 11 communities in Lake Elsinore (including the subject two). The average absorption rate within the 49 South Riverside communities' year to date per the June 30, 2024 Ryness Report is 4.5 sales per month. The subject sales rates in the 3.7 to 4.6 sales per month range is near the overall average in the area.

### **Summary**

Riverside County has seen a substantial increase in pricing since 2012 with most areas, including the subject, showing astronomical increases from Mid-2020 through early

2022. While existing home sales were originally down when COVID began in spring/early summer 2020, new home sales subsequently shot up due to the existing home market supply being constrained and interest rates hitting all-time lows. The latest statistics suggest a possible slowdown in sales as interest rates have risen substantially; however, buyers appear to be resilient to the increases. While there are 49 new home projects in the South Riverside submarket, they are experiencing slightly higher overall sales rates than the overall Inland Empire. The subject market area saw an increase in pricing consistent with most of Southern California throughout 2020 and 2021 and appeared to be continuing in the beginning of 2022. The second half of 2022 and 2023 saw sales slow and prices lowering; followed by price increases as builders offered additional incentives. Builders' optimism appears to have returned with the majority of builders generally believing prices will increase slightly in 2024 or remain flat. Despite uncertainty hitting the market due to interest rates and inflation, most observers agree that the Inland Empire housing market is healthy and population growth is still estimated to occur in the area. It is believed that as the population continues to increase, housing growth will also continue, despite a possible economic slowdown.

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## HIGHEST AND BEST USE ANALYSIS

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The highest and best use is a basic concept in real estate valuation due to the fact that it represents the underlying premise (i.e., land use) upon which the estimate of value is based. In this report, the highest and best use is defined as:

*"the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value"<sup>4</sup>*

Proper application of this analysis requires the subject properties to first be considered "As If Vacant" in order to identify the "ideal" improvements in terms of use, size and timing of development. The existing improvements (if any) are then compared to the "ideal" improvements to determine if the use should be continued, altered or demolished preparatory to redevelopment of the site with a more productive or ideal use.

### **"As If Vacant"**

In the following analysis, we have considered the sites probable uses, or those uses which are physically possible; the legality of use, or those uses which are allowed by zoning or deed restrictions; the financially feasible uses, or those uses which generate a positive return on investment; and the maximally productive uses, or those probable permissible uses which combine to give the owner of the land the highest net return on value in the foreseeable future.

### **Physically Possible Uses**

The subject property consists of approximately 58.19 acres per the recorded tract maps (including internal streets, setback areas, open space and two park sites), which are irregularly shaped contiguous parcels located along the south side of Nichols Road generally between Wood Mesa Court and Bedrock Road, east of I-15 in the northernmost portion of City of Lake Elsinore. Stovepipe Creek bisects the site from Wood Mesa Court to Bedrock Road. Stovepipe Creek has been approved to be a drainage through the subject along with water quality basins at the southeast corner and the southwest corner

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<sup>4</sup> The Appraisal of Real Estate, 11<sup>th</sup> Edition

of the subject site. We have reviewed a geotechnical report which states the site is geographically sound to be developed into residential land use. In addition, mass grading has occurred on the site along with grading the site into 168 single-family detached lots.

It is an assumption of this appraisal that the soils are adequate to support the highest and best use conclusion and that there are no environmental or condition issues which would slow or thwart development of the site. This is evidenced by City approvals along with City inspectors on site during construction and certificates of occupancy being obtained on homes within the site. An engineered drainage system has been designed into a street drainage system to alleviate any potential flooding problems and to control project water runoff. The site has good access from I-15 via Nichols Road.

Based on the physical analysis, the size, access and topography make the subject property physically suited for numerous types of development; however, the grading and development that has occurred on the site suggests single-family residential use.

### **Legality of Use**

The subject property is located within the City of Lake Elsinore, the controlling entity to regulate land use. Per the City the subject property is covered by Specific Plan 2018-01 (Nichols Ranch) with the subject property identified as low to medium residential (allows for 1-6 dwelling units per acre) per the Specific Plan. Per both the City's zoning map and the City's general plan map, the subject is shown as SP (Specific Plan). In addition, Tract Map Nos. 37305 and 37305-1 have been recorded on the subject property subdividing the subject site into 168 single family residential lots, internal streets, setback areas, two parks, two water quality basins and open space areas. The approved mapping is consistent with the approved Specific Plan that has been approved on the property. Based on the legality of use analysis, the type of development for which the subject property can be utilized is narrowed to residential use. This is consistent with the findings of the physically possible uses.

### **Feasibility of Development**

The third and fourth considerations in the highest and best use analysis are economic in nature, i.e., the use that can be expected to be most profitable. As discussed under the

Riverside County Housing Market section earlier within this report, the City of Lake Elsinore market and surrounding communities are showing good absorption and increases in pricing over the past few years.

Nichols Ranch opened for sale in June 2023 with 99 homes sold to date, suggesting the need for new homes in the area. There are currently 11 new home communities in the City of Lake Elsinore, all selling at good to excellent sales rates. Two of the new home communities are nearing sell-out. The sales of 99 homes within the past year between the two subject neighborhoods suggest that there is a need for new homes in the City of Lake Elsinore.

Based on the above analysis, the highest and best use for the subject property appears to be for single-family residential development.

### **Maximum Productivity**

Based on the market activity of residential lands in the immediate area, we have concluded there is a need/demand for residential lands. Based on the absorption of new homes in the area, coupled with population growth projected in the subject marketplace, it is our opinion that the subject property is feasible for residential development.

### **Highest and Best Use Conclusion – “As Vacant”**

The final determinant of highest and best use, as vacant, is the interaction of the previously discussed factors (i.e., physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is our opinion that the highest and best use for the subject property “As Vacant” is for residential development.

### **Highest and Best Use – “As Improved”**

The subject property consists of Hilltop and Highland at Nichols Ranch. The two communities opened in June 2023 and have sold 99 homes since that time suggesting an average sales rate between the two communities of 8.25 houses per month. Individually, Hilltop, the smaller and less expensive homes, have sold 4.6 homes per month while Highland, the larger homes have sold 3.7 homes per month. The average

year to date monthly sales per project in the Inland Empire is 4.2 houses per month while within the subject submarket of South Riverside the year-to-date average is 4.5 houses per month. The range within the South Riverside submarket area is from 1.0 to 11.2 year-to-date average sales per month for the active projects. The two subject communities with average sales ranging from 3.6 to 4.6 houses per month fall within the subject market area's range.

All of the homes appear to be in excellent condition with no physical depreciation of structures visually apparent. The sales rate within the subject neighborhoods and the new home sales in the surrounding communities suggests there is demand for new homes in the current market with current financing rates at the correct price points. All of the homes are of good design and appear to be of good quality workmanship. Based on the overall sales rates within both Hilltop and Highland at Nichols Ranch, it is our conclusion that the highest and best use for the subject property is for the continued use, as improved.



## VALUATION ANALYSES AND CONCLUSIONS

The Sales Comparison Approach will be the primary approach used to value the subject property. This approach compares similar properties that have recently sold or are in escrow to the subject property. In determining the value for the property, a unit of comparison needs to be addressed. For detached single-family lots, the lots are typically sold on a finished lot basis with the condition of the land taken into consideration. That is, the sales price is determined by a finished lot value, then the remaining costs to develop the property to a true finished lot condition are taken into consideration. Therefore, in determining a current market value for the lands, the current condition of the lots will be considered. In the case of the existing home valuations, a single new-home sale is the unit of comparison. Our search will include all new home projects within the Lake Elsinore area in order to find comparable new homes for sale. In determining the value for each house, a base value will be concluded for each plan which will be considered a minimum market value as most buyers typically purchase some premiums, upgrades or options which increase the price of the home. In addition, concessions given by builders will also be considered.

In the case of the completed (over 95 percent complete) builder-owned models and production units, the homes will be valued using the Sales Comparison Approach to value to conclude on a retail value for each plan, followed by a Discounted Cash Flow ("DCF") Analysis due to the single ownership of multiple homes by the builder. The DCF will consider the retail market value of the completed homes (utilizing the Sales Comparison Approach), remaining development costs (if any), the marketing and carrying costs associated with selling off the homes, a profit due to the developer of the homes, and a discount rate reflecting both the risk associated with selling off the homes along with the time value of money during the estimated absorption period. In the case of the individually owned homes, a concluded base value will be used for each plan and a mass appraisal technique will be used. In determining the concluded base value, new home sales in the area will be reviewed and compared with sales of the subject completed homes using standard methodology and statistical testing. All of the value

conclusions will assume that the improvements funded by the Lake Elsinore CFD No. 2019-2, Special Tax Bonds are completed and in place and that the property is subject to the Special Tax Lien.

The valuation will be presented as follows: First, a discussion of the comparable residential market data will be given. Each of the transactions will be detailed along with a comparison discussion of their relationship to the subject property based on a per lot price. Following the land value conclusions, a value analysis for each house plan within Hilltop and Highland will be completed along with a discounted cash flow analysis for the builder-owned completed homes. A summary of the final value conclusions will be reported at the end of this valuation section.

### **Market Data Discussion –Residential Lots**

Within Nichols Ranch, out of 168 total proposed homes, there are currently 83 closed to individual homeowners, four models and 19 production homes over 95 percent complete owned by the builder, 30 houses under construction and 32 generally finished lots. We will value a home under construction (under 95 percent complete) as a finished lot rather than give value to a partially complete improvement, therefore, we will value 62 lots in this section. While the lots have a minimum lot size of 4,600 square feet, there are only a few with sizes under 5,000 square feet.

We have searched the area for land sales that are similar to the subject lands. Due to the limited availability of recent sales in Lake Elsinore, we have expanded our search to include land sales within the surrounding communities of Temescal Valley, Wildomar and Menifee. Our search resulted in the seven transactions summarized below and, in the Addenda, to be most comparable to the subject property. The sales are reported both on a purchase price basis (when available) and on a finished lot basis (when available). Although some sales refer to “finished lots”, they are typically physically finished lots with some fees remaining to be paid in order to be considered true finished lots. Below are the details of each of the comparable land sales along with a discussion of each transaction in relationship to the subject lands.

**Land Sale No. 1** refers to a current escrow located in Menifee about 12 miles east of the subject at the northeast corner of Southshore Drive and Holand Road near the community known as Menifee Lakes. KB Home is in escrow to purchase the site from Ambient Pacific with escrow anticipated to close in the next few weeks. The site is mapped for 233 single family detached lots with a minimum lot size of 6,000 square feet. The property is in escrow at a confidential price however brokers familiar with the transaction state the finished lot amount is estimated at \$253,000 per lot. The site is in an unimproved condition with mapping in place. The lots are being purchased in two takedowns. In comparison to the subject property, this location is considered to be similar (Menifee median home price is currently \$622,000 while East Lake Elinore's median home price is \$625,000). This transaction is not a closed sale, which makes it slightly superior to today's current market value as there is no guarantee the transaction will close. However, dollars have gone non-refundable in this transaction suggesting it will close. In addition, this transaction is slightly inferior in condition (mapped, unfinished lands). Although costs are considered in the finished lot price, the risk of developing the property is not. Finally, the lot size within this transaction of 6,000 square foot minimum lots when compared to the subject's 4,600 square foot minimum lots (majority closer to 5,000 square foot minimum lots) is considered to be slightly superior.

**Land Sale No. 2** refers to the most recent closing we found in the subject market area. KB Home purchased 53 lots in June 2024, also from Ambient. The property is located in Menifee at the northwest corner of Leon Road and Craig Avenue about 13.5 miles southeast of the subject. The transaction includes 53 lots with a minimum lot size of 5,500 square feet which were purchased for \$4,246,364 or \$80,120 per lot based on an estimated finished lot price of \$227,500. The lots were in an unimproved condition with final mapping in place. This site is known as Phase 2 of Canterwood. D.R. Horton purchased Phase 1 in Canterwood in April 2022 based on a finished lot value of \$175,000, however there were significant offsites needed prior to development. While the cost estimate of the offsites were taken into consideration, there is additional risk associated with the first phase in a larger development which D.R. Horton accepted when

buying the first phase of the development at a lower finished lot cost. Additionally, there has been appreciation in the subject marketplace between April 2022 and June 2024. In comparison to the subject property, this location is considered to be similar to the subject property and the lot size is slightly superior.

**Land Sale No. 3** pertains to the Lennar purchase of 491 lots, also located in Menifee which are along the east side of I-215 at Rouse Road and Encanto Drive. The lots are known as the first phase of Lagado, a master planned community generally east of I-215 and north of McCall Road. The lots have varying minimum sized lots from 5,000 to 7,000 square feet. The site was in a rough graded condition at time of sale in March 2024. They were purchased for \$22,500,000 or \$45,825 per lot based on an estimated finished lot cost of \$240,000. When compared to the subject property this transaction is considered to be slightly inferior in location as Legado is a bit further out for commuters into Los Angeles and Orange Counties. In addition, the number of lots within this transaction is considered to be inferior. That is, most builders purchase a single tract in a transaction with lots typically ranging from around 50 to 200, so this transaction for 491 lots would be considered a bulk value due to the time it will take for Lennar to develop and sell the 491 proposed homes.

**Land Sale No. 4** is also located in Menifee, along the southeast side of Domenigoni Parkway, north of Lindenberger Road, very near to Land Sale No. 1. The site was unimproved with a recorded final map subdividing the site into 197 lots with a minimum lot size of 6,000 square feet. Pulte purchased the site in January 2024 for \$8,500,000 or \$43,147 per lot based on an estimated finished lot cost of \$240,000. The site is adjacent to Pulte's successful Banner Park community. When compared to the subject site this property is considered to be similar in location and slightly superior in minimum lot size.

**Land Sale No. 5** is the most recent land sale in the Temescal Valley, about five miles northwest of the subject site. KB Home purchased the site in December 2023 for \$27,539,637 or about \$135,663 per lot based on a finished lot cost estimated at \$295,000. The property is located at Horsethief Canyon and Bosley Lane. The site was unimproved at time of sale with an approved map for 203 lots with a minimum lot size of

6,000 square feet. In comparison to the subject property this sale is considered to be inferior in condition, however superior in minimum lot size.

**Land Sale No. 6** relates to the purchase of a site in Lake Elsinore, about three miles southwest of the subject site. D.R. Horton purchased the site, located along the southwest side of Lakeshore Drive, southeast of Machada, in December 2023 for \$8,000,000 or \$57,143 per unit. The site had a tentative tract map for 140 duplexes and was purchased in an unimproved condition. This transaction is considered inferior in lot size as it is for a duplex (attached) product. We were not able to obtain finished lot estimates for this purchase. We have included it as it is a recent trading of land in the City of Lake Elsinore as it shows the demand in the market area.

**Land Sale No. 7** pertains to the D.R. Horton purchase of a parcel located on the southwest side of the I-15 in Wildomar at Palomar Street and Starbuck Circle about nine miles south of the subject property. The site is zoned R-1 for single family residential with a minimum lot size of 7,200 square feet. D.R. Horton purchased the site in June 2023 for \$7,000,000 or \$55,555 per lot based on an estimated finished lot price of \$265,000. The development costs are higher due to the offsite improvements which are needed and the fact that the site is unimproved. There is an approved final map for the 126 lots on the site. In comparison to the subject property this location is considered to be similar (Wildomar versus Lake Elsinore). These lots are superior in lot size to the subject due to the minimum lot size of 7,200 versus the subject's generally 5,000 minimum lot size. In addition, this sale is considered to be inferior due to the unimproved nature of the site versus the subject's graded and finished or nearly finished condition. While costs are taken into account in our analysis, the risk associated with the development is not.

**Land Sale No. 8** pertains to the only other residential land sale in the City of Lake Elsinore in the past two years that our search uncovered. In May 2022 Pulte purchased a portion of Alberhill Ranch located at Alberhill Ranch Road and Nicholas Road about three miles west of the subject site. This site was hilly with view potential. Pulte

purchased the 344 lots for \$37,056,914 or for \$107,723 per lot based on a reported finished lot of \$220,000. The lots have a minimum lot size of 6,000 square feet and were sold in an unimproved condition however with final map in place. Pulte is now selling their Crestly (being sold under the Centex brand), Fairfield, Linden and Ridgeline neighborhoods, all at Alberhill Ranch. In comparison to the subject property this transaction is considered to be slightly superior in lot sizes and view potential, however inferior in condition of land at time of sale and in number of lots. Pulte purchased 344 lots which is considered to be inferior due to it being a bulk value as most builders purchase in the range of 50 – 200 lots in a single transaction. While the development costs are considered in our analysis, there is risk associated with the grading and development of a parcel when it is in an unimproved condition. In addition, this transaction occurred in mid-2022 as the Federal Reserve Board began increasing rates. Now that the rate increases have subsided, builders are more optimistic, making this transaction slightly inferior in date of sale when compared to today's current market.

In addition to the above sales, we are aware of two current escrows for two planning areas within the next phase of Bedford, about four miles northwest of the subject in the southernmost portion of the City of Corona adjacent to the Temescal Valley. Bedford is a successful master planned community with significant amenities which are considered superior to the subject property. Due to the current escrow status, we have been asked to keep the information confidential in our files. The two sites are in escrow to two different public builders on the basis of \$467,000 for 4,000 square foot minimum lots and \$423,000 for 3,760 square foot minimum lots. These transactions are not yet closed; however, they are due to close in a few weeks according to the seller. The Planning Areas are being sold in a mass graded condition with all entitlements and mapping in place. They are within the third phase of Bedford as Phase One is sold out and Phase Two is nearing sell-out. In comparison to the subject property these transactions are considered to be superior in location (closer into Orange County Los Angeles and Riverside for commuters), and superior as they are not yet closed sales.

The chart below summarizes the various differences in the market data as compared to the subject property.

| Data No. | Location        | Date of Sale | Lot Size      | Finished Lot Price | Comparison to Subject   |
|----------|-----------------|--------------|---------------|--------------------|---|
| 1        | Menifee         | Cur. Esc     | 6,000         | \$253,000          | Superior – Lot Size & Not Closed Sale<br>Inferior - Condition |
| 2        | Menifee         | June 2024    | 5,500         | \$227,500          | Slightly Superior – Lot Size<br>Inferior – Condition          |
| 3        | Menifee         | March 2024   | 5,000 – 7,000 | \$240,000          | Inferior – Location, Condition, and Number of Lots            |
| 4        | Menifee         | Jan. 2024    | 6,000         | \$240,000          | Superior - Lot Size<br>Inferior - Condition                   |
| 5        | Temescal Valley | Dec. 2023    | 6,000         | \$295,000          | Superior – Lot Size & Location<br>Inferior – Condition        |
| 6        | Lake Elsinore   | Dec. 2023    | Duplex        | N/A                | Significantly Inferior – Lot Size                             |
| 7        | Wildomar        | June 2023    | 7,200         | \$265,000          | Superior – Lot Size<br>Inferior – Condition                   |
| 8        | Lake Elsinore   | May 2022     | 6,000         | \$220,000          | Superior – Lot Size<br>Inferior – Condition and Date of Sale  |

The market data has an overall finished lot range from \$220,000 to \$295,000. This wide range is largely due to various lot sizes and locations. Larger lots command a higher price depending on other factors being equal while smaller lots generally indicate lower finished lot prices. We have included the older sale from 2022 as it was the last Lake Elsinore transaction we were able to obtain the finished lot price on. It should be noted that appreciation on homes has gone up significantly since 2022. The highest transaction is located in the Temescal, close to the subject property, however considered to be a slightly superior area and with larger minimum sized lots. The lowest transaction relates to the sale in 2022, prior to a significant amount of appreciation in the subject marketplace. We have considered adjustments primarily due to location, condition of lands and lot size.

Based on the market data, as well as the current escrow activity, we have concluded at a finished lot value for the subject property of \$250,000. As discussed above under the Property Description Section there are \$26,051.72 in remaining land development costs and fees per lot. The concluded value for the lots is as follows:

|                                    |                             |
|------------------------------------|-----------------------------|
| 62 Lots x \$250,000                | \$15,500,000                |
| Less Rem. Costs (\$26,051.72 x 62) | (1,615,207)                 |
| <b>As Is value for the 62 Lots</b> | <b><u>\$ 13,884,793</u></b> |

## Retail House Valuation

Due to the single ownership of multiple houses by Meritage Homes, a Discounted Cash Flow ("DCF") analysis is needed in order to arrive at a bulk value for the homes. First, a retail value for each plan will be concluded, followed by a DCF for the builder which will take into consideration the absorption time to sell off the builder owned houses, the costs associated with selling off the homes and any remaining development costs to be paid by the builder within each neighborhood. The resulting revenue will be discounted using an appropriate rate to determine the builder-owned bulk value.

Hilltop and Highland currently have 23 completed homes owned by Meritage, including four models and 19 production homes, 13 of which are in escrow and due to close upon completion. In this analysis we will value each plan within Hilltop and Highland and then use a discounted cash flow analysis to conclude at a bulk value for the builder-owned homes.

Below is a summary of the floor plans within Hilltop and Highlands. A listing of the improved residential comparable properties is located in the Addenda of this report.

detailed below.

| Plan             | Room Count | Floors/<br>Parking | Sq.<br>Ft. | Ind.<br>Own | Bldr.<br>Own |
|------------------|------------|--------------------|------------|-------------|--------------|
| <b>Hilltop:</b>  |            |                    |            |             |              |
| 1                | 4 / 3      | 2 / 2              | 2,020      | 11          | 2            |
| 2                | 4 / 3      | 2 / 2              | 2,165      | 16          | 3*           |
| 3                | 5 / 3      | 2 / 2              | 2,417      | 17          | 5*           |
| Hilltop Total    |            |                    |            | 44          | 10           |
| <b>Highland:</b> |            |                    |            |             |              |
| 1                | 4 / 3      | 2 / 2              | 2,308      | 11          | 5*           |
| 2                | 4 / 3      | 2 / 2              | 2,532      | 9           | 0            |
| 3                | 4+ / 3     | 2 / 2              | 2,744      | 11          | 5*           |
| 4                | 5+ / 3     | 2 / 2              | 2,932      | 8           | 3            |
| Highland Total   |            |                    |            | 39          | 13           |
| <b>Total</b>     |            |                    |            | <b>83</b>   | <b>23</b>    |

In addition to the above detailed houses there are 30 houses under construction and 32 finished lots.

The most appropriate new home comparable data for Hilltop Plan 1 are shown below.



| <b>Data</b> | <b>Plan</b> | <b>Rm. Ct.</b> | <b>Flrs/Pkg.</b> | <b>Sq. Ft.</b> | <b>Price/SF</b> |
|-------------|-------------|----------------|------------------|----------------|-----------------|
| Subj.       | 1           | 4 / 3          | 2 / 2            | 2,020          | --              |
| 1           | 2           | 4 / 3          | 2 / 2            | 2,165          | \$280.37        |
| 2           | 1           | 4 / 3          | 2 / 2            | 2,308          | \$272.96        |
| 7           | 4           | 3 / 2.5        | 2 / 2            | 1,976          | \$304.14        |
| 7           | 5           | 3 / 2.5        | 2 / 2            | 2,139          | \$291.25        |
| 8           | 4           | 3 / 2.5        | 2 / 2            | 2,218          | \$278.17        |
| 10          | 4           | 4 / 3          | 2 / 2            | 2,216          | \$263.99        |

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$263.99 to \$304.14 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Hilltop Plan 1 is currently \$295.05 per square foot. There have been 11 closings of Plan 1 with sale prices ranging from \$278.07 to \$291.92 per square foot. There are currently three escrows of Hilltop Plan 1 with a sales price range of \$289.45 to \$292.92 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 1 generally have ranged from \$35,000 to \$50,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Hilltop Plan 1 has a base current market value of \$280.00 per square foot. This calculates as follows:

$$2,020 \text{ sf} \times \$280.00 = \$565,600$$

The most appropriate new home comparable data for Hilltop Plan 2 are shown below.

| <b>Data</b> | <b>Plan</b> | <b>Rm. Ct.</b> | <b>Flrs/Pkg.</b> | <b>Sq. Ft.</b> | <b>Price/SF</b> |
|-------------|-------------|----------------|------------------|----------------|-----------------|
| Subj.       | 2           | 4 / 3          | 2 / 2            | 2,165          | --              |
| 1           | 1           | 4 / 3          | 2 / 2            | 2,020          | \$295.05        |
| 1           | 3           | 5 / 3          | 2 / 2            | 2,417          | \$258.17        |
| 2           | 1           | 4 / 3          | 2 / 2            | 2,308          | \$272.96        |
| 2           | 2           | 4 / 3          | 2 / 2            | 2,532          | \$255.92        |
| 7           | 5           | 3 / 2.5        | 2 / 2            | 2,139          | \$291.25        |
| 8           | 4           | 3 / 2.5        | 2 / 2            | 2,218          | \$278.17        |
| 10          | 4           | 4 / 3          | 2 / 2            | 2,216          | \$263.99        |

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$255.92 to \$295.05 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Hilltop Plan 2 is currently \$280.37 per square foot. There have been 16 closings of Plan 2 with sale prices ranging from \$268.82 to \$287.26 per square foot. There are currently two escrows of Hilltop Plan 2 with a sales price range of \$272.19 to \$288.36 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 2 have generally ranged from \$30,000 to \$50,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Hilltop Plan 2 has a base current market value of \$265.00 per square foot. This calculates as follows:

$$2,165 \text{ sf} \times \$265.00 = \$573,725$$

The most appropriate new home comparable data for Hilltop Plan 3 are shown below.

| <b>Data</b> | <b>Plan</b> | <b>Rm. Ct.</b> | <b>Flrs/Pkg.</b> | <b>Sq. Ft.</b> | <b>Price/SF</b> |
|-------------|-------------|----------------|------------------|----------------|-----------------|
| Subj.       | 3           | 5 / 3          | 2 / 2            | 2,417          | --              |
| 1           | 2           | 4 / 3          | 2 / 2            | 2,165          | \$280.37        |
| 2           | 1           | 4 / 3          | 2 / 2            | 2,308          | \$272.96        |
| 2           | 2           | 4 / 3          | 2 / 2            | 2,532          | \$255.92        |
| 3           | 2           | 5 / 2.5        | 2 / 2            | 2,404          | \$266.63        |
| 4           | 2           | 4 / 2.5        | 2 / 2            | 2,654          | \$245.29        |
| 7           | 6           | 4 / 3          | 2 / 2            | 2,389          | \$269.56        |
| 8           | 5           | 4 / 3          | 2 / 2            | 2,453          | \$258.86        |
| 10          | 5           | 5 / 3          | 2 / 3            | 2,532          | \$247.04        |

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total

square footage, room count, garage space and other amenities. The comparable new home base prices range from \$245.29 to \$280.37 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Hilltop Plan 3 is currently \$258.17 per square foot. There have been 17 closings of Plan 3 with sale prices ranging from \$243.90 to \$266.15 per square foot. There are currently six escrows of Hilltop Plan 3 with a sales price range of \$257.55 to \$267.40 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 3 have generally ranged from \$20,000 to \$60,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Hilltop Plan 3 has a base current market value of \$245.00 per square foot. This calculates as follows:

$$2,417 \text{ sf} \times \$245.00 = \$592,165$$

The most appropriate new home comparable data for Highland Plan 1 are shown below.

| <b>Data</b> | <b>Plan</b> | <b>Rm. Ct.</b> | <b>Flrs/Pkg.</b> | <b>Sq. Ft.</b> | <b>Price/SF</b> |
|-------------|-------------|----------------|------------------|----------------|-----------------|
| Subj.       | 1           | 4 / 3          | 2 / 2            | 2,308          | --              |
| 1           | 2           | 4 / 3          | 2 / 2            | 2,165          | \$280.37        |
| 1           | 3           | 5 / 3          | 2 / 2            | 2,417          | \$258.17        |
| 2           | 2           | 4 / 3          | 2 / 2            | 2,532          | \$255.92        |
| 3           | 2           | 5 / 2.5        | 2 / 2            | 2,404          | \$266.63        |
| 4           | 2           | 4 / 2.5        | 2 / 2            | 2,654          | \$245.29        |
| 7           | 6           | 4 / 3          | 2 / 2            | 2,389          | \$269.56        |
| 8           | 5           | 4 / 3          | 2 / 2            | 2,453          | \$258.86        |
| 10          | 5           | 5 / 3          | 2 / 3            | 2,532          | \$247.04        |

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$245.29 to \$280.37 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower

price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 1 is currently \$272.96 per square foot. There have been 11 closings of Plan 1 with sale prices ranging from \$246.46 to \$278.95 per square foot. There are currently two escrows of Highland Plan 1 with a sales price range of \$271.10 to \$281.06 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 1 have generally ranged from \$30,000 to \$60,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 1 has a base current market value of \$250.00 per square foot. This calculates as follows:

$$2,308 \text{ sf} \times \$250.00 = \$577,000$$

The most appropriate new home comparable data for Highland Plan 2 are shown below.

| <b>Data</b> | <b>Plan</b> | <b>Rm. Ct.</b> | <b>Flrs/Pkg.</b> | <b>Sq. Ft.</b> | <b>Price/SF</b> |
|-------------|-------------|----------------|------------------|----------------|-----------------|
| Subj.       | 2           | 4 / 3          | 2 / 2            | 2,532          | --              |
| 1           | 3           | 5 / 3          | 2 / 2            | 2,417          | \$258.17        |
| 2           | 1           | 4 / 3          | 2 / 2            | 2,308          | \$272.96        |
| 2           | 3           | 4 / 3          | 2 / 2            | 2,744          | \$241.62        |
| 3           | 2           | 5 / 2.5        | 2 / 2            | 2,404          | \$266.63        |
| 4           | 2           | 4 / 2.5        | 2 / 2            | 2,654          | \$245.29        |
| 8           | 6           | 4 / 2.5        | 2 / 2            | 2,517          | \$254.66        |
| 10          | 5           | 5 / 3          | 2 / 3            | 2,532          | \$247.04        |

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$241.62 to \$272.96 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 2 is currently \$255.92 per square foot. There have been nine closings of Plan 2 with sale prices ranging from \$229.86 to \$257.99 per square foot. There are no current escrows of Highland Plan 2. It should be noted that most

homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 2 have generally ranged from \$30,000 to \$65,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 2 has a base current market value of \$235.00 per square foot. This calculates as follows:

$$2,532 \text{ sf} \times \$235.00 = \$595,020$$

The most appropriate new home comparable data for Highland Plan 3 are shown below.

| <b>Data</b> | <b>Plan</b> | <b>Rm. Ct.</b> | <b>Flrs/Pkg.</b> | <b>Sq. Ft.</b> | <b>Price/SF</b> |
|-------------|-------------|----------------|------------------|----------------|-----------------|
| Subj.       | 3           | 4 / 3          | 2 / 2            | 2,744          | --              |
| 1           | 3           | 5 / 3          | 2 / 2            | 2,417          | \$258.17        |
| 2           | 2           | 4 / 3          | 2 / 2            | 2,532          | \$255.92        |
| 2           | 4           | 5 / 3          | 2 / 2            | 2,932          | \$230.22        |
| 3           | 3           | 5 / 3          | 2 / 2            | 2,824          | \$238.31        |
| 4           | 2           | 4 / 2.5        | 2 / 2            | 2,654          | \$245.29        |
| 4           | 3           | 5 / 3          | 2 / 2            | 2,824          | \$238.31        |
| 5           | 1           | 4 / 2.5        | 2 / 3            | 2,792          | \$245.70        |
| 9           | 6           | 5 / 3          | 2 / 2            | 2,882          | \$229.00        |

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$229.00 to \$258.17 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 3 is currently \$241.62 per square foot. There have been 11 closings of Plan 3 with sale prices ranging from \$213.92 to \$240.39 per square foot. There are two current escrows of Highland Plan 3 with a sales price range from \$239.61 to \$249.65 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for

Plan 3 have generally ranged from \$35,000 to \$85,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 3 has a base current market value of \$220.00 per square foot. This calculates as follows:

$$2,744 \text{ sf} \times \$220.00 = \$603,680$$

The most appropriate new home comparable data for Highland Plan 4 are shown below.

| <b>Data</b> | <b>Plan</b> | <b>Rm. Ct.</b> | <b>Flrs/Pkg.</b> | <b>Sq. Ft.</b> | <b>Price/SF</b> |
|-------------|-------------|----------------|------------------|----------------|-----------------|
| Subj.       | 4           | 5 / 3          | 2 / 2            | 2,932          | --              |
| 2           | 3           | 4 / 3          | 2 / 2            | 2,744          | \$241.62        |
| 3           | 3           | 5 / 3          | 2 / 2            | 2,824          | \$238.31        |
| 4           | 3           | 5 / 3          | 2 / 2            | 2,824          | \$238.31        |
| 5           | 1           | 4 / 2.5        | 2 / 3            | 2,792          | \$245.70        |
| 5           | 2           | 4 / 2.5        | 2 / 3            | 2,988          | \$234.94        |
| 9           | 6           | 5 / 3          | 2 / 2            | 2,882          | \$229.00        |

The new home comparables are all located within the City of Lake Elsinore. All are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, common area benefits, total square footage, room count, garage space and other amenities. The comparable new home base prices range from \$229.00 to \$245.70 per square foot with generally the lower prices per square foot being for the larger homes. Typically, larger homes have a lower price per square foot due to the economies of scale obtained during construction. The asking base price for Highland Plan 4 is currently \$230.22 per square foot. There have been eight closings of Plan 4 with sale prices ranging from \$213.17 to \$227.51 per square foot. There is one current escrow of Highland Plan 4 with a sales price of \$235.92 per square foot. It should be noted that most homebuyers purchase some upgrades, premiums and options. Our concluded price is based on the base price of the home with no upgrades, premiums or options less all concessions. Concessions for Plan 4 have generally ranged from \$30,000 to \$85,000. All homes appear to be in excellent condition with no depreciation visible. It has been concluded that Highland Plan 4 has a base current market value of \$210.00 per square foot. This calculates as follows:

$$2,932 \text{ sf} \times \$210.00 = \$615,720$$

### Builder Owned Retail Value

Within both Hilltop and Highland there are 19 production homes over 95 percent complete and four completed models for a total of 23 houses being valued in this section. Per interviews with builders, upgrades and landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar-for-dollar basis. Based on historical information, home sizes and fixtures, actual model home sales within the subject area and the current real estate market, a consideration of a \$50,000 premium has been included with each of the model homes. The retail base value conclusions for the builder-owned homes are calculated below.

#### Hilltop at Nichols Ranch:

|                        |              |
|------------------------|--------------|
| Plan 1 (2 x \$565,600) | \$ 1,131,200 |
| Plan 2 (3 x \$573,725) | 1,721,175    |
| Plan 3 (5 x \$592,165) | 2,960,825    |

#### Highland at Nichols Ranch:

|                               |                     |
|-------------------------------|---------------------|
| Plan 1 (5 x \$577,000)        | 2,885,000           |
| Plan 2 (0 x \$595,020)        | 0                   |
| Plan 3 (5 x \$603,680)        | 3,018,400           |
| Plan 4 (3 x \$615,720)        | 1,847,160           |
| Model Upgrades (4 x \$50,000) | <u>200,000</u>      |
| Total Nichols Ranch           | <u>\$13,763,760</u> |

### Absorption Period

In order to arrive at an absorption period for the builder owned homes within Nichols Ranch, the absorption rates for the subject communities along with comparable projects have been reviewed. The average monthly sales rate in Nichols Ranch (including both neighborhoods) is 8.25 homes per month. The comparable sales have average sales rates ranging from 2.4 to 8.9 sales per month. Thirteen of the nineteen production homes over 95 percent complete are in escrow. We have concluded that the 23, builder-owned homes will be absorbed over a four-month time period at the concluded prices.

### Remaining Costs

As discussed under the property description section above there are \$26,051.72 in remaining land development costs and fees per lot. This equates to \$599,190 in remaining land development costs associated with the 23 homes over 95 percent

complete owned by the builder. For purposes of our analysis, it is assumed these costs will be expended evenly over the four-month absorption time period.

### Expenses

In determining an expense rate, several builders in the subject area have been interviewed as to their expenses on selling existing inventory. Expenses include marketing and general administrative costs. These costs typically range from six to ten percent depending on varying factors such as absorption period, intensity of marketing, etc. Eight percent has been estimated for marketing expenses and two percent for general and administrative costs for a total of ten percent in expenses for the subject neighborhood's analyses.

### Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject properties. Developers typically attempted to achieve a 10 to 12 percent profit based on gross sales proceeds. During recessionary times, this range is typically lowered considerably to six to eight percent with some builders drastically lowering their profit margins in order to maintain their work force. As the market improved, so did the profits. A ten percent profit is considered appropriate in the analysis for this community.

### Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with merchant builders in the Riverside County market area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject property
4. Discussed the project with equity investors and master plan community developers

The sales rate of homes within Nichols Ranch which has been average to good has also been taken into consideration in the discount rate. Based on the above factors, a twelve percent discount rate is considered appropriate for the subject neighborhood.



### Discounted Cash Flow Summary

The discounted revenue (see DCF Analyses in Addenda) for the builder owned homes resulted in the value of \$10,156,639.

### Nichols Ranch – Builder Ownership Final Valuation

Meritage Homes owns 62 lots, 30 which are under construction, along with 23 homes that are over 95 percent complete, including four model homes. Thirteen of the production homes over 95 percent complete are in escrow. The final value conclusion for the Builder owned property is shown below.

|                                   |                            |
|-----------------------------------|----------------------------|
| 62 lots                           | \$13,884,793               |
| 23 Builder-Owned Houses           | <u>\$10,156,639</u>        |
| Total Builder Ownership Valuation | <b><u>\$24,041,432</u></b> |

### Nichols Ranch - Individual Owners Value Conclusion

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes which is considered a minimum market value. This is due to homebuyers typically purchasing some upgrades and options or paying premiums for the lot and in some cases views. Within Nichols Ranch there are 83 individually owned homes. The concluded values are shown below:

#### Hilltop at Nichols Ranch:

|                         |              |
|-------------------------|--------------|
| Plan 1 (11 x \$565,600) | \$ 6,221,600 |
| Plan 2 (16 x \$573,725) | 9,179,600    |
| Plan 3 (17 x \$592,165) | 10,066,805   |

#### Highland at Nichols Ranch:

|                         |                  |
|-------------------------|------------------|
| Plan 1 (11 x \$577,000) | 6,347,000        |
| Plan 2 (9 x \$595,020)  | 5,355,180        |
| Plan 3 (11 x \$603,680) | 6,640,480        |
| Plan 4 (8 x \$615,720)  | <u>4,925,760</u> |

**Total Nichols Ranch Individually Owned      \$48,736,425**

In an additional analysis, we have reviewed the actual builder sales prices for the homes within Nichols Ranch. Closings occurred between August 2023 and July 1, 2024. The builder reported closing prices for the 83 individually owned homes totals \$50,756,278.

The actual sales prices include any upgrades, premiums or options purchased by the homeowner along with all concessions given by the builder while our concluded value is for the base value of the homes, less the concessions. The actual sales prices are about four percent higher than the concluded base prices. This difference is due to the options, upgrades and premiums which were purchased which typically increase the actual home prices over the base value. It is our opinion this further substantiates the concluded minimum market values for the Nichols Ranch individually owned homes.

## APPRAISAL REPORT SUMMARY

The appraisal assignment was to value the subject property within Lake Elsinore CFD No. 2019-2 which includes 168 proposed homes within the master planned community of Nichols Ranch, located in Lake Elsinore. Nichols Ranch is being developed by Meritage Homes into two neighborhoods known as Hilltop at Nichols Ranch and Highland at Nichols Ranch. The lands have all been developed to generally finished lots and range from completed, individually owned houses to houses under construction to generally finished lots. The homes are currently being marketed with 83 of the proposed 168 houses sold to individuals and another 16 in escrow which are due to close upon completion.

The subject property was valued utilizing the Sales Comparison Approach to value along with a mass appraisal technique. In the case of multiple builder-owned properties, a Discounted Cash Flow was also utilized in the valuation process. The valuation took into consideration the improvements/benefits to be funded by Special Tax Lake Elsinore CFD No. 2019-2 Bond Proceeds along with the Lake Elsinore CFD No. 2019-2 special tax lien. The concluded aggregate value for the subject property, subject to their respective special tax lien, is:

### **Nichols Ranch by Meritage**

|   |                      |
|---|----------------------|
| Meritage Homes Ownership (23 homes & 62 lots) | \$ 24,041,432        |
| Individual Owned (83 homes)                   | <u>\$ 48,736,425</u> |

**Aggregate Value of Lake Elsinore CFD No. 2019-2**      **\$ 72,777,857**

The above values are stated as of said date of value and subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification.

## APPRAISER'S CERTIFICATION

The appraiser certifies that to the best of his knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraiser has no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraiser's compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
5. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
6. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. Kitty Siino has made a personal inspection of the property that is the subject of this report.
8. Kitty Siino has not performed any appraisal services on the subject property in the past three years.
9. No other appraisers have provided significant professional assistance to the persons signing this report.
10. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Kitty Siino has completed the requirements of the continuing education program of the Appraisal Institute.



Kitty S. Siino, MAI  
State Certified General  
Real Estate Appraiser (AG004793)

# **ADDENDA**

**LAKE ELSINORE CFD NO. 2019-2**  
**BOUNDARY MAP**

**PROPOSED BOUNDARY MAP**  
**COMMUNITY FACILITIES DISTRICT NO. 2019-2**  
**(NICHOLS RANCH)**  
**CITY OF LAKE ELSINORE,**  
**COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH), CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF LAKE ELSINORE AT A REGULAR MEETING THEREOF, HELD ON 23<sup>rd</sup> DAY OF October, 2019, BY RESOLUTION NO. 2019-013.

  
 CITY CLERK  
 CITY OF LAKE ELSINORE

FILED IN THE OFFICE OF THE CITY CLERK, CITY OF LAKE ELSINORE,  
 THIS 28<sup>th</sup> DAY OF October, 2019.

  
 CITY CLERK  
 CITY OF LAKE ELSINORE



THIS BOUNDARY MAP CORRECTLY SHOWS THE BOUNDARIES OF THE COMMUNITY FACILITIES DISTRICT. FOR DETAILS CONCERNING THE LINES AND DIMENSIONS OF LOTS OR PARCELS REFER TO THE COUNTY ASSESSOR'S MAPS FOR FISCAL YEAR 2019-20.



RECORDED THIS 31<sup>st</sup> DAY OF October, 2019  
 AT THE HOUR OF 2:45 O'CLOCK P.M. IN BOOK 89  
 PAGE 48 OF MAPS OF ASSESSMENT AND COMMUNITY  
 FACILITIES DISTRICTS IN THE OFFICE OF THE COUNTY  
 RECORDER, IN THE COUNTY OF RIVERSIDE, STATE OF  
 CALIFORNIA.

FEE: \$9<sup>00</sup> NO: 2019-04473168  
 PETER ALDANA, ASSESSOR, COUNTY CLERK, RECORDER

BY:   
 DEPUTY

REFERENCES IS HEREBY MADE TO PARCEL 4 OF THE CITY OF LAKE ELSINORE PARCEL MAP 37465 RECORDED IN THE OFFICIAL RECORDS OF THE COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, ON THE 3RD DAY OF OCTOBER, 2013, IN BOOK 347 OF MAPS, AT PAGES 74-75, AS DOCUMENT NO. 2013-0396737 FOR A DESCRIPTION OF THE LINES AND DIMENSIONS OF THE PORTIONS OF THE PARCELS LISTED THAT ARE A PART OF COMMUNITY FACILITIES DISTRICT NO. 2019-2 (NICHOLS RANCH) BOUNDARY.

**LEGEND**

-  CFS BOUNDARY
-  PARCEL LINE
-  ASSESSOR/PARCEL NUMBER



**TRACT MAP NOS. 37305 and 37305-1**



# SHEET INDEX:

1. DESCRIPTION
2. TITLE SHEET
3. BOUNDARY/INDEX MAP
4. BASIS OF BEARINGS
5. SURVEYOR'S NOTES
6. FOUND MONUMENT NOTES
7. EASEMENT NOTES
8. VIGNET MAP
9. DETAILS
10. MAPPING SHEETS
11. DETAILS

IN THE CITY OF LAKE ELSINORE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

## TRACT NO. 37305

BEING A SUBDIVISION OF REMAINDER PARCEL 1, LOT "C", AND A PORTION OF REMAINDER PARCEL 2 AS SHOWN ON TRACT MAP NO. 37305-1, RECORDED IN MAP BOOK 480, PAGES 49-54, OFFICIAL RECORDS OF RIVERSIDE COUNTY, STATE OF CALIFORNIA, LOCATED IN FRACTIONAL SECTION 25, TOWNSHIP 5 SOUTH, RANGE 5 WEST, S.8.M.

K & A ENGINEERING, INC.

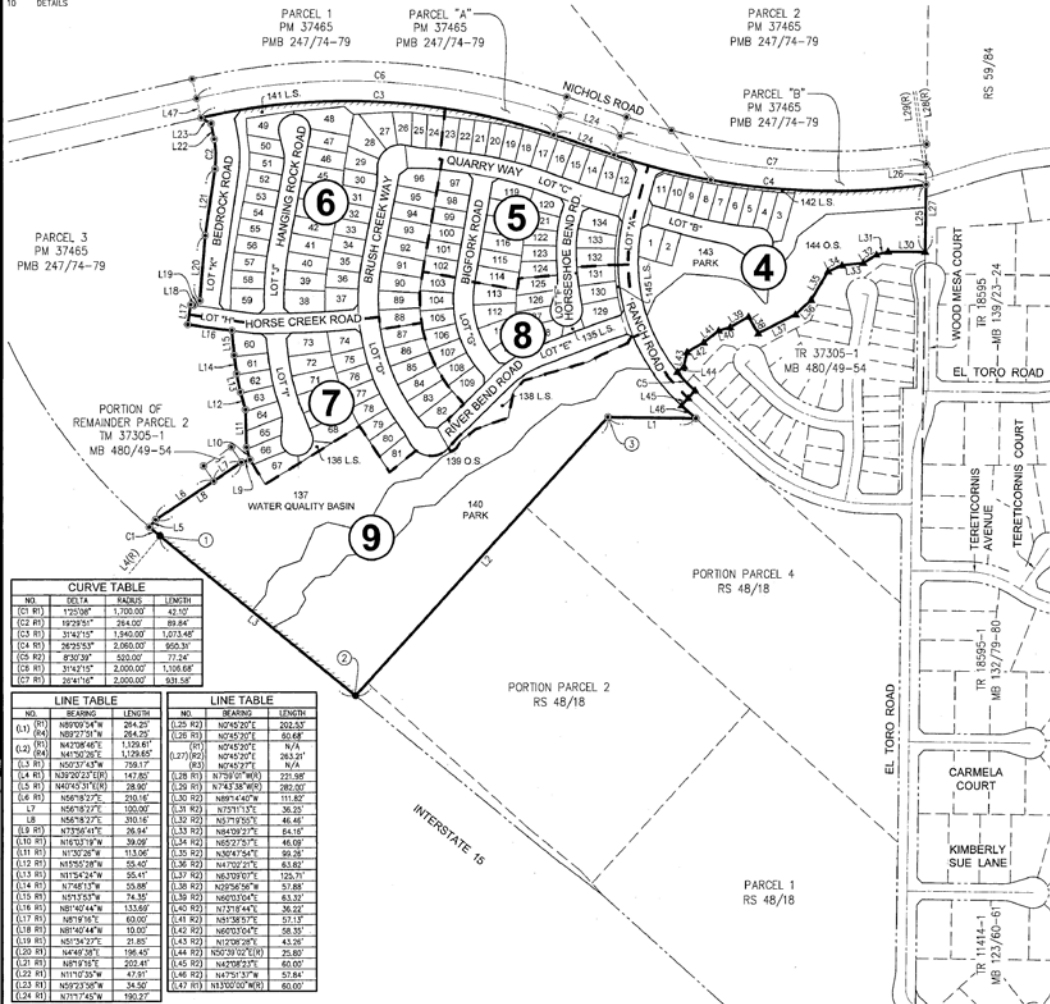
DECEMBER, 2019

SHEET 2 OF 10 SHEETS

### LOT SUMMARY:

NUMBERED LOTS: 145  
LETTERED LOTS: 11  
GROSS AREA: 48.22 AC  
NET AREA: 38.66 AC

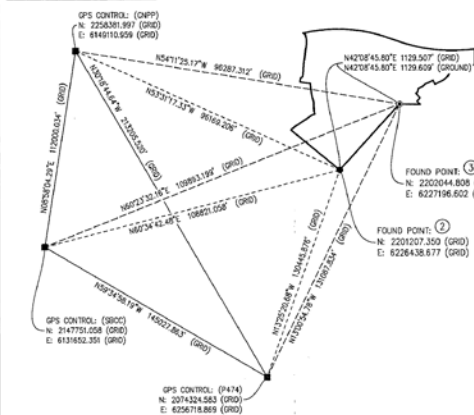
### BOUNDARY / INDEX MAP



| NO.      | DATA    | RADIUS    | LENGTH    |
|----------|---------|-----------|-----------|
| (C1) (R) | 125.00' | 1,700.00' | 42.10'    |
| (C2) (R) | 125.00' | 264.00'   | 89.84'    |
| (C3) (R) | 314.71' | 1,845.00' | 1,073.48' |
| (C4) (R) | 38.25'± | 2,060.00' | 950.31'   |
| (C5) (R) | 8.30'±  | 505.00'   | 77.24'    |
| (C6) (R) | 114.91' | 2,000.00' | 1,508.66' |
| (C7) (R) | 20.41'± | 2,000.00' | 935.58'   |

| NO.       | BEARING     | LENGTH    |
|-----------|-------------|-----------|
| (L1) (R)  | N89°09'54"W | 264.25'   |
| (L2) (R)  | N89°22'30"W | 264.25'   |
| (L3) (R)  | N47°08'46"E | 1,129.61' |
| (L4) (R)  | N47°20'26"E | 1,128.65' |
| (L5) (R)  | N50°27'45"W | 758.17'   |
| (L6) (R)  | N39°20'23"E | 147.80'   |
| (L7) (R)  | N40°45'31"W | 28.90'    |
| (L8) (R)  | N56°18'27"E | 70.10'    |
| (L9) (R)  | N56°18'27"E | 100.00'   |
| (L10) (R) | N56°18'27"E | 310.16'   |
| (L11) (R) | N73°54'01"E | 28.84'    |
| (L12) (R) | N16°03'19"W | 29.09'    |
| (L13) (R) | N1°30'28"W  | 113.06'   |
| (L14) (R) | N15°52'38"W | 25.40'    |
| (L15) (R) | N81°40'44"W | 113.69'   |
| (L16) (R) | N81°40'44"W | 10.00'    |
| (L17) (R) | N81°40'44"W | 10.00'    |
| (L18) (R) | N81°40'44"W | 10.00'    |
| (L19) (R) | N81°40'44"W | 10.00'    |
| (L20) (R) | N81°40'44"W | 10.00'    |
| (L21) (R) | N81°40'44"W | 10.00'    |
| (L22) (R) | N81°40'44"W | 10.00'    |
| (L23) (R) | N81°40'44"W | 10.00'    |
| (L24) (R) | N81°40'44"W | 10.00'    |

| NO.       | BEARING     | LENGTH  |
|-----------|-------------|---------|
| (L25) (R) | N74°20'26"E | 202.53' |
| (L26) (R) | N74°20'26"E | 80.68'  |
| (L27) (R) | N74°20'26"E | N/A     |
| (L28) (R) | N74°20'26"E | 283.21' |
| (L29) (R) | N74°20'26"E | N/A     |
| (L30) (R) | N75°00'00"W | 221.98' |
| (L31) (R) | N74°38'36"W | 280.00' |
| (L32) (R) | N81°40'44"W | 113.69' |
| (L33) (R) | N75°11'13"E | 30.25'  |
| (L34) (R) | N3°19'50"E  | 46.46'  |
| (L35) (R) | N4°09'27"E  | 64.15'  |
| (L36) (R) | N52°27'51"E | 46.09'  |
| (L37) (R) | N30°47'54"E | 99.26'  |
| (L38) (R) | N47°02'27"E | 83.82'  |
| (L39) (R) | N47°02'27"E | 129.79' |
| (L40) (R) | N29°58'36"W | 57.88'  |
| (L41) (R) | N65°03'04"E | 63.37'  |
| (L42) (R) | N17°14'41"E | 26.22'  |
| (L43) (R) | N31°38'57"E | 57.13'  |
| (L44) (R) | N65°03'04"E | 56.35'  |
| (L45) (R) | N17°06'20"E | 43.25'  |
| (L46) (R) | N20°20'02"E | 25.80'  |
| (L47) (R) | N41°06'21"E | 60.00'  |
| (L48) (R) | N47°02'27"E | 57.88'  |
| (L49) (R) | N33°02'02"W | 60.00'  |



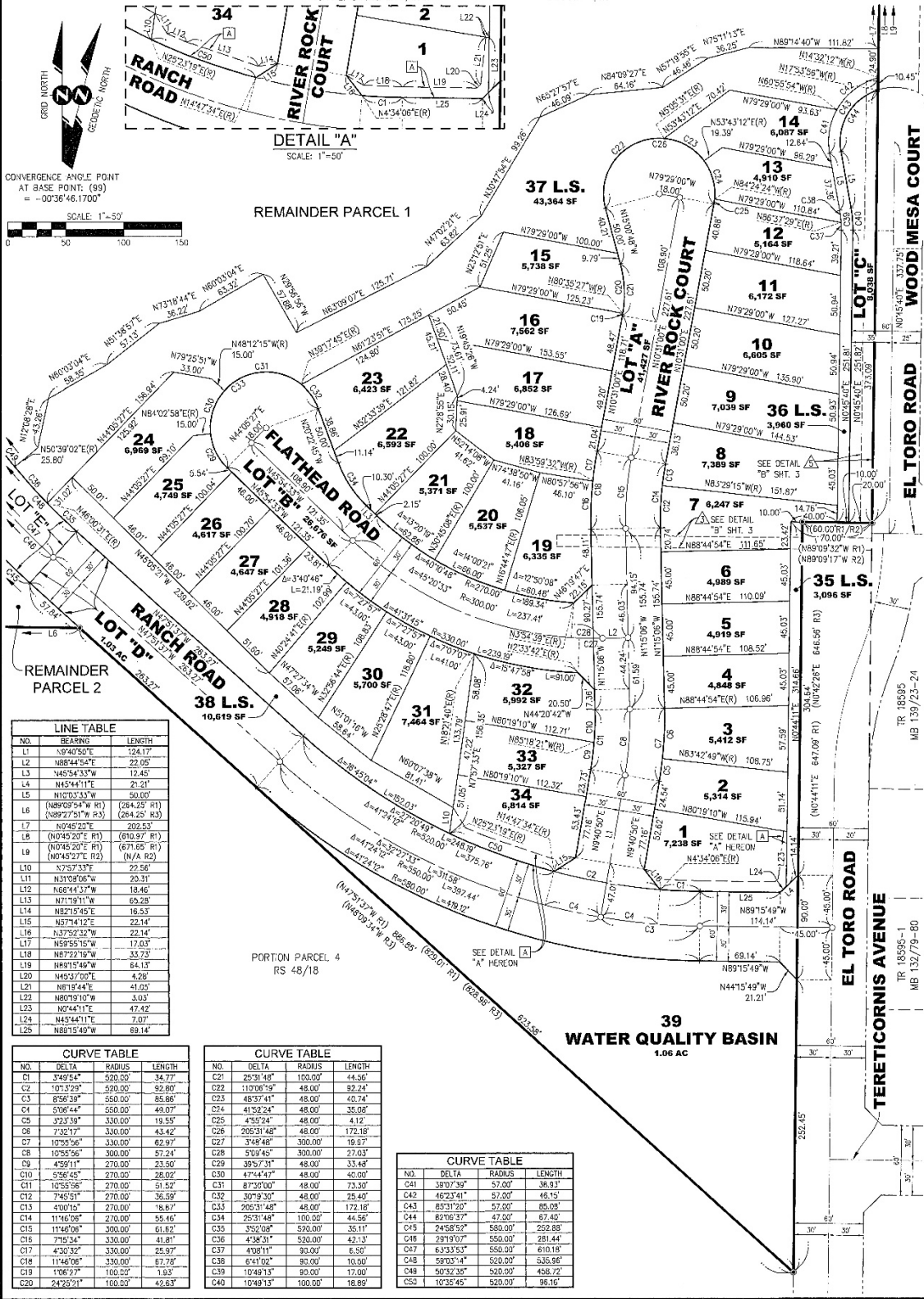
### BASIS OF BEARINGS:

THE BASIS OF BEARING FOR THIS SURVEY IS DERIVED FROM AN ONLINE POSITIONING USER SERVICE (OPUS) SOLUTION USING THE CALIFORNIA STATE PLANE COORDINATE SYSTEM, CGCS83, ZONE 8, BASED LOCALLY ON CONTINUOUSLY OPERATING REFERENCE STATIONS (CORS) "TOMB", "T414", AND "S80C", NAD 83(2011) EPOCH 2010.00 AS SHOWN HEREON. ALL BEARINGS SHOWN ON THIS MAP ARE GRID. QUOTED BEARINGS AND DISTANCES FROM REFERENCE MAPS OR DEEDS AS SHOWN PER THAT RECORD REFERENCE. ALL DISTANCES SHOWN ARE GROUND DISTANCES UNLESS SPECIFIED OTHERWISE. GRID DISTANCES MAY BE OBTAINED BY MULTIPLYING THE GROUND DISTANCE BY A COMBINATION FACTOR OF 0.99999957. CALCULATIONS ARE MADE AT CONTROL POINT "99" WITH COORDINATES OF N:2200064.438 (GRID) E:6222480.222 (GRID) USING AN ELEVATION OF 1482.062 (NGVD29).

SHEET 4 OF 6 SHEETS

BEING A SUBDIVISION OF PARCEL 4 AS SHOWN ON PARCEL MAP NO. 37465, RECORDED IN PARCEL MAP BOOK 247, PAGES 71-78, OFFICIAL RECORDS OF RIVERSIDE COUNTY, STATE OF CALIFORNIA. LOCATED IN FRACTIONAL SECTION 25, TOWNSHIP 5 SOUTH, RANGE 5 WEST, S.B.M.

OCTOBER, 2019



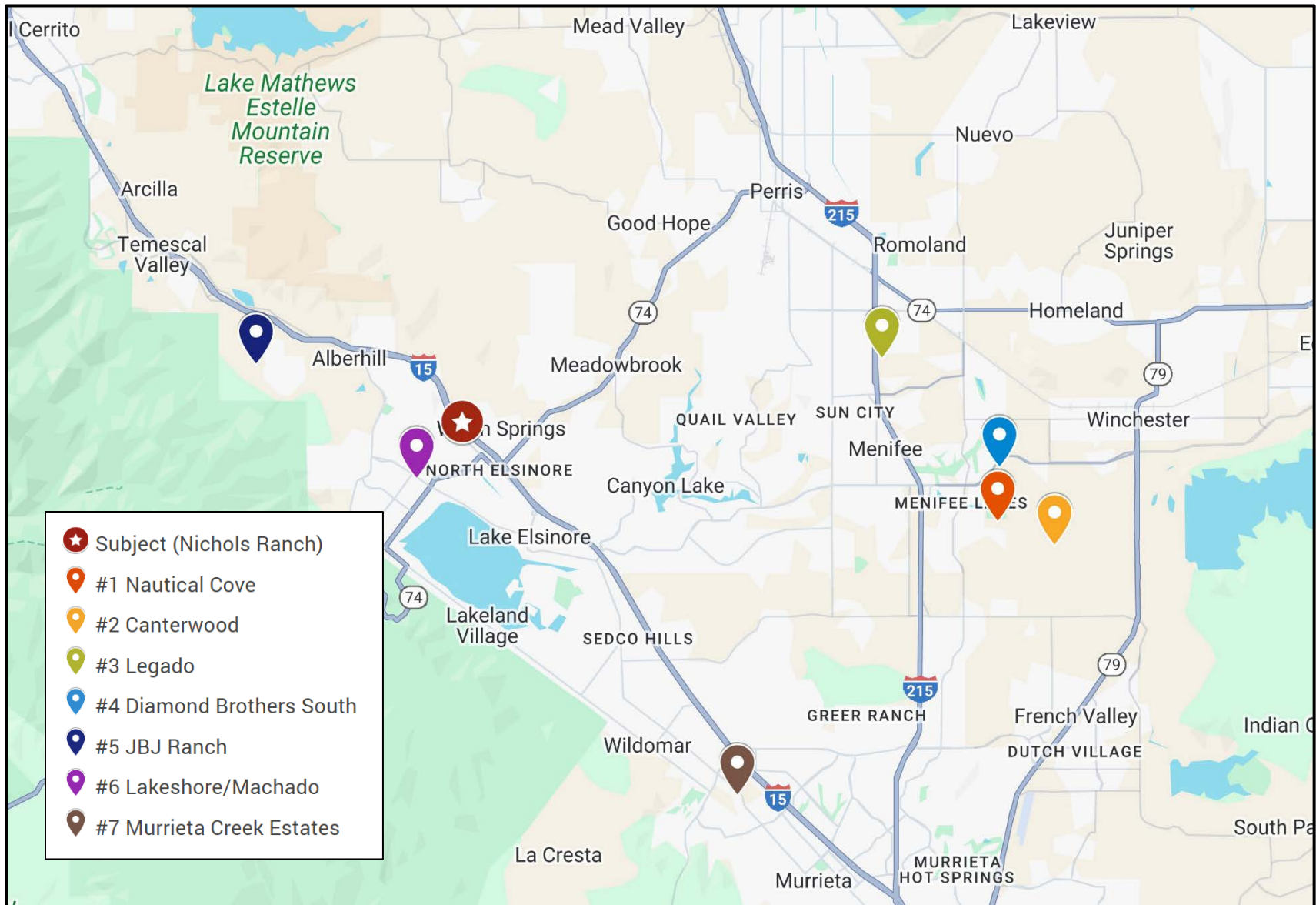
# **DISCOUNTED CASH FLOW ANALYSES**

### Nichols Ranch Builder-Owned Houses Discounted Cash Flow Analysis

| MONTH                           | Months     | <u>MONTH 1</u>     | <u>MONTH 2</u>     | <u>MONTH 3</u>     | <u>MONTH 4</u>      | <u>TOTAL</u>         |
|---------------------------------|------------|--------------------|--------------------|--------------------|---------------------|----------------------|
|                                 | 4          |                    |                    |                    |                     |                      |
| INCOME:                         |            |                    |                    |                    |                     |                      |
| Retail Sales                    | 13,763,760 | \$3,440,940        | \$3,440,940        | \$3,440,940        | \$3,440,940         | \$13,763,760         |
| TOTAL INCOME                    |            | <u>\$3,440,940</u> | <u>\$3,440,940</u> | <u>\$3,440,940</u> | <u>\$3,440,940</u>  | <u>\$13,763,760</u>  |
| EXPENSES:                       |            |                    |                    |                    |                     |                      |
| Remaining Costs                 |            | (\$149,797)        | (\$149,798)        | (\$149,797)        | (\$149,798)         | (\$599,190)          |
| Marketing & Carrying Expenses   | 10%        | (\$344,094)        | (\$344,094)        | (\$344,094)        | (\$344,094)         | (\$1,376,376)        |
| Profit                          | 10%        | <u>(\$344,094)</u> | <u>(\$344,094)</u> | <u>(\$344,094)</u> | <u>(\$344,094)</u>  | <u>(\$1,376,376)</u> |
| TOTAL EXPENSES                  |            | (\$837,985)        | (\$837,986)        | (\$837,985)        | (\$837,986)         | (\$3,351,942)        |
| NET CASH FLOW                   |            | \$2,602,955        | \$2,602,954        | \$2,602,955        | \$2,602,954         | \$10,411,818         |
| Discount Factor                 | 12%        | <u>0.9901</u>      | <u>0.9803</u>      | <u>0.9706</u>      | <u>0.9610</u>       |                      |
| DISCOUNTED CASH FLOW            |            | \$2,577,183        | \$2,551,666        | \$2,526,402        | \$2,501,388         | \$10,156,639         |
| CUMULATIVE DISCOUNTED CASH FLOW |            | <u>\$2,577,183</u> | <u>\$5,128,849</u> | <u>\$7,655,251</u> | <u>\$10,156,639</u> | <u>\$10,156,639</u>  |

**FINISHED LOT LAND SALES MAP**  
**& SUMMARY CHART**

## FINISHED LOT LAND SALES MAP



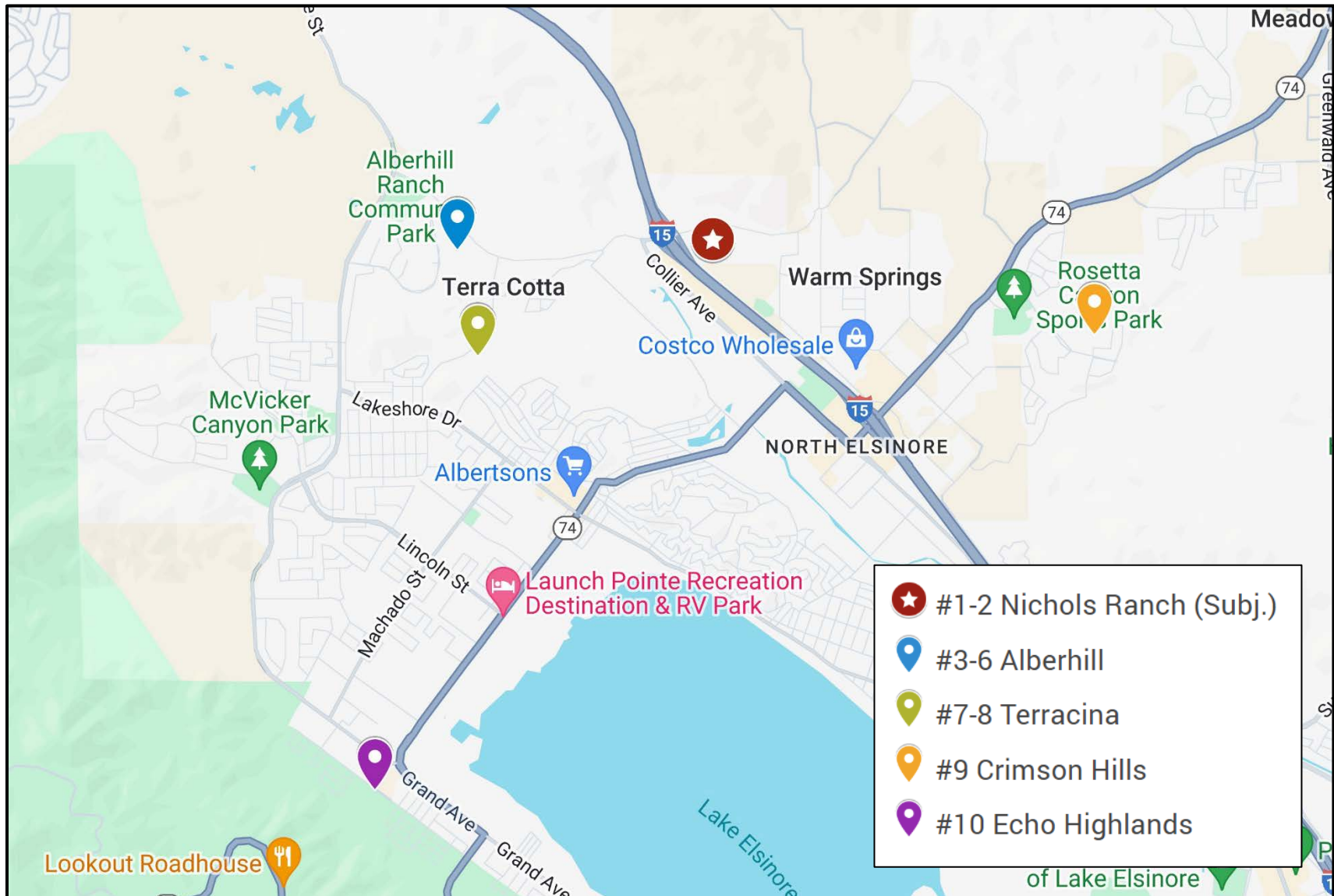
### FINISHED LOT LAND SALES SUMMARY CHART

| Data No. | Location / APN / Buyer / Seller  | Sales Date    | # Lots | Lot Size    | Sales Price / Price per Lot | Est. Finished Lot Price | Comments   |
|----------|--|---------------|--------|-------------|-----------------------------|-------------------------|--|
| 1        | Nautical Cove, NWC Briggs Road and Holland Road, Menifee / 364-200-009 / KB Home / Ambient (Escrow)                              | Escrow        | 233    | 6,000       | Confidential                | \$253,000               | Closing with an approved Final Map in an unimproved condition. Three phase take down- Phase 1 scheduled to close late July 2024.               |
| 2        | Canterwood Phase 2, NWC of Leon Road and Craig Ave., Menifee / 466-310-026 / KB Home / Ambient                                   | June 2024     | 53     | 5,500       | \$4,246,364 / \$80,120      | \$227,500               | Closing with an approved Final Map in an unimproved condition. Phase 2 closed 6/20/24 (Phase 3 additional 93 lots scheduled to close 2/20/25). |
| 3        | Legado Phase 1 / SEC Rouse Road and Encanto Dr/I-215, Menifee / 333-020-020 / Lennar / IHP                                       | March 2024    | 491    | 5,000-7,000 | \$22,500,000 / \$45,825     | \$240,000               | Closed with an approved final map in a rough graded condition.   |
| 4        | Diamond Brothers South / SE side of Domenigoni Pkwy, N of Lindenberger Rd, Menifee / 340-603-040 / Pulte / Diamond Brothers Five | January 2024  | 197    | 6,000       | \$8,500,000 / \$43,147      | \$240,000               | Closed with a recorded final map in an unimproved condition.   |
| 5        | JBj Ranch Phase 1, SW Horsethief Canyon and Bosley Lane, Temescal Valley / 393-310-005 / KB Home / Mission Pacific               | December 2023 | 203    | 6,000       | \$27,539,637 / \$135,663    | \$295,000               | Closed with an approved Final Map in an unimproved condition.  |
| 6        | SW side of Lakeshore; SE of Machado, Lake Elsinore / 379-230-001 / D.R. Horton / Coastal Commercial Property                     | December 2023 | 140    | Duplex      | \$8,000,000 / \$57,143      | N/A                     | Purchased with a tentative tract map and in an unimproved condition.   |
| 7        | Murrieta Creek Estates, Palomar Street and Starbuck Circle, Murrieta / 380-210-004 / D.R. Horton / JPR Homes                     | June 2023     | 126    | 7,200       | \$7,000,000 / \$55,555      | \$265,000               | Closed with an approved Final Map in an unimproved condition.  |

**IMPROVED RESIDENTIAL SALES MAP**  
**& SUMMARY CHART**



## IMPROVED RESIDENTIAL SALES MAP



### IMPROVED RESIDENTIAL SALES SUMMARY CHART

| Data No. | Project Name<br>Location/Developer   | Plan | Room Count | Floors/<br>Parking | Size (SF) | Lot Size or<br>Density /<br>Absorption | Base Sales<br>Price | Price/SF |
|----------|--|------|------------|--------------------|-----------|--|---------------------|----------|
| 1        | Hilltop at Nichols Ranch, SEC Nichols Road and I-15, Lake Elsinore / Meritage Homes                        | 1    | 4 / 3      | 2 / 2              | 2,020     | 5,000 sf lots<br>4.6 sales/mo          | \$596,000           | \$295.05 |
|          |  | 2    | 4 / 3      | 2 / 2              | 2,165     |  | \$607,000           | \$280.37 |
|          |  | 3    | 5 / 3      | 2 / 2              | 2,417     |  | \$624,000           | \$258.17 |
| 2        | Highland at Nichols Ranch, SEC Nichols Road and I-15, Lake Elsinore / Meritage Homes                       | 1    | 4 / 3      | 2 / 2              | 2,308     | 5,000 sf lots<br>3.6 sales/mo          | \$630,000           | \$272.96 |
|          |  | 2    | 4 / 3      | 2 / 2              | 2,532     |  | \$648,000           | \$255.92 |
|          |  | 3    | 4 / 3      | 2 / 2              | 2,744     |  | \$663,000           | \$241.62 |
|          |  | 4    | 5 / 3      | 2 / 2              | 2,932     |  | \$675,000           | \$230.22 |
| 3        | Crestly at Alberhill Ranch, SEC Nichols Road and Alberhill Ranch Road, Lake Elsinore / Centex Homes        | 1    | 4 / 2      | 1 / 2              | 1,959     | 5,000 sf lots<br>3.6 sales/mo          | \$605,990           | \$309.34 |
|          |  | 2    | 5 / 2.5    | 2 / 2              | 2,404     |  | \$640,990           | \$266.63 |
|          |  | 3    | 5 / 3      | 2 / 2              | 2,824     |  | \$672,990           | \$238.31 |
| 4        | Fairfield at Alberhill Ranch, SEC Nichols Road and Alberhill Ranch Road, Lake Elsinore / Pulte Homes       | 1    | 3 / 2      | 1 / 2              | 2,191     | 5,000 sf lots<br>2.4 sales/mo          | \$603,990           | \$275.67 |
|          |  | 2    | 4 / 2.5    | 2 / 2              | 2,654     |  | \$650,990           | \$245.29 |
|          |  | 3    | 5 / 3      | 2 / 2              | 2,824     |  | \$665,990           | \$235.83 |
| 5        | Linden at Alberhill Ranch, South of Alberhill Ranch Road at Merrifield Street, Lake Elsinore / Pulte Homes | 1    | 4 / 2.5    | 2 / 3              | 2,792     | 5,000 sf lots<br>4.6 sales/mo          | \$685,990           | \$245.70 |
|          |  | 2    | 4 / 2.5    | 2 / 3              | 2,988     |  | \$701,990           | \$234.94 |
|          |  | 3    | 5 / 4      | 2 / 3              | 3,337     |  | \$733,990           | \$219.96 |
| 6        | Ridgeline at Alberhill Ranch, South of Alberhill Ranch Road at Hudson Lane, Lake Elsinore / Pulte Homes    | 1    | 3 / 2      | 1 / 2              | 2,070     | 6,000 sf lots<br>5.6 sales/mo          | \$634,990           | \$306.76 |
|          |  | 2    | 3 / 2      | 1 / 2              | 2,304     |  | \$673,990           | \$292.53 |
|          |  | 3    | 5 / 3      | 1 / 2              | 2,641     |  | \$700,990           | \$265.43 |
| 7        | Carrera at Terracina / NEC Lakeshore Drive and Terra Cotta Road, Lake Elsinore / KB Home                   | 1    | 3 / 2      | 1 / 2              | 1,435     | 4,500 sf lots<br>4.9 sales/mo          | \$562,990           | \$392.33 |
|          |  | 2    | 3 / 2      | 1 / 2              | 1,663     |  | \$577,990           | \$347.56 |
|          |  | 3    | 3 / 2      | 1 / 2              | 1,840     |  | \$590,990           | \$321.19 |
|          |  | 4    | 3 / 2.5    | 2 / 2              | 1,976     |  | \$600,990           | \$304.14 |
|          |  | 5    | 3 / 2.5    | 2 / 2              | 2,139     |  | \$622,990           | \$291.25 |
|          |  | 6    | 4 / 3      | 2 / 2              | 2,389     |  | \$643,990           | \$269.56 |
| 8        | Villa Real at Terracina / NEC Lakeshore Drive and Terra Cotta Road, Lake Elsinore / KB Home                | 1    | 3 / 2      | 1 / 2              | 1,539     | 5,000 sf lots<br>4.5 sales/mo          | \$565,990           | \$367.76 |
|          |  | 2    | 3 / 2      | 1 / 2              | 1,742     |  | \$582,990           | \$334.67 |
|          |  | 3    | 4 / 2      | 1 / 2              | 2,027     |  | \$606,990           | \$299.45 |
|          |  | 4    | 3 / 2.5    | 2 / 2              | 2,218     |  | \$616,990           | \$278.17 |
|          |  | 5    | 4 / 3      | 2 / 2              | 2,453     |  | \$634,990           | \$258.86 |
|          |  | 6    | 4 / 2.5    | 2 / 2              | 2,517     |  | \$640,990           | \$254.66 |

|    |  |   |         |       |       |                               |           |          |
|----|--|---|---------|-------|-------|-------------------------------|-----------|----------|
| 9  | Crimson Hills / Rosetta Canyon Drive<br>and Elsinore Hills Road, Lake Elsinore<br>/ KB Home    | 1 | 3 / 2   | 1 / 2 | 1,551 | 7,200 sf lots<br>4.9 sales/mo | \$554,990 | \$357.83 |
|    |  | 2 | 3 / 2   | 1 / 2 | 1,751 |                               | \$571,990 | \$326.66 |
|    |  | 3 | 3 / 2   | 1 / 2 | 2,035 |                               | \$590,990 | \$290.41 |
|    |  | 4 | 4 / 2   | 1 / 2 | 2,206 |                               | \$615,990 | \$279.23 |
|    |  | 5 | 4 / 2.5 | 2 / 2 | 2,528 |                               | \$642,990 | \$254.35 |
|    |  | 6 | 5 / 3   | 2 / 2 | 2,882 |                               | \$659,990 | \$229.00 |
| 10 | Echo Highlands / SEC Laguna Avenue<br>and Riverside Drive, Lake Elsinore /<br>Tri Pointe Homes | 1 | 2 / 2   | 1 / 2 | 1,569 | 7,000 sf lots<br>8.9 sales/mo | \$513,500 | \$327.28 |
|    |  | 2 | 3 / 2   | 1 / 2 | 1,758 |                               | \$538,500 | \$306.31 |
|    |  | 3 | 3 / 2   | 1 / 2 | 1,941 |                               | \$549,500 | \$283.10 |
|    |  | 4 | 4 / 3   | 2 / 2 | 2,216 |                               | \$585,000 | \$263.99 |
|    |  | 5 | 5 / 3   | 2 / 3 | 2,532 |                               | \$625,500 | \$247.04 |

## **APPRAISER'S QUALIFICATIONS**

## QUALIFICATIONS OF KITTY S. SIINO, MAI

### Education

Bachelor of Arts in Business Administration, Financial Investments, California State University, Long Beach, California (1980)

Post-Graduate Study, Real Estate Development, University of California, Irvine, California

Appraisal Institute Classes: Uniform Standards of Professional Appraisal Practice, A & B; Appraisal Principles; Appraisal Procedures; Basic Income Capitalization; Advanced Income Capitalization; Narrative Report Writing; Advanced Applications, Case Studies. Successfully completed all classes in addition to successfully completing the writing of a Demonstration Report and taking the Comprehensive Exam. Became a Member of the Appraisal Institute in December 1996. Have completed over 100 hours of continuing education through the Appraisal Institute every five years.

### Employment

1988 - Present:

**Self-Employed Real Estate Appraiser.** Duties include the appraisal of various types of properties such as commercial, retail, industrial and vacant land. More complex assignments include easements, right-of-ways and special assessment districts. From 1996 to present, specialized in special assessment districts and community facilities districts appraisals for public entities, including Jurupa Community Services District, Corona Norco Unified School District, City of Corona, City of Chula Vista, City of San Marcos and City of Moreno Valley.

1986-1988:

**Project Manager of Development for Ferguson Partners, Irvine, California.** Duties included land acquisitions; review of fee appraisals and valuations; analysis of proposed development; planning and design; and management of development, construction and lease-up. The types of properties developed were commercial and industrial. Duties ranged from raw, vacant site development through property management of recently developed projects.

1981 - 1986

**Manager of Finance, Construction for Community Development Division, The Irvine Company, Irvine, California.** Duties included originating and managing a newly formed division of finance to bridge between the accounting functions and project management functions. Worked with analysis and budgets for Community Development Division. Coordinated with cities in forming new Assessment Districts and Community Facilities Districts to finance major infrastructure improvements. Types of properties were apartments and single-family residential lots on a for sale basis to apartment and homebuilders.

1980 - 1981

**Investment Counselor, Newport Equity Funds, Newport Beach, California.** Duties included obtaining private financing for residential properties, working with appraisals of properties and analyzing the investments.

**Licenses**

Real Estate Sales Person, State of California, 1980  
Certified General Appraiser, State of California (#AG004793)

**Organizations**

MAI #11145 - The Appraisal Institute

**Public Financing**

CASTOFF Meetings, 2006, 2007, 2008, 2009, 2010, 2011, 2013, 2014, 2015, 2016, 2017 and 2018

Speaker, Mello-Roos & Special Assessment Financing, UCLA Extension Public Policy Program, February 2009 and March 2011