

**NEW ISSUE – BOOK ENTRY ONLY****NOT RATED**

*In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject however, to certain qualifications described in this Official Statement, under existing law, interest on the 2015A-1 Bonds and the 2015B Bonds is excludable from gross income of the owners thereof for federal income tax purposes and is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but such interest is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from personal income taxation imposed by the State of California. See “TAX MATTERS.”*

**\$111,915,000**

**River Islands Public Financing Authority  
Community Facilities District No. 2003-1  
(Public Improvements)**

**Special Tax Refunding Bonds, Series 2015A-1  
(Tax-Exempt)**

**\$13,235,000**

**River Islands Public Financing Authority  
Community Facilities District No. 2003-1  
(Public Improvements)**

**Special Tax Refunding Bonds, Series 2015A-2  
(Taxable)**

**\$32,345,000**

**River Islands Public Financing Authority  
Community Facilities District No. 2003-1  
(Public Improvements)**

**Special Tax Bonds, Series 2015B  
(Tax-Exempt)**

**Dated: date of issuance****Due: September 1, as shown on inside cover**

The River Islands Public Financing Authority (the “Authority”), for and on behalf of the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) (the “District”), is issuing the above-captioned bonds (collectively, the “2015 Bonds”) to (i) refund in full and defease nine series of special tax bonds (collectively, the “Prior Bonds”), including six series of the Prior Bonds issued by the Authority for the District, and three series of the Prior Bonds issued by the Authority for the River Islands Public Financing Authority Community Facilities District No. 2011-1 (Additional Public Improvement Financing), (ii) pay the costs of public improvements to be constructed within or in the vicinity of the District, (iii) fund a reserve fund for the 2015 Bonds, and (iv) pay costs of issuing the 2015 Bonds. See “PLAN OF FINANCING.” The 2015 Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of February 1, 2015 (the “Fiscal Agent Agreement”), by and between the Authority, for and on behalf of the District, and Wilmington Trust, National Association, as fiscal agent (the “Fiscal Agent”).

The 2015 Bonds are payable from the proceeds of an annual Special Tax (as defined in the Fiscal Agent Agreement) being levied on property located within the two Improvement Areas of the District (see “THE DISTRICT—Landownership and Current Special Tax Levy”), and from certain funds pledged under the Fiscal Agent Agreement. The Special Tax is being levied according to a rate and method of apportionment of Special Taxes. See “SECURITY FOR THE 2015 BONDS—Special Tax” and Appendix B – “Rate and Method.”

Interest on the 2015 Bonds is payable on March 1 and September 1 of each year, commencing on September 1, 2015. The 2015 Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the 2015 Bonds. Individual purchases of the 2015 Bonds will be made in book-entry form only. The 2015 Bonds will be issued in the principal amount of \$5,000 and any integral multiple thereof. Principal of and interest on the 2015 Bonds are payable directly to DTC by the Fiscal Agent. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2015 Bonds. See “THE 2015 BONDS—General Provisions” and Appendix H – “DTC and the Book-Entry Only System.”

The 2015 Bonds are subject to optional and mandatory redemption prior to maturity. See “THE 2015 BONDS—Redemption.”

The Authority may issue additional bonded indebtedness that is secured by a lien on the Special Tax Revenues (as defined in the Fiscal Agent Agreement) and by funds pledged under the Fiscal Agent Agreement for the payment of the 2015 Bonds on a parity with the 2015 Bonds. See “SECURITY FOR THE 2015 BONDS—Issuance of Additional Bonds.”

THE 2015 BONDS ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY, BUT ARE LIMITED OBLIGATIONS OF THE AUTHORITY FOR THE DISTRICT, PAYABLE SOLELY FROM THE SPECIAL TAX REVENUES AND CERTAIN AMOUNTS PLEDGED THEREFOR UNDER THE FISCAL AGENT AGREEMENT, AS MORE FULLY DESCRIBED IN THIS LIMITED OFFERING MEMORANDUM. EXCEPT FOR THE SPECIAL TAX REVENUES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2015 BONDS.

This cover page contains certain information for quick reference only. Investors should read the entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision with respect to the 2015 Bonds. THE PURCHASE OF THE 2015 BONDS INVOLVES SIGNIFICANT RISKS, AND THE 2015 BONDS ARE NOT APPROPRIATE INVESTMENTS FOR ALL TYPES OF INVESTORS. See “SPECIAL RISK FACTORS” in this Limited Offering Memorandum for a discussion of certain risk factors that should be considered, in addition to the other matters set forth in this Limited Offering Memorandum, in evaluating the investment quality of the 2015 Bonds.

The 2015 Bonds are offered when, as and if issued, subject to approval as to their legality by Quint & Thimmig LLP, Larkspur, California, Bond Counsel, and certain other conditions. Certain legal matters with respect to the 2015 Bonds will be passed upon for the Authority by Herum Crabtree Suntag, Stockton, California, acting as General Counsel to the Authority, and by Quint & Thimmig LLP, Larkspur, California, in its capacity as Disclosure Counsel. Certain legal matters related to the 2015 Bonds will be passed upon for the Underwriter by Nossaman LLP, Irvine, California, acting as Underwriter’s Counsel. It is anticipated that the 2015 Bonds in definitive form will be available for delivery to DTC on or about February 26, 2015.

**SOUTHWEST  
SECURITIES.**  
A Hilltop Holdings Company

The date of this Limited Offering Memorandum is February 13, 2015.

## MATURITY SCHEDULES

**\$111,915,000**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**  
**Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt)**

\$14,360,000 5.000% Term Bonds due September 1, 2027 Yield 5.150%, Price 98.628 CUSIP Number 76827Q CP6<sup>(1)</sup>  
\$13,740,000 5.375% Term Bonds due September 1, 2031 Yield 5.375%, Price 100.000 CUSIP Number 76827Q DD2<sup>(1)</sup>  
\$14,695,000 5.250% Term Bonds due September 1, 2034 Yield 5.500%, Price 97.030 CUSIP Number 76827Q DE0<sup>(1)</sup>  
\$69,120,000 5.500% Term Bonds due September 1, 2045 Yield 5.625%, Price 98.185 CUSIP Number 76827Q CR2<sup>(1)</sup>

**\$13,235,000**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**  
**Special Tax Refunding Bonds, Series 2015A-2 (Taxable)**

\$5,495,000 5.000% Term Bonds due September 1, 2020 Yield 5.400%, Price 98.113 CUSIP Number 76827Q CX9<sup>(1)</sup>  
\$5,740,000 5.500% Term Bonds due September 1, 2024 Yield 6.200%, Price 95.024 CUSIP Number 76827Q DB6<sup>(1)</sup>  
\$2,000,000 5.500% Term Bonds due September 1, 2024 Yield 6.200%, Price 95.024 CUSIP Number 76827Q DF7<sup>(1)</sup>

**\$32,345,000**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**  
**Special Tax Bonds, Series 2015B (Tax-Exempt)**

\$32,345,000 5.500% Term Bonds due September 1, 2045 Yield 5.625%, Price 98.185 CUSIP Number 76827Q DC4<sup>(1)</sup>

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<sup>(1)</sup> Copyright 2015, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc.

## GENERAL INFORMATION ABOUT THIS LIMITED OFFERING MEMORANDUM

The information contained in this Limited Offering Memorandum has been obtained from sources that are believed to be reliable. No representation, warranty or guarantee, however, is made by the Underwriter as to the accuracy or completeness of any information in this Limited Offering Memorandum, including, without limitation, the information contained in the Appendices, and nothing contained in this Limited Offering Memorandum should be relied upon as a promise or representation by the Underwriter.

Neither the Authority nor the Underwriter has authorized any dealer, broker, salesperson or other person to give any information or make any representations with respect to the offer or sale of 2015 Bonds other than as contained in this Limited Offering Memorandum. If given or made, any such information or representations must not be relied upon as having been authorized by the Authority or the Underwriter. The information and expressions of opinion in this Limited Offering Memorandum are subject to change without notice, and neither the delivery of this Limited Offering Memorandum nor any sale of the 2015 Bonds shall under any circumstances create any implication that there has been no change in the affairs of any party described in this Limited Offering Memorandum, or in the status of any property described in this Limited Offering Memorandum, subsequent to the date as of which such information is presented.

This Limited Offering Memorandum and the information contained in this Limited Offering Memorandum are subject to amendment without notice. The 2015 Bonds may not be sold, and no offer to buy the 2015 Bonds may be accepted, prior to the time the Limited Offering Memorandum is delivered in final form. Under no circumstances shall this Limited Offering Memorandum constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the 2015 Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

When used in this Limited Offering Memorandum and in any continuing disclosure by the Authority, in any press release and in any oral statement made with the approval of an authorized officer of the Authority or any other entity described or referenced in this Limited Offering Memorandum, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

All summaries of the documents referred to in this Limited Offering Memorandum are qualified by the provisions of the respective documents summarized and do not purport to be complete statements of any or all of such provisions.

The Underwriter has provided the following sentence for inclusion in this Limited Offering Memorandum: The Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or the completeness of such information.

**In connection with the offering of the 2015 Bonds, the Underwriter may over allot or effect transactions that stabilize or maintain the market prices of the 2015 Bonds at levels above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.**

The 2015 Bonds have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), in reliance upon an exemption from the registration requirements contained in the Securities Act. The 2015 Bonds have not been registered or qualified under the securities laws of any state.

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## RIVER ISLANDS PUBLIC FINANCING AUTHORITY

### AUTHORITY DIRECTORS

*Board Chair*  
*Director*  
*Director*

Ken Buck  
Herb Moniz  
Michael Rochman

### AUTHORITY OFFICERS

*Executive Director*  
*Secretary*  
*Interim Treasurer*

Herb Moniz  
Karna Harrigfeld, Esq.  
Habib Shah

### PROFESSIONAL SERVICES

**Authority Counsel**  
Herum Crabtree Suntag  
Stockton, California

**Special Tax Consultant**  
Goodwin Consulting Group, Inc.  
Sacramento, California

**Bond and Disclosure Counsel**  
Quint & Thimmig LLP  
Larkspur, California

**Appraiser**  
Smyers & Krauss Appraisal, LLC  
Walnut Creek, California

**Fiscal Agent**  
Wilmington Trust,  
National Association,  
Costa Mesa, California

**Absorption Consultant**  
Meyers Research LLC  
Danville, California

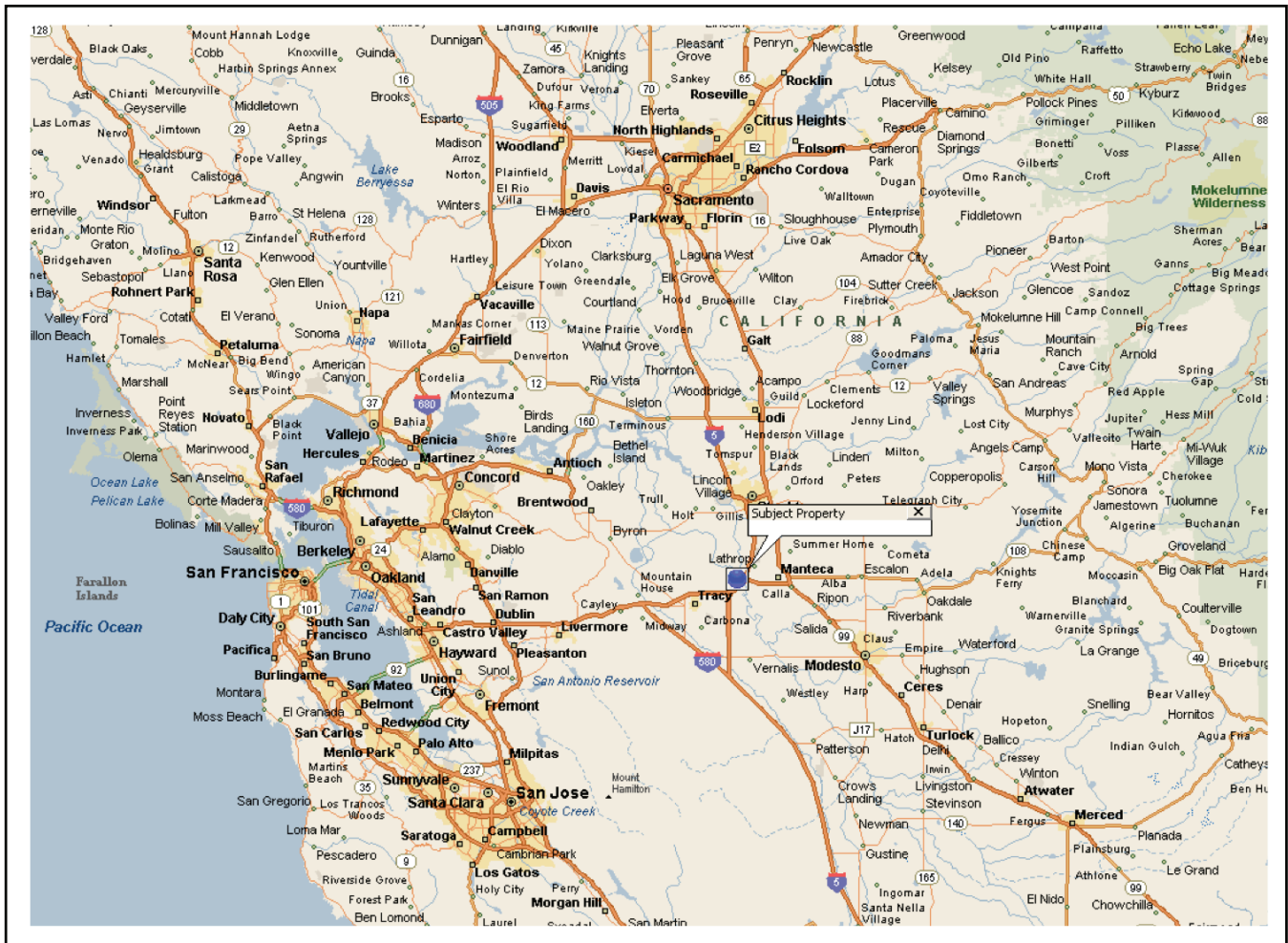
**Underwriter**  
Southwest Securities, Inc.  
Cardiff by the Sea, California

**Underwriter's Counsel**  
Nossaman LLP  
Irvine, California

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## TABLE OF CONTENTS

INTRODUCTION.....	1	THE AUTHORITY.....	50
General .....	1	In General .....	50
The Authority.....	2	Board of Directors and Staff.....	50
Authority for Issuance.....	2	Conflicts of Interest .....	51
The 2015 Bonds.....	3	SPECIAL RISK FACTORS.....	52
Security for the 2015 Bonds.....	3	No General Obligation of the Authority or the	
Reserve Fund .....	4	District.....	52
The District.....	4	Concentration of Ownership.....	52
Land Valuation.....	5	Failure to Complete Project.....	53
Limited Obligation.....	5	Payment of the Special Tax is not a Personal	
Issuance of Additional Bonds .....	6	Obligation.....	53
Bondowners' Risks.....	6	Property Value .....	53
Continuing Disclosure.....	6	Exempt Properties .....	54
Other Information.....	6	Parity Taxes and Special Assessments.....	55
PLAN OF FINANCING.....	6	Insufficiency of Special Taxes.....	55
Redemption of Prior Bonds .....	6	Tax Delinquencies .....	55
The Improvements.....	9	Bankruptcy Delays.....	56
Estimated Sources and Uses of Funds.....	9	Proceeds of Foreclosure Sales.....	56
THE 2015 BONDS.....	9	Natural Disasters and Potential Drought	
Authority for Issuance.....	9	Conditions.....	57
General Provisions.....	9	Animal Life and Protected Species .....	57
Redemption.....	11	Archaeological and Cultural Resources .....	58
Transfer or Exchange of Bonds.....	15	Hazardous Substances .....	58
Discontinuance of DTC Services .....	16	Valley Fever .....	60
Scheduled Debt Service.....	17	Disclosure to Future Purchasers.....	60
SECURITY FOR THE 2015 BONDS.....	17	FDIC/Federal Government Interests in	
General .....	17	Properties.....	60
Limited Obligation.....	18	No Acceleration Provision.....	62
Special Tax.....	18	Taxability Risk.....	62
Special Tax Fund .....	19	Enforceability of Remedies.....	62
Summary of Rate and Method .....	20	No Secondary Market.....	63
Reserve Fund .....	24	Proposition 218.....	63
Covenant for Superior Court Foreclosure.....	24	Ballot Initiatives .....	64
County Teeter Plan.....	26	IRS Audit of Tax-Exempt Bond Issues .....	64
Investment of Moneys .....	27	Impact of Legislative Proposals, Clarifications	
Issuance of Additional Bonds .....	27	of the Code and Court Decisions on Tax	
THE DISTRICT .....	29	Exemption.....	64
Location and Description of the District.....	29	TAX MATTERS.....	65
History of the District.....	29	LEGAL MATTERS .....	67
The Improvements.....	32	NO RATING.....	68
The Master Developer.....	33	LITIGATION.....	68
River Islands Phase 1 .....	35	UNDERWRITING.....	68
Land Ownership and Current Special Tax Levy.....	39	CONTINUING DISCLOSURE.....	68
Property Values .....	41	MISCELLANEOUS.....	69
Value-to-Burden Ratio.....	44		
Special Tax Levies and Delinquencies.....	45		
Direct and Overlapping Governmental			
Obligations .....	46		
Projected Debt Service Coverage.....	48		
APPENDIX A	CITY AND COUNTY GENERAL DEMOGRAPHIC INFORMATION		
APPENDIX B	RATE AND METHOD		
APPENDIX C	THE APPRAISAL		
APPENDIX D	MARKET DEMAND ANALYSIS		
APPENDIX E	SUMMARY OF THE FISCAL AGENT AGREEMENT		
APPENDIX F	FORM OF OPINION OF BOND COUNSEL		
APPENDIX G	FORMS OF CONTINUING DISCLOSURE AGREEMENTS		
APPENDIX H	DTC AND THE BOOK-ENTRY ONLY SYSTEM		



## LIMITED OFFERING MEMORANDUM

\$111,915,000  
River Islands Public Financing Authority  
Community Facilities District No. 2003-1  
(Public Improvements)  
Special Tax Refunding Bonds, Series 2015A-1  
(Tax-Exempt)

\$13,235,000  
River Islands Public Financing Authority  
Community Facilities District No. 2003-1  
(Public Improvements)  
Special Tax Refunding Bonds, Series 2015A-2  
(Taxable)

\$32,345,000  
River Islands Public Financing Authority  
Community Facilities District No. 2003-1  
(Public Improvements)  
Special Tax Bonds, Series 2015B  
(Tax-Exempt)

## INTRODUCTION

*This introduction is not a summary of this Limited Offering Memorandum and is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in this entire Limited Offering Memorandum and the documents summarized or described in this Limited Offering Memorandum. A full review should be made of this entire Limited Offering Memorandum by those interested in purchasing the 2015 Bonds. The sale and delivery of 2015 Bonds to potential investors is made only by means of this entire Limited Offering Memorandum. Certain capitalized terms used in this Limited Offering Memorandum and not defined herein have the meaning set forth in Appendix E—“Summary of the Fiscal Agent Agreement—Definitions” and in Appendix B—“Rate and Method.”*

### General

The purpose of this Limited Offering Memorandum, which includes the cover page, the inside cover page, the table of contents and the attached appendices (the “**Limited Offering Memorandum**”), is to provide certain information concerning the issuance of the following bonds (collectively, the “**2015 Bonds**”) by the River Islands Public Financing Authority (the “**Authority**”), for and on behalf of the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) (the “**District**”):

- River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt) (the “2015A-1 Bonds”).
- River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-2 (Taxable) (the “2015A-2 Bonds”).
- River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2015B (Tax-Exempt) (the “2015B Bonds”).

Proceeds of the 2015 Bonds will be used to (i) refund in full and defease nine series of special tax bonds (collectively, the “**Prior Bonds**”), including six series of the Prior Bonds issued by the Authority for the District (collectively, the “**Prior District Bonds**”), and three series of the Prior Bonds (collectively, the “**Prior Other District Bonds**”) issued by the Authority for its River Islands Public Financing Authority Community Facilities District No. 2011-1 (Additional Public Improvement Financing) (the “**Other District**”), (ii) pay the costs of

public improvements to be constructed within or in the vicinity of the District (the “**Improvements**”), (iii) fund a reserve fund for the 2015 Bonds, and (iv) pay costs of issuing the 2015 Bonds. See “PLAN OF FINANCING.” The land within the Other District includes a portion of the District; however, the Authority will cease to levy special taxes for the Other District following the redemption of the Prior Other District Bonds. See “PLAN OF FINANCING—Redemption of Prior Bonds.” The Prior District Bonds were issued to finance public improvements authorized to be funded by the District, and the Prior Other District Bonds were issued to finance public improvements authorized to be funded by the Other District. See “THE DISTRICT—The Improvements.”

## **The Authority**

The Authority was formed on January 23, 2003 pursuant to a joint exercise of powers agreement between the Lathrop Irrigation District (the “**Irrigation District**”) and Island Reclamation District No. 2062 (the “**Reclamation District**”). The territorial jurisdiction of the Authority is within the City of Lathrop, California (the “**City**”). For further information about the Authority, see “THE AUTHORITY.” The Authority is a separate legal entity from the Irrigation District, the Reclamation District and the City. The Irrigation District, the Reclamation District and the City have no obligations whatsoever with respect to the 2015 Bonds, the District or the Other District.

## **Authority for Issuance**

*General.* The District was formed under the authority of the Mello-Roos Community Facilities Act of 1982, as amended, commencing at Section 53311, et seq., of the California Government Code (the “**Act**”), which was enacted by the California Legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. The Act authorizes local governmental entities to establish community facilities districts as legally constituted governmental entities within defined boundaries, with the legislative body of the local applicable governmental entity acting on behalf of the district. Subject to approval by at least a two-thirds vote of the votes cast by the qualified electors within a district and compliance with the provisions of the Act, the legislative body may issue bonds for the community facilities district established by it and may levy and collect a special tax within such district to repay such bonds.

The Act has provisions that allow for the legislative body of a community facilities district to designate portions of the community facilities district as improvement areas. After the designation of an improvement area, proceedings relative to the rate and method of apportionment of special taxes and bonded indebtedness apply separately for the improvement areas. The District includes two improvement areas (referred to in this Limited Offering Memorandum collectively as the “**Improvement Areas**”).

*Bond Authority.* The 2015 Bonds are authorized to be issued pursuant to the Act, Resolution No. 14-28, adopted on December 17, 2014 by the Board of Directors of the Authority (the “**Board of Directors**”), as amended by Resolution No. 15-1, adopted on January 22, 2015 by the Board of Directors, and the Fiscal Agent Agreement dated as of February 1, 2015 (the “**Fiscal Agent Agreement**”), between the Authority, for and on behalf of the District, and Wilmington Trust, National Association, as fiscal agent (the “**Fiscal Agent**”). For more detailed information about the formation of the District and the authority for issuance of the 2015 Bonds, see “THE 2015 BONDS—Authority for Issuance” and “THE DISTRICT—History of the District.”



## The 2015 Bonds

**General.** The 2015 Bonds will be issued only as fully registered bonds, in denominations of \$5,000 or any integral multiple thereof, and will bear interest at the rates per annum and will mature on the dates and in the principal amounts set forth on the inside cover page of this Limited Offering Memorandum. The 2015 Bonds will be dated the date of their issuance and interest on the 2015 Bonds will be payable on March 1 and September 1 of each year (individually an “**Interest Payment Date**”), commencing September 1, 2015. See “THE 2015 BONDS—General Provisions.” The 2015 Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York (“**DTC**”), which will act as securities depository for the 2015 Bonds. See “THE 2015 BONDS—General Provisions.”

**Redemption Prior to Maturity.** The 2015 Bonds are subject to optional and mandatory redemption prior to maturity. See “THE 2015 BONDS—Redemption.”

## Security for the 2015 Bonds

**Pledge Under the Fiscal Agent Agreement.** Pursuant to the Fiscal Agent Agreement, the 2015 Bonds are secured by a first pledge of all of the Special Tax Revenues (other than the Special Tax Revenues needed by the Authority in each Fiscal Year to pay Administrative Expenses, but not in excess of the annual Priority Administration Amount), and all moneys deposited in the Bond Fund, the Reserve Fund and, until disbursed in accordance with the Fiscal Agent Agreement, in the Special Tax Fund. “**Special Tax Revenues**,” as defined in the Fiscal Agent Agreement, means the proceeds of the Special Tax levied on the Taxable Property (as defined in the Rate and Method) in the two Improvement Areas of the District and received by the Authority, including any scheduled payments and any prepayments thereof, and 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 interest thereon, but does not include any penalties collected with any delinquent Special Taxes that are in excess of the rate of interest payable on the Bonds. “**Priority Administration Amount**,” as defined in the Fiscal Agent Agreement, means, for Fiscal Year 2014-2015, \$90,000.00, and for each Fiscal Year thereafter an amount equal to 102% of the Priority Administration Amount in effect for the prior Fiscal Year.

The Special Tax Revenues (other than the Special Tax Revenues needed by the Authority in each Fiscal Year to pay Administrative Expenses, but not in excess of the annual Priority Administration Amount), and all moneys deposited into the Bond Fund, the Reserve Fund and the Special Tax Fund are dedicated to the payment of the principal of, and interest and any premium on, the 2015 Bonds in accordance with the Fiscal Agent Agreement until all of the 2015 Bonds have been paid or defeased. See “SECURITY FOR THE 2015 BONDS—Special Taxes” and Appendix B—“Rate and Method.” The Special Tax Revenues received by the Authority in each Fiscal Year needed to pay Administrative Expenses (up to the annual Priority Administration Amount), as well as amounts in the Improvement Fund, the Administrative Expense Fund and the Costs of Issuance Fund, each of which is established under the Fiscal Agent Agreement, are not pledged to the repayment of the 2015 Bonds. Proceeds of the 2015 Bonds and other amounts deposited to the Refunding Funds established under the Escrow Agreements to be used to pay the redemption prices of the Prior Bonds are not pledged to, and are not available for, the repayment of the 2015 Bonds.

**Special Tax; Rate and Method.** The Special Tax to be used to pay debt service on the 2015 Bonds will be levied in accordance with the rate and method of apportionment of special taxes for the Improvement Areas (as described under the heading “THE 2015 BONDS—Authority for Issuance” and referred to in this Limited Offering Memorandum as the “**Rate**



and Method"). **"Special Taxes"** means the Special Tax levied on the Taxable Property within the two Improvement Areas of the District pursuant to the Act, the Ordinance Levying Taxes, the Rate and Method and the Fiscal Agent Agreement; and includes the special taxes levied in the Other District for fiscal year 2014-2015 that are delinquent if not paid by April 10, 2015 and are received by the Authority after the date of issuance of the 2015 Bonds. See "SECURITY FOR THE 2015 BONDS—Special Tax" and "—Summary of Rate and Method."

**Limitations.** The Improvements and the public improvements funded with proceeds of the Prior Bonds are not pledged to pay the debt service on the 2015 Bonds. The proceeds of condemnation or destruction of any of the Improvements, or any of the public improvements funded with proceeds of the Prior Bonds, are not pledged to pay the debt service on the 2015 Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to repay the 2015 Bonds are amounts held by the Fiscal Agent in the Bond Fund, the Special Tax Fund and the Reserve Fund established under the Fiscal Agent Agreement, and the proceeds, if any, from foreclosure sales of Taxable Property within the District in respect of delinquent Special Taxes.

### **Reserve Fund**

The Fiscal Agent Agreement establishes a Reserve Fund as a reserve for the payment of principal of and interest on the 2015 Bonds. The Reserve Fund is required to be funded in an amount equal to, as of any date of calculation, the lesser of (i) the then Maximum Annual Debt Service for the Bonds, (ii) one hundred twenty-five percent (125%) of the then average Annual Debt Service for the Bonds, or (iii) ten percent (10%) of the then outstanding principal amount of the Bonds (the **"Reserve Requirement"**). The Reserve Fund will be available to pay the debt service on the 2015 Bonds and any Parity Bonds in the event of a shortfall in the amount in the Bond Fund for such purpose. The Reserve Requirement as of the date of issuance of the 2015 Bonds will be \$13,951,590.97. See "SECURITY FOR THE 2015 BONDS—Reserve Fund."

### **The District**

The District is located in the City of Lathrop (the **"City"**), in San Joaquin County (the **"County"**), California. The County is located in the Central Valley of California, approximately 60 miles east of San Francisco and is south of Sacramento and north of Stanislaus County. The City is 55 miles south of Sacramento and 10 miles south of Stockton at the junction of U.S. Interstate Highway 5 and State Highway 120.

The District was formed by the Board of Directors pursuant to proceedings conducted under the Act on June 12, 2003. The Improvement Areas of the District currently include approximately 2,100 acres of land that are subject to the levy of Special Taxes (the **"Taxable Property"**). The District encompasses the area within phase 1 of a planned development community known as River Islands at Lathrop (referred to in this Limited Offering Memorandum as **"River Islands Phase 1"**), and including an additional 307 acres of land expected to be developed as part of phase 2 of the River Islands at Lathrop Development. At buildout, River Islands Phase 1 is expected to include approximately 3,741 single family detached homes, 100 apartments and 443 townhouses, as well as a 61.9 acre commercial "town center" expected to be developed with retail uses, and a 164.3 acre commercial "employment center" expected to be developed with research and development and office uses. See "THE DISTRICT—Location and Description of the District."

The acquisition of potable water rights and the construction of an offsite sanitary sewer plant for River Islands Phase 1 began in 2003, and at that time Califia, LLC and The Cambay Group, Inc. owned all of the property in the District. Beginning in 2005, Califia, LLC and The

Cambay Group, Inc. began construction flood control improvements and other onsite infrastructure. Califia, LLC and The Cambay Group, Inc. have sold or conveyed land in River Islands Phase 1 over the last two years to River Islands Development, LLC which has become the primary entity responsible for the construction of infrastructure improvements needed for the property (referred to in this Preliminary Limited Offering Memorandum as the “**Master Developer**”). The Cambay Group, Inc. no longer owns any property in the District.

The Master Developer, which is an entity related to the Cambay Group, Inc. (see “THE DISTRICT—The Master Developer”), has continued to develop the property and began selling finished lots within River Islands Phase 1 to homebuilders in 2013. Single-family home construction began in 2014, and as of December 5, 2014, 191 single-family lots in the District had been sold to homebuilders, 65 of which have completed homes and 39 of which have homes under construction. Sales of homes by the homebuilders are ongoing. See “THE DISTRICT—History of the District” and “—The Master Developer.” The remaining property in the District is in various states of development. See “THE DISTRICT—River Islands Phase 1.”

### **Land Valuation**

Smyers & Krauss Appraisal, LLC (the “**Appraiser**”), has prepared an appraisal dated January 20, 2015 (the “**Appraisal**,”) with a valuation date of December 31, 2014, estimating the market value of the parcels within River Islands Phase 1 that are subject to the Special Tax securing the Bonds, except that no value was assigned to 433.9 acres of land identified as “Designated Remainder” in the Appraisal and that are expected to be developed in conjunction with phase 2 of the River Islands at Lathrop development. The Appraisal also does not include a valuation of 307 acres of land in the District that is not part of River Islands Phase 1. The Appraisal does, however, include the Appraiser’s projection of the time period over which it is estimated that the buildout of River Islands Phase 1 can be completed and absorbed by the market. See “THE DISTRICT—Property Values — Appraisal of Property in the District” and Appendix C—“The Appraisal.” The Appraiser concluded that the estimated market value of the property in River Islands Phase 1 on a bulk sale basis as of December 31, 2014 was \$330,600,000, which is approximately 2.099 times the initial principal amount of the 2015 Bonds. The Appraisal is subject to various limitations and should be read in its entirety by prospective purchasers of the 2015 Bonds. See also “SPECIAL RISK FACTORS—Property Value.”

In addition to the Appraisal, a Demand Analysis (the “**Demand Analysis**”) of River Islands Phase 1, dated December, 2014, was undertaken by Meyers Research. The expected demand for single-family homes, as reflected in the Demand Analysis, is generally consistent with the Appraiser’s estimation of absorption of single-family homes through 2018 (the time period covered by the Demand Analysis) in the Appraisal. See Appendix D—“Market Demand Analysis.” None of the Authority, the District or the Underwriter makes any representation as to the accuracy or completeness of the Appraisal or the Demand Analysis.

### **Limited Obligation**

THE 2015 BONDS ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY, BUT ARE LIMITED OBLIGATIONS OF THE AUTHORITY FOR THE DISTRICT, PAYABLE SOLELY FROM THE SPECIAL TAX REVENUES AND CERTAIN AMOUNTS PLEDGED THEREFOR UNDER THE FISCAL AGENT AGREEMENT. EXCEPT FOR THE SPECIAL TAX REVENUES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2015 BONDS.

## Issuance of Additional Bonds

The Authority may issue additional bonded indebtedness that is secured by a lien on the Special Tax Revenues and on the funds pledged under the Fiscal Agent Agreement for the payment of the 2015 Bonds on a parity with the 2015 Bonds ("**Parity Bonds**"). See "SECURITY FOR THE 2015 BONDS—Issuance of Additional Bonds."

## Bondowners' Risks

Certain events could affect the ability of the Authority to pay the principal of and interest on the 2015 Bonds when due. See "SPECIAL RISK FACTORS" for a discussion of certain factors that should be considered in evaluating an investment in the 2015 Bonds. **The purchase of the 2015 Bonds involves significant risks, and the 2015 Bonds are not appropriate investments for all types of investors.**

## Continuing Disclosure

The Authority, and the Master Developer and Califia, LLC, have agreed in separate Continuing Disclosure Agreements to provide, or cause to be provided, to the Electronic Municipal Market Access ("EMMA") maintained by the Municipal Securities Rulemaking Board certain annual financial and other information. The Authority, and the Master Developer and Califia, LLC, each have further agreed to provide notice of certain enumerated events. The Master Developer's and Califia, LLC's annual and enumerated event reporting obligations will terminate if and when they collectively own parcels in the District that are subject to less than twenty percent (20%) of the annual Special Tax levy. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (the "**Rule**"). See "CONTINUING DISCLOSURE" and Appendix G for a description of the specific nature of the annual reports and notices of significant events, as well as the terms of the Continuing Disclosure Agreements pursuant to which such reports and notices are to be made.

## Other Information

Copies of the Fiscal Agent Agreement and certain other documents referenced in this Limited Offering Memorandum are available for inspection at the office of the Treasurer of the Authority during business hours upon prior written notice. Copies are available upon written request to the Treasurer of the Authority c/o River Islands at Lathrop, 73 West Stewart Road, Lathrop, California 95330; however, the Authority may charge for duplication and mailing of any requested documents.

## PLAN OF FINANCING

### Redemption of Prior Bonds

The Authority has issued, for and on behalf of the District, the following six series of the Prior Bonds (collectively referred to as the "**Prior District Bonds**"):

- \$23,250,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2003-A, issued on July 16, 2003, \$19,715,000 principal of which is currently outstanding (the "Series 2003-A Bonds").

- \$3,650,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2003-B, issued on October 2, 2003, \$3,085,000 principal of which is currently outstanding (the “Series 2003-B Bonds”).
- \$1,870,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Taxable Series 2003-C, issued on October 2, 2003, \$1,265,000 principal of which is currently outstanding (the “Series 2003-C Bonds”).
- \$6,025,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2005-A, issued on November 3, 2005, \$5,280,000 principal of which is currently outstanding (the “Series 2005-A Bonds”).
- \$15,490,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Taxable Series 2005-B, issued on November 3, 2005, \$14,230,000 principal of which is currently outstanding (the “Series 2005-B Bonds”).
- \$18,820,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2007-A, issued on May 30, 2007, \$16,810,000 principal of which is currently outstanding (the “Series 2007-A Bonds”).

The Authority also has issued, for and on behalf of the Other District, the following three series of the Prior Bonds (collectively referred to as the “**Prior Other District Bonds**”):

- \$3,410,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2011-1 (Additional Public Improvement Financing) 2011 Special Tax Bonds, issued on August 18, 2011, \$3,410,000 principal of which is currently outstanding (the “2011 Bonds”).
- \$22,155,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2011-1 (Additional Public Improvement Financing) 2012 Special Tax Bonds, issued on January 23, 2012, \$10,430,000 principal of which is currently outstanding (the “2012 Bonds”). While the 2012 Bonds were in the initial principal amount of \$22,155,000, they were structured as “drawdown bonds,” and only \$10,430,000, of the principal amount was actually drawn down and used for purposes of the District.
- \$40,000,000 initial principal amount of River Islands Public Financing Authority Community Facilities District No. 2011-1 (Public Improvements) 2013 Special Tax Bonds, issued on March 15, 2013, \$40,000,000 principal of which is currently outstanding (the “2013 Bonds”).

Proceeds of the Prior District Bonds and of the Prior Other District Bonds (collectively referred to as the “**Prior Bonds**”) were used to finance the acquisition of water rights, and the construction of levee improvements and various public infrastructure improvements authorized to be funded by the District and the Other District. See “THE DISTRICT—The Improvements.” One of the authorized purposes of the District is the refinancing of the Prior Other District Bonds issued by the Authority for the Other District.

The net proceeds of the sale of the 2015A-1 Bonds and the 2015A-2 Bonds, together with certain other funds held under the two fiscal agent agreements pursuant to which the Prior Bonds were issued (collectively, the “**Prior Fiscal Agent Agreements**”), will be deposited in escrow accounts (collectively, the “**Refunding Funds**”) held by The Bank of New York Mellon Trust Company, N.A., as escrow bank (the “**Escrow Bank**”) pursuant to two Escrow Deposit and Trust Agreements (collectively, the “**Escrow Agreements**”), each dated as of February 1, 2015, each between the Authority and the Escrow Bank, one with respect to the Prior District Bonds and one with respect to the Prior Other District Bonds.

Amounts in the Refunding Funds will be:

- used to redeem, on the date of issuance of the 2015 Bonds, all of the outstanding 2011 Bonds, 2012 Bonds, 2013 Bonds, Series 2005-A Bonds and Series 2005-B Bonds, and \$14,180,000 principal of the outstanding Series 2007-A Bonds, in each case at a redemption price of 100% of the principal amount of each such series of the Prior Bonds to be redeemed, plus accrued interest to the redemption date;
- used to redeem, on the date of issuance of the 2015 Bonds, \$480,000 principal of the outstanding Series 2007-A Bonds, at a redemption price of 102% of the principal amount of such Series 2007-A Bonds to be redeemed, plus accrued interest to the redemption date;
- used to redeem, on March 1, 2015, all of the outstanding Series 2003-A Bonds, Series 2003-B Bonds, and Series 2003-C Bonds, in each case at a redemption price of 100% of the principal amount of each such series of the Prior Bonds to be redeemed, plus accrued interest to the redemption date; and
- invested in certain federal securities and used to pay the scheduled debt service on \$2,150,000 principal amount of the outstanding Series 2007-A Bonds not redeemed on the date of issuance of the 2015 Bonds to and including March 1, 2017 and used to pay, on September 1, 2017, the redemption price of such Series 2007-A Bonds of 100% of the principal amount of such Series 2007-A Bonds to be redeemed, plus accrued interest to the redemption date.

Upon the deposit of funds with the Escrow Bank in the Refunding Funds in accordance with the Escrow Agreements, the Prior Bonds will be legally defeased and will no longer be entitled to the benefits of, or be secured by, the Prior Fiscal Agent Agreements or any pledge of, or lien on, the Special Taxes levied in the Improvement Areas of the District. Amounts deposited in the Refunding Funds are not in any way pledged to the payment of, or available to pay, the debt service on the 2015 Bonds.

On January 22, 2015, the Board of Directors adopted Resolution No. 15-2, pursuant to which it directed that special taxes cease to be levied for the Other District, effectively terminating the Other District. See “THE DISTRICT—History of the District.” However, the Authority may, in the future, establish other community facilities districts or special assessment districts that include Taxable Property in the District. See “THE DISTRICT—Direct and Overlapping Governmental Obligations” and “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”



## The Improvements

Proceeds of the 2015B Bonds will be used to finance the Improvements. The Improvements include various public infrastructure improvements incident to the development occurring in the District. It is expected that the Improvements will be constructed in part by the Master Developer and acquired by the Authority pursuant to an Acquisition Agreement, dated as of May 1, 2007, between the Authority for the District and the Other District and the Master Developer (as supplemented, the “**Acquisition Agreement**”), and in part by the Reclamation District. See “THE DISTRICT—The Improvements.”

## Estimated Sources and Uses of Funds

The sources and uses of funds in connection with the 2015 Bonds are expected to be as follows:

	2015A-1 Bonds	2015A-2 Bonds	2015B Bonds	Total
Principal Amount	\$111,915,000.00	\$13,235,000.00	\$32,345,000.00	\$157,495,000.00
<i>Less: Net Original Issue Discount</i>	(1,887,988.70)	(488,833.05)	(587,061.75)	(2,963,883.50)
<i>Less: Underwriter’s Discount</i>	(839,362.50)	(99,262.50)	(242,587.50)	(1,181,212.50)
Amounts relating to the Prior Bonds	9,102,567.42	1,972,110.66	0.00	11,074,678.08
Total Sources	\$118,290,216.22	\$14,619,015.11	\$31,515,350.75	\$164,424,582.08
Deposit to Refunding Funds <sup>(1)</sup>	\$107,928,760.11	\$13,348,291.75	0.00	\$121,277,051.86
Deposit to Improvement Fund <sup>(2)</sup>	0.00	0.00	\$28,422,048.52	28,422,048.52
Deposit to Reserve Fund <sup>(3)</sup>	9,695,693.84	1,235,778.82	3,020,118.31	13,951,590.97
Deposit to Bond Fund <sup>(4)</sup>	308,203.17	0.00	0.00	308,203.17
Deposit to Costs of Issuance Fund <sup>(5)</sup>	273,258.39	34,944.54	73,183.92	381,386.85
Deposit to Administrative Expense Fund <sup>(6)</sup>	84,300.71	0.00	0.00	84,300.71
Total Uses	\$118,290,216.22	\$14,619,015.11	\$31,515,350.75	\$164,424,582.08

(1) See “PLAN OF FINANCING—Redemption of Prior Bonds.”

(2) See “PLAN OF FINANCING—The Improvements” and “THE DISTRICT—The Improvements.” Does not include \$1,510,324.87 of Prior Bond proceeds held for the benefit of the Improvement Fund.

(3) Equal to the initial Reserve Requirement. See “SECURITY FOR THE 2015 BONDS—Reserve Fund.”

(4) To be used to pay a portion of the debt service due on the 2015A-1 Bonds on September 1, 2015.

(5) Costs of issuance include, without limitation, Fiscal Agent fees and expenses, fees and expenses of Bond Counsel and Disclosure Counsel and Authority General Counsel, other legal fees and expenses, Escrow Bank fees and expenses, appraisal fees, absorption consultant fees and printing costs.

(6) To be used to pay costs of administration of the 2015 Bonds and the District.

## THE 2015 BONDS

### Authority for Issuance

The 2015 Bonds are authorized to be issued pursuant to the Act, Resolution No. 14-28 adopted on December 17, 2014, by the Board of Directors, as amended by Resolution No. 15-1 adopted on January 22, 2015, by the Board of Directors, and the Fiscal Agent Agreement. The Special Tax to be used to pay debt service on the 2015 Bonds will be levied in accordance with the Rate and Method.

### General Provisions

The 2015 Bonds will be issued only as fully registered 2015 Bonds, in the denomination of \$5,000 or any integral multiple thereof, and will bear interest at the rates per annum and

will mature on the dates set forth on the inside cover page of this Limited Offering Memorandum. The 2015 Bonds will be dated the date of their issuance and interest will be payable on March 1 and September 1 of each year, commencing September 1, 2015 (each an **"Interest Payment Date"**).

Each 2015 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such date of authentication, or (b) it is authenticated prior to an Interest Payment Date and after the close of business on the Record Date preceding such Interest Payment Date, in which event it will bear interest from such Interest Payment Date, or (c) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it will bear interest from the date of issuance of the 2015 Bonds; provided, however, that if at the time of authentication of a 2015 Bond, interest is in default thereon, such 2015 Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. The term **"Record Date"** as defined in the Fiscal Agent Agreement means the fifteenth (15<sup>th</sup>) day of the month next preceding the month of the applicable Interest Payment Date, whether or not such day is a Business Day.

The 2015 Bonds will be payable both as to principal and interest, and as to any premium upon the redemption thereof, in lawful money of the United States of America. Interest on the 2015 Bonds (including the final interest payment upon maturity or earlier redemption) is payable by check of the Fiscal Agent mailed on the Interest Payment Dates by first class mail to the registered Owner thereof at such registered Owner's address as it appears on the Bond Register maintained by the Fiscal Agent at the close of business on the Record Date preceding the Interest Payment Date, or by wire transfer to an account within the United States made on such Interest Payment Date upon written instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds, which instructions shall continue in effect until revoked in writing, or until such Bonds are transferred to a new Owner. Interest with respect to each Bond will be computed using a year of 360 days comprised of twelve 30-day months. The principal of the 2015 Bonds and any premium due upon the redemption thereof will be payable by check of the Fiscal Agent upon presentation and surrender of the applicable 2015 Bonds at the Principal Office of the Fiscal Agent.

The 2015 Bonds will be issued in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of DTC, which will act as securities depository for the 2015 Bonds. Individual purchases of the 2015 Bonds will be made in book-entry form only. Purchasers of the 2015 Bonds will not receive physical certificates representing their ownership interests in the 2015 Bonds purchased. Principal and interest payments represented by the 2015 Bonds are payable directly to DTC by the Fiscal Agent. Upon receipt of payments of principal and interest, DTC will in turn distribute such payments to the beneficial owners of the 2015 Bonds. See Appendix H—"DTC and the Book-Entry Only System." **So long as the 2015 Bonds are registered in the name of Cede & Co., as nominee of DTC, references in this Limited Offering Memorandum to the owners shall mean Cede & Co., and shall not mean the purchasers or Beneficial Owners of the 2015 Bonds.**



## Redemption

**Optional Redemption.** The 2015 Bonds of each series maturing on and after September 1, 2023 are subject to optional redemption prior to their stated maturity on any Interest Payment Date occurring on or after September 1, 2022, as a whole, or in part among maturities as determined by an Authorized Officer and by lot within a maturity, at a redemption price (expressed as a percentage of the principal amount of the 2015 Bonds to be redeemed), together with accrued interest thereon to the date fixed for redemption, as follows.

<u>Redemption Dates</u>	<u>Redemption Prices</u>
September 1, 2022 and March 1, 2023	102%
September 1, 2023 and March 1, 2024	101
September 1, 2024 and any Interest Payment Date thereafter	100

**Mandatory Sinking Payment Redemption.** The 2015A-1 Bonds maturing on September 1, 2027, are subject to mandatory sinking payment redemption in part on September 1, 2016, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date (September 1)</u>	<u>Sinking Payments</u>
2016	\$ 120,000
2017	290,000
2018	465,000
2019	650,000
2020	760,000
2021	970,000
2022	1,195,000
2023	1,440,000
2024	1,695,000
2025	1,965,000
2026	2,255,000
2027 (maturity)	2,555,000

The 2015A-1 Bonds maturing on September 1, 2031, are subject to mandatory sinking payment redemption in part on September 1, 2028, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date (September 1)</u>	<u>Sinking Payments</u>
2028	\$2,880,000
2029	3,235,000
2030	3,610,000
2031 (maturity)	4,015,000

The 2015A-1 Bonds maturing on September 1, 2034, are subject to mandatory sinking payment redemption in part on September 1, 2032, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date</u> <u>(September 1)</u>	<u>Sinking Payments</u>
2032	\$4,440,000
2033	4,890,000
2034 (maturity)	5,365,000

The 2015A-1 Bonds maturing on September 1, 2045, are subject to mandatory sinking payment redemption in part on September 1, 2035, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date</u> <u>(September 1)</u>	<u>Sinking Payments</u>
2035	\$5,875,000
2036	6,425,000
2037	7,010,000
2038	7,635,000
2039	8,300,000
2040	5,265,000
2041	4,875,000
2042	5,275,000
2043	5,700,000
2044	6,145,000
2045 (maturity)	6,615,000

The 2015A-2 Bonds maturing on September 1, 2020, are subject to mandatory sinking payment redemption in part on September 1, 2015, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date</u> <u>(September 1)</u>	<u>Sinking Payments</u>
2015	\$ 405,000
2016	860,000
2017	935,000
2018	1,015,000
2019	1,095,000
2020 (maturity)	1,185,000

The 2015A-2 Bonds maturing on September 1, 2024 with CUSIP No. 76827Q DB6, are subject to mandatory sinking payment redemption in part on September 1, 2021, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date</u> <u>(September 1)</u>	<u>Sinking Payments</u>
2021	\$1,275,000
2022	1,380,000
2023	1,490,000
2024 (maturity)	1,595,000

The 2015A-2 Bonds maturing on September 1, 2024 with CUSIP No. 76827Q DF7, are subject to mandatory sinking payment redemption in part on September 1, 2015, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date</u> <u>(September 1)</u>	<u>Sinking Payments</u>
2015	\$ 75,000
2016	160,000
2017	170,000
2018	180,000
2019	195,000
2020	210,000
2021	225,000
2022	240,000
2023	260,000
2024 (maturity)	285,000

The 2015B Bonds maturing on September 1, 2045, are subject to mandatory sinking payment redemption in part on September 1, 2040, and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date fixed for redemption, without premium, from sinking payments as follows:

<u>Redemption Date</u> <u>(September 1)</u>	<u>Sinking Payments</u>
2040	\$3,740,000
2041	4,880,000
2042	5,275,000
2043	5,690,000
2044	6,140,000
2045 (maturity)	6,620,000

The amounts in the foregoing tables shall be reduced proportionately, in order to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption, as a result of any prior partial redemption of the 2015 Bonds pursuant to the optional redemption or redemption from special tax prepayments provisions of the Fiscal Agent Agreement, as specified in writing to the Fiscal Agent by the an Authorized Officer (and as confirmed in writing by an Independent Financial Consultant).

***Mandatory Redemption From Special Tax Prepayments.*** The 2015 Bonds are subject to mandatory redemption prior to their stated maturity on any Interest Payment Date, from the proceeds of Special Tax Prepayments and corresponding transfers of funds from the Reserve Fund (as described below under “SECURITY FOR THE 2015 BONDS—Reserve Fund”), as follows:

- (a) the first \$2,000,000 of such Special Tax Prepayments and corresponding transfers from the Reserve Fund will be used to redeem by lot, on the next Interest Payment Date for which notice of redemption can timely be given, 2015A-2 Bonds maturing on September 1, 2024 with CUSIP No. 76827Q DF7, at a redemption price equal to the principal amount of such 2015A-2 Bonds to be redeemed, together with accrued interest to the date of redemption, without premium; and

- (b) thereafter, such Special Tax Prepayments and corresponding transfers from the Reserve Fund will be used to redeem, on the next Interest Payment Date for which notice of redemption can be given, outstanding Bonds allocated among series and maturities as directed by an Authorized Officer so as to maintain the same debt service profile for the Bonds as in effect prior to such redemption (as confirmed by an Independent Financial Consultant), and by lot within a maturity, at a redemption price equal to the principal amount of the Bonds to be so redeemed, together with accrued interest thereon to the redemption date, and a premium (expressed as a percentage of the principal amount of the Bonds to be redeemed), as follows:

<u>Redemption Dates</u>	<u>Redemption Premium</u>
any Interest Payment Date to and including March 1, 2022	3%
September 1, 2022 and March 1, 2023	2
September 1, 2023 and March 1, 2024	1
September 1, 2024 and any Interest Payment Date thereafter	0

Special Tax Prepayments may arise by reason of property owners voluntarily prepaying the Special Tax obligation for specific parcels in the District (see “SECURITY FOR THE 2015 BONDS—Summary of Rate and Method-Prepayments of Special Taxes”), as well as by reason of changes to the Formation Land Use Plan (see “SECURITY FOR THE 2015 BONDS—Summary of Rate and Method-Alterations of the Special Tax”) and by reason of agreements between the Master Developer or Califia, LLC and homebuilders (see “THE DISTRICT—River Islands Phase 1-Land Development”). For Fiscal Year 2014-15 and to date for fiscal year 2015-16, a total of \$109,816 in Special Tax Prepayments were received by the Authority with respect to 25 parcels in the District on which single-family homes have been constructed. No assurance can be given with respect to the amount or timing of future Special Tax Prepayments.

***Purchase of 2015 Bonds In Lieu of Redemption.*** In lieu of redemption as described above, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding 2015 Bonds, upon the filing with the Fiscal Agent of an Officer’s Certificate requesting such purchase prior to the selection of 2015 Bonds for redemption, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer’s Certificate may provide, but in no event may 2015 Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase.

***Selection of 2015 Bonds for Redemption.*** Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all of the 2015 Bonds or any given portion thereof pursuant to the optional redemption provisions of the Fiscal Agent Agreement, the Fiscal Agent shall select the 2015 Bonds to be redeemed, from all 2015 Bonds or such given portion thereof not previously called for redemption among series and maturities as directed in writing by an Authorized Officer who shall select the Bonds to be redeemed so as to maintain substantially the same debt service profile for the Bonds as in effect prior to such redemption (as confirmed in writing by an Independent Financial Consultant), and within a maturity of a series by lot in any manner which the Fiscal Agent in its sole discretion shall deem appropriate and fair.

***Notice of Redemption.*** The Fiscal Agent will cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Securities Depositories and to one or more Information

Services, and to the respective registered Owners of any 2015 Bonds designated for redemption, at their addresses appearing on the Bond registration books in the Principal Office of the Fiscal Agent; but such mailing is not a condition precedent to redemption and failure to mail or to receive any such notice, or any defect therein, will not affect the validity of the proceedings for the redemption of such 2015 Bonds.

The redemption notice will state the redemption date and the redemption price and, if less than all of the then Outstanding 2015 Bonds are to be called for redemption, will designate the CUSIP numbers and Bond numbers of the 2015 Bonds to be redeemed by giving the individual CUSIP number and Bond number of each Bond to be redeemed or will state that all 2015 Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the 2015 Bonds of one or more maturities have been called for redemption, will state as to any Bond called in part the principal amount thereof to be redeemed, and will require that such 2015 Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and will state that further interest on such 2015 Bonds will not accrue after the redemption date.

Notwithstanding the foregoing, any notice of redemption in connection with an optional redemption or redemption from Special Tax Prepayments may state that the redemption is conditioned upon receipt by the Fiscal Agent of sufficient moneys to redeem the 2015 Bonds on the anticipated redemption date, and that the redemption will not occur if by no later than the scheduled redemption date sufficient moneys to redeem the 2015 Bonds have not been deposited with the Fiscal Agent. In the event that the Fiscal Agent does not receive sufficient funds by the scheduled redemption date to so redeem the 2015 Bonds to be redeemed, the Fiscal Agent will send written notice to the owners of the 2015 Bonds, to the Securities Depositories and to one or more of the Information Services to the effect that the redemption did not occur as anticipated, and the 2015 Bonds for which notice of redemption was given will remain Outstanding for all purposes of the Fiscal Agent Agreement.

***Effect of Redemption.*** From and after the date fixed for redemption, if funds available for the payment of the principal of, and interest and any premium on, the 2015 Bonds so called for redemption have been deposited in the Bond Fund, such 2015 Bonds so called will cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and no interest will accrue thereon on or after the redemption date specified in such notice.

***Tender of 2015 Bonds in Payment of Special Taxes.*** The Authority has covenanted in the Fiscal Agent Agreement not to permit the tender of 2015 Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the Authority having insufficient Special Tax revenues to pay the principal of and interest on the 2015 Bonds that will remain Outstanding following such tender.

### **Transfer or Exchange of 2015 Bonds**

So long as the 2015 Bonds are registered in the name of Cede & Co., as nominee of DTC, transfers and exchanges of 2015 Bonds shall be made in accordance with DTC procedures. See Appendix H—"DTC and the Book-Entry Only System." If the book-entry only system for the 2015 Bonds is ever discontinued, any Bond may, in accordance with its terms, be transferred or exchanged by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a duly written instrument of transfer in a form approved by the Fiscal Agent. Whenever any 2013 Bond or 2015 Bonds are surrendered for transfer or exchange, the Authority will execute and the Fiscal Agent will authenticate and deliver a new 2013 Bond or

2015 Bonds, for a like aggregate principal amount of 2015 Bonds of authorized denominations and of the same maturity. The Fiscal Agent will collect from the Owner requesting such transfer any tax or other governmental charge required to be paid with respect to such transfer or exchange.

No transfers or exchanges of 2015 Bonds will be required to be made (i) within the 15 days prior to the date designated by the Fiscal Agent as the date for selecting 2015 Bonds for redemption, or (ii) with respect to any 2015 Bond after such 2015 Bond has been selected for redemption.

### **Discontinuance of DTC Services**

DTC may determine to discontinue providing its services with respect to the 2015 Bonds at any time by giving written notice to the Fiscal Agent during any time that the 2015 Bonds are Outstanding, and discharging its responsibilities with respect to the 2015 Bonds under applicable law. The Authority may terminate the services of DTC with respect to the 2015 Bonds if it determines that DTC is unable to discharge its responsibilities with respect to the 2015 Bonds or that continuation of the system of book-entry transfers through DTC is not in the best interest of the Beneficial Owners. The Authority will mail any such notice of termination to the Fiscal Agent.

Upon the termination of the services of DTC as provided in the previous paragraph, and if no substitute Depository willing to undertake the functions can be found which is willing and able to undertake such functions upon reasonable or customary terms, or if the Authority determines that it is in the best interest of the Beneficial Owners of the 2015 Bonds that they obtain certificated Bonds, the 2015 Bonds will no longer be restricted to being registered in the Registration Books of the Fiscal Agent in the name of Cede & Co., as nominee of DTC, but may be registered in whatever name or name the Owners designate at that time, in accordance with the Fiscal Agent Agreement.

To the extent that the Beneficial Owners are designated as the transferee by the Owners, the 2015 Bonds will be delivered to such Beneficial Owners as soon as practicable in accordance with the Fiscal Agent Agreement.



## Scheduled Debt Service

The following is the debt service schedule for the 2015 Bonds, assuming no optional redemption of the 2015 Bonds or any redemption of 2015 Bonds with proceeds of Special Tax Prepayments:

Period Ending September 1	2015A-1 Bonds		2015A-2 Bonds		2015B Bonds		Total Debt Service
	Principal*	Interest	Principal*	Interest	Principal*	Interest	
2015	-	\$ 3,098,550.87	\$ 480,000.00	\$ 359,953.47	-	\$ 914,195.49	\$ 4,852,699.83
2016	\$ 120,000.00	6,029,612.50	1,020,000.00	676,075.00	-	1,778,975.00	9,624,662.50
2017	290,000.00	6,023,612.50	1,105,000.00	624,275.00	-	1,778,975.00	9,821,862.50
2018	465,000.00	6,009,112.50	1,195,000.00	568,175.00	-	1,778,975.00	10,016,262.50
2019	650,000.00	5,985,862.50	1,290,000.00	507,525.00	-	1,778,975.00	10,212,362.50
2020	760,000.00	5,953,362.50	1,395,000.00	442,050.00	-	1,778,975.00	10,329,387.50
2021	970,000.00	5,915,362.50	1,500,000.00	371,250.00	-	1,778,975.00	10,535,587.50
2022	1,195,000.00	5,866,862.50	1,620,000.00	288,750.00	-	1,778,975.00	10,749,587.50
2023	1,440,000.00	5,807,112.50	1,750,000.00	199,650.00	-	1,778,975.00	10,975,737.50
2024	1,695,000.00	5,735,112.50	1,880,000.00	103,400.00	-	1,778,975.00	11,192,487.50
2025	1,965,000.00	5,650,362.50			-	1,778,975.00	9,394,337.50
2026	2,255,000.00	5,552,112.50			-	1,778,975.00	9,586,087.50
2027	2,555,000.00	5,439,362.50			-	1,778,975.00	9,773,337.50
2028	2,880,000.00	5,311,612.50			-	1,778,975.00	9,970,587.50
2029	3,235,000.00	5,156,812.50			-	1,778,975.00	10,170,787.50
2030	3,610,000.00	4,982,931.26			-	1,778,975.00	10,371,906.26
2031	4,015,000.00	4,788,893.76			-	1,778,975.00	10,582,868.76
2032	4,440,000.00	4,573,087.50			-	1,778,975.00	10,792,062.50
2033	4,890,000.00	4,339,987.50			-	1,778,975.00	11,008,962.50
2034	5,365,000.00	4,083,262.50			-	1,778,975.00	11,227,237.50
2035	5,875,000.00	3,801,600.00			-	1,778,975.00	11,455,575.00
2036	6,425,000.00	3,478,475.00			-	1,778,975.00	11,682,450.00
2037	7,010,000.00	3,125,100.00			-	1,778,975.00	11,914,075.00
2038	7,635,000.00	2,739,550.00			-	1,778,975.00	12,153,525.00
2039	8,300,000.00	2,319,625.00			-	1,778,975.00	12,398,600.00
2040	5,265,000.00	1,863,125.00			\$ 3,740,000.00	1,778,975.00	12,647,100.00
2041	4,875,000.00	1,573,550.00			4,880,000.00	1,573,275.00	12,901,825.00
2042	5,275,000.00	1,305,425.00			5,275,000.00	1,304,875.00	13,160,300.00
2043	5,700,000.00	1,015,300.00			5,690,000.00	1,014,750.00	13,420,050.00
2044	6,145,000.00	701,800.00			6,140,000.00	701,800.00	13,688,600.00
2045	6,615,000.00	363,825.00			6,620,000.00	364,100.00	13,962,925.00
Totals	\$111,915,000.00	\$128,590,363.39	\$13,235,000.00	\$4,141,103.47	\$32,345,000.00	\$50,347,370.49	\$340,573,837.35

\* All principal payments represent mandatory sinking fund installments. See "THE 2015 BONDS—Redemption – Mandatory Sinking Payment Redemption."

## SECURITY FOR THE 2015 BONDS

### General

Pursuant to the Fiscal Agent Agreement, the 2015 Bonds are secured by a first pledge of all of the Special Tax Revenues (other than the Special Tax Revenues needed by the Authority in each year to pay Administrative Expenses, but not in excess of the annual Priority Administration Amount), and all moneys deposited in the Bond Fund, the Reserve Fund and, until disbursed in accordance with the Fiscal Agent Agreement, the Special Tax Fund. Special Tax Revenues do not include interest and penalties on foreclosure of the lien of Special Taxes in excess of the rate of interest payable on the 2015 Bonds. "Priority Administration Amount," as defined in the Fiscal Agent Agreement, means, for Fiscal Year 2014-2015, \$90,000.00, and for each Fiscal Year thereafter an amount equal to 102% of the Priority Administration Amount in effect for the prior Fiscal Year.



The Special Tax Revenues (other than the Special Tax Revenues needed by the Authority in each Fiscal Year to pay Administrative Expenses, but not in excess of the annual Priority Administration Amount), and all moneys deposited into said funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of, and interest and any premium on, the 2015 Bonds in accordance with the Fiscal Agent Agreement until all of the 2015 Bonds have been paid or defeased. Amounts in the Administrative Expense Fund, the Costs of Issuance Fund, the accounts within the Improvement Fund and the Refunding Funds, and any Water Sale Proceeds, are not pledged to the repayment of the 2015 Bonds. The Improvements, and the improvements funded with proceeds of the Prior Bonds, are not pledged to pay the Debt Service on the 2015 Bonds. The proceeds of condemnation or destruction of any of the Improvements, or of any improvements funded with proceeds of the Prior Bonds, are not pledged to pay the Debt Service on the 2015 Bonds.

### **Limited Obligation**

The 2015 Bonds are limited obligations of the Authority on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues (other than the portion needed to pay Administrative Expenses up to the Priority Administration Amount each fiscal year), and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund created pursuant to the Fiscal Agent Agreement. In the event that the Special Taxes are not paid when due, the only sources of funds available to repay the 2015 Bonds are amounts held by the Fiscal Agent under the Fiscal Agent Agreement in the Bond Fund, the Special Tax Fund and the Reserve Fund, and the proceeds, if any, from foreclosure sales of parcels with delinquent Special Tax levies.

### **Special Tax**

The Special Tax will be levied annually on the Taxable Property in the Improvement Areas of the District, in accordance with the provisions of the Act, and the current Rate and Method which is set forth in its entirety in Appendix B. Under the Fiscal Agent Agreement, the Authority is obligated to fix and levy the amount of Special Taxes within the District required for the timely payment of principal of and interest on the outstanding 2015 Bonds becoming due and payable, including any necessary replenishment of the Reserve Fund and an amount estimated to be sufficient to pay the Administrative Expenses, taking into account any prepayments of Special Taxes previously received by the Authority. The Special Tax levied on any parcel of Taxable Property may not exceed the maximum amount as provided in the Rate and Method and permitted under the Act. See "SECURITY FOR THE 2015 BONDS—Summary of Rate and Method."

The Special Taxes are payable and are collected in the same manner, at the same time and in the same installment as the County ad valorem taxes on property levied on the secured tax roll are payable, and pursuant to the Act have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the taxes levied on the tax roll; provided, however, that the Special Taxes may be collected by means of direct billing of the property owners in the Improvement Areas, as permitted under the Fiscal Agent Agreement.

Although the Special Taxes will constitute a lien on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of the property within the District. Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax on a parcel of Taxable Property, the Authority may order the institution of a superior court action to foreclose the lien on the parcel of Taxable Property within specified time limits. In such an action, the real property subject to the unpaid amount

of the Special Tax lien may be sold at judicial foreclosure sale. The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as *ad valorem* property taxes. See "SECURITY FOR THE 2015 BONDS—Summary of Rate and Method," "—Covenant for Superior Court Foreclosure" and "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments."

Other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future. See "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments." There is no assurance that any owner of a parcel subject to the Special Tax levy will be financially able to pay the annual Special Taxes or that it will pay such taxes even if financially able to do so. See "SPECIAL RISK FACTORS." For historic information regarding the payment of, or delinquencies with respect to, Special Taxes in the District, see "THE DISTRICT—Special Tax Levies and Delinquencies."

### **Special Tax Fund**

*Deposit of Special Tax Revenues.* The Authority is obligated by the Fiscal Agent Agreement to transfer, or cause to be transferred, to the Fiscal Agent, as soon as practicable following receipt, all Special Tax Revenues received by the Authority, which amounts shall be deposited by the Fiscal Agent in the Special Tax Fund.

Notwithstanding the foregoing,

(i) the first Special Tax Revenues collected by the Authority in any Fiscal Year, commencing with Fiscal Year 2015-16, in an amount equal to the portion of such Fiscal Year's Special Tax levy for Administrative Expenses (but not to exceed, in any Fiscal Year, the Priority Administration Amount for such Fiscal Year), shall be transferred by the Treasurer to the Fiscal Agent for deposit by the Fiscal Agent in the Administrative Expense Fund;

(ii) any proceeds of Special Tax Prepayments, as identified by the Treasurer to the Fiscal Agent, shall be transferred by the Treasurer to the Fiscal Agent for deposit by the Fiscal Agent as follows (as directed in writing by the Treasurer): first, that portion of any Special Tax Prepayment constituting a prepayment of construction costs shall be deposited by the Fiscal Agent to the General Account of the Improvement Fund, and second, any remaining portion of any Special Tax Prepayment shall be deposited by the Fiscal Agent directly in the Special Tax Prepayments Account within the Bond Fund; and

(iii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Treasurer and shall be deposited by the Fiscal Agent first, in the Bond Fund to the extent needed to pay any past due debt service on the Bonds; second, to the Reserve Fund to the extent needed to increase the amount then on deposit in the Reserve Fund up to the then Reserve Requirement, third to the Administrative Expense Fund to the extent that amounts in such fund were used to pay costs related to the collection of such delinquencies; and fourth, to the Special Tax Fund for use as described below.

Moneys in the Special Tax Fund will be held by the Fiscal Agent for the benefit of the Authority and the Owners of the Bonds, will be disbursed as described below and, pending any disbursement, will be subject to a lien in favor of the Owners of the Bonds and the Authority.

**Disbursements.** From time to time as needed to pay the obligations of the District, but no later than each Interest Payment Date, the Fiscal Agent will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund, such that the amount in the Bond Fund equals the principal (including any mandatory sinking payment), premium, if any, and interest due on the Bonds, and

(ii) to the Reserve Fund an amount, taking into account amounts then on deposit in the Reserve Fund, such that the amount in the Reserve Fund is equal to the Reserve Requirement;

provided that no such transfers shall exceed the amount then available to be transferred from the Special Tax Fund.

In addition to the foregoing, if in any Fiscal Year there are sufficient funds in the Special Tax Fund to make the foregoing transfers to the Bond Fund and the Reserve Fund in respect of the Interest Payment Dates occurring in the Bond Year that commences in such Fiscal Year, the Treasurer may direct the Fiscal Agent to transfer to the Administrative Expense Fund, from time to time, any amount in the Special Tax Fund in excess of the amount needed to make such transfers to the Bond Fund and the Reserve Fund, if the monies are needed to pay Administrative Expenses in excess of the amount then on deposit in the Administrative Expense Fund.

### **Summary of Rate and Method**

**Special Tax Requirement.** The Rate and Method provides that the Special Tax levy each fiscal year is calculated by first determining the “Special Tax Requirement” for the fiscal year. The Special Tax Requirement is defined in the Rate and Method to be the amount necessary in any fiscal year: (i) to pay principal and interest on Bonds which is due in the calendar year which begins in such fiscal year, (ii) to create and/or replenish reserve funds, (iii) to cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior fiscal year or, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the fiscal year in which the tax will be collected, (iv) to pay Administrative Expenses, and (v) to pay the costs of public improvements and public infrastructure authorized to be financed by the District. The amounts referred to in clauses (i) and (ii) of the preceding sentence may be reduced in any fiscal year by (i) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against debt service pursuant to the Fiscal Agent Agreement, (ii) proceeds from the collection of penalties associated with delinquent Special Taxes, and (iii) any other revenues available to pay debt service on the Bonds as determined by the Administrator.

Pursuant to the Rate and Method, a Maximum Special Tax, calculated as more fully described below, will be assigned to each taxable parcel. No Special Tax will be assigned to up to 838.20 acres classified as Public Property, i.e. parcels that are owned by or irrevocably offered for dedication to the federal government, the State, the County, the City or other local government or public agency.

On or about July 1 of each fiscal year, the Administrator will identify the current Assessor’s Parcel numbers for Taxable Property within the District. The Administrator will also determine: (i) whether each parcel is located within Improvement Area 1 or Improvement Area 2, (ii) whether each parcel is Developed Property or Undeveloped Property, (iii) for Developed Property, which parcels are Single Family Detached Property, Single Family

Attached Property, Multi-Family Property or Non-Residential Property, (iv) for Single Family Detached Property, the square footage of each residential lot, and (v) the Special Tax Requirement. In addition, the Administrator shall, at least twice each Fiscal Year, determine: (i) whether changes have been proposed or approved to the Formation Land Use Plan (which is defined in the Rate and Method as the Tentative Tract Map approved by the City Council on January 27, 2003 designating land uses within River Islands Phase 1); and (ii) whether Final Maps that have been proposed for approval or already approved by the City are consistent with the Formation Land Use Plan. If changes to the Formation Land Use Plan have occurred, or if Final Maps are inconsistent with the Formation Land Use Plan, the Administrator shall apply the steps described under the subheading "Alterations of the Special Tax" below.

*Method of Apportionment of Special Tax.* The Rate and Method provides that for each fiscal year, the Administrator will determine the Special Tax Requirement to be collected in that fiscal year. The Special Tax then will be levied as follows:

- First: The Special Tax will be levied Proportionately on each Parcel of Developed Property within the District up to 100% of the Maximum Special Tax for each parcel for such fiscal year.
- Second: If additional revenues are needed after applying the above step, and after applying Capitalized Interest (if any) to the Special Tax Requirement, the Special Tax will be levied Proportionately on each Assessor's Parcel of Undeveloped Property within the District up to 100% of the Maximum Special Tax for Undeveloped Property for such fiscal year.
- Third: If additional revenues are needed after applying the first two steps, the Special Tax will be levied Proportionately on each Parcel of Association Property within the District (being, generally, property owned by a homeowners association or property owners association), up to 100% of the Maximum Special Tax for Undeveloped Property for such fiscal year. Currently there is no homeowners association or property owners association that includes any of the land in the District.
- Fourth: If additional revenues are needed after applying the first three steps, the Special Tax will be levied Proportionately on each Assessor's Parcel of Excess Public Property within the District (Public Property in excess of 838.20 acres), up to 100% of the Maximum Special Tax for Undeveloped Property for such fiscal year.

*Maximum Special Tax Rates.* The annual Maximum Special Tax amounts for Taxable Property within Improvement Area No. 1 and Improvement Area No. 2 for fiscal year 2014-2015 are shown in the following table:

**River Islands Public Financing Authority  
Community Facilities District No. 2003-1  
(Public Improvements)**

**Maximum Special Taxes for Fiscal Year 2014-15 for  
Improvement Areas No. 1 and No. 2**

Type of Property <sup>(1)</sup>	Lot Size	Maximum Special Tax Fiscal Year 2014-15 <sup>(2)</sup>
Single Family Detached Property	Greater than 7,000 square feet	\$3,361.98 per Unit
Single Family Detached Property	5,801 to 7,000 square feet	\$2,729.32 per Unit
Single Family Detached Property	4,801 to 5,800 square feet	\$2,491.62 per Unit
Single Family Detached Property	4,000 to 4,800 square feet	\$2,119.84 per Unit
Single Family Detached Property	Less than 4,000 square feet	\$1,977.20 per Unit
Single Family Attached Property	Not Applicable	\$1,740.72 per Unit
Multi-Family Property	Not Applicable	\$988.60 per Unit
Non-Residential Property Improvement Area #1	Not Applicable	\$3,955.64 per Acre
Non-Residential Property Improvement Area #2	Not Applicable	\$2,636.68 per Acre
Undeveloped Property	Not Applicable	\$15,861.56 per Acre

(1) The Maximum Special Tax set forth above is calculated based on the Expected Land Uses at the time of formation of the District, escalated to fiscal year 2014-15 amounts.

(2) On July 1, 2015 and on each July 1 thereafter, all figures shown above will be increased by an amount equal to 2.0% of the amount in effect for the prior fiscal year.

The annual Special Tax payment for each Taxable Parcel may not exceed the Maximum Special Tax for the applicable property classification. In addition, pursuant to the Act, under no circumstances will the Special Tax levied against any assessor's parcel used for private residential purposes be increased by more than ten percent per fiscal year as a consequence of delinquency or default by the owner of any other parcel within the District.

The Administrator is to establish tax rates, up to the Maximum Special Tax rates set forth above, to be used to levy and apportion the Special Tax within the District on an annual basis. The first levy of the Special Tax for debt service occurred during the 2005-06 fiscal year. The Special Tax will be levied until debt service on the Bonds has been paid and the Facilities have been completed. However, in no event will the Special Tax be levied after fiscal year 2075-2076.

*Alterations of the Special Tax.* The Maximum Special Taxes set forth in the above table were calculated based on the Expected Land Uses. As described above, twice each fiscal year, Tentative Map revisions and other changes to the Formation Land Use Plan must be reviewed



and compared to the Expected Land Uses to evaluate the impact on the Expected Maximum Special Tax Revenues. In addition, Final Maps must be reviewed to ensure they reflect the number of residential lots and acreage of non-residential property that was anticipated in the Tentative Map. Certain steps must be taken each time a change to the Formation Land Use Plan is proposed, and each time a Final Map is proposed for approval by the City Council as described below.

First, the Expected Maximum Special Tax Revenues for the Improvement Areas in which the change is proposed must be calculated. Then, the Maximum Special Tax revenues that could be collected from the affected area if the proposed change is approved must be calculated. If the second amount is higher than the first amount, the proposed change may be approved without further action. If the second amount is less than the first amount, then either (i) the proposed change will not be submitted for approval or, if submitted, will not be approved by the City; (ii) the Board of Directors, prior to approval of the proposed change, will complete proceedings under the Act to increase the Maximum Special Tax within the affected area(s) to an amount sufficient to maintain the total Maximum Special Tax revenues that could be generated within the affected area(s) before the proposed change is approved; or (iii) before approval of the proposed change, the landowner requesting the change will prepay a portion of the Special Tax for the affected area(s) in an amount that corresponds to the lost Maximum Special Tax revenue.

Since the adoption of the Rate and Method, the Tract Map referenced as the Formation Land Use Plan therein has been superseded by the current Vesting Tentative Tract Map 3694, four Final Tract Maps have been recorded, and the Master Developer has submitted revisions to Vesting Tentative Tract Map 3694 to the City for approval. See “THE DISTRICT—River Islands Phase 1—Land Development.” None of the changes to the Formation Land Use Plan contemplated by Vesting Tentative Tract Map 3694, any of such Final Tract Maps or the proposed revisions to Vesting Tentative Tract Map 3694 have resulted, or are expected to result, in reductions in the Maximum Special Tax revenues. No assurance can be given, however, that future vesting tentative tract map revisions or final tract maps will not result in reductions in the Maximum Special Tax, which could then result in prepayments of Special Taxes and corresponding redemptions of the 2015 Bonds. See “THE 2015 BONDS—Redemption-Mandatory Redemption From Special Tax Prepayments.”

In addition, the Special Tax may be altered in situations other than map revisions, without any requirement for notice to or the consent of the Bondowners. In accordance with the Act and the Fiscal Agent Agreement, the Authority may undertake proceedings under the Act to alter the rate and method of apportionment of special taxes for one or both of Improvement Area No. 1 or Improvement Area No. 2 of the District. However, the Act effectively provides that the Authority shall not undertake any such proceedings unless the Board of Directors determines that any reduction or termination of that tax will not interfere with the timely retirement of the Bonds. In addition, the Authority must be in compliance with its covenant in the Fiscal Agent Agreement not to consent or conduct proceedings with respect to a reduction in the maximum Special Taxes that may be levied in the District below an amount, for any fiscal year, equal to 110% of the Maximum Annual Debt Service, plus a reasonable estimate of Administrative Expenses for such fiscal year. The Authority recently has twice conducted proceedings under the Act to alter the Rate and Method, with both such proceedings occurring in 2013 and 2014 (see “THE DISTRICT—History of the District”). At this time, the Authority does not anticipate undertaking any further proceedings to alter the Rate and Method.

*Prepayments of Special Taxes.* The Rate and Method contains provisions allowing for the prepayment in whole or in part of the Special Taxes authorized to be levied on any parcel in the District. If a partial prepayment is made for a parcel, the Maximum Special Tax that can thereafter be levied on the parcel is equal to the Maximum Special Tax that could have been

levied prior to the prepayment, reduced by the percentage of a full prepayment that the partial prepayment represents, all as determined by or at the direction of the Administrator.

For fiscal year 2014-15 and to date for fiscal year 2015-16, a total of \$109,816 in Special Tax Prepayments were received by the Authority with respect to 25 parcels in the District, all of which represented partial prepayments of the Special Tax for the respective parcel, and it is expected that additional partial prepayments will be received in the future due to agreements by the Master Developer and Califia, LLC with homebuilders (see “THE DISTRICT—River Islands Phase 1-Land Development”), but the timing and magnitude of any such future prepayments cannot be determined. Special Tax prepayments will result in the partial redemption of 2015 Bonds. See “THE 2015 BONDS—Redemption-Redemption From Special Tax Prepayments.”

### **Reserve Fund**

The Fiscal Agent Agreement establishes a debt service reserve fund (the “**Reserve Fund**”) as a separate fund to be held in trust by the Fiscal Agent for the benefit of the Owners of the Bonds (which include the 2015 Bonds and any Parity Bonds), as a reserve for the payment of principal of, and interest and any premium on, the Bonds. Moneys in the Reserve Fund are subject to a lien in favor of the Owners of the Bonds. The Reserve Fund is required by the Fiscal Agent Agreement to be funded in an amount equal to the **Reserve Requirement** which is, as of any date of calculation, an amount equal to the lesser of (i) the then Maximum Annual Debt Service on the Bonds, (ii) one hundred twenty-five percent (125%) of the then average Annual Debt Service on the Bonds, or (iii) ten percent (10%) of the then outstanding principal amount of the Bonds. The Reserve Requirement as of the date of issuance of the 2015 Bonds will be \$13,951,590.97.

Except as otherwise provided in the Fiscal Agent Agreement (with respect to the use of moneys in the Reserve Fund in connection with Special Tax Prepayment redemptions, for the payment of any rebate liability due to the federal government, or the use of excess moneys in the Reserve Fund to pay debt service on the Bonds), all amounts deposited in the Reserve Fund will be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the Bonds. See Appendix E—“Summary of Fiscal Agent Agreement.”

Whenever the balance in the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent will transfer the amount in the Reserve Fund to the Bond Fund to be applied, on the next succeeding Interest Payment Date, to the payment and redemption of all of the Outstanding Bonds. In the event that the amount transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund will be transferred to the Authority to be used for any lawful purpose under the Act. Notwithstanding the foregoing, no amounts will be transferred from the Reserve Fund until after (i) amounts in the Reserve Fund are withdrawn, at the written request of the Treasurer, for purposes of making payment to the federal government in accordance with the Fiscal Agent Agreement following payment of the 2015 Bonds, and (ii) payment of any fees and expenses due to the Fiscal Agent. See Appendix E—“Summary of Fiscal Agent Agreement.”

### **Covenant for Superior Court Foreclosure**

*Foreclosure Under the Act.* Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of the Special Tax levied on a taxed parcel, the Authority may



order the institution of a superior court action to foreclose the Special Tax lien on the taxed parcel within specified time limits. In such an action, the real property subject to the unpaid amount of the Special Tax lien may be sold at judicial foreclosure sale.

***Authority Foreclosure Covenant.*** Judicial foreclosure proceedings in the event of delinquent Special Taxes are not mandatory. However, the Authority has covenanted in the Fiscal Agent Agreement for the benefit of the Bondowners that on or about February 15 and June 15 of each Fiscal Year, the Treasurer of the Authority shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the Authority, and:

(a) If the Treasurer determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$3,500 or more, then the Treasurer shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the Authority within 90 days of such determination. Notwithstanding the foregoing, the Treasurer may defer such action if the amount in the Reserve Fund is at least equal to the Reserve Requirement.

(b) If the Treasurer determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (a) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the Treasurer shall notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and the Authority shall commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

No assurance can be given as to the time necessary to complete any foreclosure sale or that any foreclosure sale will be successful. The Authority is not required to be a bidder at any foreclosure sale.

In a foreclosure proceeding the Authority is entitled to recover penalties and interest on the delinquent Special Taxes through the date that an order of sale is entered. However, under the Fiscal Agent Agreement, the Special Taxes pledged to the payment of the Bonds does not include any such penalties and interest collected by the Authority that are in excess of the rate of interest payable on the Bonds. Also it should be noted that prompt commencement of foreclosure proceedings may not, in and of itself, result in a timely or complete payment of delinquent Special Taxes.

***Sufficiency of Foreclosure Sale Proceeds; Foreclosure Limitations and Delays.*** No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of sale will be sufficient to pay any delinquent Special Tax installment. Subject to the maximum rates, the Rate and Method is designed to generate from all Taxable Property within the District the current year's debt service, amounts necessary to pay administrative expenses, and any amount needed for replenishment of the Reserve Fund to the Reserve Requirement. However, if foreclosure proceedings are necessary, and the Reserve Fund has been depleted, there could be a delay in payments to owners of the 2015 Bonds pending prosecution of the foreclosure proceedings and receipt by the Authority of the proceeds of the foreclosure sale.

The ability of the Authority to foreclose the lien of delinquent unpaid Special Taxes may be limited in certain instances and may require prior consent of the obligee in the event the property is owned by or in receivership of the Federal Deposit Insurance Corporation. See "SPECIAL RISK FACTORS—FDIC/Federal Government Interests in Properties."

No assurances can be given that a judicial foreclosure action, once commenced, will be completed or that it will be completed in a timely manner. If a judgment of foreclosure and order of sale is obtained, the judgment creditor (the Authority for the District) must cause a Notice of Levy to be issued. Under current law, a judgment debtor (property owner) has 120 days from the date of service of the Notice of Levy in which to redeem the property to be sold, which period may be shortened to 20 days for parcels other than those on which a dwelling unit for not more than four persons is located. If a judgment debtor fails to redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action, a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (Section 701.680 of the California Code of Civil Procedure). The constitutionality of the aforementioned legislation, which repealed a former one-year redemption period, has not been tested; and there can be no assurance that, if tested, such legislation will be upheld.

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. However, under Section 53356.6 of the Act, the Authority, as judgment creditor, is entitled to purchase any property sold at foreclosure using a "credit bid," where the Authority could submit a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax. If the Authority becomes the purchaser under a credit bid, the Authority must pay the amount of its credit bid into the redemption fund established for the 2015 Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale. Neither the Act nor the Fiscal Agent Agreement requires the Authority to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale, and the Authority has no intention to be such a purchaser.

The Authority will levy the Special Tax to pay the current year's debt service and related administrative expenses and to replenish the Reserve Fund to the Reserve Requirement, subject to Maximum Special Tax rates. However, if superior court foreclosure proceedings are necessary to collect delinquent Special Taxes, and if the Reserve Fund is depleted, there could be a delay in payments of principal of and interest on the 2015 Bonds pending prosecution of the foreclosure proceedings and receipt by the Authority of the proceeds of the foreclosure sale. See "SPECIAL RISK FACTORS—Bankruptcy Delays" and "—Proceeds of Foreclosure Sales."

### **County Teeter Plan**

The County of San Joaquin and the other political subdivisions within its boundaries operate under the provisions of Sections 4701 through 4717, inclusive, of the Revenue and Taxation Code of the State of California, commonly referred to as the "Teeter Plan," with respect to property tax collection and disbursement procedures. These sections provide an alternative method of apportioning secured taxes whereby agencies levying taxes through the County roll may receive from the County 100% of their taxes at the time they are levied. The County treasury's cash position (from taxes) is insured by a special tax loss reserve fund accumulated from delinquent penalties.

The Board of Supervisors of the County may discontinue the procedures under the Teeter Plan altogether, or with respect to any tax or assessment levying agency in the County, if the rate of secured tax and assessment delinquency in that agency in any year exceeds 3% of the total of all taxes and assessments levied on the secured rolls for that agency.

The Special Taxes have been and are expected to continue to be collected pursuant to the procedures described above. Thus, so long as the County maintains its policy of collecting taxes pursuant to said procedures and the District meets the Teeter Plan requirements, the Authority will receive 100% of the annual Special Taxes levied without regard to actual collections; however, there is no assurance that the County Board of Supervisors will maintain its policy of apportioning taxes pursuant to the aforementioned procedures.

### **Investment of Moneys**

Except as otherwise provided in the Fiscal Agent Agreement, all moneys in any of the funds or accounts established pursuant to the Fiscal Agent Agreement will be invested by the Fiscal Agent solely in Permitted Investments, as directed by the Authority. See Appendix E—“Summary of the Fiscal Agent Agreement” for a definition of “**Permitted Investments**” and for additional provisions regarding the investment of funds held under the Fiscal Agent Agreement.

### **Issuance of Additional Bonds**

***Parity Bonds.*** Subject to compliance with the conditions described below, the Fiscal Agent Agreement authorizes the issuance by the Authority for the District of “**Parity Bonds**” that will be secured by a lien on the Special Tax Revenues and funds pledged for the payment of the Bonds under the Fiscal Agent Agreement on a parity with all other Bonds Outstanding under the Fiscal Agreement. When used in this Limited Offering Memorandum and the Fiscal Agent Agreement, the term “**Bonds**” includes the 2015 Bonds and any Parity Bonds that may be issued.

The Authority may issue the Parity Bonds subject to the following specific conditions precedent, as set forth in the Fiscal Agent Agreement:

(a) Current Compliance; Amendment. The Authority shall be in compliance on the date of issuance of the Parity Bonds with all covenants set forth in the Fiscal Agent Agreement and all Supplemental Agreements, and the principal amount of the Parity Bonds, when added to the principal amount of all Bonds then outstanding, shall not exceed the bonded indebtedness limit of either of the two Improvement Areas (currently \$350,000,000).

(b) Payment Dates. The Supplemental Agreement providing for the issuance of such Parity Bonds shall provide that interest thereon shall be payable on March 1 and September 1, and principal thereof shall be payable on September 1 in any year in which principal is payable (provided that there shall be no requirement that any Parity Bonds pay interest on a current basis).

(c) Funds and Accounts; Reserve Fund Deposit. The Supplemental Agreement providing for the issuance of such Parity Bonds may provide for the establishment of separate funds and accounts, and shall provide for a deposit to the Reserve Fund in an amount necessary so that the amount on deposit therein, following the issuance of such Parity Bonds, is equal to the Reserve Requirement.

(d) Value-to-Lien Ratio. The District Value shall be at least three (3.0) times the sum of: (i) the aggregate principal amount of all Bonds then Outstanding, plus (ii) the aggregate principal amount of the series of Parity Bonds proposed to be issued, plus (iii) the aggregate principal amount of any fixed assessment liens on the parcels in the District subject to the levy of Special Taxes, plus (iv) a portion of the aggregate principal amount of any and all other community facilities district bonds then outstanding and payable at least partially from special taxes to be levied on parcels of land within the District (the "Other District Bonds") equal to the aggregate principal amount of the Other District Bonds multiplied by a fraction, the numerator of which is the amount of special taxes levied for the Other District Bonds on parcels of land within the District, and the denominator of which is the total amount of special taxes levied for the Other District Bonds on all parcels of land against which the special taxes are levied to pay the Other District Bonds (such fraction to be determined based upon the maximum special taxes which could be levied in the year in which maximum annual debt service on the Other District Bonds occurs), based upon information from the most recent available Fiscal Year. Notwithstanding the foregoing, the term "Other District Bonds" as used in this paragraph (d) shall not include any community facilities district bonds that are payable from special taxes that are secured by a lien that is subordinate to the lien securing the Special Taxes or by a pledge of special taxes that is subordinate to the pledge of the Special Taxes under the Fiscal Agent Agreement.

(e) The Special Tax Coverage Test. The Authority shall obtain a certificate of a Tax Consultant to the effect that (i) the amount of the maximum Special Taxes that may be levied in each Fiscal Year shall be at least one hundred ten percent (110%) of the total Annual Debt Service for each such Fiscal Year on the Bonds and the proposed Parity Bonds, and (ii) based upon the Special Taxes that may be levied under the Rate and Method at the time when there is no longer any Undeveloped Property, and taking into account the status of the then and expected Developed Property, (a) the estimated maximum Special Taxes that may then be levied in the Improvement Areas on the then existing and expected Developed Property in each Fiscal Year are reasonably expected to exceed one hundred ten percent (110%) of the total Annual Debt Service for each Fiscal Year on the Bonds and the proposed Parity Bonds, and (b) the aggregate Special Tax Prepayments that could occur after the issuance of the Parity Bonds is not less than the Outstanding principal amount of the Bonds and such Parity Bonds.

(f) Officer's Certificate. The Authority shall deliver to the Fiscal Agent an Officer's Certificate certifying that the conditions precedent to the issuance of such Parity Bonds set forth in the paragraphs above have been satisfied.

If the Parity Bonds are Refunding Bonds, the Authority need not comply with the requirements in paragraphs (d) and (e) above, and the Officer's Certificate required by paragraph (f) above need not reference such paragraphs. "**Refunding Bonds**" means bonds the net proceeds of which are used solely to refund all or a portion of the then Outstanding Bonds; provided that, as of the date they are issued, the scheduled debt service on the Refunding Bonds in each Bond Year over their term is not in excess of the remaining scheduled debt service on the Bonds being refunded, and the final maturity of the Refunding Bonds is not later than the final maturity of the Bonds being refunded.

The term "**District Value**," as used in paragraph (d) above, is defined in the Fiscal Agent Agreement to mean the market value, as of the date of the appraisal described below, of all parcels of real property in the District subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such nondelinquent parcels the value of the then existing improvements and any facilities to be

constructed or acquired with any amounts then on deposit in the Improvement Fund (and any account therein) and with the proceeds of any proposed series of Parity Bonds, as determined by reference to (i) an appraisal performed within six (6) months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the "Appraiser") selected by the Authority, or (ii), in the alternative, the assessed value of all such nondelinquent parcels and improvements thereon as shown on the then current County real property tax roll available to the Treasurer. The Fiscal Agent Agreement provides that neither the Authority nor the Treasurer shall be liable to the Bondowners or any other person or entity in respect of any appraisal provided for purposes of the foregoing definition or by reason of any exercise of discretion made by any Appraiser pursuant to such definition.

**Subordinate Bonds.** Nothing in the Fiscal Agent Agreement prohibits the Authority from issuing bonds or otherwise incurring debt secured by a pledge of Special Tax Revenues subordinate to the pledge of such Special Tax Revenues under the Fiscal Agent Agreement. In that regard, the Authority did create the Other District, which includes a portion of the property in the District, and issued the Prior Other District Bonds which are secured by the levy of special taxes on property in the Other District secured by a lien which is expressly subordinate to the lien for the Special Taxes levied for the District. While the Authority has taken action to cease levying special taxes in the Other District upon redemption of the Prior Other District Bonds and effectively terminate the Other District (see "THE DISTRICT—History of the District"), the Authority may create new community facilities districts with subordinate special tax liens on all or a portion of the property in the District. See also "THE DISTRICT—Direct and Overlapping Governmental Obligations" and "RISK FACTORS—Parity Taxes and Special Assessments."

## THE DISTRICT

### Location and Description of the District

The District is located in the City, approximately 60 miles east of San Francisco and is south of Sacramento and north of Stanislaus County. The City is 55 miles south of Sacramento and 15 miles south of Stockton at the junction of U.S. Interstate Highway 5 and State Highway 120.

The District was formed by the Board of Directors pursuant to proceedings conducted under the Act on June 12, 2003. The Improvement Areas of the District currently include approximately 2,100 acres of land that are subject to the levy of Special Taxes. The District encompasses the area within phase 1 of a planned development community known as River Islands at Lathrop (referred to in this Limited Offering Memorandum as "**River Islands Phase 1**"), and including an additional 307 acres of land expected to be developed as part of phase 2 of the River Islands at Lathrop Development. At buildout, River Islands Phase 1 is expected to include approximately 3,741 single family detached homes, 100 apartments and 443 townhouses, as well as a 61.9 acre commercial "town center" expected to be developed with retail uses, and a 164.3 acre commercial "employment center" expected to be developed with research and development and office uses.

### History of the District

*Legislative Proceedings; Bond Issuances.* The District was formed pursuant to proceedings initiated by Resolution No. 03-03 adopted by the Board of Directors on February 27, 2003. Resolution No. 03-06 forming the District and designating the two Improvement Areas was adopted by the Board of Directors on June 12, 2003. Pursuant to an election conducted on June 12, 2003, Calafia, LLC and the Cambay Group, Inc., as the then sole owners of the land in



the District, voted in favor of the formation of the District and the levy of the Special Taxes on the property in the District. On June 23, 2003, the Board of Directors adopted Ordinance No. 1 levying Special Taxes in the District, and on July 9, 2003, a Notice of Special Tax Lien was recorded in the County Recorder's Office against the property in Improvement Area No. 1 and in Improvement Area No. 2.

On July 16, 2003, the Series 2003-A Bonds were issued by the Authority for the District in the original principal amount of \$19,715,000. On October 2, 2003, the Series 2003-B Bonds were issued by the Authority for the District in the original principal amount of \$3,085,000, and the Series 2003-C Bonds were issued by the Authority for the District in the original principal amount of \$1,265,000. See "THE DISTRICT—The Improvements" for a description of improvements funded with proceeds of these three bond issues.

On August 2, 2005, the Board of Directors adopted Resolution No. 05-02, pursuant to which it conducted proceedings to increase the bonded indebtedness limits for the two Improvement Areas from their initial limits of \$29,000,000, to \$100,000,000, and to add to the list of facilities authorized to be funded by the Improvement Areas. On August 25, 2005, the Board of Directors adopted a Resolution clarifying the Rate and Method, and on September 21, 2005, an Amended and Restated Notice of Special Tax Lien was recorded in the County Recorder's Office against the property in the Improvement Areas.

On November 3, 2005, the Series 2005-A Bonds were issued by the Authority for the District in the original principal amount of \$6,025,000, and the Series 2005-B Bonds were issued by the Authority for the District in the original principal amount of \$15,490,000. See "THE DISTRICT—The Improvements" for a description of the improvements funded with the proceeds of these two bond issues.

On May 12, 2006, the Board of Directors adopted Resolution No. 06-03 pursuant to which it conducted proceedings to add to the list of facilities eligible to be funded by the District. On July 6, 2006, a First Amendment to Amended and Restated Notice of Special Tax Lien was recorded in the County Recorder's Office against the property in the Improvement Areas. On November 7, 2006, the Board of Directors adopted Resolution No. 06-06 pursuant to which it once-again conducted proceedings to add to the list of facilities authorized to be funded by the District. On December 26, 2006, a Second Amendment to Amended and Restated Notice of Special Tax Lien was recorded in the County Recorder's Office against the property in the Improvement Areas.

On May 30, 2007, the Series 2007-A Bonds were issued by the Authority for the District in the original principal amount of \$18,820,000. See "THE DISTRICT—The Improvements" for a description of improvements funded with proceeds of the Series 2007-A Bonds.

During the period from 2011 to 2013, the Other District was formed by the Authority and the three series of Prior Other District Bonds were issued to fund improvements within or of benefit to the Other District. The Other District included a portion of the land in the District, and the special taxes levied to repay the Prior Other District Bonds were secured by a lien on the property in the Other District subordinate to the lien on property in the District securing the repayment of the 2015 Bonds.

On March 5, 2013, the Board of Directors adopted Resolution No. 13-03 pursuant to which it added the refinancing of the Other District Bonds to the list of eligible purposes of the Improvement Areas, and on May 21, 2013, a Third Amendment to Amended and Restated Notice of Special Tax Lien was recorded in the County Recorder's Office against the property in the Improvement Areas. On August 21, 2013, the Board of Directors adopted Resolution No. 13-07 pursuant to which it conducted proceedings to alter the Rate and Method and to



increase the bonded indebtedness limit of the Improvement Areas from \$100,000,000 to \$160,000,000, and on October 3, 2013 a Fourth Amendment to Amended and Restated Notice of Special Tax Lien was recorded in the County Recorder's Office against the property in the Improvement Areas.

On August 7, 2014, the Board of Directors adopted Resolution No. 14-10, pursuant to which it conducted proceedings to alter the Rate and Method to be as set forth in Appendix B to this Limited Offering Memorandum, and to increase the bonded indebtedness limit of the Improvement Areas from \$160,000,000 to \$350,000,000. On December 22, 2014, a Fifth Amendment to Notice of Special Tax Lien was recorded in the County Recorder's Office against the property in the Improvement Areas.

On December 17, 2014, at a regular meeting of the Board of Directors, the Board of Directors adopted Resolution No. 14-28, pursuant to which it authorized the issuance of the 2015 Bonds, and on January 22, 2015, the Board of Directors adopted Resolution No. 15-1 pursuant to which it amended certain provisions of Resolution No. 14-28. Also on January 22, 2015, the Board of Directors adopted Ordinance No. 6 amending and restating the prior Ordinance No. 1 levying Special Taxes on Taxable Property in the Improvement Areas. On January 29, 2015, the Board of Directors adopted Resolution No. 15-4 approving this Limited Offering Memorandum in preliminary form.

*Joint Community Facilities Agreements.* The Authority has entered into various joint community facilities agreements with other public agencies relative to the improvements authorized to be funded by the District. Those agreements include the following:

- City of Lathrop: The Authority and the City entered into a Joint Community Facilities Agreement dated June 30, 2003, which was subsequently amended and restated on June 23, 2003. That agreement, as amended and restated, provided for the Authority to obtain certain rights to potable water upon funding improvements to a water facility being constructed by the South San Joaquin Irrigation District (see THE DISTRICT—The Improvements). The Authority and the City entered into a subsequent Joint Community Facilities Agreement on September 1, 2005, which was amended on June 1, 2006 and again on April 4, 2007, with respect to facilities to be funded by the District but to be owned or operated by the City.
- The Reclamation District: The Authority and the Reclamation District entered into a Joint Community Facilities Agreement on September 1, 2005, which was subsequently amended on June 1, 2006, on March 1, 2007 and on May 1, 2007. The agreement, as amended, pertains to various lake and levee, and other improvements, funded by the District, but to be owned or operated by the Reclamation District.
- The Irrigation District: The Authority and the Irrigation District entered into a Joint Community Facilities Agreement on March 1, 2007. That agreement pertained to certain electrical and other facilities to be funded by the District, but to be owned or operated by the Irrigation District.

The Authority has entered into various other joint community facilities agreements with the City, the Irrigation District, the Reclamation District and the Banta Elementary School District relative to facilities funded by the Other District. Also, in connection with the formation by the Authority of its Community Facilities District No. 2013-1 (River Islands Public Services) to pay for costs to maintain certain public infrastructure improvements, the Authority entered into a joint community facilities agreement with the Reclamation District

and the Irrigation District. Finally, the Authority and the Reclamation District entered into a joint community facilities agreement in connection with the formation by the Reclamation District of a community facilities district by the Reclamation District to pay costs to maintain various lake and levee improvements.

### **The Improvements**

Each of the two Improvement Areas of the District is authorized to fund an extensive list of infrastructure improvements related to the development of the property in the District, including but not limited to:

- levee and flood control improvements,
- water system improvements,
- electrical and telecommunication system improvements,
- roadway system and bridge improvements,
- sewer system and wastewater system improvements,
- storm drain construction,
- lake and storm water protection system improvements,
- construction of parks, public trails and other public facilities (e.g., an animal campus, teen center and senior center),
- public safety facilities, including fire stations and related equipment,
- construction of elementary schools, middle schools and a high school, including sports fields, parking and other customary amenities,
- environmental mitigation related to facilities and improvements authorized to be funded by the District,
- payment of habitat mitigation fees and other governmental charges, and
- any amount needed to eliminate any fixed special assessment liens, or to pay, repay, or defease any obligation to pay or any indebtedness secured by any tax, fee, charge, or assessment levied within the area of the District or to pay debt service on any such indebtedness (including, but not limited to, payment, repayment or defeasance of, or the payment of debt service on, the Prior Other District Bonds).

The District is also authorized to fund the acquisition of right of way and land, the cost of design, engineering and planning, the costs of any environmental review or traffic studies, survey or other reports, landscaping and irrigation, soils testing, soil preparation including deep dynamic compaction, dewatering, permits, plan check and inspection fees, other public fees, insurance, legal and related overhead costs, coordination and supervision and any other costs or appurtenances related to any of the above-listed improvements.

Proceeds of the Prior Bonds have been used to finance some of the improvements authorized to be funded by the District as follows:

- Series 2003-A Bonds: funded a portion of the costs of construction of a water treatment plant and water transmission facilities of the South County Surface Water Supply Project. Pursuant to a Joint Community Facilities Agreement between the Authority and the City of Lathrop, the Authority obtained, for the benefit of the District, rights to potable water for 7,000 units by reason of this use of proceeds of the Series 2003-A Bonds. The Authority has the ability to sell interests in such water rights not needed for the development of the property in the District, which excess capacity the Appraiser has estimated to be 4,620 units with a value of \$16,630,000 (or \$3,600 per unit). The Fiscal Agent Agreement requires that the Authority deposit any proceeds of sale of such water rights, after deduction of

sales expenses, to the Improvement Fund. See “THE DISTRICT—River Islands Phase 1 – Water Availability.”

- Series 2003-B Bonds and Series 2003-C Bonds: funded a groundwater well, and related treatment facilities and pipelines, construction of phase 1 of the expansion of the City’s Water Recycling Plant No. 1 and storage and sprayfields and related force mains, and construction of various levee improvements.
- Series 2005-A Bonds and Series 2005-B Bonds: funded levee, roadway and drainage improvements. The levee improvements provide flood protection for approximately 900 acres of land in the District. See “THE DISTRICT—River Islands Phase 1 – Levee Improvements.”
- Series 2007-A Bonds: funded construction of lake improvements, a portion of the costs of an elementary school, construction of bridges and roadways, utility interconnections and sewer plant expansion, construction of a wastewater pumpstation and pump.

Proceeds of the Prior Other District Bonds being refunded with proceeds of the 2015A-1 Bonds also have been used to finance various infrastructure improvements for the property in the District, including additional levee construction, lake improvements and related facilities, bio retention basins, roadway improvements, bridge improvements, water infrastructure, sewer infrastructure, landscaping in public areas, electrical facilities, natural gas facilities, telecommunication facilities, school facilities costs, public signage, traffic signals and street lights and various other off-site improvements.

Proceeds of the 2015B Bonds are expected to be used to finance all or a portion of the following improvements: roadway improvements, lake discharge, recirculation and irrigation improvements, park construction, landscaping in public areas, a recycled water sprayfield, pond and pump station, a recycled water main, and an electrical substation and appurtenant facilities. In conducting the Appraisal, the Appraiser did not take into account the value that may be added to the property in the District by reason of the construction of any of the Improvements to be funded with proceeds of the 2015B Bonds.

To date, the improvements funded by the District have been constructed under the supervision of the Reclamation District or the Irrigation District, or pursuant to an Acquisition Agreement, entered into as of May 1, 2007 by the Authority for the District, and Califia, LLC. The Acquisition Agreement was amended as of July 7, 2009 to add additional facilities to be constructed by Califia, LLC, and as of July 1, 2011 to include certain improvements authorized to be funded by the Other CFD. As of July 1, 2013, pursuant to a Partial Assignment of Contract Rights, the Master Developer took over the role of Califia, LLC under the Acquisition Agreement. The Acquisition Agreement was again amended as of August 1, 2014 to include facilities to be funded with proceeds of some of the Prior Other District Bonds, and now is being amended by a Supplement No. 5 in connection with the issuance of the 2015B Bonds to once-again add facilities that may be constructed by the Master Developer.

### **The Master Developer**

**Information in this section, entitled “The Master Developer,” is included because it may be considered relevant by some investors to an informed evaluation and analysis of the taxable property within the District and any existing or future improvements thereon as security for the 2015 Bonds. The information contained in this section does not guarantee that the primary entity developing the property in the District will not change or**

**that the current or any subsequent property owners will pay the Special Tax when due. The Special Tax will constitute a lien on parcels subject to taxation within the District and not a personal indebtedness of the owners of property within the District. Information in this section has been provided by the Master Developer, and neither the Authority, the District nor the Underwriter can ensure, and do not ensure, its completeness or accuracy.**

*The Master Developer.* At the time of Formation of the District, all of the land in the District was owned by Califia, LLC and The Cambay Group, Inc. Prior to 2012, Califia, LLC was the master developer of the property in the District. In 2012, Califia, LLC assigned various rights and obligations with respect to the property in the District to River Islands Development, LLC (referred to in this Limited Offering Memorandum as the “**Master Developer**”), and the Master Developer purchased 400 acres of land in the District from Califia, LLC. At that time, The Cambay Group, Inc. contributed all of the land it then owned in the District (approximately 100 acres) to the Master Developer.

The Master Developer is a California limited liability company, and since 2012 has been developing, and is expected to continue to develop, the infrastructure improvements to the property within the District. The Master Developer funds its operations through contributions by its owners and sales of property it owns in the District. Twenty percent (20%) of the Master Developer is owned by The Cambay Group, Inc., and the other eighty percent (80%) is owned by St. James Investment Corporation, Inc. which, in turn, is ninety-five (95%) owned by The Cambay Group, Inc. The Cambay Group, Inc., and the five percent (5%) of St. James Investment Corporation, Inc. not owned by The Cambay Group, Inc., is owned by Somerston Holdings Limited, an entity domiciled in the Island of Jersey. An entity related to Somerston Holdings Limited, River Islands Funding Limited, was the original purchaser of all of the Prior Other District Bonds.

The employees of the Master Developer have extensive experience in the processing of large master planned projects. The Project Director for the Master Developer, Susan Dell’Osso, was intimately involved with the 2,300 acre Windemere Ranch project in San Ramon, California with approximately 5,170 dwelling units. The Planning Manager for the Master Developer, Ramon Batista, was previously the assistant city manager for the City and has extensive experience with planning projects.

*Califia, LLC, The Cambay Group, Inc. and Somerston Holdings Limited.* The Cambay Group and Califia, LLC are headquartered in Walnut Creek, California. Califia, LLC is currently owned by five South Dakota limited liabilities companies, each in turn owned by various trusts. Califia, LLC currently has a revolving credit facility with The Cambay Group, Inc., which previously had a controlling interest in Califia, LLC, and funds its operations from funds obtained from the credit facility, as well as from proceeds of sales of land it owns in the District and in Phase 2 of the River Islands at Lathrop development. The credit facility allows for up to \$23,000,000, and the current outstanding balance is \$18,750,000. The credit facility currently expires on October 23, 2015, and is subject to annual renewal.

The Cambay Group, Inc. has developed commercial, office, industrial, leisure and residential properties in various places around the United States. In addition to land development, The Cambay Group, Inc., is involved with telecommunications through Cambay Tele.Com. Cambay Tele.Com was an integral part of the 2004 IPO with Digital Realty Trust. The Cambay Group, Inc. has a current net worth of over \$90,000,000 and funds its operations from its own resources and contributions by its owners.

Somerston Holdings Limited is a 160-year old privately held company based in the United Kingdom. The Somerston Group has its roots in 1854, when the founder commenced business as a ship husband. After more than 100 years in shipping and reacting to market

opportunities, the company diversified into real estate changing its name to Somerston Holdings. By 1975, the company was involved in property investment and development and has over the years invested in property located in the United Kingdom, California, Australia, the Czech Republic, Channel Islands and Poland. Members of the fifth generation of the same founding family are still closely involved in the business. The next generation are the beneficiaries of the trusts that own the limited liability companies that currently own Califia, LLC.

F. Allan Chapman is a Director of Somerston and has served as the President of The Cambay Group, Inc. since its inception. William C. Scott, Jr. is The Cambay Group, Inc.'s Chief Financial Officer and has been a Director since March 2000. Susan Dell'Osso, who has been with The Cambay Group, Inc. for 27 years, is the Project Director for River Islands at Lathrop and is ultimately responsible for all aspects of the development and entitlement process. As stated above, Ms. Dell'Osso was involved with the successful entitlement and sale of The Cambay Group, Inc.'s 2,300 acre Windemere Ranch project in San Ramon, California. All of these senior officers have vast backgrounds and experience in real estate development and investments.

*Conflicts of Interest.* Various employees of The Cambay Group, Inc. are members of the board of trustees of the Reclamation District. The three members of the Board of Directors of the Authority are appointed by the board of trustees of the Reclamation District. See "THE AUTHORITY—Conflicts of Interest."

## **River Islands Phase 1**

*Land Development.* The District includes the property within River Islands Phase 1, as well as an additional 307 acres of adjacent undeveloped property expected to be developed as part of Phase 2 of the River Islands at Lathrop development. River Islands Phase 1 is subject to Vesting Tentative Tract Map No. 3694, a copy of which is included as an appendix to the Appraisal (the complete text of which is included in Appendix C), which allows for the development of 3,741 single-family homes, 100 apartments, 443 townhomes, 61.9 acres for a "town center" to include retail uses, 164.3 acres for an "employment center" with research and development and office uses, 41.1 acres for school sites, 213.9 acres for parks and open space, 130.8 acres for streets, and 433.9 acres of "designated remainders" which are expected to be developed in conjunction with Phase 2 of the River Islands at Lathrop development. The land in Phase 2, which is not included in the District, consists of 2,155 acres expected to be developed in the future with 6,700 dwelling units. The Appraisal assigned values to all of the property in River Islands Phase 1, except that no value was assigned to the 433.9 acres of designated remainders.

The City approved Vesting Tentative Tract Map 3694 on March 27, 2007. It superseded a prior Vesting Tentative Tract Map No. 3221 that was approved by the City in January of 2003. In December of 2013, the Master Developer recorded three Final Tract Maps creating 141 individual parcels, and in August of 2014 the Master Developer recorded another Final Tract Map creating an additional 50 parcels. All of the parcels subject to the four Final Tract Maps are for single-family homes. The Master Developer anticipates recording additional Final Tract Maps as the demand for home and commercial development arises. The Master Developer has submitted revisions to Vesting Tentative Tract Map 3694 to the City that alter various lot sizes, and additional changes may be requested in the future. See "SECURITY FOR THE 2015 BONDS – Summary of Rate and Method – Alterations of the Special Tax" for a description of possible adjustments to Special Taxes required by the Rate and Method in connection with land uses arising from changes to the Tentative Tract Map and by reason of Final Maps as they are recorded on the property.



Development of the property in River Islands Phase 1 began in 2003 and is ongoing. Califia, LLC, and more recently the Master Developer, have constructed various infrastructure improvements with proceeds of the Prior Bonds (see “THE DISTRICT – The Improvements”) and with proceeds of equity contributions. The lots created by the four Final Tract Maps have been sold to Brookfield Bay Area Holdings, LLC (61 lots), River Islands 68, LLC (34 lots) and CPG River Island Communities, LLC (46 lots) all in December of 2013, with an additional 50 lots sold to CPG River Island Communities, LLC in August of 2014. The foregoing entities are actively constructing and selling single-family homes on the parcels, and they currently have rights to purchase additional parcels from the Master Developer. As of December 5, 2014, 65 of the lots sold to the homebuilders had completed homes and 39 of the lots had homes under construction.

In connection with the sale of the lots to the homebuilders, the Master Developer agreed to a limitation on the maximum annual special tax and assessment burden on the homes, and as a consequence of that agreement, the Special Taxes on 25 of the homes have been prepaid in part. While it can be expected that future partial prepayments of the Special Tax may occur as homes are built and sold, it cannot be determined as to the timing and magnitude of any such future Special Tax prepayments as they will depend upon home sale prices and the provisions in contracts for future lot sales between the Master Developer and homebuilders. Special Tax prepayments may also occur in connection with future sales of commercial property in River Islands Phase 1 depending upon market conditions as the development of the commercial property occurs in the future. Prepayments of Special Taxes will result in a redemption of 2015 Bonds. See “THE 2015 BONDS – Redemption – Mandatory Redemption From Special Tax Prepayments” and “SECURITY FOR THE 2015 BONDS – Summary of Rate and Method – Prepayments of Special Taxes.”

***Additional Infrastructure Development.*** While significant infrastructure development has occurred in River Islands Phase 1, substantial additional infrastructure will need to be constructed in order for full buildout of River Islands Phase 1 to occur. While infrastructure improvements for the first expected 500 single-family lots has been substantially completed, the Master Developer has identified up to \$350,000,000 of additional infrastructure improvements that will be needed for future development to occur, including additional grading, flood protection, lakes, roadways, traffic signals, parks, utilities (including sewer, water and electrical facilities) and other permits and related fees. While one school has been built and is operating in River Islands Phase 1 (the River Islands Technology Academy, an independent charter school approved by the Banta Elementary School District, which opened in August of 2013 with 400 students), additional school construction is also contemplated.

Grading has already commenced on the next 1,100 single family lots and the entirety of the town center. Over the next two years, a total of 7 new lakes are expected to be constructed, Bradshaw’s Bridge will be completed and all the backbone infrastructure required to support the 1,100 additional single family lots and town center, will be done. Backbone infrastructure includes both on and off site improvements for streets, sanitary sewer, electrical, potable water, telecommunications, and other related utilities. The total investment required for the above referenced infrastructure is expected to be approximately \$150,000,000.

The Master Developer expects to fund the costs of the additional infrastructure improvements with proceeds of the 2015B Bonds (see “PLAN OF FINANCING – The Improvements”), proceeds of future District bond sales (see “SECURITY FOR THE 2015 BONDS – Issuance of Additional Bonds”), the possible creation of additional financing districts, contributions by the owners of the Master Developer and proceeds of sales of property in River Islands Phase 1. See “THE DISTRICT – The Master Developer.”



The Appraiser has stated in the Appraisal that buildout of River Islands Phase 1 is expected to take place over the next 5-10 years. No assurance can be given that River Islands Phase 1 will continue to be developed as currently anticipated. See "SPECIAL RISK FACTORS" for a description of various risk factors that related to the future development of the property, and risk related to the current concentration of the ownership of the property in River Islands Phase 1. See also "THE DISTRICT – Land Ownership and Current Special Tax Levy" for a table showing the ownership of the property in the District as of July 1, 2014.

**Regulatory and Environmental Approvals.** Various regulatory and environmental approvals have been obtained for the property in River Islands Phase 1. The property is the subject of a 2003 Amended and Restated Development Agreement, dated as of February 4, 2003 between Calafia, LLC and The Cambay Group, Inc. (the original owners of all of the property in River Islands Phase 1 (see "THE DISTRICT – The Master Developer"), which was most recently amended by a Third Amendment to 2003 Amended and Restated Development Agreement, dated as of October 7, 2013, between the City, Calafia, LLC and the Master Developer (as amended, the "**Development Agreement**"), and as to which a fourth amendment is pending City approval. The Development Agreement sets forth various rights and responsibilities of Calafia, LLC, the Master Developer and the City with regard to the development of the property in River Islands Phase 1, including the construction and ownership of public facilities, the payment of various fees, and the maintenance and operation of public facilities. The Development Agreement is subject to change without any requirement for notice to or the consent of 2015 Bondowners. See, however, the Continuing Disclosure Agreement of the Master Developer and Calafia, LLC in Appendix G.

The property in River Islands Phase 1 is also subject to various environmental impact reports, including a Draft Subsequent Environmental Impact Report dated October 15, 2002, a Final Subsequent Environmental Impact Report dated January 22, 2003, and a First Addendum, Second Addendum and Third Addendum, dated July 1, 2005, February, 2007, and February, 2012 (revised March, 2012), respectively (sometimes collectively referred to as the "**SEIR**"). The original environmental approvals for the River Islands at Lathrop development and other adjacent property were provided pursuant to an environmental impact report for the West Lathrop Specific Plan approved by the City in 1996. While all environmental approvals needed for the development of River Islands Phase 1 have been obtained, future addendums to the SEIR may be required if development plans are modified as buildout of River Islands Phase 1 occurs.

In addition to requirements of the West Lathrop Specific Plan and the SEIR, the development of the property in River Islands Phase 1 is subject to the River Islands at Lathrop Urban Design Concept and updates thereto; The Community of South River Bend, Architectural Design Guidelines & Development Standards, dated August 21, 2013; as well as the conditions of Vesting Tentative Tract Map 3694 as mentioned above; each of which is subject to modification and amendment as the development of the property in River Islands Phase 1 proceeds. Copies of all of the documents referred to above are available from the Master Developer upon request.

**Flood Protection.** The River Islands Phase 1 site was originally flood protected by federal project levees that were part of the Lower San Joaquin River Flood Control Project surrounding the Stewart Tract and offering a 50-year level of protection. The levees for the River Islands at Lathrop development are located within the local jurisdiction of the Reclamation District, which is authorized to maintain and operate the flood protection system. A new interior levee system was constructed in River Islands Phase 1 in 2005 and 2006 in accordance with a conditional letter of map revision (the "**CLOMR**") issued by the Federal Emergency management Agency ("**FEMA**").

Proceeds of the Series 2005-A Bonds and the Series 2005-B Bonds were used to construct certain levee improvements. The levee improvements were adequate to remove approximately 900 acres of land within River Islands Phase 1 from the 100-year flood plain as certified by FEMA, in April 2006, when it issued a letter of map revision removing the 900 acre portion of property located in River Islands Phase 1 from a Zone AE to a Zone X. The Master Developer is processing state permits to remove the 900 acres from a 200-year flood area. Pursuant to the CLOMR, if the Master Developer continues to construct levee improvements needed for the remaining property in River Islands Phase 1 in accordance with specified design standards, FEMA will remove them from a Zone AE designation to the Zone X, 100-year flood protected designation.

**Water Availability.** The City is the public agency responsible for providing water service for River Islands Phase 1. Pursuant to a joint communities facility agreement between the Authority and the City, and by reason of the payment of a portion of the costs of construction of a water facility with proceeds of the Prior Bonds, the Authority is entitled to approximately 3,500 acre-feet of water. Specifically, pursuant to this joint community facility agreement, the Authority used the Series 2003-A Bond proceeds to fund 42.54% of the City's payment obligation with respect to the South County Water Supply Project of the South San Joaquin Irrigation District (the "SSJID"), and in return is entitled to receive an allotment of water sufficient to supply approximately 7,000 units. In addition to the foregoing, a portion of the proceeds of the Series 2003-B Bonds was paid to the City to finance a portion of the costs of design and construction, including land acquisition, of a City-owned ground water well and related treatment facilities and pipelines to connect the well site to the City's existing water system; however, that well has not yet been placed in service. The City has completed construction of the ground water well. See "THE DISTRICT – Joint Community Facilities Agreements – City of Lathrop" and "THE DISTRICT – The Improvements."

It is expected that the Authority, in the future, will sell the water capacity purchased with proceeds of the Prior Bonds that is not needed for the development and buildout of River Islands Phase 1 to be used for phase 2 of the River Islands at Lathrop development. The Fiscal Agent Agreement requires that the net proceeds of any such water sales, after deduction of sales expenses, be deposited to the Improvement Fund, to be used to fund infrastructure improvements authorized to be funded by the District. In valuing the property in River Islands Phase 1, the Appraiser has taken into account the expected future proceeds of sales of the excess water capacity. See Appendix E – Summary of the Fiscal Agent Agreement and Appendix C – The Appraisal. It should be noted that any sale of water would need to be conducted by the City under the applicable joint community facilities agreement between the City and the Authority, and otherwise in compliance with applicable agreements between the City and SSJID. No assurances can be given that the City will act in compliance with the terms of that agreement regarding any such sale.

**Sewer Capacity.** The City has completed Stage 1 of the first phase expansion of the City's Water Recycling Plant No. 1, which will provide capacity for an initial 100,000 gallons per day to River Islands Phase 1. This initial allocation of sewer capacity will serve the first 385 single-family homes in River Islands Phase 1. An additional 770 single-family homes in River Islands Phase 1 will be served upon the completion of additional plant improvements in February of 2015. Sprayfields and storage ponds for the first 100,000 gallons were completed in 2006, and additional disposal will be developed as needed.

**Electrical Service.** Electrical service is provided to River Islands Phase 1 by the Irrigation District. The Irrigation District provides service, purchases certain transmission services and steps down power for retail delivery. Transmission is provided via an Interconnection Agreement between the Irrigation District and Pacific Gas & Electric. The

improvements financed with the proceeds of the Series 2007-A Bonds included the cost of the initial utility interconnection payment required under the Interconnection Agreement.

*Summary of Public Services to be Provided to River Islands Phase 1.* The providers below deliver the following public services to River Islands Phase 1:

Fire:	Lathrop/Manteca Fire Protection District
Police:	The City (through contract with County Sheriff)
Schools:	Banta Elementary School District, Tracy Unified School District
Recreation and Parks:	The City, and the Reclamation District (with respect to water-oriented recreation facilities)
Water and Sewer:	The City or the Irrigation District
Gas:	Pacific Gas & Electric Company
Electricity:	The Irrigation District
Telephone & Telecom:	Comcast and AT&T

### **Land Ownership and Current Special Tax Levy**

At the time of formation of the District, all of the property in the District was owned by Calafia, LLC and The Cambay Group, Inc. Calafia, LLC has since conveyed various parcels to governmental agencies (land used for roadways, parks, levees and lakes), and has sold a portion of the property to the Master Developer. In 2012, The Cambay Group, Inc. contributed all of the land that it then owned in the District (approximately 100 acres) to the Master Developer. In 2013, the Master Developer recorded four final subdivision maps creating 191 separate County Assessor's parcels for single-family home construction. Those lots have been sold to three homebuilders, who have acquired rights to purchase an additional 194 lots.

Table 1 below contains a listing of the owners of the property in the District as of July 1, 2014, as well as their share of the Fiscal Year 2014-15 Special Tax levy and corresponding County assessed value as of January 1, 2014, and estimated appraised value determined from the Appraisal.

**Table 1**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**

**Summary of Fiscal Year 2014-15 Tax Levy**  
**By Property Owner<sup>(1)</sup>**

Property Owner's Name	Number of Taxable Parcels	Actual Fiscal Year 2014-15 Special Tax	Percent of Actual Fiscal Year 2014-15 Special Tax <sup>(2)</sup>	FY 2014-15 Assessed Value <sup>(3)</sup>	Allocated Appraised Value <sup>(4)</sup>
Califia, LLC	15	\$4,156,752	77.2%	\$22,897,103	\$192,365,000
River Islands Development, LLC	8	1,045,706	19.4	7,248,584	77,712,000
Brookfield Windrift, LLC	61	86,825	1.6	4,575,000	18,916,000
CPG River Island Communities, LLC	46	47,113	0.9	3,460,000	14,264,000
River Island 68, LLC	34	45,603	0.8	2,618,000	10,543,000
Total	164	\$5,381,998	100.0%	\$40,798,687	\$313,800,000

(1) Ownership information is as of July 1, 2014.

(2) Amounts have been rounded.

(3) Based on the San Joaquin County Assessor Secured Tax Roll for Fiscal Year 2014-15.

(4) Allocates the appraised values of properties in River Islands Phase 1 based on an average appraised value per undeveloped acre and an average appraised value per residential lot. Based on the Appraisal. Does not include \$16,800,000 of appraised value associated with excess water capacity and land leases. Allocated appraised value is rounded to the nearest \$1,000. See Appendix C – “The Appraisal.”

Sources: San Joaquin County Assessor's Office, Smyers & Krauss Appraisal, LLC, Goodwin Consulting Group, Inc.

In reviewing the foregoing table, it should be noted that the Appraiser has determined that the overall bulk sale market value of the River Islands Phase 1 development as of December 31, 2014, was \$330,600,000, and the Appraiser has not assigned values to specific parcels. Also, the Appraiser does not assign any value to 433.9 acres of land within River Islands Phase 1 identified as “Designated Remainders,” and does not include 307 acres of land that are within the District but are not within River Islands Phase 1. See “THE DISTRICT—Property Values—Appraisal of Property in the District.”

Since July 1, 2014, building permits for all of the 191 lots sold to homebuilders have been issued by the City for the construction of detached single-family homes. Of these lots, as of December 5, 2014, the Appraiser reported that 65 of the homes were completed, 39 homes were under construction and 61 of the lots were in finished lot condition ready for home construction.

The Special Tax for fiscal year 2014-15 has been levied on all Taxable Property in the District, which includes parcels for which a building permit had been issued prior to June 1, 2014. Starting with the FY 2015-16 Special Tax levy and all subsequent Special Tax levies, the definition of Developed Property in the Rate and Method was amended to include all parcels for which a building permit was issued by June 30, 2014 of the preceding fiscal year.

The following Table 2 presents the Special Tax levy by classification of Taxable Property under the Rate and Method and the percent of Special Tax levied on each special tax category specified in the Rate and Method for the 2014-15 fiscal year.

**Table 2**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**

**Fiscal Year 2014-15 Development Summary**

Rate and Method Land Use Category	Number of Taxable Parcels	Maximum Fiscal Year 2014-15 Special Tax <sup>(1)</sup>	Actual Fiscal Year 2014-15 Special Tax <sup>(2)</sup>	Percent of Actual Fiscal Year 2014-15 Special Tax	Pro Rata Share of 2015 Bonds <sup>(3)</sup>	Assessed Valuation <sup>(4)</sup>	Allocated Appraised Value <sup>(5)</sup>
Developed Property <sup>(5)</sup>							
Single Family Detached Property (Lot Size >7,000 sq. ft.)	13	\$ 43,706	\$ 43,706	0.8%	\$ 1,278,974	\$ 993,000	\$ 4,031,000
Single Family Detached Property (Lot Size 5,801-7,000 sq. ft.)	21	57,014	57,014	1.1	1,668,408	1,575,000	6,512,000
Single Family Detached Property (Lot Size 4,801-5,800 sq. ft.)	13	32,207	32,207	0.6	942,492	975,000	4,031,000
Single Family Detached Property (Lot Size 4,000-4,800 sq. ft.)	2	4,240	4,240	0.1	124,067	150,000	620,000
Single Family Detached Property (Lot Size <4,000 sq. ft.)	0	0	0	0.0	0	0	0
Single Family Attached Property	0	0	0	0.0	0	0	0
Multi-Family Property	0	0	0	0.0	0	0	0
Non-Residential Property	0	0	0	0.0	0	0	0
Undeveloped Property <sup>(6)</sup>	115	31,926,551	5,244,832	97.5	153,481,059	37,105,687	298,606,000
Totals	164	\$32,063,718	\$5,381,998	100.0%	\$157,495,000	\$40,798,687	\$313,800,000

(1) Based on the Maximum Special Tax levy.

(2) Based on the actual levy of the Special Tax required to fund the Fiscal Year 2014-15 Special Tax Requirement.

(3) Allocated based on the proportionate share of Actual Fiscal Year 2014-15 Special Tax.

(4) Based on the San Joaquin County Assessor Roll for Fiscal Year 2014-15.

(5) Allocates the appraised values of River Islands Phase 1 properties based on an average appraised value per undeveloped acre and an average appraised value per residential lot. Based on the Appraisal produced by Smyer's & Krauss Appraisal, LLC. Does not include \$16,800,000 of appraised value associated with excess water capacity and land leases. Allocated appraised value is rounded to the nearest \$1,000. See Appendix C – "The Appraisal."

(6) Based on development status pursuant to the Rate and Method for Fiscal Year 2014-15.

Sources: San Joaquin County Assessor's Office, Southwest Securities, Inc., Smyers & Krauss Appraisal, LLC, Goodwin Consulting Group, Inc.

As previously noted, the Appraiser has determined that the bulk sale market value of the River Islands Phase 1 development as of December 31, 2014, was \$330,600,000, and the Appraiser did not assign values to specific parcels. Also, the Appraiser does not assign any value to 433.9 acres of land within River Islands Phase 1 identified as "Designated Remainders," and does not include 307 acres of land that are within the District but are not within River Islands Phase 1. See "THE DISTRICT—Property Values—Appraisal of Property in the District."

## Property Values

The value of property within the District is an important factor in determining the investment quality of the 2015 Bonds. If a property owner defaults in the payment of the Special Tax, the Authority's primary remedy is to foreclose on the delinquent property in an attempt to obtain funds with which to pay the delinquent Special Tax. The Special Tax is not a personal obligation of the owners of the property. A variety of economic, political, and natural



occurrences incapable of being accurately predicted can affect property values. See “SPECIAL RISK FACTORS—Property Value.”

***Appraisal of Property in the District.*** The Authority has commissioned the Appraisal of the taxable property in the District constituting Phase 1 of the River Islands at Lathrop development in connection with the issuance of the 2015 Bonds. The property in the District includes an additional 307 acres not included in the Appraisal anticipated to be developed in conjunction with Phase 2 of the River Islands at Lathrop development. The Appraisal estimates the market value of the appraised property as of December 31, 2014, based upon the assumptions and research described in the Appraisal. **The Appraisal prepared by the Appraiser at the request of the Authority APPENDIX C to this Limited Offering Memorandum and should be read in its entirety for an explanation of the methodology and the assumptions underlying and the conditions limiting the valuation conclusions contained therein. Neither the Authority nor the District makes any representation as to the accuracy or completeness of the Appraisal.**

The Appraisal provides a bulk sale market value estimate of the fee simple interest of the appraised parcels, taking into account existing land use entitlements. Based upon the analysis and research set forth in the Appraisal and the assumptions and limiting conditions contained therein, the estimated bulk sale market value for the properties in the River Islands Phase I development which are subject to the Special Tax is \$330,600,000. This amount does not include the benefit of the Improvements that are expected to be financed with proceeds of the 2015B Bonds (see “PLAN OF FINANCING — The Improvements” and “THE DISTRICT — The Improvements”).

The Appraisal does not include components for future liens or indebtedness, which may be imposed by the Authority or by other public entities. As described under the heading “SECURITY FOR THE 2015 BONDS — Issuance of Additional Bonds,” if certain requirements for the issuance of Parity Bonds are met, the Authority anticipates issuing Parity Bonds to finance additional infrastructure improvements for the District. The Authority has not covenanted, and in many instances does not have the legal ability, to restrict other entities from imposing indebtedness, which may be secured by a lien on the taxable property in the District which is on a parity with the Special Tax. See “THE DISTRICT — Direct and Overlapping Governmental Obligations” and “SPECIAL RISK FACTORS — Parity Taxes and Special Assessments.” A number of economic, political, and natural occurrences may adversely affect the value of the property as expressed in the Appraisal. See “SPECIAL RISK FACTORS.”

In preparing the Appraisal, it was necessary to estimate the future value of the property in the River Islands Phase 1 development based on a variety of indicators of value and future conditions that cannot be predicted with certainty at this time. The conclusions drawn in the Appraisal are based on the review of Vesting Tentative Map No. 3694 (with respect to which the Master Developer has submitted to the City changes for approval, as described under the heading “THE DISTRICT — River Islands Phase 1”), and certain representations of the Master Developer, and the conclusions may be different if there are changes made to the plans for construction in the District. The Appraisal contains a list of “contingent and limiting conditions” that should be read by each prospective purchaser of the 2015 Bonds. See Appendix C hereto. Because the Appraiser has arrived at an estimate of market value based upon certain assumptions, which may or may not be fulfilled, no assurance can be given that any particular parcel will be developed in accordance with the Appraiser’s projections. If any parcels become delinquent due to unpaid Special Taxes and are foreclosed upon, there can be no assurance that any bid will be received for such property or that any bid received or resale price will be sufficient to pay such delinquent installments (plus costs and penalties). See “SECURITY FOR THE 2015 BONDS — Covenant for Superior Court Foreclosure.”



Based on the values assigned in the Appraisal, subject to the assumptions and premises contained in the Appraisal, the ratio of the aggregate bulk sale market value of the property in River Islands Phase 1 (\$330,600,000) to the initial aggregate principal amount of the 2015 Bonds (\$157,495,000), is 2.09 to 1.

In addition to the Appraisal, a Demand Analysis (the “**Demand Analysis**”) of River Islands Phase 1, dated December, 2014, was undertaken by Meyers Research. The expected demand for single-family homes, as reflected in the Demand Analysis, is generally consistent with the Appraiser’s estimation of absorption of such homes through 2018 (the time period covered by the Demand Analysis) in the Appraisal. See Appendix D—“Market Demand Analysis.” None of the Authority, the District or the Underwriter makes any representation as to the accuracy or completeness of the Demand Analysis.

**Assessed Valuation.** The valuation of real property in the District for purposes of ad valorem taxation is established by the County Assessor. Assessed valuations are reported at 100% of the full cash value of the property, as defined in Article XIII A of the California Constitution. Article XIII A of the California Constitution defines “full cash value” as the appraised value as of February 1, 1975, plus adjustments not to exceed 2% per year to reflect inflation, and requires assessment of “full cash value” upon change of ownership or new construction. Accordingly, the gross assessed valuation of any particular parcel presented in this Limited Offering Memorandum is not expected to be representative of the actual market value of that parcel.

The fiscal year 2014-15 total assessed value of Taxable Property in the District is \$40,798,687. The following Table 3 shows the historical assessed valuation for the Taxable Property in the District for fiscal years 2008-09 through 2014-15 and the historical growth rate for Taxable Property in the District for fiscal years 2008-09 through 2014-15.

**Table 3**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**

**Annual Change in Assessed Value (Taxable Property)**

<u>Fiscal Year</u>	<u>Number of Parcels Subject to Levy</u>	<u>Assessed Value<sup>(1)</sup></u>	<u>Percent Change in Assessed Value</u>
2008-09	17	\$29,240,186	N/A
2009-10	17	\$29,824,911	2.0
2010-11	17	\$29,754,055	-0.2
2011-12	17	\$29,977,857	0.8
2012-13	17	\$30,577,359	2.0
2013-14	18	\$29,684,389	-2.9
2014-15	164	\$40,798,687	37.4

(1) Based on the applicable San Joaquin County Assessor Roll for each fiscal year.

Source: San Joaquin County Secured Tax Rolls, as compiled by Goodwin Consulting Group, Inc.

Notwithstanding the County Assessed Values for the property in the District described above, as previously noted, that the Appraiser has determined that the bulk sale market value of the River Islands Phase 1 development as of December 31, 2014, was \$330,600,000. Also, the Appraiser does not assign any value to 433.9 acres of land within River Islands Phase 1 identified as “Designated Remainders,” and does not include 307 acres of land that are within

the District but are not within River Islands Phase 1. See “THE DISTRICT —Property Values — Appraisal of Property in the District.”

### **Value-to-Burden Ratio**

*General Information Regarding Value-to-Burden Ratios.* The value-to-burden ratio on bonds secured by special taxes will generally vary over the life of those bonds as a result of changes in the value of the property that is security for the special taxes and the principal amount of the bonds.

In comparing the aggregate assessed value of the real property within the District and the principal amount of the 2015 Bonds, it should be noted that an individual parcel may only be foreclosed upon to pay delinquent installments of the Special Taxes attributable to that parcel. The principal amount of the 2015 Bonds is not allocated equally among the parcels within the District; rather, the principal amount of the 2015 Bonds has been allocated among the parcels within the District based on their respective share of the total Special Tax levied in fiscal year 2014-15.

Economic and other factors beyond the property owners’ control, such as economic recession, deflation of land values, financial difficulty or bankruptcy by one or more property owners, or the complete or partial destruction of Taxable Property caused by, among other possibilities, earthquake, flood, fire or other natural disaster, could cause a reduction in the assessed value within the District. See “SPECIAL RISK FACTORS—Property Value” and “—Bankruptcy Delays.”

*Value-to-Burden Ratio Distribution.* Table 4 below sets forth the estimated value-to-lien ratios for the Taxable Property in the District based upon the County assessed values as of January, 2014, and based upon values assigned in the Appraisal.

**Table 4**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**

**Distribution of Value-to-Lien Burden Ratios (Taxable Property)**  
**(Including Overlapping Assessment and Special Tax Debt)**

**Based on Assessed Valuation<sup>(1)</sup>**

Value-to-Lien Burden Category	Number of Taxable Parcels	Actual Fiscal Year 2014-15 Special Tax <sup>(1)</sup>	Percent of Actual Fiscal Year 2014-15 Special Tax	Assessed Valuation Allocated Appraised Value <sup>(2),(6)</sup>	Percent of Total Valuation	Pro Rata Share of 2015 Bonds <sup>(3)</sup>	Total Debt Outstanding <sup>(4)</sup>	Percent of Total Burden	Average Value- to-Lien Burden Ratio <sup>(5)</sup>
5.00:1 to 9.99:1	57	\$ 21,419	0.4%	\$ 4,289,000	10.5%	\$ 626,786	\$ 690,503	0.4%	6.2
3.00:1 to 4.99:1	33	18,847	0.4	2,517,000	6.2	551,528	607,595	0.4	4.1
2.00:1 to 2.99:1	1	891	0.0	77,000	0.2	26,078	28,729	0.0	2.7
1.00:1 to 1.99:1	5	10,192	0.2	377,000	0.9	298,243	309,202	0.2	1.2
Less than 1.00:1	68	5,330,649	99.0	33,538,687	82.2	155,992,365	165,128,971	99.0	0.2
<b>Totals</b>	<b>164</b>	<b>\$5,381,998</b>	<b>100.0%</b>	<b>\$40,798,687</b>	<b>100.0%</b>	<b>\$157,495,000</b>	<b>\$166,765,000</b>	<b>100.0%</b>	<b>0.2</b>

**Based on Allocated Appraised Value<sup>(6)</sup>**

10.00:1 and above	91	\$ 41,157	0.76%	\$ 28,218,000	8.99%	\$ 1,204,392	\$ 1,326,827	0.80%	21.3
5.00:1 to 9.99:1	2	91,348	1.70	19,918,000	6.35	2,673,150	2,944,894	1.77	6.8
3.00:1 to 4.99:1	36	93,461	1.74	11,163,000	3.56	2,734,967	2,921,571	1.75	3.8
2.00:1 to 2.99:1	17	1,273,130	23.66	78,787,000	25.11	37,255,970	37,348,675	22.40	2.1
1.00:1 to 1.99:1	14	2,889,764	53.69	175,714,000	56.00	84,564,013	93,160,525	55.86	1.9
Less than 1.00:1 <sup>(6)</sup>	4	993,139	18.45	0	0.00	29,062,508	29,062,508	17.43	0.0
<b>Totals</b>	<b>164</b>	<b>\$5,381,998</b>	<b>100.0%</b>	<b>\$313,800,000</b>	<b>100.0%</b>	<b>\$157,495,000</b>	<b>\$166,765,000</b>	<b>100.0%</b>	<b>1.9</b>

Value-to-Lien Burden Ratio based on Total Appraised Value of \$330,600,000<sup>(7)</sup>:

2.0

(1) Based on the levy of the Special Tax required to fund the Fiscal Year 2014-15 Special Tax Requirement.

(2) Assessed values based on the San Joaquin County Assessor Roll for Fiscal Year 2014-15.

(3) Allocated based on Percent of Actual Fiscal Year 2014-15 Special Tax.

(4) Includes the initial principal amount of the 2015 Bonds, and the \$9,270,000 outstanding principal amount of Banta Elementary School District CFD No. 2011-1, 2011 Special Tax Bonds.

(5) Calculated by dividing the Assessed Valuation Column by the Total Debt Outstanding Column.

(6) Appraised Value is based on an average appraised value per undeveloped acre and an average appraised value per residential lot. Based on the Appraisal. Does not include \$16,800,000 of appraised value associated with excess water capacity and land leases. Allocated appraised value is rounded to the nearest \$1,000. See Appendix C – "The Appraisal."

(7) Based on the Appraised Value of River Islands Phase 1 property as of December 31, 2014 as described in the Appraisal and the Total Debt Outstanding.

Sources: San Joaquin County Assessor's Office, Southwest Securities, Inc., California Municipal Statistics, Inc., Smyers & Krauss Appraisal, LLC, Goodwin Consulting Group, Inc.

### **Special Tax Levies and Delinquencies**

The following Table 5 is a summary of Special Tax levies, collections and delinquency rates on Taxable Properties in the District for fiscal years 2008-09 through 2014-15, based on amounts levied and outstanding delinquencies as of January 15, 2015.

**Table 5**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**

**Special Tax Delinquency History**

Fiscal Year	Annual Special Tax Levied	Number of Parcels Subject to Levy	Amount Collected	Amount Delinquent <sup>(1)</sup>
2008-09	\$4,748,471	17	\$4,748,471	\$0
2009-10	5,476,051	17	5,476,051	0
2010-11	5,724,559	17	5,724,559	0
2011-12	4,189,739	17	4,189,739	0
2012-13	5,421,917	17	5,421,917	0
2013-14	5,421,515	18	5,421,515	0
2014-15	5,381,998	164	2,736,065 <sup>(2)</sup>	0

(1) Delinquencies are reported by the County as of January 15, 2015. Delinquent amount does not include penalties, interest or fees. The District is a participant in the County's Teeter Plan and as such receives from the County 100% of the proceeds of the Special Taxes levied but none of the penalties or interest in the case of delinquencies.

(2) Represents the amount of the Fiscal Year 2014-15 special tax levy received by January 15, 2015.

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

**Direct and Overlapping Governmental Obligations**

**General.** Property within the District is subject to general obligation and general fund overlapping debt. Also, there are various special taxes currently imposed upon property within the District in connection with community facilities districts created by the Authority, the Reclamation District and other taxing entities. However, the lien for the Special Taxes is co-equal to the lien for the community facilities districts and assessment districts, if any, and the lien for general property taxes. Additional indebtedness could be authorized by other public agencies at any time.

Presently, land within the District is subject to approximately \$124,014,106 of total outstanding tax and assessment debt, and general obligation and overlapping debt (including the 2015 Bonds, but not the Prior Bonds). To repay direct and overlapping debt the owners of the land within the District must pay the annual Special Taxes, special assessments, and the general property tax levy. The ability of the Authority to collect the Special Taxes could be adversely affected if additional debt is issued with respect to the Taxable Property in the District. The land, at any time, could become subject to additional parity debt either by the formation of additional community facilities districts or the imposition of other taxes and assessments by public agencies other than the Authority on behalf of the property owners within the District. The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of the landowners to pay the Special Taxes and may increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes.

**Overlapping Public Debt.** Contained within the boundaries of the District are certain overlapping local agencies providing public services and assessing property taxes, assessments, special taxes and other charges on the property in the District. Many of these local agencies have outstanding debt.

The current and estimated direct and overlapping obligations affecting the property in the District are shown in the following table. The table was prepared by California Municipal Statistics, Inc., and is included for general information purposes only. Neither the Authority

nor the Underwriter has independently verified the information in the table and they make no representation as to its completeness or accuracy.

**Table 6**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**

**Total Direct and Overlapping Indebtedness**

2014-15 Local Secured Assessed Valuation: \$40,999,042

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 1/1/15 (1)</u>
San Joaquin Delta Community College District General Obligation Bonds	0.063%	\$ 91,484
Tracy Joint Unified School District General Obligation Bonds	0.306	132,234
Banta School District General Obligation Bonds	9.363	58,985
Banta School District Community Facilities District No. 2011-1 Special Tax Bonds	100.	9,270,000
River Islands Public Finance Authority Community Facilities District No. 2003-1	100.	60,385,000 (2)
River Islands Public Finance Authority Community Facilities District No. 2011-1	100.	53,840,000 (3)
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$123,777,703
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
San Joaquin County Certificates of Participation	0.069%	\$104,643
City of Lathrop General Fund Obligations	1.896	131,760
TOTAL OVERLAPPING GENERAL FUND DEBT		\$236,403
 COMBINED TOTAL DEBT		 \$124,014,106 (4)

Ratios to 2014-15 Assessed Valuation:

Direct Debt (\$123,495,000) (5) .....	301.21%
Total Direct and Overlapping Tax and Assessment Debt.....	301.90%
Combined Total Debt .....	302.48%

- (1) Excludes the 2015 Bonds.
- (2) These are the Prior District Bonds being refunded in whole with proceeds of the 2015A-1 Bonds and the 2015A-2 Bonds.
- (3) These are the Prior Other District Bonds being refunded in whole with proceeds of the 2015A-1 Bonds.
- (4) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.
- (5) Includes the Prior Bonds and the Banta School District Community Facilities District No. 2011-1 Special Tax Bonds.

Source: California Municipal Statistics

***Other Potential Debt.*** The Authority may establish other community facilities and assessment districts that include property in the District to fund the infrastructure improvements needed to complete the development of the land in the District. The Authority has no control over the amount of additional debt payable from taxes or assessments levied on all or a portion of the Taxable Property within the District which may be incurred in the future by other governmental agencies having jurisdiction over all or a portion of the Taxable Property within the District. Furthermore, nothing prevents the owners of Taxable Property within the District from consenting to the issuance of additional debt by other governmental agencies which would be secured by taxes or assessments on a parity with the Special Taxes. To the extent such indebtedness is payable from assessments, other special taxes levied pursuant to the Act or taxes, such assessments, special taxes and taxes will be secured by liens on the Taxable Property within the District on a parity with the lien of the Special Taxes.

Accordingly, the debt on the property within the District could increase, without any corresponding increase in the value of the property therein, and thereby severely reduce the

estimated value-to-lien ratio that exists at the time the Bonds are issued. The imposition of such additional indebtedness could reduce the willingness and ability of the owners of the Taxable Property within the District to pay the Special Taxes when due. See “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

Moreover, in the event of a delinquency in the payment of Special Taxes, no assurance can be given that the proceeds of any foreclosure sale of Taxable Property with delinquent Special Taxes would be sufficient to pay the delinquent Special Taxes. See “SPECIAL RISK FACTORS—Property Value.”

***Other Overlapping Districts.*** In addition to the overlapping indebtedness described above, the property in the District is included within the boundaries of other governmental districts that have the power to levy annual assessments and special taxes on the property, but that do not have the ability to, or have not incurred any bonded indebtedness. The Irrigation District and the Reclamation District have levied, and are expected to continue to levy, assessment on the undeveloped land in the District to fund their operations and the operations of the Authority. In addition, the Authority, the Reclamation District and the City each have established community facilities districts under the act to fund various maintenance activities for public improvements, lakes and levees, which are expected to annually levy special taxes to pay for maintenance services.

### **Projected Debt Service Coverage**

The Maximum Special Tax that can be levied on Taxable Property in the District in any fiscal year is limited by the Rate and Method. See “SECURITY FOR THE 2015 BONDS—Special Tax” and “—Summary of Rate and Method.” Also, pursuant to Section 53321(d) of the California Government Code, the Special Tax levied against any Assessor’s parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency of default by the owner of any other Assessor’s parcel within the District by more than ten percent (10%) above the amount that would have been levied in the fiscal year had there never been any such delinquencies of defaults. See “SECURITY FOR THE 2015 BONDS—Summary of Rate and Method.

Table 7 set forth below sets forth information regarding the current annual Maximum Special Taxes that can be levied on Taxable Property in the Improvement Areas, and the related projected debt service coverage of the Special Taxes, after deduction of the Priority Administrative Expenses, over the scheduled debt service on the 2015 Bonds.



**Table 7**  
**River Islands Public Financing Authority**  
**Community Facilities District No. 2003-1**  
**(Public Improvements)**

**Estimated Maximum Taxing Capacity**

Year Ending September 1st	Maximum Special Taxes <sup>(1)</sup>	Priority Administrative Expenses <sup>(2)</sup>	2015 Bonds Debt Service	Estimated Maximum Taxing Capacity <sup>(3)</sup>
2015 <sup>(4)</sup>	\$ 5,381,998	\$ 90,000	\$ 4,852,700	1.09
2016	10,764,490	91,800	9,624,663	1.11
2017	10,979,780	93,636	9,821,863	1.11
2018	11,199,375	95,509	10,016,263	1.11
2019	11,423,363	97,419	10,212,363	1.11
2020	11,651,830	99,367	10,329,388	1.12
2021	11,884,867	101,355	10,535,588	1.12
2022	12,122,564	103,382	10,749,588	1.12
2023	12,365,015	105,449	10,975,738	1.12
2024	12,612,315	107,558	11,192,488	1.12
2025	12,864,562	109,709	9,394,338	1.36
2026	13,121,853	111,904	9,586,088	1.36
2027	13,384,290	114,142	9,773,338	1.36
2028	13,651,976	116,425	9,970,588	1.36
2029	13,925,015	118,753	10,170,788	1.36
2030	14,203,516	121,128	10,371,906	1.36
2031	14,487,586	123,551	10,582,869	1.36
2032	14,777,338	126,022	10,792,063	1.36
2033	15,072,884	128,542	11,008,963	1.36
2034	15,374,342	131,113	11,227,238	1.36
2035	15,681,829	133,735	11,455,575	1.36
2036	15,995,466	136,410	11,682,450	1.36
2037	16,315,375	139,138	11,914,075	1.36
2038	16,641,682	141,921	12,153,525	1.36
2039	16,974,516	144,759	12,398,600	1.36
2040	17,314,006	147,655	12,647,100	1.36
2041	17,660,286	150,608	12,901,825	1.36
2042	18,013,492	153,620	13,160,300	1.36
2043	18,373,762	156,692	13,420,050	1.36
2044	18,741,237	159,826	13,688,600	1.36
2045	19,116,062	163,023	13,962,925	1.36

(1) Based on the levy of the Maximum Special Tax assuming buildout of expected land uses in River Islands Phase 1, less approximately \$15,000 in special taxes as a result of anticipated prepayments through January 31, 2015.

(2) Equal to \$90,000 for FY 2014-15, increasing each fiscal year by an additional 2% of the amount in effect for the prior FY.

(3) Maximum Special Taxes, less Priority Administrative Expenses, divided by 2015 Bonds Debt Service. Pursuant to Section 53321(d) of the Government Code, the Special Tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency of default by the owner of any other Assessor's parcel within the District by more than ten percent above the amount that would have been levied in the fiscal year had there never been any such delinquencies of defaults.

(4) For the bond year ending September 1, 2015, the amount shown under the Maximum Special Taxes column reflects the actual special taxes levied in fiscal year 2014-15.

Source: Southwest Securities, Inc., Goodwin Consulting Group, Inc.

The Maximum Special Taxes are subject to adjustment from time to time as described under the heading "SECURITY FOR THE 2015 BONDS—Summary of Rate and Method-Alterations of the Special Tax." The Fiscal Agent Agreement permits the issuance of Parity Bonds, secured on a parity with the 2015 Bonds by the pledge of Special Tax Revenues and amounts in certain funds held under the Fiscal Agent Agreement. See "SECURITY FOR THE

2015 BONDS—Issuance of Additional Bonds.” No assurance can be given that Special Taxes levied on Taxable Property in the District will be collected as expected. See “SPECIAL RISK FACTORS.”

## **THE AUTHORITY**

### **In General**

The Authority was created as a joint exercise of powers agency pursuant to Section 6500, et seq., of the California Government Code (the “Joint Powers Act”) and a Joint Exercise of Powers Agreement, by and between the Irrigation District and the Reclamation District, dated January 23, 2003. On July 27, 2005, the Irrigation District and the Reclamation District entered into an Amended and Restated Joint Exercise of Powers Agreement, and on April 8, 2013, the Irrigation District, and the Reclamation District entered into a Second Amended and Restated Joint Exercise of Powers Agreement (the “JPA Agreement”), which JPA Agreement currently governs the Authority. The JPA Agreement authorizes the Authority, among other things, to provide financing for public capital improvements and to establish community facilities districts under the Act, all as authorized by the Joint Powers Act.

Under applicable California law, the Authority is a separate legal entity from the Irrigation District and the Reclamation District, and its debts and liabilities are not debts and liabilities of the Irrigation District or the Reclamation District, and such districts have no obligations whatsoever with respect to the Authority, the 2015 Bonds or the District.

### **Board of Directors and Staff**

The members of the Board of Directors of the Authority, who have served as such since September 2005, are as follows:

- Ken Buck, Board Chair: Mr. Buck is a registered civil engineer, and since 1994 has been a principal in the firm BA Associates located in Fremont, California. During the period from 1964 to 1994, he held various positions with the City of Fremont, California, and the City of Newark, California, including serving as Development Services Director, City Engineer, Public Works Director and Assistant City Manager for the City of Newark. He also was a registered traffic engineer and licensed building contractor with a Class B license, but those registrations are no longer active.
- Herb Moniz, Boardmember and Executive Director of the Authority: Mr. Moniz has over forty (40) years of experience in municipal, county, special district, economic development and risk management. During the periods from 1989-2002 and from 2004-2011 he was the City Manager of the City of San Ramon, California, and from 2002-2004 he was the City Manager of the Town of Colma, California. During his tenure as City Manager of San Ramon, Mr. Moniz also served as the Executive Director of the San Ramon Redevelopment Agency, the San Ramon Housing Authority, the San Ramon Public Financing Authority and the Dougherty Regional Fire Authority, and he also served as a board member of the Contra Costa County Economic Development Partnership, the Contra Costa County Risk Management Authority and the Contra Costa Waste Management Authority.
- Michael Rochman, Boardmember: Mr. Rochman is the Managing Director of the School Project for Utility Rate Reduction (SPURR), a California joint powers

authority whose members consist of public school districts, county offices of education, and community college districts. Mr. Rochman is responsible for managing all phases of SPURR's operations, including SPURR's various utilities procurement programs. He has served as the Managing Director since 1998, and before that he was an associate at the law firm of Farella Braun & Martel in San Francisco, California.

The officers of the Authority currently include Mr. Moniz as the Executive Director, Habib Shah as the interim Treasurer, and Karna Harrigfeld, Esq., as the Secretary. Mr. Shah currently is also an employee of The Cambay Group, Inc. and it is expected that he will be replaced as the interim Treasurer in the next few months by a person who will, by the terms of the JPA Agreement, also serve as the Treasurer of the Reclamation District. Ms. Harrigfeld is a partner at the law firm of Herum Crabtree Suntag in Stockton, California, which firm acts as the general counsel to the Authority. She also serves as the Secretary of the Reclamation District.

### **Conflicts of Interest**

Pursuant to the JPA Agreement, the board of trustees of the Reclamation District selects the members of the Board of Directors of the Authority. One of the directors of the Authority, as selected by the Board of Directors of the Authority, serves as the Executive Director of the Authority. Under the JPA Agreement, the treasurer of the Reclamation District also acts as the Treasurer of the Authority, and the secretary of the Reclamation District also serves as the Secretary of the Authority. The board of trustees of the Reclamation District currently consists of officers and/or directors of The Cambay Group, Inc. and the Master Developer. See "THE DISTRICT—The Master Developer."

Under applicable California law, the members of the board of trustees of the Reclamation District are determined by a vote of the owners of land in the Reclamation District, weighted by the respective operation and maintenance assessments upon the various landowners. The boundaries of the Reclamation District encompass the entire Stewart Tract, which includes the District and other adjacent land; however, Califia, LLC owns a majority of the land in the Reclamation District and has been responsible for a majority of the assessments levied to date by the Reclamation District. As Califia, LLC sells off land in connection with the development of the District and adjacent properties, its voting power with respect to the board of trustees of the Reclamation District will diminish.

It is also noted that the three officers of the Authority currently are the only Staff members of the Authority. The Authority has entered into an Amended and Restated Agreement to Provide Services, as of February, 2014, with the Master Developer whereby the Master Developer has agreed to provide to the Authority all office and accounting related services for the Authority, and all services necessary to oversee and implement maintenance of public improvements and infrastructure financed by the Authority in connection with the River Islands at Lathrop, to the extent not maintained by the City. The Authority has established its Community Facilities District No. 2013-1 (River Islands Public Services), which includes land in the District, to fund such maintenance activities, and may eventually employ its own staff to conduct such activities. The Authority has entered into an Amended and Restated Agreement to Share Services with the Reclamation District, and a similar agreement with the Irrigation District, by which the Authority is responsible, currently by means of its agreement with Master Developer mentioned above, to provide the same services for the Reclamation District and the Irrigation District which are provided to the Authority by the Master Developer. To date, overhead expenses of the Authority have been funded by the Reclamation District by means of levies on the owners of land within the jurisdiction of the Reclamation District, primarily being Califia, LLC.

The Authority is required by applicable law, and has obtained, annual audits of its financial books and records. Also, the Board of Directors is subject to the conflict of interest provisions of Section 1090 of the California Government Code (which prohibits members of the Board of Directors from being financially interested in any contract made by them in their official capacity, or by the Board of Directors), and all actions by the Board of Directors to date have been in compliance with said Section 1090. As stated under “THE DISTRICT – History of the District – Joint Community Facilities Agreements,” the Authority is a party to various joint community facilities agreements, including several with the City, and it is expected that virtually all of the public improvements funded by the District, upon completion, will be conveyed to other public agencies including the City, the Reclamation District and the Irrigation District. In any event, the Authority intends to be bound by all covenants and obligations under the Fiscal Agent Agreement.

Since September of 2005, the same three independent persons have served as the members of the Board of Directors of the Authority. However, as authorized pursuant to the JPA Agreement, members of the Reclamation District board of trustees in the future may elect to appoint themselves to act as the members of the Board of Directors of the Authority; furthermore, members of the Reclamation District board of trustees have the power to appoint other persons as members of the Board of Directors of the Authority. Since the Authority will be imposing the Special Tax on the land within the District which currently include Califia, LLC and the Master Developer as owners the majority of such land, and the Authority will be responsible for exercising remedies in the event of a default in the payment of Special Taxes, there is the potential for a conflict when both parties have the same individuals in positions of power or have the power to appoint those individuals who will exercise this power.

### **SPECIAL RISK FACTORS**

*The following is a description of certain risk factors affecting the District, the property owners in the District, the parcels subject to the levy of Special Taxes and the payment of and security for the 2015 Bonds. The following discussion of risks is not meant to be a complete list of the risks associated with the purchase of the 2015 Bonds and does not necessarily reflect the relative importance of the various risks. Potential investors are advised to consider the following factors along with all other information in this Limited Offering Memorandum in evaluating the investment quality of the 2015 Bonds. There can be no assurance that other risk factors will not become material in the future.*

#### **No General Obligation of the Authority or the District**

The Authority’s obligations under the 2015 Bonds and under the Fiscal Agent Agreement are limited obligations of the Authority on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues and amounts in the Special Tax Fund, the Bond Fund and the Reserve Fund. The 2015 Bonds are neither general or special obligations of the Authority nor general obligations of the District, but are limited obligations of the Authority for the District payable solely from the revenues and funds pledged therefor and under the Fiscal Agent Agreement.

#### **Concentration of Ownership**

As of July 1, 2014, Califia, LLC owned land in the District subject to 77.2% of the fiscal year 2014-15 Special Tax levy, and the Master Developer owned 19.4% of the land in the District subject to the fiscal year 2014-15 Special Tax levy. See “THE DISTRICT—Land Ownership and Current Special Tax Levy.” While sales of land in the District to homebuilders is ongoing, and sales of homes by homebuilders is ongoing, such sales are expected to occur over an extended period of time. The lack of diversity in the obligation to pay the Special Tax

represents a significant risk to the owners of the 2015 Bonds in that the Master Developer's (and to a certain extent Califia, LLC's) ability to pay the Special Tax will be dependent on the success of the River Islands Phase 1 development. Failure of any owner of a significant portion of the land in the District to pay the annual Special Tax when due could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of the delinquent parcels of land upon a foreclosure or otherwise. In that event, there could be a default in payments of the principal of, and interest on, the 2015 Bonds. See "SPECIAL RISK FACTORS – Insufficiency of Special Tax Revenues" below. It should be noted, however, that neither Califia, LLC nor the Master Developer has ever failed to timely remit when due Special Taxes levied on property they own in the District. See "THE DISTRICT—Special Tax Levies and Delinquencies."

### **Failure to Complete Project**

The River Islands Phase 1 development includes construction of homes and apartments, the development of commercial town center and employment center areas, as well as the construction of public facilities and other site work. While construction of some of the needed public infrastructure and levee improvements have been completed, the remainder of the infrastructure and levee construction is expected to be completed over a \_\_\_ year period. Any event that significantly impacts the ability to complete River Islands Phase 1 on a timely basis (such as strikes or other work stoppages, loan defaults, adverse weather conditions, catastrophic events such as earthquakes or other natural events, or other similar events) could cause the value of the land within the District to be less than that estimated by the Appraiser and could affect the willingness and ability of the landowners in the District to pay the Special Taxes when due. See "THE DISTRICT—River Islands Phase 1" for additional information regarding the status of development in the District.

### **Payment of the Special Tax is not a Personal Obligation**

The owners and users of the parcels in the District are not personally obligated to pay the Special Tax. Rather, the Special Tax is an obligation that is secured only by a lien against the Taxable Property on which it is levied. If the value of a Taxable Property is not sufficient to secure fully the payment of the Special Tax levied and to be levied on it, the Authority has no recourse against the owners of the Taxable Property.

### **Property Value**

The value of land within the District is a critical factor in determining the investment quality of the 2015 Bonds. If a landowner defaults in the payment of the Special Tax, the only legal remedy is the institution of a superior court action to foreclose on the delinquent Taxable Property in an attempt to obtain funds with which to pay the Special Tax. The Authority commissioned the Appraisal Report for the land in the District subject to the levy of the Special Tax in which the Appraiser concluded that, as of December 31, 2014, the market value of the property is \$330,600,000. See Appendix C—APPRAISAL REPORT. The Appraisal Report is subject to certain assumptions, limited conditions and stipulations contained in the Appraisal Report, the text of which is in Appendix C hereto. Prospective purchasers of the 2015 Bonds should not assume that the land within the District could be sold for the appraised amount described in the Appraisal Report at a foreclosure sale for delinquent Special Taxes. The Authority makes no representation as to the accuracy of the Appraisal Report.

The value of the Taxable Property in the District could be adversely affected by economic factors beyond the Authority's control, 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 in the event of sale or foreclosure; (ii) changes in real estate tax rates and other expenses of owning Taxable Property, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, wildfire, earthquakes, tsunamis and floods), which may result in uninsured losses. See “SPECIAL RISK FACTORS—Natural Disasters and Potential Drought Conditions.”

No assurances can be given that the real property subject to a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay the delinquent Special Tax installment. Although the Act authorizes the Authority to cause such an action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the Authority with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale in any such action if there is no other purchaser at such sale. The Authority is not obligated and does not expect to be a bidder at any such foreclosure sale. See “SECURITY FOR THE BONDS—Covenant for Superior Court Foreclosure” and “SPECIAL RISK FACTORS—Proceeds of Foreclosure Sales.”

### **Exempt Properties**

Certain properties are exempt from the Special Tax in accordance with the Rate and Method. In addition, the Act provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the District acquired by a public entity through a negotiated transaction, or by gift or devise, that is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax. It is possible that property acquired by a public entity following a tax sale or foreclosure based upon failure to pay taxes could become exempt from the Special Tax. 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, for outstanding Bonds only, is to be treated as if it were a special assessment. The constitutionality and operation of these provisions of the Act have not been tested. See “SECURITY FOR THE 2015 BONDS—Special Tax.”

In particular, insofar as the Act requires payment of the Special Tax by a federal entity acquiring property within the District, it may be unconstitutional. See “SPECIAL RISK FACTORS—FDIC/Federal Government Interests in Properties.” If for any reason property within the District becomes exempt from taxation by reason of ownership by a nontaxable 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 properties 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 the timely payment of the Special Tax. Moreover, if a substantial portion of land within the District becomes exempt from the Special Tax because of public ownership, or otherwise, the maximum rate that could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the 2015 Bonds when due and a default would occur with respect to the payment of such principal and interest.

The Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.



## **Parity Taxes and Special Assessments**

The Special Taxes and any penalties thereon will constitute liens against the taxable parcels in the District until they are paid. Such lien is on a parity with all special taxes and special assessments levied by other agencies and is coequal to and independent of the lien for general property taxes regardless of when they are imposed upon the taxable parcel. The Special Taxes have priority over all existing and future private liens imposed on the property. The Special Tax has the same lien priority with respect to the Taxable Property. See “THE DISTRICT—Direct and Overlapping Governmental Obligations” for a description of existing overlapping liens on the Taxable Property.

The Authority has no control over the ability of other entities and districts to issue indebtedness secured by special taxes or assessments payable from all or a portion of the taxable property within the District subject to the levy of Special Taxes. In addition, the landowners within the District may, without the consent or knowledge of the Authority, petition other public agencies to issue public indebtedness secured by special taxes or assessments, and any such special taxes or assessments may have a lien on such property on a parity with the Special Taxes. The imposition of additional indebtedness could reduce the willingness and the ability of the property owners within the District to pay the Special Taxes when due.

## **Insufficiency of Special Taxes**

In order to pay debt service on the 2015 Bonds, it is necessary that the Special Taxes levied against taxable parcels within the District be paid in a timely manner. The Authority has established the Reserve Fund in an amount equal to the Reserve Requirement to pay debt service on the 2015 Bonds and any Parity Bonds to the extent Special Taxes are not paid on time and other funds are not available. See “SECURITY FOR THE 2015 BONDS—Reserve Fund” and Appendix E—“Summary of the Fiscal Agent Agreement.” Under the Fiscal Agent Agreement, the Authority has covenanted to maintain in the Reserve Fund an amount equal to the Reserve Requirement; subject, however, to the limitation that the Authority may not levy the Special Tax in any fiscal year at a rate in excess of the Maximum Special Tax rates permitted under the Rate and Method. In addition, the Act imposes certain limitations on increases in Special Taxes on residential parcels as a consequence of delinquencies in payment of the Special Taxes. See “SECURITY FOR THE 2015 BONDS—Special Tax.” Consequently, if a delinquency occurs, the Authority may be unable to replenish the Reserve Fund to the Reserve Requirement due to the limitation of the Maximum Special Tax rates. If such defaults were to continue in successive years, the Reserve Fund could be depleted and a default on the 2015 Bonds would occur if proceeds of a foreclosure sale did not yield a sufficient amount to pay the delinquent Special Taxes.

The Authority has made certain covenants regarding the institution of foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the 2015 Bonds. See “SECURITY FOR THE 2015 BONDS—Covenant for Superior Court Foreclosure.” If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of delinquent Special Taxes to protect its security interest.

## **Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the 2015 Bonds are derived, are being billed to the Taxable Property within the District on the regular property tax bills sent to owners of the parcels. Such Special Tax installments are due and payable, and bear the same penalties and

interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Special Tax installment payments in the future. See "SECURITY FOR THE 2015 BONDS—Reserve Fund" and "-Covenant for Superior Court Foreclosure" for a discussion of the provisions which apply, and procedures which the District is obligated to follow under the Fiscal Agent Agreement, in the event of delinquency in the payment of Special Tax installments. See also "THE DISTRICT—Special Tax Levies and Delinquencies" for historical Special Tax delinquency history.

### **Bankruptcy Delays**

The payment of the Special Tax and the ability of the Authority to commence a superior court action to foreclose the lien of a delinquent unpaid Special Tax, as discussed in "SECURITY FOR THE 2015 BONDS—Covenant for Superior Court Foreclosure," may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State of California relating to judicial foreclosure. Any legal opinion to be delivered concurrently with the delivery of the 2015 Bonds (including Bond Counsel's approving legal opinion) will be qualified as to the enforceability of the various legal instruments by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, by the application of equitable principles and by the exercise of judicial discretion in appropriate cases.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, bankruptcy of a property owner or any other person claiming an interest in the property could result in a delay in superior court foreclosure proceedings and could result in the possibility of Special Tax installments not being paid in part or in full. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the 2015 Bonds.

### **Proceeds of Foreclosure Sales**

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax, the Authority Council, as the legislative body of the District, may order that the Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. The Authority has covenanted in the Fiscal Agent Agreement that it will, under certain circumstances, commence such a foreclosure action. See "SECURITY FOR THE 2015 BONDS—Covenant for Superior Court Foreclosure."

No assurances can be given that a taxable parcel in the District that would be subject to a judicial foreclosure sale for delinquent Special Taxes will be sold or, if sold, that the proceeds of such sale will be sufficient to pay the delinquent Special Tax installment. Although the Act authorizes the Authority to cause such an action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the Authority with regard to purchasing or otherwise acquiring any lot or parcel of property sold at the foreclosure sale in any such action if there is no other purchaser at such sale and the Authority has not in any way agreed nor does it expect to be such a bidder.

In a foreclosure proceeding, a judgment debtor (i.e., the property owner) has 140 days from the date of service of the notice of levy in which to redeem the property to be sold and may have other redemption rights afforded by law. If a judgment debtor fails to so redeem and the property is sold, his only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale if the purchaser at the sale was the judgment

creditor. If a foreclosure sale is thereby set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made.

If foreclosure proceedings were ever instituted, any holder of a mortgage or deed of trust on the affected property could, but would not be required to, advance the amount of the delinquent Special Tax installment to protect its security interest.

In the event such superior court foreclosure or foreclosures are necessary, there could be a delay in principal and interest payments to the owners of the 2015 Bonds pending prosecution of the foreclosure proceedings and receipt by the District of the proceeds of the foreclosure sale, if any. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions and other factors beyond the control of the Authority, including delay due to crowded local court calendars or legal tactics and, in any event could take several years to complete. In particular, bankruptcy proceedings involving the Landowner or any other owner of a taxable parcel in the District could cause a delay, reduction or elimination in the flow of Special Tax Revenues to the Fiscal Agent. See “SPECIAL RISK FACTORS—Bankruptcy Delays.”

### **Natural Disasters and Potential Drought Conditions**

The value of the Taxable Property in the future can be adversely affected by a variety of natural occurrences, particularly those that may affect infrastructure and other public improvements and private improvements on the Taxable Property and the continued habitability and enjoyment of such private improvements. Such occurrences include, without limitation, wildfire, earthquakes and floods. Known active faults that could cause significant ground shaking in the District include, but are not limited to, the San Andreas Fault and the Irvine/Inglewood Fault.

One or more of such natural disasters could occur and could result in damage to improvements of varying seriousness. The damage may entail significant repair or replacement costs and that repair or replacement may never occur either because of the cost, or because repair or replacement will not facilitate habitability or other use, or because other considerations preclude such repair or replacement. Under any of these circumstances, the value of the Taxable Property may well depreciate or disappear.

From time to time the desert southwest and much of California experiences extended drought conditions. In recent years, rainfall and snowpack has approximated historic normal conditions. Water service within the District is provided by the South San Joaquin Irrigation District and there can be no assurance that any current or future drought conditions will not adversely affect the South San Joaquin Irrigation District’s ability to do so.

### **Animal Life and Protected Species**

Various special status species may be present within or adjacent to the land in the District including, but not limited to, the Riparian Brush Rabbit, Valley Elderberry Longhorn Beetle, Giant Garter Snake, Western Pond Turtle, Swainson’s Hawk and other raptors, nesting birds, and Burrowing Owls. These species are protected under federal and/or California law and capturing, harming or interfering with these species or their habitats may be punishable by law. To protect the Riparian Brush Rabbit and enhance its habitat, Califia, LLC granted a conservation easement over an approximately 2.3-acre area within Paradise Cut in the vicinity of the District to Strata Habitat, a non-profit organization whose primary purpose is to preserve land in its natural open space condition.

Any future action by the State or federal governments to protect species located on or adjacent to the property within the District could negatively affect the Master Developer's ability to complete the River Islands Phase 1 development as currently anticipated. This, in turn, could reduce the likelihood of timely payment of the Special Taxes and would likely reduce the value of the land estimated by the Appraiser and the potential revenues available at a foreclosure sale for delinquent Special Taxes.

### **Archaeological and Cultural Resources**

Evidence of Native American occupation, human bone fragments and other materials were found during surveys and testing conducted for River Islands Phase I. If, as the land within the District is developed, human remains, archaeological or cultural resources are found, there will need to be compliance with all local, state and federal requirements regarding such materials, some of which are included in the Conditions of Approval and the Mitigation Measures of the SEIR for River Islands Phase 1. Among those requirements are the following:

If artifacts or unusual amounts of stone, bone or shell are uncovered during construction activities, work within 50 feet of the specific construction site at which the suspected resources have been uncovered shall be suspended, and the City shall be immediately contacted. At that time, the City shall retain a professional archaeological consultant to conduct a field investigation of the specific site and recommend mitigation deemed necessary for the protection or recovery of any cultural resources concluded by the archaeologist to represent significant or potentially significant resources. The City will implement the mitigation prior to the resumption of construction activities at the construction site.

If human remains are discovered at any project construction sites during any phase of construction, work within 50 feet of the remains shall be suspended immediately and the City and the County Coroner shall be immediately notified. If the remains are determined by the County Coroner to be Native American, the Native American Heritage Commission (the "NAHC") shall be notified and the guidelines of the NAHC shall be adhered to in the treatment and disposition of the remains. The City shall also retain a professional archaeological consultant. The archaeologist shall conduct a field investigation of the specific site and consult with the Most Likely Descendant identified by the NAHC. As necessary, the archaeological consultant may provide professional assistance to the Most Likely Descendant including the excavation and removal of the human remains. The City will implement any mitigation prior to the resumption of activities at the site where the remains were discovered.

Any further discoveries of human remains, archaeological or cultural resources within the District could negatively affect the Master Developer's ability to timely complete the River Islands Phase 1 development as planned and or the ability of homebuilders and developers of the commercial property in the District to complete homes and such commercial development. This, in turn, could reduce the likelihood of timely payment of the Special Taxes and would likely reduce the value of the land estimated by the Appraiser and the potential revenues available at a foreclosure sale for delinquent Special Taxes.

### **Hazardous Substances**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Superfund Act," is the most well-

known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The presence of hazardous materials within and near River Islands Phase 1 development was investigated by The Denali Group ("Denali"). Its findings are reported in the documents titled "Phase I Environmental Site Assessment, Stewart Tract, Lathrop, California 95330," dated February 5, 2001, "Updated Phase I Environmental Site Assessment, Stewart Tract Properties, San Joaquin County, Lathrop, California," dated April 10, 2003, and "Phase II Environmental Site Assessment, RILCO Farm Operations Center, River Islands at Lathrop, Lathrop, California," dated March 24, 2006 (the together, "Site Assessment"). A brief summary of the findings of the Site Assessment is as follows.

The land within the District was used for pasture, field and row crops, orchards and other agricultural operations since at least 1937. An airstrip, constructed homes, mobile homes, septic tanks and leach fields, waste disposal areas (used for dumping and/or burning household or farm refuse), agricultural drains, and barns, storage buildings, maintenance buildings, and other agriculture-related structures were formerly located on the site. Above-ground diesel, gas and fertilizer storage tanks, septic tank, lube-oil pit, pesticide storage facility, equipment storage facilities, maintenance shop, and other related facilities were formerly located on or near the District. Agriculture-related operations on or near the District included, but were not limited to, mixing and loading of pesticides and fertilizers.

Due to the former uses and operations on and near the District, Denali tested soil and/or groundwater samples for petroleum hydrocarbons, BTEX (benzene, toluene, ethylbenzene and xylenes -- a group of volatile organic compounds found in gasoline and other petroleum products), MTBE (a gasoline additive whose use has been phased out due to its association with groundwater contamination), halogenated volatile organic compounds, polychlorinated biphenyl (PCBs), pesticides, polynuclear aromatic hydrocarbons (a byproduct of fuel burning), RCRA 8 metals (arsenic, lead, mercury and other metals), and total nitrogen. Of the foregoing potential contaminants, total petroleum hydrocarbons as diesel, the organochlorine pesticides chlordane, p,p-DDE and p,p-DDT, and RCRA metals were detected in some soil samples at concentrations below their respective U.S. Environmental Protection Agency Environmental (USEPA) Screening Level. Total petroleum hydrocarbons as diesel and MTBE were detected in some groundwater samples below their respective USEPA Environmental Screening Level. Total nitrate was also detected in some groundwater samples at concentrations below its Maximum Contaminant Level, a drinking water standard established by the USEPA. Denali concluded that contaminants detected at concentrations below the Environmental Screening Level would not be a concern to residential development.

In addition to the facilities described above, six underground storage tanks (USTs) were removed from the District in 1989. Following the removal, the UST locations were backfilled. Also reported on or near the District was a 1990 release of the herbicide Surflan into a ditch. No soil or groundwater samples were collected for analysis when the USTs were removed or in connection with the Surflan release, and the Master Developer makes no representation as to the presence or absence of contaminants in soil or groundwater associated with the USTs or the Surflan release. Groundwater monitoring data obtained in 1999 from 12 wells on or near the District did not indicate the presence of organochlorine pesticides or chlorinated herbicides in groundwater.



## **Valley Fever**

Valley Fever (“Coccidioimycosis”), a potentially serious illness caused by a fungus that lives in the soil in the southwestern United States, is highly endemic in the San Joaquin Valley and the number of cases has significantly increased over the last 10 to 15 years. The seeds, or spores, of the fungal organism become wind-borne and are inhaled into the lungs where the infection starts. In recent years, the City of Tracy, whose city limit is approximately three miles from the boundary of the District, reported the highest number of cases in San Joaquin County. The illness may present flu- or pneumonia-like symptoms such as aches, pains, night sweats, chest pain, cough, rash, and fever. In its most severe form, Valley Fever spreads from the lungs through the blood stream to skin, bones and membranes surrounding the brain, and can be fatal. Construction and farm workers are among the individuals most likely to be exposed to Valley Fever.

Any outbreak of Valley Fever could negatively affect the Master Developer’s and Califia, LLC’s ability to sell property in the development as planned. This, in turn, could reduce the value of the land estimated by the Appraiser and the potential revenues available at a foreclosure sale for delinquent Special Taxes.

## **Disclosure to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax, even if the value of the property is sufficient to justify payment, may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The Authority has caused an Amended and Restated Notice of the Special Tax, and five amendments thereto, to be recorded in the Office of the Recorder for the County against the property in the District. See “THE DISTRICT—History of the District.” Although title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation when purchasing a Taxable Property within the District or lending money thereon, as applicable.

California Civil Code Section 1102.6b requires that, in the case of transfers, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

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

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

Federal courts have held that, based on the supremacy clause of the United States Constitution, in the absence of Congressional intent to the contrary, a state or local agency cannot foreclose to collect delinquent taxes or assessments if foreclosure would impair the federal government interest. The supremacy clause of the United States Constitution reads as follows: “This Constitution, and the Laws of the United States which shall be made in



Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding." This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. In *Rust v. Johnson* (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association ("FNMA") is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

The Authority has not undertaken to determine whether any federal governmental entity currently has, or is likely to acquire, any interest (including a mortgage interest) in any of the parcels subject to the Special Taxes within the District, and therefore expresses no view concerning the likelihood that the risks described above will materialize while the 2015 Bonds are outstanding.

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the Authority to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

The FDIC's policy statement regarding the payment of state and local real property taxes (the "**Policy Statement**") provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property's value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution's affairs, unless abandonment of the FDIC's interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such

amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes.

The Authority is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be extinguished at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the 2015 Bonds.

### **No Acceleration Provision**

The 2015 Bonds and the Fiscal Agent Agreement do not contain a provision allowing for the acceleration of the 2015 Bonds in the event of a payment default or other default under the terms of the 2015 Bonds or the Fiscal Agent Agreement or in the event interest on the 2015 Bonds becomes included in gross income for federal income tax purposes.

### **Taxability Risk**

As discussed herein under the caption "TAX MATTERS," interest on the 2015A-1 Bonds and the 2015B Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the 2015 Bonds were issued, as a result of future acts or omissions of the Authority in violation of its covenants in the Fiscal Agent Agreement. There is no provision in the 2015A-1 Bonds, the 2015B Bonds or the Fiscal Agent Agreement, for special redemption or acceleration or for the payment of additional interest should such an event of taxability occur, and such 2015 Bonds will remain outstanding until maturity or until redeemed under one of the redemption provisions contained in the Fiscal Agent Agreement.

In addition, as discussed under the caption "TAX MATTERS," Congress is or may be considering in the future legislative proposals, including some that carry retroactive effective dates, that, if enacted, would alter or eliminate the exclusion from gross income for federal income tax purposes of interest on municipal bonds, such as the 2015 Bonds. Prospective purchasers of the 2015 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. The Authority can provide no assurance that federal tax law will not change while the 2015 Bonds are outstanding or that any such changes will not adversely affect the exclusion of interest on the 2015A-1 Bonds or the 2015B Bonds from gross income for federal income tax purposes. If the exclusion of interest on the 2015A-1 Bonds or the 2015B Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for such 2015 Bonds would be adversely impacted.

### **Enforceability of Remedies**

The remedies available to the Fiscal Agent and the registered owners of the 2015 Bonds upon a default under the Fiscal Agent Agreement or any other document described in this Limited Offering Memorandum are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing law and judicial decisions, the remedies provided for under such documents may not be readily available or may be limited. Any legal opinions to be delivered concurrently with the issuance of the 2015 Bonds will be qualified to the extent that the enforceability of the legal documents with respect to the 2015 Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency

or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

Judicial remedies, such as foreclosure and enforcement of covenants, are subject to exercise of judicial discretion. A California court may not strictly apply certain remedies or enforce certain covenants if it concludes that application or enforcement would be unreasonable under the circumstances and it may delay the application of such remedies and enforcement.

### **No Secondary Market**

No representation is made concerning any secondary market for the 2015 Bonds. There can be no assurance that any secondary market will develop for the 2015 Bonds. Investors should understand the long-term and economic aspects of an investment in the 2015 Bonds and should assume that they will have to bear the economic risks of their investment to maturity. An investment in the 2015 Bonds may be unsuitable for any investor not able to hold the 2015 Bonds to maturity.

### **Proposition 218**

An initiative measure entitled the “Right to Vote on Taxes Act” (the “**Initiative**”) was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Article XIIIC and Article XIIID to the California Constitution. According to the “Title and Summary” of the Initiative prepared by the California Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” Provisions of the Initiative have been and will continue to be interpreted by the courts. The Initiative could potentially impact the Special Taxes otherwise available to the District to pay the principal of and interest on the 2015 Bonds as described below.

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

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

Accordingly, although the matter is not free from doubt, it is likely that Article XIIIC has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the 2015 Bonds.

It may be possible, however, for voters or the Authority Council acting as the legislative body of the District to reduce the Special Taxes in a manner that does not interfere with the timely repayment of the 2015 Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the 2015 Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses (as defined in the Fiscal Agent Agreement). Nevertheless, the Authority has covenanted that it will not consent to, or conduct proceedings with respect to, a reduction in the maximum Special Taxes that may be levied in the District below an amount, for any fiscal year, equal to 110% of the aggregate of the debt service due on the 2015 Bonds in such fiscal year, plus a reasonable estimate of Administrative Expenses for such fiscal year. However, no assurance can be given as to the enforceability of the foregoing covenant.

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

### **Ballot Initiatives**

Articles XIII C and XIII D of the California Constitution were adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process, and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995 in the case of Rossi v. Brown, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters or legislation enacted by the legislature. The adoption of any such initiative or legislation might place limitations on the ability of the State, the Authority, or local districts to increase revenues or to increase appropriations.

### **IRS Audit of Tax-Exempt Bond Issues**

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2015 Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the 2015 Bonds might be affected as a result of such an audit of the 2015 Bonds (or by an audit of similar bonds).

### **Impact of Legislative Proposals, Clarifications of the Code and Court Decisions on Tax Exemption**

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2015 Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Owners of the 2015 Bonds from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2015 Bonds. Examples of such proposals include a proposal in the fall of 2011 which would have reduced the tax value of all itemized deductions and targeted tax expenditures for high-income taxpayers in tax years commencing on or after January 1, 2013. The concept of “high-income taxpayers” in the proposal generally captured taxpayers with adjusted gross income of \$250,000 or more for married couples filing jointly (or \$200,000 for

single taxpayers). Among the targeted tax expenditures was interest on any bond excludable from gross income under Section 103 of the Code, whether the bond is outstanding on the enactment date of the proposed legislation or is issued thereafter. Another example of such proposal from the fall of 2011 would have required the Office of Management and Budget to establish steadily declining annual ratios for debt as a percentage of gross domestic product, effective for taxable years beginning on or after January 1, 2013. Under the proposal, if the ratios were not met, automatic cuts in spending and tax preferences, such as tax-exempt interest, would be triggered. Prospective purchasers of the 2015 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation as to which Bond Counsel expresses no opinion.

## TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the 2015A-1 Bonds and the 2015B Bonds (the “Tax-Exempt 2015 Bonds”), including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority has covenanted in the Fiscal Agent Agreement to comply with all requirements that must be satisfied in order for the interest on the Tax-Exempt 2015 Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Tax-Exempt 2015 Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Tax-Exempt 2015 Bonds.

Subject to the Authority’s compliance with the above-referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the Tax-Exempt 2015 Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, but interest on the Tax-Exempt 2015 Bonds is taken into account, however, in computing an adjustment used in determining the federal alternative minimum tax for certain corporations.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority with respect to certain material facts within the Authority’s knowledge. Bond Counsel’s opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

The Internal Revenue Code of 1986, as amended (the “**Code**”), includes provisions for an alternative minimum tax (“**AMT**”) for corporations in addition to the corporate regular tax in certain cases. The AMT, if any, depends upon the corporation’s alternative minimum taxable income (“**AMTI**”), which is the corporation’s taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). “**Adjusted current earnings**” would include certain tax-exempt interest, including interest on the Tax-Exempt 2015 Bonds.

Ownership of the 2015 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax exempt



obligations. Prospective purchasers of the 2015 Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “**Issue Price**”) for each maturity of each series of the 2015 Bonds is the price at which a substantial amount of such maturity of the 2015 Bonds is first sold to the public. The Issue Price of a maturity of a series of the 2015 Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page of this Limited Offering Memorandum.

If the Issue Price of a maturity of the 2015 Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity of such series, if any, of the 2015 Bonds (the “**OID 2015 Bonds**”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases a Tax-Exempt 2015 Bond that is an OID 2015 Bond in the initial public offering at the Issue Price for such maturity and who holds such OID 2015 Bond to its stated maturity, subject to the condition that the Authority comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID 2015 Bond constitutes interest which is excludable from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID 2015 Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code, but is taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (d) the accretion of original issue discount in each year may result in an alternative minimum tax liability for corporations or certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be received until a later year. Owners of OID 2015 Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID 2015 Bonds.

Owners of 2015 Bonds who dispose of 2015 Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase 2015 Bonds in the initial public offering, but at a price different from the Issue Price or purchase 2015 Bonds subsequent to the initial public offering should consult their own tax advisors.

If a 2015 Bond is purchased at any time for a price that is less than the 2015 Bond’s stated redemption price at maturity or, in the case of an OID 2015 Bond, its Issue Price plus accreted original issue discount reduced by payments of interest included in the computation of original issue discount and previously paid (the “**Revised Issue Price**”), the purchaser will be treated as having purchased a 2015 Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a 2015 Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser’s election, as it accrues. Such treatment would apply to any purchaser who purchases an OID 2015 Bond for a price that is less than its Revised Issue Price even if the purchase price exceeds par. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such 2015 Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the 2015 Bonds.

An investor may purchase a 2015 Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as “**bond premium**” and must be amortized by an investor on a constant yield basis over the remaining term of the



2015 Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a Tax-Exempt 2015 Bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the 2015 Bond. Investors who purchase a 2015 Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the 2015 Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the 2015 Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the 2015 Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the 2015 Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the 2015 Bonds. If an audit is commenced, under current procedures the Service may treat the Authority as a taxpayer and the 2015 Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the 2015 Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the 2015 Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any 2015 Bond owner who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any 2015 Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest on the 2015 Bonds is exempt from California personal income taxes.

Ownership of the 2015 Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the 2015 Bonds. Prospective purchasers of the 2015 Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon issuance of the 2015 Bonds is set forth in Appendix F.

## **LEGAL MATTERS**

Concurrent with the issuance of the 2015 Bonds, Quint & Thimmig LLP, Larkspur, California, Bond Counsel, will render its opinion substantially in the form set forth in Appendix F to this Limited Offering Memorandum. Quint & Thimmig LLP, Larkspur, also is acting as Disclosure Counsel to the Authority with respect to the 2015 Bonds. Certain legal matters will be passed upon for the Authority by Herum Crabtree Suntag, Stockton,

California, acting as General Counsel to the Authority. Certain legal matters related to the 2015 Bonds will be passed upon for the Underwriter by Nossaman LLP, Irvine, California. Payment of the fees and expenses of Bond and Disclosure Counsel, and of Underwriter's Counsel, is contingent on the issuance of the 2015 Bonds.

### **NO RATING**

The Authority has not made, and does not intend to make, any application to any rating agency for the assignment of a rating to the 2015 Bonds.

### **LITIGATION**

The Authority will execute a certificate on the date of issuance of the 2015 Bonds to the effect that the Officer of the Authority executing such certificate is not aware of any pending or threatened litigation challenging the validity of the 2015 Bonds, the Special Taxes securing the 2015 Bonds, or any action taken by the Authority in connection with the formation of the District, the levying of the Special Taxes or the issuance of the 2015 Bonds.

### **UNDERWRITING**

The 2015 Bonds are being purchased through negotiation by Southwest Securities, Inc. (the "**Underwriter**"). The Bond Purchase Agreement for the 2015 Bonds provides that the Underwriter will purchase all of the 2015 Bonds, if any are purchased. The Underwriter agreed to purchase the 2015A-1 Bonds at a price of \$109,187,648.80 (which is equal to the par amount of the 2015A-1 Bonds, less an original issue discount of \$1,887,988.70, and less an underwriter's discount of \$839,362.50). The Underwriter agreed to purchase the 2015A-2 Bonds at a price of \$12,646,904.45 (which is equal to the par amount of the 2015A-2 Bonds, less an original issue discount of \$488,833.05, and less an underwriter's discount of \$99,262.50). The Underwriter agreed to purchase the 2015B Bonds at a price of \$31,515,350.75 (which is equal to the par amount of the 2015B Bonds, less an original issue discount of \$587,061.75, and less an underwriter's discount of \$242,587.50).

The initial public offering prices of the 2015 Bonds set forth on the inside cover page of this Limited Offering Memorandum may be changed by the Underwriter. The Underwriter may offer and sell the 2015 Bonds to certain dealers and others at prices lower than the public offering prices set forth on the inside cover page of this Limited Offering Memorandum.

### **CONTINUING DISCLOSURE**

The Authority, and the Master Developer and Califia, LLC, have agreed for the benefit of the Owners of the 2015 Bonds, in separate Continuing Disclosure Agreements, to provide annually certain financial information and operating data, and to provide notices of the occurrence of certain enumerated events. See Appendix E – "Forms of Continuing Disclosure Agreements."

The covenants in the Continuing Disclosure Agreements have been made by the Authority, and by the Master Developer and Califia, LLC, in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). A failure by the Authority, or by the Master Developer and Califia, LLC, to comply with their respective continuing disclosure obligations will not constitute a default under the Fiscal Agent Agreement. However, the Continuing Disclosure Agreements provide that, in the event of a failure of the Authority, or of the Master Developer and Califia, LLC, as applicable, to comply with any provision of their respective Continuing Disclosure Agreement, any 2015 Bond owner,

any Beneficial Owner or the Underwriter may seek specific performance by court order to cause it to comply with its obligations under its respective Continuing Disclosure Agreement.

The obligations of the Master Developer and Califia, LLC to provide continuing annual and significant event disclosure will terminate if and when they no longer collectively own property in the District that is subject to twenty percent (20%) or more of the Special Tax levy for the then current fiscal year.

The Authority has advised that during the past five years, the Authority has never failed to comply in all material respects with previous continuing disclosure undertakings pursuant to the Rule, except as follows: one annual report under one continuing disclosure obligation was not timely filed; and one annual report under another continuing disclosure obligation was not filed to all CUSIPs. The Authority has made all necessary remedial filings.

The Master Developer and Califia, LLC have advised the Authority that Califia, LLC has failed in the previous five years to fully comply virtually all of its continuing disclosure obligations under several continuing disclosure obligations entered into with respect to the Prior District Bonds (the Master Developer has had no prior continuing disclosure obligations). In most instances, one report was filed per year where either semi-annual or quarterly reports were required. Califia, LLC has agreed to make a filing, prior to the execution by the Underwriter of the Bond Purchase Agreement for the 2015 Bonds, that brings current all information required under its continuing disclosure obligations during the previous five years that was not included in prior continuing disclosure filings. Also, the Master Developer and Califia, LLC have agreed to engage Goodwin Consulting Group, Inc. to assist in the preparation of continuing disclosure reports required under their Continuing Disclosure Agreement with respect to the 2015 Bonds, and to adopt procedures to ensure that their obligations under such agreement will be timely and completely satisfied.

#### **MISCELLANEOUS**

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Limited Offering Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Limited Offering Memorandum is not to be construed as a contract or agreement between the Authority or the District and the purchasers or Owners of any of the 2015 Bonds.

The execution and delivery of this Limited Offering Memorandum has been duly authorized by the Board of Directors of the Authority.

RIVER ISLANDS PUBLIC FINANCING  
AUTHORITY

By:           /s/  Herb Moniz            
                                Executive Director

## APPENDIX A

### CITY AND COUNTY GENERAL DEMOGRAPHIC INFORMATION

*The information in this section of the Limited Offering Memorandum is presented as general background data. The 2015 Bonds are payable solely from the Special Tax Revenues and amounts held in certain funds under the Fiscal Agent Agreement, as described in the text of the Limited Offering Memorandum. Neither the County of San Joaquin nor the City of Lathrop have any obligation whatsoever with respect to the 2015 Bonds or the District.*

#### General

The City of Lathrop is located in San Joaquin County on Interstate 5 approximately 55 miles south of Sacramento, 10 miles south of Stockton and 75 miles east of San Francisco. The City's neighboring communities, in addition to Stockton, include the City of Manteca six miles to the east, the City of Tracy 10 miles to the west and the City of Modesto 25 miles to the south-east. The city encompasses a total area of approximately 23 square miles.

San Joaquin County is a county in the state of California. The county seat is Stockton. The county is located in the Central Valley, just east of the nine-county San Francisco Bay Area region. According to the U.S. Census Bureau, the county has a total area of 1,426 square miles (3,690 km<sup>2</sup>), of which 1,391 square miles (3,600 km<sup>2</sup>) is land and 35 square miles (91 km<sup>2</sup>) (2.5%) is water.

#### Organization

The City was incorporated in 1989 and operates under California Law as a general law city. The City has a council-manager form of government. Four members of the City Council are elected at large by the City's voters to four-year terms of office which are staggered. The Mayor of the City is a member of the City Council and is elected by the City's voters to a two-year term of office.

The City Manager is the City's chief administrative officer responsible for the day-to-day operations of the City government under the policy direction of the City Council. The City Manager is appointed by the City Council and serves at the pleasure of the Council.

#### Population

The table below summarizes population of the City and the County for the past five years.

#### POPULATION City of Lathrop and San Joaquin County

Year	City of Lathrop	San Joaquin County
2010	18,023	684,306
2011	18,599	689,160
2012	18,832	693,013
2013	19,302	701,745
2014	19,831	710,731

Source: State of California, Department of Finance, E-4 Population Estimates for Cities, Counties, and the State, 2011-2014, with 2010 Census Benchmark. Sacramento, California, May 2014.

## Employment

The following table summarizes the historical numbers of workers by industry in San Joaquin County for the last five years:

**STOCKTON MSA  
(SAN JOAQUIN COUNTY)  
Labor Force and Industry Employment  
Annual Averages by Industry**

	2009	2010	2011	2012	2013 <sup>(1)</sup>
Total, All Industries	212,800	206,900	206,000	210,300	216,200
Total Farm	15,200	15,700	15,500	15,700	15,600
Total Nonfarm	197,600	191,200	190,500	194,600	200,600
Goods Producing	27,400	25,300	25,400	25,500	26,600
Mining and Logging	100	100	100	100	100
Construction	8,400	7,600	7,400	7,600	8,700
Manufacturing	18,900	17,600	17,900	17,800	17,800
Trade, Transportation & Utilities	47,500	47,500	48,800	50,600	52,000
Information	2,200	2,100	2,100	2,100	1,900
Financial Activities	8,900	7,700	7,400	7,500	7,600
Professional & Business Services	15,900	15,400	15,100	16,500	17,300
Educational & Health Services	32,200	32,300	32,500	32,800	33,400
Leisure & Hospitality	16,700	16,100	16,300	17,000	18,100
Other Services	7,000	6,500	6,300	6,500	6,600
Government	39,900	38,200	36,500	36,100	37,000

Source: California Employment Development Department based on March 2013 benchmark.

(1) Last available full year data.

\*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 totals due to independent rounding.



The following tables summarize historical employment and unemployment for San Joaquin County, the State of California and the United States for the past five years:

**SAN JOAQUIN COUNTY, CALIFORNIA, AND UNITED STATES**  
**Civilian Labor Force, Employment, and Unemployment**  
**(Annual Averages)**

Year	Area	Labor Force	Employment	Unemployment	Unemployment Rate <sup>(1)</sup>
2009	San Joaquin County	298,400	252,800	45,500	15.3%
	California	18,208,300	16,144,500	2,063,900	11.3
	United States	154,142,000	139,877,000	14,265,000	9.3
2010	San Joaquin County	301,500	249,500	52,100	17.3%
	California	18,316,400	16,051,500	2,264,900	12.4
	United States	153,889,000	139,064,000	14,825,000	9.6
2011	San Joaquin County	300,400	249,800	50,600	16.8%
	California	18,384,900	16,226,600	2,158,300	11.7
	United States	153,617,000	139,869,000	13,747,000	8.9
2012	San Joaquin County	299,900	254,900	45,100	15.0%
	California	18,494,900	16,560,300	1,934,500	10.5
	United States	154,975,000	142,469,000	12,506,000	8.1
2013	San Joaquin County	298,800	260,400	38,400	12.8%
	California	18,596,800	16,933,300	1,663,500	8.9
	United States	155,389,000	143,929,000	11,460,000	7.4

Source: California Employment Development Department, based on March 2013 benchmark and US Department of Labor, Federal Bureau of Labor Statistics

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

## Major Employers

The table below sets forth the principal employers of the City and the County.

### CITY OF LATHROP 2013 Principal Employers

Employer	Employees	Percentage of Total Employment
J C Penney Warehouse	750	11.31%
Super Store Industries	401	6.05
California Natural Products	250	3.77
Del Monte Foods	235	3.55
Cen Cal Plastering	200	3.02
J R Simplot CO	200	3.02
Pflug Packaging & Fulfill Inc	200	3.02
Swiss American Sausage CO	175	2.64
Home Depot	150	2.26
Target	150	2.26
Carpenter CO	100	1.51
Cbc Steel Buildings	100	1.51
Diamond Pet Foods Inc	100	1.51
Food 4 Less	100	1.51
Pilington North America Inc	100	1.51
Total	3,211	48.45%

Source: City of Lathrop 2013 Comprehensive Annual Financial Report.

### SAN JOAQUIN COUNTY 2014 Major Employers

Company	Location	Industry
All Trade Handyman Mgmt Llc	Tracy	Handyman Services
B & B Ranch	Linden	Ranches
Blue Shield of California	Lodi	Insurance
Deuel Vocational Institution	Tracy	City Govt-Correctional Institutions
Division of Juvenile Justice	Stockton	State Govt-Correctional Institutions
Foster Care Svc	Stockton	County Government-Social/Human Resources
J C Penney Distribution Ctr	Lathrop	Distribution Centers (Whls)
Leprino Foods Co	Tracy	Cheese Processors (Mfrs)
Lodi Memorial Hosp Home Health	Lodi	Home Health Service
Lodi Memorial Hospital	Lodi	Hospitals
Morada Produce Co	Stockton	Fruits & Vegetables-Growers & Shippers
North California Youth Ctr	Not Available	Police Departments
O-G Packing & Cold Storage Co	Stockton	Fruits & Vegetables-Growers & Shippers
Pacific Coast Producers	Lodi	Canning (Mfrs)
Prima Frutta Packing Inc	Linden	Fruit & Produce Packers
Safeway Distribution Warehouse	Tracy	Distribution Centers (Whls)
San Joaquin County Human Svc	Stockton	County Government-Social/Human Resources
San Joaquin General Hospital	French Camp	Hospitals
San Joaquin Sheriff's Office	French Camp	Sheriff
St Joseph's Medical Ctr	Stockton	Medical Centers
Stockton Police Dept	Stockton	Police Departments
University of the Pacific	Stockton	Schools-Universities & Colleges Academic
Walmart Supercenter	Stockton	Department Stores
Waste Management	Lodi	Garbage Collection
Whirlpool Corp	Stockton	Appliances-Household-Major-Man

Source: California Employment Development Department. Data retrieved December 15, 2014.

## Construction Activity

The following tables reflect the five-year history of building permit valuation for the City and the County:

### CITY OF LATHROP Building Permits and Valuation (Dollars in Thousands)

	2009	2010	2011	2012	2013
<u>Permit Valuation:</u>					
New Single-family	19,972	35,400	11,730	33,833	19,693
New Multi-family	-	-	-	-	-
Res. Alterations/Additions	511	1,322	778	1,065	421
Total Residential	20,483	36,722	12,508	34,898	20,114
Total Nonresidential	5,840	1,866	4,725	6,948	34,424
Total All Building	26,323	38,589	17,233	41,847	54,539
<u>New Dwelling Units:</u>					
Single Family	86	144	51	139	75
Multiple Family	-	-	-	-	-
Total	86	144	51	139	75

### SAN JOAQUIN COUNTY Building Permits and Valuation (Dollars in Thousands)

	2009	2010	2011	2012	2013
<u>Permit Valuation:</u>					
New Single-family	160,431	166,223	159,012	250,227	264,761
New Multi-family	-	15,426	14,853	-	7,601
Res. Alterations/Additions	25,995	28,058	48,093	22,356	28,764
Total Residential	186,426	209,708	221,958	272,583	301,127
Total Nonresidential	153,618	173,093	168,018	240,289	552,315
Total All Building	340,045	382,802	389,976	512,873	853,443
<u>New Dwelling Units:</u>					
Single Family	773	801	728	1,052	1,062
Multiple Family	-	157	152	-	74
Total	773	958	980	1,052	1,136

Sources: Construction Industry Research Board: "Building Permit Summary."

Note: Totals may not add due to independent rounding.

## Commercial Activity

Taxable sales in the County are shown below. Beginning in 2009, reports summarize taxable sales and permits using the NAICS codes. As a result of the coding change, however, industry-level data for 2009 are not comparable to that of prior years.

### TAXABLE SALES, 2008-2012 SAN JOAQUIN COUNTY (Dollars in thousands)

	2008			
Retail Stores				
Apparel Stores				227,747
General Merchandise				1,010,501
Food Stores				387,526
Eating and Drinking				633,779
Household Group				158,039
Building Material Group				457,590
Automotive Group				957,763
Service Stations				1,160,249
All Other Retail Stores				841,202
Retail Stores Totals				5,834,396
Business & Personal Services				257,883
All Other Outlets				2,603,795
Total All Outlets <sup>(2)</sup>				8,696,074

	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	2011 <sup>(1)</sup>	2012 <sup>(1)(3)</sup>
Retail and Food Services				
Motor Vehicles and Parts Dealers	742,711	768,694	865,634	999,543
Furniture and Home Furnishings Stores	75,530	98,872	136,911	142,791
Electronics and Appliance Stores	129,094	126,593	126,667	133,410
Bldg Mtrl. and Garden Equip. and Supplies	412,049	412,968	436,305	471,953
Food and Beverage Stores	366,433	384,275	393,898	391,882
Health and Personal Care Stores	110,042	111,040	118,557	128,378
Gasoline Stations	869,400	1,020,392	1,271,752	1,319,579
Clothing and Clothing Accessories Stores	251,071	252,595	258,474	274,789
Sporting Goods, Hobby, Book and Music Stores	140,439	142,979	147,948	156,240
General Merchandise Stores	877,656	904,239	955,395	1,025,786
Miscellaneous Store Retailers	330,572	328,240	338,772	342,631
Nonstore Retailers	51,658	50,946	55,175	63,339
Food Services and Drinking Places	617,784	612,049	635,510	674,001
Total Retail and Food Services	4,974,437	5,213,982	5,740,948	6,124,321
All Other Outlets	2,285,636	2,388,108	2,686,004	2,886,608
Totals All Outlets <sup>(2)</sup>	7,260,073	7,602,090	8,426,952	9,010,930

Source: California Board of Equalization, Taxable Sales in California (Sales & Use Tax).

(1) Starting in 2009, categories were revised from prior years.

(2) Totals may not add up due to independent rounding.

(3) Last available full year data.

## Median Household Income

The following table summarizes the median household effective buying income for the City, the County, the State of California and the nation for the past five years.

### CITY OF LATHROP, SAN JOAQUIN COUNTY, STATE AND UNITED STATES Effective Buying Income

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2009	City of Lathrop	284,708	53,176
	San Joaquin County	12,260,330	44,434
	California	844,823,319	49,736
	United States	6,571,536,768	43,252
2010	City of Lathrop	265,070	50,948
	San Joaquin County	11,425,114	42,086
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Lathrop	263,725	50,704
	San Joaquin County	11,534,633	42,000
	California	814,578,457	47,062
	United States	6,438,704,663	41,253
2012	City of Lathrop	290,743	50,207
	San Joaquin County	11,761,283	41,939
	California	864,088,827	47,307
	United States	6,737,867,730	41,358
2013	City of Lathrop	311,325	54,200
	San Joaquin County	11,964,855	43,204
	California	858,676,636	48,340
	United States	6,982,757,379	43,715

Source: The Nielsen Company (US), Inc.

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## APPENDIX B

### RIVER ISLANDS PUBLIC FINANCING AUTHORITY COMMUNITY FACILITIES DISTRICT NO. 2003-1 (PUBLIC IMPROVEMENTS)

#### SECOND AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

A Special Tax applicable to each Assessor's Parcel in the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) [herein "CFD No. 2003-1"] shall be levied and collected according to the tax liability determined by the Board of Directors or its designee, through the application of the appropriate amount or rate for Taxable Property, as described below. All of the property in CFD No. 2003-1, unless exempted by law or by the provisions of Section G below, shall be taxed for the purposes, to the extent, and in the manner herein provided, including property subsequently annexed to the CFD unless a separate Rate and Method of Apportionment is adopted for the annexation area.

#### 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 or other parcel map recorded with the County.

**"Act"** means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, (commencing with Section 53311), Division 2 of Title 5 of the California Government Code.

**"Administrative Expenses"** means any or all of the following: the fees and expenses of any fiscal agent or trustee (including any fees or expenses of its counsel) employed in connection with any Bonds, and the expenses of the Authority in carrying out its duties with respect to CFD No. 2003-1 and the Bonds, including, but not limited to, levying and collecting the Special Tax, the fees and expenses of legal counsel, charges levied by the County Auditor's Office, Tax Collector's Office, and/or Treasurer's Office, costs related to annexing property into the CFD, costs related to property owner inquiries regarding the Special Tax, amounts needed to pay rebate to the federal government with respect to the Bonds, costs associated with complying with any continuing disclosure requirements for the Bonds and the Special Tax, and all other costs and expenses of the Authority, Lathrop Irrigation District, and Island Reclamation District No. 2062 in any way related to the establishment or administration of the CFD.

**"Administrator"** means the person or firm designated by the Authority to administer the Special Tax according to the Amended and Restated Rate and Method of Apportionment of Special Tax.

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

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

**"Association Property"** means any property within the CFD that is owned by a homeowners association or property owners association, excluding Association Property under the pad or footprint of a Unit.

**“Authority”** means the River Islands Public Financing Authority.

**“Board of Directors”** or **“Board”** means the Board of Directors of the River Islands Public Financing Authority.

**“Bonds”** means bonds or other debt (as defined in the Act), whether in one or more series, issued, insured or assumed by CFD No. 2003-1, including debt issued by agencies other than the Authority (as referenced in Section 53313.5(g) of the Act), to pay for public infrastructure and/or improvements that will serve property included within, or intended to be annexed into, CFD No. 2003-1.

**“Capitalized Interest”** means funds in any capitalized interest account available to pay debt service on Bonds.

**“CFD Formation”** means the date on which the Resolution of Formation to form CFD No. 2003-1 was adopted by the Board of Directors.

**“City”** means the City of Lathrop.

**“City Council”** means the City Council of the City of Lathrop.

**“County”** means the County of San Joaquin.

**“Developed Property”** means, in any Fiscal Year, all Taxable Property in CFD No. 2003-1 for which a building permit for new construction was issued by the City on or prior to June 30 of the preceding Fiscal Year.

**“Excess Public Property”** means the acres of Public Property that exceeds the acreage exempted in Section G below. In any Fiscal Year in which a Special Tax must be levied on Excess Public Property pursuant to Step 4 in Section E below, Excess Public Property shall be those Assessor’s Parcel(s) that most recently became Public Property based on the dates on which Final Maps recorded creating such Public Property.

**“Expected Land Uses”** means the total number of Units and Acres of Non-Residential Property expected within the CFD. At CFD Formation, the Expected Land Uses were based on the Formation Land Use Plan. The Expected Land Uses may be updated over time, but not before the Administrator has tested changes to the Expected Land Uses by applying the steps in Section D below. The Expected Land Uses at CFD Formation are summarized in Attachment 1 hereto; the Administrator shall update the table in Attachment 1 each time a change occurs to the land use plans for property in the CFD.

**“Expected Maximum Special Tax Revenues”** means the amount of annual revenue that would be available if the Maximum Special Tax was levied on the Expected Land Uses. The Expected Maximum Special Tax Revenues as of CFD Formation are shown in Attachment 1 of this Amended and Restated Rate and Method of Apportionment of Special Tax.

**“Final Map”** means a final map, or portion thereof, recorded by the County pursuant to the Subdivision Map Act (California Government Code Section 66410 *et seq.*) that creates individual lots on which building permits for new construction may be issued without further subdivision and for which no further subdivision is anticipated pursuant to a Tentative Map approved for the property or, if no Tentative Map has been approved, pursuant to a then current specific plan or other land use plan for the property.

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

**“Formation Land Use Plan”** means the Tentative Map approved by the City Council on January 27, 2003 designating residential and non-residential land uses within Phase 1 of the River Islands at Lathrop project.

**“Improvement Area”** means one of the two mutually exclusive geographic areas defined below and identified in Attachment 2 of this Rate and Method of Apportionment of Special Tax, and any subsequent Improvement Areas created to contain property annexed into the CFD after CFD Formation.

**“Improvement Area #1”** means the geographic area that, at CFD Formation, was: (i) generally known as the residential and town center property within Phase 1 of the River Islands at Lathrop project, and (ii) specifically identified in Attachment 2 of this Amended and Restated Rate and Method of Apportionment of Special Tax as Improvement Area #1.

**“Improvement Area #2”** means the geographic area that, at CFD Formation, was: (i) generally known as the employment center property within Phase 1 of the River Islands at Lathrop project, and (ii) specifically identified in Attachment 2 of this Amended and Restated Rate and Method of Apportionment of Special Tax as Improvement Area #2.

**“Maximum Special Tax”** means the greatest amount of Special Tax that can be levied in any Fiscal Year determined in accordance with Section C below.

**“Multi-Family Property”** means, in any Fiscal Year, all Parcels of Developed Property for which a building permit was issued for construction of a residential structure with multiple Units, all of which are offered for rent to the general public and are not available for sale to individual owners.

**“Non-Residential Property”** means, in any Fiscal Year, all Parcels of Developed Property for which a building permit was issued for construction of a structure that will be used for any non-residential purpose.

**“Proportionately”** means, for Developed Property, that the ratio of the actual Special Tax levied in any Fiscal Year to the Maximum Special Tax authorized to be levied in that Fiscal Year is equal for all Assessor’s Parcels of Developed Property, and for Undeveloped Property that the ratio of the actual Special Tax to the Maximum Special Tax is equal for all Assessor’s Parcels of Undeveloped Property.

**“Public Property”** means any property within the boundaries of CFD No. 2003-1 that is owned by or irrevocably offered for dedication to the federal government, State of California, County, City, or other local government or public agency.

**“Single Family Attached Property”** means, in any Fiscal Year, all Parcels of Developed Property for which a building permit was issued for construction of a residential structure consisting of two or more Units that share common walls and are offered as for-sale Units, including residential structures that meet the statutory definition of a condominium contained in Civil Code Section 1351.

**“Single Family Detached Property”** means, in any Fiscal Year, all Parcels of Developed Property for which a building permit was issued for construction of a Unit that does not share a common wall with another Unit.

**“Special Tax”** means a Special Tax levied in any Fiscal Year to pay the Special Tax Requirement.

**“Special Tax Requirement”** means the amount necessary in any Fiscal Year to: (i) pay principal and interest on Bonds which is due in the calendar year that begins in such Fiscal Year; (ii) create and/or replenish reserve funds for the Bonds; (iii) cure any delinquencies in the payment of principal or interest on Bonds which have occurred in the prior Fiscal Year or, based on existing delinquencies in the payment of Special Taxes, are expected to occur in the Fiscal Year in

which the tax will be collected; (iv) pay Administrative Expenses; and (v) pay the costs of public improvements and public infrastructure authorized to be financed by CFD No. 2003-1. The amounts referred to in clauses (i) and (ii) of the preceding sentence may be reduced in any Fiscal Year by: (i) interest earnings on or surplus balances in funds and accounts for the Bonds to the extent that such earnings or balances are available to apply against debt service pursuant to a Bond indenture, Bond resolution, or other legal document that sets forth these terms; (ii) proceeds from the collection of penalties associated with delinquent Special Taxes; and (iii) any other revenues available to pay debt service on the Bonds as determined by the Administrator.

**"Taxable Property"** means all of the Assessor's Parcels within the boundaries of CFD No. 2003-1 which are not exempt from the Special Tax pursuant to law or Section G below.

**"Tentative Map"** means a map that is made for the purpose of showing the design of a proposed subdivision and the conditions pertaining thereto and is not based on a detailed survey of the property within the map and is not recorded at the County Recorder's Office to create legal lots.

**"Undeveloped Property"** means, in any Fiscal Year, all Parcels of Taxable Property within the CFD that are not Developed Property.

**"Unit"** means (i) for Single Family Detached Property, an individual single family detached residential unit, (ii) for Single Family Attached Property, an individual residential unit within a duplex, triplex, fourplex, townhome, or condominium structure, and (iii) for Multi-Family Property, an individual apartment unit.

## **B. DATA FOR ANNUAL ADMINISTRATION**

On or about July 1 of each Fiscal Year, the Administrator shall identify the current Assessor's Parcel numbers for all Taxable Property. The Administrator shall also determine: (i) within which Improvement Area each Parcel is located, (ii) whether each Assessor's Parcel is Developed Property or Undeveloped Property, (iii) for Developed Property, which Parcels are Single Family Detached Property, Single Family Attached Property, Multi-Family Property, and Non-Residential Property, (iv) for Single Family Detached Property, the square footage of each residential lot, and (v) the Special Tax Requirement.

If, in any Fiscal Year, an Assessor's Parcel includes both Developed Property and Undeveloped Property, the Administrator shall determine the Acreage associated with the Developed Property, subtract this Acreage from the total Acreage of the Assessor's Parcel, and use the remaining Acreage to calculate the Special Tax that will apply to Undeveloped Property within the Assessor's Parcel. To determine the square footage of each Parcel of Single Family Detached Property, the Administrator shall rely first on Assessor's Parcel Maps or, if the square footage is not yet designated on such maps, on the Final Map recorded to create the individual lots.

In addition, the Administrator shall, at least twice each Fiscal Year, determine: (i) whether changes have been proposed or approved to the Formation Land Use Plan; and (ii) whether Final Maps that have been proposed for approval or already approved by the City are consistent with the Formation Land Use Plan. If changes to the Formation Land Use Plan have occurred, or if Final Maps are inconsistent with the Formation Land Use Plan, the Administrator shall apply the steps set forth in Section D below.

## **C. MAXIMUM SPECIAL TAX**

### **1. *Improvement Area #1***

Table 1 below identifies the Maximum Special Tax for Taxable Property within Improvement Area #1 of CFD No. 2003-1:

**TABLE 1  
IMPROVEMENT AREA #1  
MAXIMUM SPECIAL TAXES**

<i>Type of Property</i>	<i>Lot Size</i>	<i>Maximum Special Tax Fiscal Year 2004-05 *</i>
Single Family Detached Property	Greater than 7,000 square feet	\$2,758 per Unit
Single Family Detached Property	5,801 to 7,000 square feet	\$2,239 per Unit
Single Family Detached Property	4,801 to 5,800 square feet	\$2,044 per Unit
Single Family Detached Property	4,000 to 4,800 square feet	\$1,739 per Unit
Single Family Detached Property	Less than 4,000 square feet	\$1,622 per Unit
Single Family Attached Property	Not Applicable	\$1,428 per Unit
Multi-Family Property	Not Applicable	\$ 811 per Unit
Non-Residential Property	Not Applicable	\$3,245 per Acre
Undeveloped Property	Not Applicable	\$13,012 per Acre

*On July 1, 2005 and on each July 1 thereafter, the Maximum Special Taxes shown in Table 1 above shall be increased by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.*

2. *Improvement Area #2*

Table 2 below identifies the Maximum Special Tax for Taxable Property within Improvement Area #2 of CFD No. 2003-1:

**TABLE 2  
IMPROVEMENT AREA #2  
MAXIMUM SPECIAL TAXES**

<i>Type of Property</i>	<i>Lot Size</i>	<i>Maximum Special Tax Fiscal Year 2004-05 *</i>
Single Family Detached Property	Greater than 7,000 square feet	\$2,758 per Unit
Single Family Detached Property	5,801 to 7,000 square feet	\$2,239 per Unit
Single Family Detached Property	4,801 to 5,800 square feet	\$2,044 per Unit
Single Family Detached Property	4,000 to 4,800 square feet	\$1,739 per Unit
Single Family Detached Property	Less than 4,000 square feet	\$1,622 per Unit
Single Family Attached Property	Not Applicable	\$1,428 per Unit
Multi-Family Property	Not Applicable	\$ 811 per Unit
Non-Residential Property	Not Applicable	\$2,163 per Acre
Undeveloped Property	Not Applicable	\$13,012 per Acre

*On July 1, 2005 and on each July 1 thereafter, the Maximum Special Taxes shown in Table 1 above shall be increased by an amount equal to two percent (2%) of the amount in effect for the prior Fiscal Year.*

Pursuant to Section 53321 (d) of the Act, the Special Tax levied against a Parcel used for private residential purposes shall under no circumstances increase more than ten percent (10%) as a consequence of delinquency or default by the owner of any other Parcel or Parcels and shall, in no event, exceed the Maximum Special Tax in effect for the Fiscal Year in which the Special Tax is being levied.

**D. BACK-UP FORMULA**

The Maximum Special Taxes set forth in Tables 1 and 2 above are calculated based on the Expected Land Uses. Tentative Map revisions and other changes to the Formation Land Use Plan must be reviewed and compared to the Expected Land Uses to evaluate the impact on the Expected Maximum Special Tax Revenues. In addition, Final Maps must be reviewed to ensure they reflect the number of residential lots and Acreage of Non-Residential Property that was anticipated in the approved Tentative Map. The following steps shall be applied each time a change to the Formation Land Use Plan is proposed, and each time a Final Map is proposed for approval by the City Council ("Land Use/Entitlement Change"):



- Step 1:** The Administrator shall calculate the Expected Maximum Special Tax Revenues for the Improvement Area(s) in which the Land Use/Entitlement Change is proposed (the “Affected Improvement Area”);
- Step 2:** The Administrator shall calculate the Maximum Special Tax revenues that could be collected from property in the Affected Improvement Area(s) if the Land Use/Entitlement Change is approved;
- Step 3:** If the amount determined in Step 2 is higher than that calculated in Step 1, the Land Use/Entitlement Change may be approved without further action. If the revenues calculated in Step 2 are less than those calculated in Step 1, one of the following must occur:
- (a) The Land Use/Entitlement Change is not submitted for approval or, if submitted, is not approved by the City;
  - (b) The Board, prior to approval of the Land Use/Entitlement Change, completes proceedings under the Act to increase the Maximum Special Tax within the Affected Improvement Area(s) to an amount sufficient to maintain the total Maximum Special Tax revenues that could be generated within the Affected Improvement Area(s) before the Land Use/Entitlement Change was approved; or
  - (c) Before approval of the Land Use/Entitlement Change, the landowner requesting the Land Use/Entitlement Change prepays a portion of the Special Tax for the Affected Improvement Area(s) in an amount that corresponds to the lost Maximum Special Tax revenue, as determined by applying the steps set forth in Section H below.

If a Land Use/Entitlement Change is approved that will result in a reduction in the Expected Maximum Special Tax Revenues as described in this Step 3, and Step 3.b or Step 3.c had not been implemented prior to such approval, the amount of the prepayment determined in Step 3.c may be spread on a per-acre basis and included on the next property tax bill for all Assessor’s Parcels within the property affected by the Land Use/Entitlement Change.

If multiple Land Use/Entitlement Changes are proposed at one time (which may include approval of multiple Final Maps at one time), the Administrator may consider the combined effect of all the Land Use/Entitlement Changes to determine if there is a reduction in Expected Maximum Special Tax Revenues that necessitates implementation of Step 3.b or 3.c. If, based on this comprehensive analysis, the Administrator determines that there is a reduction in Expected Maximum Special Tax Revenue, *and all of the Land Use/Entitlement Changes are being proposed by the same land owner*, the Administrator shall determine the required increase in the Maximum Special Tax for the Affected Improvement Area(s) (pursuant to Step 3.b) or the required prepayment (pursuant to Step 3.c) by looking at the combined impact of all of the proposed Land Use/Entitlement Changes. If, based on the comprehensive analysis, the Administrator determines that there is a reduction in Expected Maximum Special Tax Revenue, *and not all of the Land Use/Entitlement Changes are being proposed by the same land owner*, the Administrator shall consider the proposed Land Use/Entitlement Changes individually to determine the specific impact of each proposal.

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

Each Fiscal Year, the Administrator shall determine the Special Tax Requirement to be collected in that Fiscal Year, and the Special Tax shall be levied according to the steps outlined below.

- Step 1:* The Special Tax shall be levied Proportionately on each Parcel of Developed Property within the CFD up to 100% of the Maximum Special Tax for each Parcel for such Fiscal Year determined pursuant to Section C;
- Step 2:* If additional revenue is needed after Step 1, and after applying Capitalized Interest to the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property within the CFD, up to 100% of the Maximum Special Tax for Undeveloped Property for such Fiscal Year determined pursuant to Section C;
- Step 3:* If additional revenue is needed after applying the first two steps, the Special Tax shall be levied Proportionately on each Parcel of Association Property within the CFD, up to 100% of the Maximum Special Tax for Undeveloped Property for such Fiscal Year determined pursuant to Section C;
- Step 4:* If additional revenue is needed after applying the first three steps, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Excess Public Property, exclusive of property exempt from the Special Tax pursuant to Section G below, up to 100% of the Maximum Special Tax for Undeveloped Property for such Fiscal Year determined pursuant to Section C.

#### **F. COLLECTION OF SPECIAL TAX**

The Special Taxes for CFD No. 2003-1 shall be collected in the same manner and at the same time as ordinary ad valorem property taxes, provided, however, that prepayments are permitted as set forth in Section H below and provided further that the Authority may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner, and may collect delinquent Special Taxes through foreclosure or other available methods.

The Special Tax shall be levied and collected until principal and interest on Bonds have been repaid and authorized facilities to be constructed from Special Tax proceeds have been completed. However, in no event shall a Special Tax be levied after Fiscal Year 2075-76.

#### **G. EXEMPTIONS**

Notwithstanding any other provision of this Amended and Restated Rate and Method of Apportionment of Special Tax, no Special Tax shall be levied on up to 838.20 acres of Public Property, except as otherwise provided in the Act. A separate amount of public acreage may be exempted each time property annexes into CFD No. 2003-1, and such additional exemption shall only apply to property within the annexation area. A Special Tax may be levied on Excess Public Property pursuant to Step 4 of Section E; however, a public agency may require that the special tax obligation on land conveyed to it that would be classified as Excess Public Property be prepaid pursuant to Section H below.

#### **H. PREPAYMENT OF SPECIAL TAX**

The following definitions apply to this Section H:

**"Outstanding Bonds"** means all Previously Issued Bonds which remain outstanding, with the following exception: if a Special Tax has been levied against, or already paid by,

an Assessor's Parcel making a prepayment, and a portion of the Special Tax will be used to pay a portion of the next principal payment on the Bonds that remain outstanding (as determined by the Administrator), that next principal payment shall be subtracted from the total Bond principal that remains outstanding, and the difference shall be used as the amount of Outstanding Bonds for purposes of this prepayment formula.

**"Previously Issued Bonds"** means all Bonds that have been issued on behalf of the CFD prior to the date of prepayment.

**"Public Facilities Requirements"** means either \$88,734,000 in 2003 dollars, which shall increase on January 1, 2004, and on each January 1 thereafter by the percentage increase, if any, in the construction cost index for the San Francisco region for the prior twelve (12) month period as published in the Engineering News Record or other comparable source if the Engineering News Record is discontinued or otherwise not available, or such lower number as shall be determined by the Authority as sufficient to fund improvements that are authorized to be funded by the CFD. The Public Facilities Requirements shown above may be adjusted or a separate Public Facilities Requirements identified each time property annexes into CFD No. 2003-1; at no time shall the added Public Facilities Requirement for that annexation area exceed the amount of public improvement costs that are expected to be supportable by the Maximum Special Tax revenues generated within that annexation area.

**"Remaining Facilities Costs"** means the Public Facilities Requirements (as defined above), minus public facility costs funded by Outstanding Bonds (as defined above), developer equity, and/or any other source of funding.

The Special Tax obligation applicable to an Assessor's Parcel in the CFD may be prepaid and the obligation of the Assessor's Parcel to pay the Special Tax permanently satisfied as described herein, provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Special Tax obligation shall provide the Authority with written notice of intent to prepay. Within 30 days of receipt of such written notice, the Authority or its designee shall notify such owner of the prepayment amount for such Assessor's Parcel. Prepayment must be made not less than 75 days prior to any redemption date for Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

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

As of the proposed date of prepayment, the Prepayment Amount shall be determined by application of the following steps:

- Step 1.** Compute the total Maximum Special Tax that could be collected from the Assessor's Parcel prepaying the Special Tax in the Fiscal Year in which prepayment would be received by the Authority or, in the event of a prepayment pursuant to Step 3.c in Section D, compute the amount by which the Maximum Special Tax revenues would be reduced by the Land Use/Entitlement Change and use the amount of this reduction as the figure for purposes of this Step 1.

- Step 2.** Divide the Maximum Special Tax from Step 1 by the lesser of: (i) the Maximum Special Tax revenues that could be collected in that Fiscal Year; or (ii) the Maximum Special Tax revenues that could be generated in that Fiscal Year assuming property in the CFD is built out based on anticipated land uses at the time the prepayment is calculated.
- Step 3.** Multiply the quotient computed pursuant to Step 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (*the "Bond Redemption Amount"*).
- Step 4.** Compute the current Remaining Facilities Costs (if any).
- Step 5.** Multiply the quotient computed pursuant to Step 2 by the amount determined pursuant to Step 4 to compute the amount of Remaining Facilities Costs to be prepaid (*the "Remaining Facilities Amount"*).
- Step 6.** Multiply the Bond Redemption Amount computed pursuant to Step 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (*the "Redemption Premium"*).
- Step 7.** Compute the amount needed to pay interest on the Bond Redemption Amount starting with the first Bond interest payment date after which the prepayment has been received until the earliest redemption date for the Outstanding Bonds. However, if Bonds are callable at the first interest payment date after the prepayment has been received, Steps 7, 8 and 9 of this prepayment formula will not apply.
- Step 8:** Compute the amount of interest the Authority reasonably expects to derive from reinvestment of the Bond Redemption Amount plus the Redemption Premium from the first Bond interest payment date after which the prepayment has been received until the redemption date for the Outstanding Bonds.
- Step 9:** Take the amount computed pursuant to Step 7 and subtract the amount computed pursuant to Step 8 (*the "Defeasance Requirement"*).
- Step 10.** Determine the costs of computing the prepayment amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (*the "Administrative Fees and Expenses"*).
- Step 11.** If and to the extent so provided in the indenture pursuant to which the Outstanding Bonds to be redeemed were issued, a reserve fund credit shall be calculated as a reduction in the applicable reserve fund for the Outstanding Bonds to be redeemed pursuant to the prepayment (*the "Reserve Fund Credit"*).
- Step 12.** The Special Tax prepayment is equal to the sum of the amounts computed pursuant to Steps 3, 5, 6, 9, and 10, less the amount computed pursuant to Step 11 (*the "Prepayment Amount"*).

A partial prepayment may be made in an amount equal to any percentage of full prepayment desired by the party making a partial prepayment. The Maximum Special Tax that can be levied on an Assessor's Parcel after a partial prepayment is made is equal to the Maximum Special Tax that

could have been levied prior to the prepayment, reduced by the percentage of a full prepayment that the partial prepayment represents, all as determined by or at the direction of the Administrator.

**I. INTERPRETATION OF SPECIAL TAX FORMULA**

The Authority reserves the right to make minor administrative and technical changes to this document that do not materially affect the rate and method of apportioning Special Taxes. In addition, the interpretation and application of any section of this document shall be left to the Authority's discretion. Interpretations may be made by the Authority by ordinance or resolution for purposes of clarifying any vagueness or ambiguity in this Amended and Restated Rate and Method of Apportionment of Special Tax.

**J. APPEAL OF SPECIAL TAX LEVY**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the Administrator not later than one calendar year after having paid the Special Tax that is disputed. The Administrator shall promptly review the appeal and, if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and decide the appeal. If the property owner disagrees with the Administrator's decision relative to the appeal, the owner may then file a written appeal with the Board whose subsequent decision shall be binding. If the decision of the Administrator (if the appeal is not filed with the Board) or the Board (if the appeal is filed with the Board) requires the Special Tax to be modified or changed in favor of the property owner, no cash refund shall be made for prior years' Special Tax levies, but an adjustment shall be made to the next Special Tax levy(ies). This procedure shall be exclusive and its exhaustion by any property owner shall be a condition precedent to filing any legal action by such owner.

# ATTACHMENT 1

## RIVER ISLANDS PUBLIC FINANCING AUTHORITY COMMUNITY FACILITIES DISTRICT NO. 2003-1

### EXPECTED LAND USES AND EXPECTED MAXIMUM SPECIAL TAX REVENUES AT CFD FORMATION

<i>Expected Land Uses</i>	<i>Number of Expected Units and Non-Residential Acres</i>	<i>Maximum Special Tax Per Unit/Acre for Fiscal Year 2004-05 *</i>	<i>Total Expected Maximum Special Tax Revenues *</i>
Single Family Detached Property			
Lot size > 7,000 SqFt	406 Units	\$2,758 per Unit	\$1,119,748
Lot size 5,801 – 7,000 SqFt	786 Units	\$2,239 per Unit	\$1,759,854
Lot size 4,801 – 5,800 SqFt	603 Units	\$2,044 per Unit	\$1,232,532
Lot size 4,000 – 4,800 SqFt	294 Units	\$1,739 per Unit	\$ 511,266
Lot size < 4,000 SqFt	1,142 Units	\$1,622 per Unit	\$1,852,324
Single Family Attached Property	229 Units	\$1,428 per Unit	\$327,012
Multi-Family Property	600 Units	\$ 811 per Unit	\$486,600
Non-Residential Property, Improvement Area #1	47 Acres	\$3,245 per Acre	\$152,515
Non-Residential Property, Improvement Area #2	325 Acres	\$2,163 per Acre	\$702,975
<b>Total Expected at CFD Formation</b>	<b>4,060 Residential Units 372 Non-Residential Acres</b>	<b>N/A</b>	<b>\$8,144,826</b>

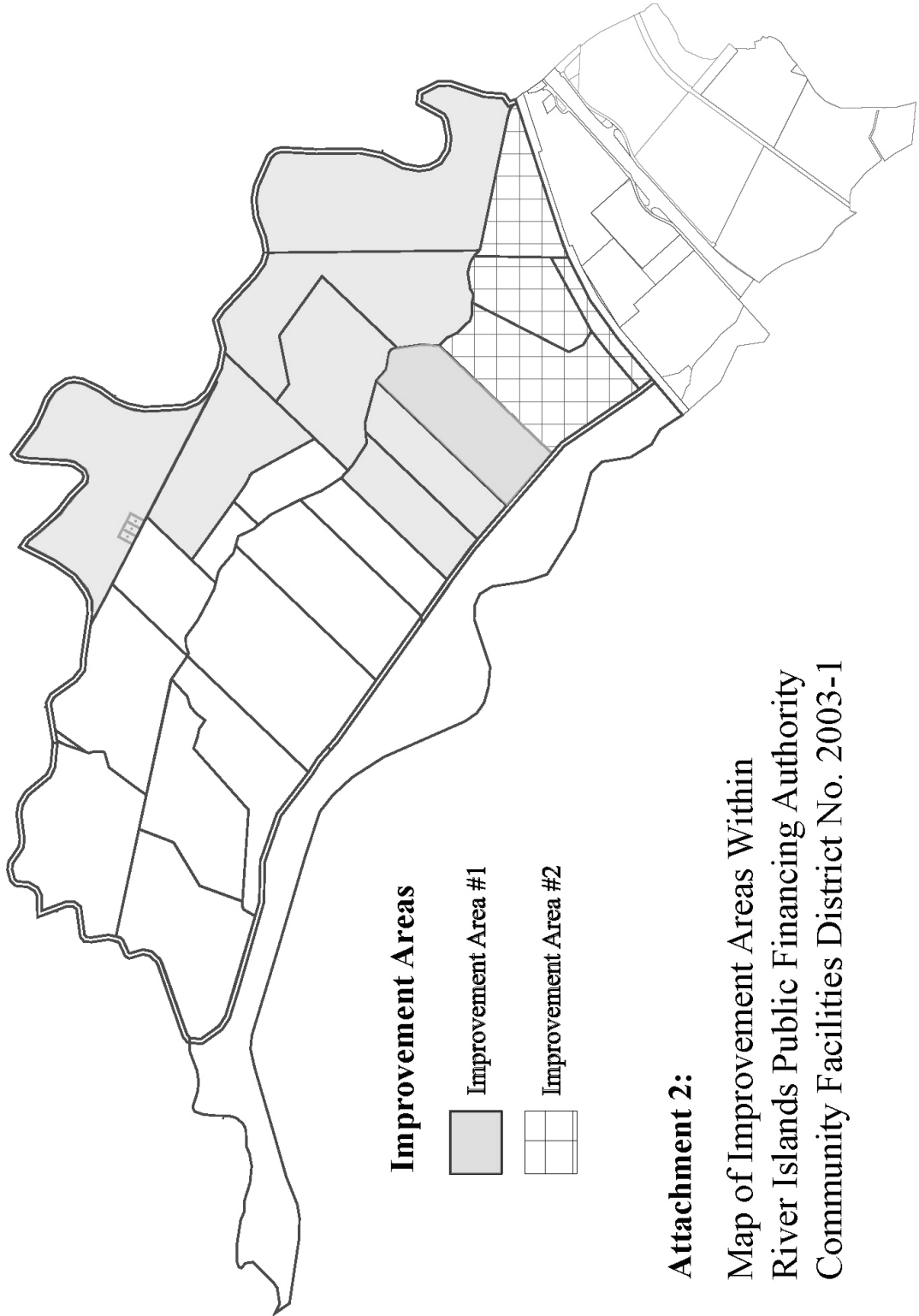
*\* Figures shown in fiscal year 2004-05 dollars and will escalate two percent (2%) per year thereafter.*



ATTACHMENT 2

MAP OF IMPROVEMENT AREAS WITHIN  
RIVER ISLANDS PUBLIC FINANCING AUTHORITY  
COMMUNITY FACILITIES DISTRICT NO. 2003-1

**River Islands at Lathrop**  
Improvement Areas



**Attachment 2:**  
Map of Improvement Areas Within  
River Islands Public Financing Authority  
Community Facilities District No. 2003-1

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**APPENDIX C**  
**THE APPRAISAL**

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# **APPRAISAL REPORT**

## **RIVER ISLANDS - PHASE 1**

### **LATHROP, CALIFORNIA**

**Date of Value: December 31, 2014**



**Prepared By: Smyers & Krauss Appraisal, LLC**

**Prepared For: River Islands Public Financing Authority**

January 20, 2015

Herb Moniz  
Executive Director  
River Islands Public Financing Authority  
73 West Stewart Road  
Lathrop, CA 95330

**RE: Appraisal - River Islands Phase 1, Lathrop, California**

Mr. Moniz:

The following appraisal addresses the current market value of the property known as River Islands Phase 1 and referred to in this Appraisal Report as the "Property." The Property consists of a gross area of 1,793 acres of land which is designated for residential and commercial development. The site is west of Interstate 5 at Stewart Road, in Lathrop, California. This Appraisal is prepared in support of the issuance by the River Islands Public Financing Authority of special tax bonds for its Community Facilities District No. 2003-1 (Public Improvements) (the "District"). Proceeds of the bonds will be used to refund several series of outstanding special tax bonds issued to fund, and to provide additional funding for, public improvements necessitated by the development occurring in the District.

The property in the District is being developed by River Islands Development LLC. The District includes approximately 2,100 gross acres of land, including the 1,793 acres of the Property being appraised, and an additional 307 acres of undeveloped Property the value of which is not included in my estimate of value. The Property is designated in the City of Lathrop Specific Plan to accommodate 4,284 single and multi-family residences and approximately 226.2 acres of commercial uses. The Property is located entirely within the City of Lathrop, California. The Property addressed in this Appraisal comprises a portion of the development area identified in the West Lathrop Specific Plan as the Stewart Tract. At present, a portion of the Property is being improved with single family detached homes by three home builders actively constructing the homes in four separate subdivisions.

The value estimate in this Report represents my opinion as to the current "Market Value" of the Property which is the market value of the Property, including the benefit of entitlements, completed public improvements, and completed land development. The estimated market value for of the Property is **\$330,600,000**. This value is net of all property taxes including assessment liens and special taxes authorized to be levied on the Property under the Mello-Roos Community Facilities Act of 1982 (the "Act"), as amended, by the District or by any other community facility district formed under the Act. The date of value of this Appraisal Report is December 31, 2014.



January 20, 2015

Page 2

The construction of the public infrastructure and the ultimate development of the Property and sales of parcels to end users is estimated to take place over the next 5 to 10 years, with Phase 2 of the River Islands project (which is not valued in this Report) planned to be ready to develop as Phase 1 is completed. The above value estimate assumes a bulk sale of the Property not yet sold to homeowners to one or more potential buyers.

This Report has been prepared to assist in the issuance of special tax bonds for the District. This Report has been prepared with the intent of complying with the Uniform Standards of Professional Appraisal Practice, the Code of Ethics of the Appraisal Institute, and the Appraisal Standards for Land-Secured Financing as promulgated by the California Debt and Investment Advisory Commission.

Respectfully,



Trentin P. Krauss, MAI

## **TABLE OF CONTENTS**

<b><u>Part I - Introduction</u></b>	<b><u>Page</u></b>
Summary of Facts and Conclusions	5
<b><u>Part II - Factual Data</u></b>	
Effective Date, Purpose and Use	12
Interest Appraised	12
Scope of Assignment	12
Identification of the Subject Property	13
Property History	14
Regional Analysis	16
Neighborhood Description and Analysis	19
Subject Property Description	21
Land Use	24
Public Use Infrastructure Improvements	27
Supply and Demand - Residential Use	29
Supply and Demand - Retail and Commercial Use	34
<b><u>Part III - Analyses and Conclusions</u></b>	
Highest and Best Use Analysis	35
Appraisal Methodology	37
Direct Sales Comparison Analysis - Paper Lots	39
Residential Land Residual Analysis	47
Land Value Estimate by Product Type	49
High Density Residential Land Value Analysis	51
Commercial Land Valuation Analysis	57
Annual Land Sales Projection	61
Finished Single Family Residence Value	63
Land Lease Income	65
Cash Flow Model	65
Reconciliation and Final Value Conclusion	69
Statement of Limiting Conditions	70
Appraiser's Certification	72
Qualifications of Appraiser	74
Definitions of Terms	75
Subject Property Photographs	77
<b><u>Part IV - Exhibits and Addenda</u></b>	<b><u>Exhibit</u></b>
Subdivision Tract Information	A
Subdivision Survey Information	B
City of Lathrop Housing Inventory	C

## **SUMMARY OF FACTS AND CONCLUSIONS**

### **Subject Property Identification:**

The Property is identified as River Islands Phase 1, which is part of the Stewart Tract as identified in the West Lathrop Specific Plan. The Property, consisting of Phase 1, is included in a currently-approved vesting tentative tract map no. 3694 and consists of approximately 1,793 gross acres of land, a portion of which is in the process of being improved with single family detached homes. Phase 1 contemplates the eventual construction of 4,284 homes and the development of 226.2 acres of commercial use. The entire Property is located within the City of Lathrop. Also within Phase 1 are public use lands including parks and school sites, the value of which is not included in this Appraisal, but which, when developed, will benefit the Property. The site is located west of Interstate 5 (I-5) at Stewart Road.

### **Property History:**

The Property had previously been used for agricultural purposes, largely the growing of row crops. The Property was annexed to the City of Lathrop in 1997, along with the adoption by the City of the West Lathrop Specific Plan. In January of 2003, a tentative subdivision tract map (Tract 3221) was approved for Phase 1 of the River Islands development, which includes the Property. That map was superseded upon recordation on March 27, 2007 of a vesting tentative tract map identified as Tract 3694, and four final subdivision tract maps have subsequently been recorded that established 191 individual lots intended for single family home construction. The construction of single family detached homes on the Property started in 2013, and there are currently 3 active home builders with 4 separate subdivisions being marketed. An amendment to the vesting tentative tract map no. 3694 has been submitted to the City, which is expected to be approved in the Spring of 2015. The amendment will not result in less

units, but primarily alters various lot sizes for parcels to be developed.

**Purpose of Appraisal:**

The purpose of this Appraisal is to estimate the current Market Value of the fee simple interest in the Property, taking into consideration the existing land uses, entitlements and planning which permit residential and commercial uses, and completed construction.

**Neighborhood Analysis:**

The Property is located west of I-5 at Louise Avenue and immediately west of the San Joaquin River. This is a low-lying level area of an irregular shape. The mature portion of the community of Lathrop lies to the east of the San Joaquin River and I-5. To the south of Louise Avenue, on the east side of I-5, is the Crossroads Commerce Center, a large development improved with light manufacturing and warehouse uses.

This location is just north and west of the junction of I-5 and I-205 and is central to the fast-growing central valley communities of Stockton, Tracy, and Manteca. The Property is a significant part of a development area known as the West Lathrop Specific Plan Area, which will eventually accommodate up to 14,000 residences, public areas and facilities, and complementary commercial uses. The land uses for the Property will take advantage of its location along the San Joaquin River to create open space and parks, as well as school sites and complementary commercial uses. Closer to I-5 will be service commercial and highway commercial uses.

The West Lathrop Specific Plan addresses two principal areas: Stewart Tract (which includes the Property and Phase 2 of the River Islands development) and Mossdale Village (which includes 1,161 acres of land). Homes have

been under construction in the Mossdale Village area for many years and that area is nearing build out.

Regionally, the Property is centrally located in San Joaquin County, with regional shopping opportunities available approximately 5 to 10 minutes to the west in Tracy or 5 to 10 minutes to the north in Stockton. A regional hospital is just 5 minutes to the north at I-5 at French Camp.

Principal employment centers include Stockton, Tracy, eastern Alameda County, and the larger San Francisco Bay Area to the west. New homes in the neighborhood are generally priced between \$300,000 and \$600,000. The Lathrop area has historically offered a more affordable residential alternative to areas to the west that are closer to the San Francisco Bay Area and Silicon Valley job markets.

**Entitlements:**

The Property benefits from being located within the City of Lathrop, the West Lathrop Specific Plan, an Urban Design Concept document, and an EIR. Further, the Property received tentative tract map approval in January 2003, which allowed for the construction of 4,284 single and multi-family homes. That map was superseded by the vesting tentative tract map no. 3694, approved by the City of Lathrop on March 27, 2007. Four final subdivision maps have subsequently been recorded that established 191 lots intended for development with single family detached homes. An amendment to the vesting tentative tract map no. 3694 has been submitted to the City, which does not change the currently-approved units that can be built, but alters various lot sizes.

Phase 2 of the River Islands development consists of 2,155 acres and 6,716 planned dwelling units. No construction

of Phase 2 is planned in the immediate future and it is not included in this Appraisal Report.

**Flood Hazard Zone:**

The Property currently has portions designated as Zone AE and X per FEMA Community Map Panel Numbers 06077C0615F, 06077C0620F, and 06077C0605F, revised October 16, 2009. 900 acres of Phase 1 are protected by 300-foot wide super levees that are intended to withstand 200 year flood events. The flood levees constructed with proceeds of prior bond issues for the District that protect 900 acres of the Property have been approved by FEMA as 100 year flood-protected. River Islands Development LLC is processing State permits to remove the 900 acre portion from a 200 year flood area. As of the date of value, 900 acres of the Property (including the areas currently being developed with single family homes) have been removed from Flood Zone AE. The balance of the Property has received a conditional letter of map revision (a "CLOMR") from FEMA, which will allow the balance of the Property to be removed from the 100 year flood event if levee improvements are built as submitted by the master developer. The current levee system is planned to be expanded to eventually protect all of Phase 1.

**Site Analysis:**

The Property has mostly level topography and totals approximately 1,793 gross acres that was originally created by the combination of portions of 18 former San Joaquin County Assessor's parcels. The Property appraised in this Report does not include 307 acres that are included within the District, but are not covered by the currently-approved vesting tentative tract map 3694 and will be developed as part of Phase 2 of River Islands, and does not include Paradise Cut, consisting of approximately 703 acres in Phase 2 that have been set aside as open space. The net



development area is 973.3 acres, exclusive of streets, parks, and schools. The shape of the Property is irregular, formed by the meandering banks of the San Joaquin River on the east, undeveloped agricultural land to the west, Old River to the north, and Paradise Cut to the south. The site is approximately one-quarter of a mile west of the interchange of Louise Avenue and I-5.

Water rights have been obtained from the South San Joaquin Irrigation District (through a joint community facilities agreement with the City) sufficient to supply the potable water necessary to serve all of the planned development for Phases 1 and a portion of Phase 2 of the River Islands development. Sanitary sewer capacity has been approved for the first 385 residential units, with rights to capacity for an additional 770 units being finalized by the completion of additional plant improvements in February of 2015.

**Environmental Conditions:**

The Appraiser has not reviewed any soils or hazardous materials study regarding the Property. It is assumed that no conditions exist which will prevent the development as approved and planned for the Property. A physical inspection of the Property did not reveal any obvious hazardous materials or conditions.

**Highest and Best Use Estimate:**

The highest and best use of the Property is that use which is consistent with the land use plans as set out in the West Lathrop Specific Plan, the Urban Design Concept document and the currently-approved Vesting Tentative Tract Map 3694. This land use will consist primarily of single family residential neighborhoods supported by parks, schools, neighborhood and retail commercial uses. This development is expected to proceed over the next 5-10

years, with the sale of development parcels to merchant builders and retail users as the construction of infrastructure permits and demand for these uses materializes.

**Value Conclusions:**

The estimated “Market Value” for the Property is **\$330,600,000.**

The above value estimate represents the Appraiser’s estimate of the market value of the Property on a bulk sale basis consistent with the definition of “Market Value” as included in the addendum to this Report, and is net of all property taxes including assessment liens and special taxes authorized to be levied on the Property under the Act for the District or for any other community facilities district formed under the Act. The value estimate does not include the value of 307 acres of property included within the boundaries of the District, but which are not included in the Vesting Tentative Tract Map 3694 and are expected to be developed as part of Phase 2 of River Islands.

**Market Exposure and Marketing Period:**

Given the size and scope of the Property, as well as a review of market data used in the appraisal process, a marketing and exposure time for a bulk sale of the Property is estimated at 12 to 36 months. This assumes bulk sales transactions for the Property to one or more buyers.

**Date of Value:**

December 31, 2014

**Date of Report:**

January 20, 2015

**Extraordinary Assumptions:**

None

**Hypothetical Conditions:**

None

**Special Limiting Conditions:**

The above value estimate specifically ignores any hidden or unapparent environmental and/or adverse subsoil contamination or conditions, or any building materials which may have an impact on the development costs, marketability, or mortgage ability of the Property.

**Williamson Act:**

The Property was removed from a Williamson Act contract in June of 2003.

### **EFFECTIVE DATE, PURPOSE, AND USE**

The effective date of value of this appraisal is December 31, 2014. The Property was last inspected on December 5, 2014. The date of this Report is January 20, 2015. The purpose of this Appraisal is to estimate the current market value of the fee simple interest in the land included in the currently-approved Vesting Tentative Tract Map No. 3694, recognizing the value contribution of development entitlements, as well as the formation of River Islands Public Financing Authority Community Facilities District No. 2003-1 (referred to herein as the "District"), and completed development as of the date of value. This Appraisal Report is intended to be used in support of the issuance of special tax bonds for the District.

### **INTEREST APPRAISED**

This Appraisal Report outlines the appraisers estimated "Market Value" of the fee simple interest in the Property, subject to covenants, conditions, restrictions, rights of way, and easements of record. No title report was presented for any of the properties addressed in this document.

### **SCOPE OF ASSIGNMENT**

This Appraisal Report is intended to be an "appraisal assignment" as defined in the Standards of Professional Practice of the Appraisal Institute. That is, it is the intent that the appraisal service be performed in such a manner that the results of the analysis, opinion, or conclusion be that of a disinterested third party.

It is the intent that all appropriate data deemed pertinent to the solution of the appraisal problem be collected, confirmed, and reported in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Standards Board of the Appraisal Foundation (except the departure provision of the USPAP which does not apply) and the Code of Professional Ethics of the Appraisal Institute. Furthermore, this Appraisal is intended to be appropriate in relation to the significance of the appraisal problem, which is to estimate the current market value of the Property.

The Appraiser signing this Report, by virtue of his education and specific appraisal experience, has the knowledge and experience to competently complete this appraisal assignment.

Activities undertaken during the course of this Appraisal are as follows:

- A physical inspection of the Property and surrounding neighborhood on December 5, 2014. The Appraiser has inspected the Property several other times in the past.
- Research and investigation of current market conditions relative to the property type being appraised, as well as the market sector with which the Property is identified.
- Interviews with brokers, appraisers, property owners and/or managers, as well as relevant personnel at public agencies.
- Collection, verification and analysis of market data and any other pertinent information necessary to the valuation process.
- Compilation of the descriptions, reasoning and explanations leading to final value conclusions within this Report.

#### **IDENTIFICATION OF THE SUBJECT PROPERTY**

The Property which is the subject of this Report is within the area covered by the currently-approved Vesting Tentative Tract Map No. 3694. No title report for the Property was provided. The majority of the area included in the Property is unimproved agricultural property that is planned for development as part of Phase 1 of the River Islands development. The entire Property was at one time under the ownership of Califia, LLC and The Cambay Group. Several subdivisions have been sold off and are actively being improved with single family homes, and four final subdivision maps covering portions of the Property have been recorded, establishing 191 individual lots. As of the Appraiser's last inspection, 65 single-family residences in the sold-off subdivisions had been completed. It is an assumption that there are no significant legal obstacles to the use of the Property as designated in the West Lathrop Specific Plan or River Islands at Lathrop Urban Design Concept.

## **PROPERTY HISTORY**

The Property had historically been used for agricultural purposes, largely row crops. The Property is part of a larger proposed development area known as the West Lathrop Planning Area and is included in the West Lathrop Specific Plan, produced in 1996, but substantially revised in October 2002. The Property, along with other surrounding properties in the West Lathrop Planning Area, was annexed to the City of Lathrop in early 1997, and together they have been the focus of a substantial amount of planning and development activity.

A Vesting Tentative Tract Map for the Property was approved by the City in January 2003. This Vesting Tentative Tract Map has been superseded by the currently-approved Vesting Tentative Tract Map No. 3694, which allows for 4,284 single and multi-family lots, as well as public use areas to include parks, open space, and school sites. Vesting Tentative Tract Map 3694 also allows for 226.2 acres for commercial use. The total land area encompassed by Vesting Tentative Tract Map 3694 is 1,793 acres, including areas for streets, parks, and schools. The Vesting Tentative Tract Map 3694 was approved by the City Council on March 27, 2007. An amendment to the Vesting Tentative Tract Map 3694 has been submitted to the City which will alter various lot sizes, but does not result in less units allowed to be constructed, with approval of the amendment expected in the Spring of 2015.

As of the date of this Appraisal, the majority of the Property is still in the ownership of Califia, LLC. Ownership of the property was transferred from Reclaimed Island Lands Company in March 2001, in a transaction which dates back to 1989. San Joaquin County Assessor's records indicate that the Property was under a Williamson Act contract, which is an agricultural preserve agreement between the property owner and the County. The Williamson Act contract for the Property was extinguished in June 2003, with the payment of a fee and approval by the County.

In June of 2003, the District was formed that includes the Property and an additional 307 acres, and special tax bonds for the District were issued in 2003, 2005, and 2007. The proceeds of those bonds provided funding to acquire domestic water supply rights and to construct sewer facilities to service the development of the Property, as well as the construction of levee improvements. The aggregate principal amount of outstanding bonds issued for the District is



\$60,385,000. At present most of the improvements funded with proceeds of the bonds have been completed.

In 2011, a second community facilities district ("CFD 2011-1") was formed that includes only a portion of the Property, and special tax bonds were issued for that district in 2011, 2012 and 2013. The proceeds of those bonds provided funding for public improvements on the Property including the construction of roadways, Bradshaw's Crossing Bridge, water and sewer infrastructure, public landscaping, offsite public infrastructure, and lake improvements. The aggregate principal amount of the bonds outstanding for CFD 2011-1 is \$53,840,000.

Also in 2011, a third community facilities district (the "BANTA CFD") was formed that includes a portion of the Property and bonds were issued for that district to finance costs of the construction of a public charter school facility located on the Property. That school facility has been completed and is currently in operation.

Proceeds of the special tax bonds now being issued for the District will be used to refund in whole all of the outstanding bonds issued for the District and for CFD 2011-1, and will also provide funds to finance additional development activities occurring on the Property. The bonds issued for the BANTA CFD, which includes within its boundaries a portion of the Property, will remain outstanding and will continue to be repaid from special tax levies on a portion of the Property.

A portion of the Property is currently being improved by three home builders who have four active subdivisions offering homes for sale. Four final subdivision maps have been recorded establishing 191 lots on a portion of the Property. Building permits have been issued for 191 units and 73 units have yet to be started as of November 19, 2014. Since these subdivisions have been active, all of them have seen interest in their products and have been able to sell of units in small phases, typical of competing neighborhoods. As part of their initial purchase, the home builders have acquired rights to purchase 194 additional lots. These lots are planned to be purchased, by the homebuilders, in early 2015. Additional subdivisions will be marketed to home builders as demand necessitates. As the project moves forward it is anticipated that it could accommodate between 5 and 10 active subdivisions throughout the buildout of the Property.

## **REGIONAL ANALYSIS**

### **SAN JOAQUIN COUNTY**

The Property is located in the City of Lathrop, near the south-central portion of San Joaquin County. San Joaquin County is within the Central Valley of California, east of the San Francisco Bay Area by approximately 60 miles. It is located south of Sacramento County and north of Stanislaus County. The City of Stockton is less than nine miles north of Lathrop and is the County seat of San Joaquin County. The population of Stockton in 2013 was reported to be 298,118 persons.

The County has historically enjoyed an agricultural based economy. This has changed somewhat in recent years, particularly in the western-most portion of the County in the communities of Tracy and Lathrop, which to some extent, have become suburbs of the San Francisco East Bay and Livermore Valley. Tracy has seen the construction of at least 600 homes per year over the past 10 years, as well as the development of warehousing and distribution centers, including a large Safeway facility. A Growth Limitation Measure passed by the citizens of Tracy in 2006 halted most new home construction in Tracy not already approved by then. The extremely strong economy of the San Francisco Bay Area and high land prices have pushed many industrial, warehouse and distribution uses into the Central Valley, benefitting such communities as Lathrop, Stockton and Manteca, in addition to Tracy. The dynamics of this growth is expected to cause continued development of this nature, as well as additional residential construction, in central San Joaquin County over the next 10 years, although at perhaps a slower rate than the past 10 years.

San Joaquin County serves as an important transportation link between the San Francisco Bay Area, the Central Valley, Southern California, and points beyond. Rail and vehicle links are well-established, including Union Pacific Rail Lines, Interstate 5, U. S. 99, and Interstate 205. The nearest regional airport is located approximately 10.7 miles north of the subject property in southern Stockton.

The table below includes recent population data for San Joaquin County (data for 2014 was not available as of the date of this report).

	<u>2005</u>	<u>% Change</u>	<u>2010</u>	<u>% Change</u>	<u>2013</u>
<b>San Joaquin</b>	<b>644,116</b>	<b>6.2%</b>	<b>684,306</b>	<b>2.5%</b>	<b>701,731</b>
Escalon	7,171	-0.5%	7,132	1.7%	7,254
Lathrop	13,116	37.4%	18,023	7.1%	19,302
Lodi	62,113	0.0%	62,134	1.9%	63,338
Manteca	62,651	7.4%	67,276	6.9%	71,948
Ripon	13,658	4.7%	14,297	3.2%	14,754
Stockton	286,926	1.7%	291,731	2.2%	298,118
Tracy	79,964	3.7%	82,923	2.1%	84,691

#### CITY OF LATHROP

As indicated above, the City of Lathrop has a 2013 population of approximately 19,302 persons. It is located 55 miles south of Sacramento and less than 10 miles south of Stockton, at the northeast quadrant of Interstate 5 and State Highway 120. Highway 120 extends east from Interstate 5 along the southern edge of Manteca for 5 miles where it merges with Highway 99, running north two miles at which point it turns east again. It is a major corridor providing for Central Valley commuters and access into the San Francisco/East Bay area to the west. Interstate 5 and Highway 99 are major north/south transportation corridors in the state of California.

The City of Lathrop, prior to 1997, was located primarily on the easterly side of Interstate 5, north of Highway 120. However, in 1997, the City approved the West Lathrop Specific Plan, which incorporated an area approximating 6,583 acres, and includes the Property. The West Lathrop Specific Plan is comprised of two large development tracts. These are Mossdale Village, containing a total of 1,161 acres, and the Stewart Tract, which includes the Property and Phase 2 of the River Islands development. The Specific Plan spells out land use and design standards for this area, which is expected to eventually accommodate up to 11,000 residences as well as supporting commercial and public use lands. The plan is designed to accommodate a population of up to 30,000 people.

Historically, Lathrop had been an agricultural based community. However, the continuing dynamic growth of the San Francisco Bay Area has pushed industrial and warehousing uses into the Central Valley, which will benefit Lathrop's strategic location at the intersection of I-205 and I-5. In the near future, Lathrop is likely to see continued residential construction to

accommodate continuing job growth in the Central Valley, as well as the spread of commuters from Contra Costa and Alameda Counties.



Regional Map

## **NEIGHBORHOOD DESCRIPTION AND ANALYSIS**

River Islands is a planned community located in Lathrop, California, on land adjacent to the San Joaquin River system. The large, nearly 5,000 acre project area is also identified as the Stewart Tract. River Islands is expected to eventually accommodate a community of 11,000 homes, a town center and an employment center, as well as an extensive open space system, schools and other public land use areas which will take advantage of the site's location on the San Joaquin River.

The site is west of Interstate 5, west of the established portion of the community of Lathrop. The area is characterized by low-density agricultural uses consisting largely of row crops. The City of Stockton is approximately 10 minutes to the north of this location. The fast-growing community of Tracy is approximately 5 to 10 minutes to the south and west along I-205. There has been little recent commercial development in the community of Lathrop. The most recent significant residential construction is Mossdale Village, which is adjacent to the Property to the east, on the other side of the San Joaquin River. New homes have been under construction here for many years and have been selling quickly at several subdivisions. At this time, the Mossdale Landing development has 250 lots that have final map approval and only 94 more of these are remaining. The development has an additional 200 lots that have approved tentative maps. The remaining inventory of Mossdale Landing is estimated to be 294 single-family lots. There are another 208 entitled apartment units in the Mossdale Village project and adjacent lands available for commercial uses.

Regionally, the location of the Property is central to San Joaquin County with regional shopping opportunities available approximately 5 minutes east at Manteca, 5 to 10 minutes west at Tracy or 5 to 10 minutes north in Stockton. A regional hospital is just 5 minutes to the north at I-5 and French Camp. Principal employment centers include Stockton, Tracy, eastern Alameda County, and the larger San Francisco Bay Area to the west. New homes to the north and east of the Property are generally priced between \$300,000 and \$450,000. New homes to the west, in Tracy, are selling in a price range of \$425,000 to \$600,000 with an average of \$488,000. These price ranges are considered affordable when compared to new single family home prices in Alameda and Contra Costa Counties, which generally range above \$600,000.

River Islands' Phases 1 and 2 will become its own community as developed over the next 15 to 20 years. The Property constitutes Phase 1 of the River Islands development. The design of the River Islands development takes advantage of its location on the San Joaquin River. The Stewart Tract is surrounded by the San Joaquin River system, including the San Joaquin River on the north and east, Old River on the north, and Paradise Cut along the southern boundary. Construction is complete on a levee that protects 900 acres of the Property in Phase 1. This levee exceeds the necessary 100-year levee and is planned to eventually be extended to include the balance of the Property in Phase 1 and all of Phase 2.

The River Islands development is expected to create numerous public and private boat accesses and water activity opportunities. The developer is currently awaiting approval to provide direct access to the San Joaquin River, which would provide the development with a deep water access point. Specific elements of this project are planned to include: approximately 305 acres set aside for an employment center; a 62-acre town center which will provide retail opportunities; two 18-hole golf courses; 260 acres of park land; over 600 acres of lakes, waterways and canals; and more than 600 acres of open space specifically designed to preserve natural habitat for local species. The River Islands project benefits from extensive planning and documentation included in the River Islands at Lathrop Urban Design Concept, a largely architectural document which sets out specific design standards and goals for the project development. This document includes numerous drawings and design standards for the various street-scape and waterways, which will include a central canal within the town center and other public use areas.

Another important document for the development has been the Final Subsequent Environmental Impact Report (SEIR) for the River Islands project. This document is dated January 22, 2003 and addresses the various environmental impacts which will be created by the development of this project, along with the proposed solutions and design requirements to mitigate those environmental issues. It has been revised by three addendum dated July 1, 2005, February 2007, and March 2012.

The master developer for River Islands has completed many of the main roadways, a public school, three of the planned lakes, several public structures, and within the last year development of single-family residences has started. The project will eventually create many neighborhoods which will become a nearly self-contained community. There will be extensive use of waterways and lakes to add to the open space feel, as well as a considerable amount of



natural open space to mitigate the impacts created by this development. The River Islands development standards are consistent with modern land use criteria, which will maximize public use and encourage pedestrian oriented centers along with open space and recreational opportunities.

### **SUBJECT PROPERTY DESCRIPTION**

The Property consists of the land within Phase 1 of the two phase River Islands project. The Phase 1 property benefits from a currently-approved Vesting Tentative Tract Map #3694 and four final subdivision maps, as well as completed levy and infrastructure construction, and a development agreement with the City. The Phase 2 property benefits from annexation to the City, a Specific Plan and the development agreement with the City.

#### **Phase 1**

The Property includes a gross total of approximately 1,793 acres and is currently comprised of 229 separate San Joaquin County assessor's parcels. The area included in the vesting tentative tract map for the Property includes streets, parks, and school sites. The shape of the Property is irregular and is formed by the banks of the San Joaquin River and Old River on the north and Paradise Cut on the south.

The Property benefits from being annexed into Lathrop, having an approved Vesting Tentative Tract Map, as well as a development agreement with the City. A copy of the currently-approved Vesting Tentative Tract Map for the Property is included in the Addenda. The map provides for the construction of 4,284 homes to include 3,751 single family detached lots, 100 apartment units and 443 townhouses or condominiums. A table of land use is included on a following page. Other approved land uses include a town center, which will provide for some retail use, a 164.3 acre employment center, which is expected to be developed with light manufacturing and office uses, two school sites, and approximately 213.9 acres of open space and parks.

Currently, the Property benefits from over \$71,000,000 of bond proceeds in levee and other infrastructure improvements, along with significant addition private investment in site development. These include the acquisition a water supply for 7,000 units, which will supply the Property and include additional capacity for approximately 2,715 units for the future phases

of the River Islands development or for other projects in the area. Other funded improvements include off site water and sewer construction, on site sewer and water construction and the construction of new levees which have removed 900 acres of Phase 1 from a FEMA flood Zone AE designation. As of the date of value, significant public infrastructure has been constructed, including roadways, a school, lakes, and several public structures.

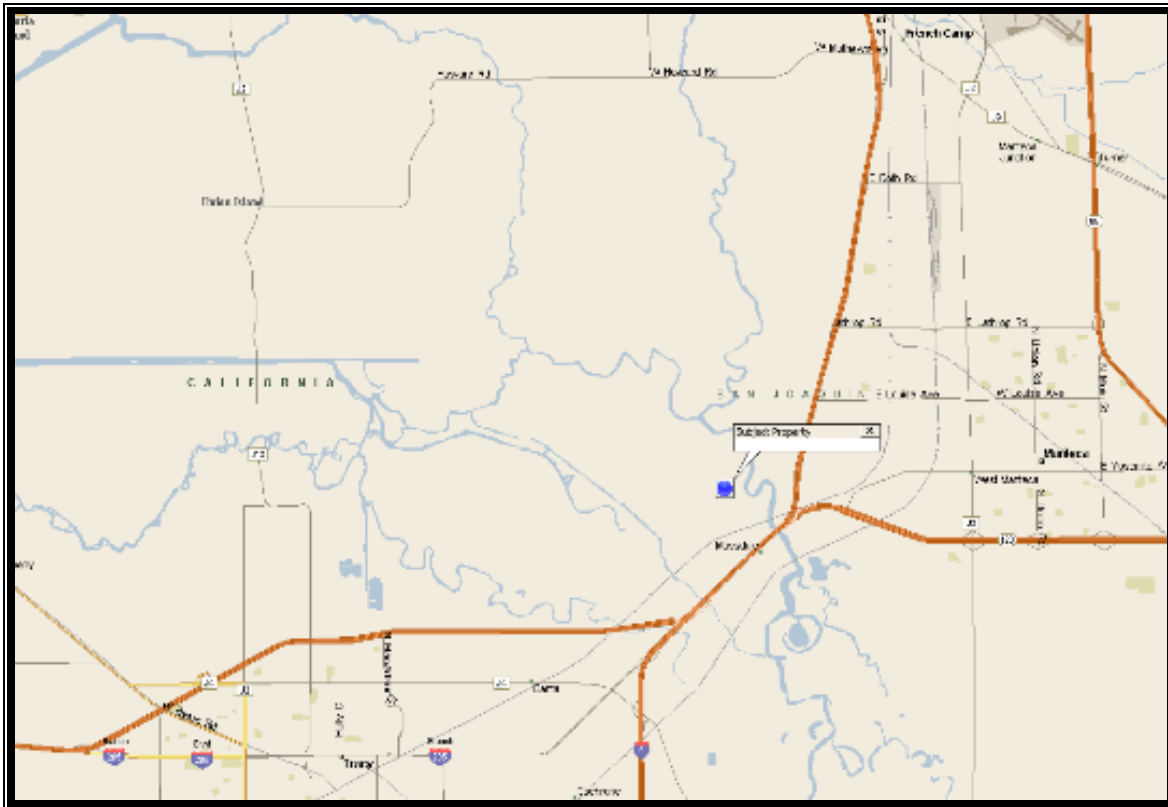
In conclusion, the Property, is a large development site consisting of 1,793 acres, plus open space and land dedicated to natural habitat, which had historically been used for agricultural purposes. This is a low-lying site, however, recent levee construction has removed 900 acres of the Property from a FEMA flood Zone AE and that area is now in a FEMA flood Zone X. The land use is closely controlled by a variety of documents including the SEIR, River Islands at Lathrop Urban Design Concept, which closely follows the West Lathrop Specific Plan, and a development agreement with the City. This site is mostly level and irregular in shape but is being developed with single family home sites, as well as supporting commercial and public use sites, which meet current modern design standards. The project area also benefits from being located within the City.

The Property enjoys a key location central to many employment centers in the Central Valley and the Bay Area to the west. The build-out of the Property is expected to take place over the next 5 to 10 years.

### **Phase 2 (not appraised)**

The Phase 2 portion of River Islands is not valued in this Report. It generally lies to the west of the Property and as a result, will follow the Phase 1 Property in development. This site contains approximately 2,411 gross acres, 2,155 acres of which is expected to be developed. The property has mostly level topography and is irregular in shape. The development plan for Phase 2 is part of a development agreement with the City of Lathrop. It includes three development areas to be known as West Village, Woodlands and Lakeside. West Village is expected to be developed on 720 acres and accommodate about 2,700 residences, (1,900 single family homes and 800 multi-family residences). Woodlands is expected to be developed on 965 acres and will include 2,600 residences, almost all single family homes. The current plans feature an 18-hole golf course, some private docks, and a group dock with 40 berths. The Lakeside district is expected to encompass 470 acres. This is intended as an

active adult development to include 1,400 single family homes and an 18-hole golf course. Full build-out of Phase 2 is expected to include 6,726 residential units and to be completed within 15 to 20 years.



**Neighborhood Map**

## **LAND USE**

The future land use for the Property is controlled by a number of documents, the most important of which include the West Lathrop Specific Plan; the River Islands at Lathrop Urban Design Concept, revised January 10, 2003; the development agreement with the City; and Vesting Tentative Tract Map 3694. The West Lathrop Specific Plan sets out potential land uses for the Property. It is the guiding document in the City's approval process with regards to land use. The Urban Design Concept is more specific with regards to land use and project design. The various land uses for the Property are briefly described as follows:

### **TC-RI Mixed Use Town Center**

Approximately 61.9 acres included within the Vesting Tentative Tract Map 3694 are identified for town center commercial uses. The town center will be a mixed use district, which will be the commercial and community center for River Islands. It will include a mix of retail, office, residential, education, civic uses, and higher density residential. As much as possible, this will be a pedestrian oriented district including approximately 100,000 square feet of retail space, 150,000 square feet of retail, office, or civic space, and 100,000 square feet of office or hotel space. Additionally, there are approximately 33 acres that will accommodate up to 600 apartment units. The River Islands Technology Academy has been constructed and opened to its first students in 2013 and is a kindergarten through 7<sup>th</sup> grade school. The school will add a grade each year it is open until it is kindergarten through 12<sup>th</sup> grade. Current enrollment is 450 students.

### **EC-RI Employment Center**

Vesting Tentative Tract Map 3694 identifies approximately 164.3 acres set aside for employment center uses. The Employment Center district is expected to eventually occupy up to 305 acres in the River Islands project. Primary uses in the Employment Center district will consist of office/administration and research/ development functions. The intent is to provide a business/research park environment that will encourage the creation of jobs at this location.

The City has required that for each residence that is sold a \$5,000 fee is put aside to be used as deemed appropriate with regards to the employment center until the project generates two jobs per household. This fee is to be accumulated in an account and the City may then use 20% of the fee garnered to support economic development east of Interstate 5 and the construction

of public facilities anywhere in Lathrop. The Master Developer may use the 80% for “acceptable development that would encourage economic growth” on the Stewart Tract, as mutually agreed upon by the City.

### **Residential Districts**

Vesting Tentative Tract Map 3694 includes three broad residential uses for the Property. These are as follows:

#### RL-RI Residential Low

This area allows for 3 to 9 dwelling units per acre. Most of the 3,226 lots for detached single family homes are located within this residential designation.

#### RM-RI Residential Medium

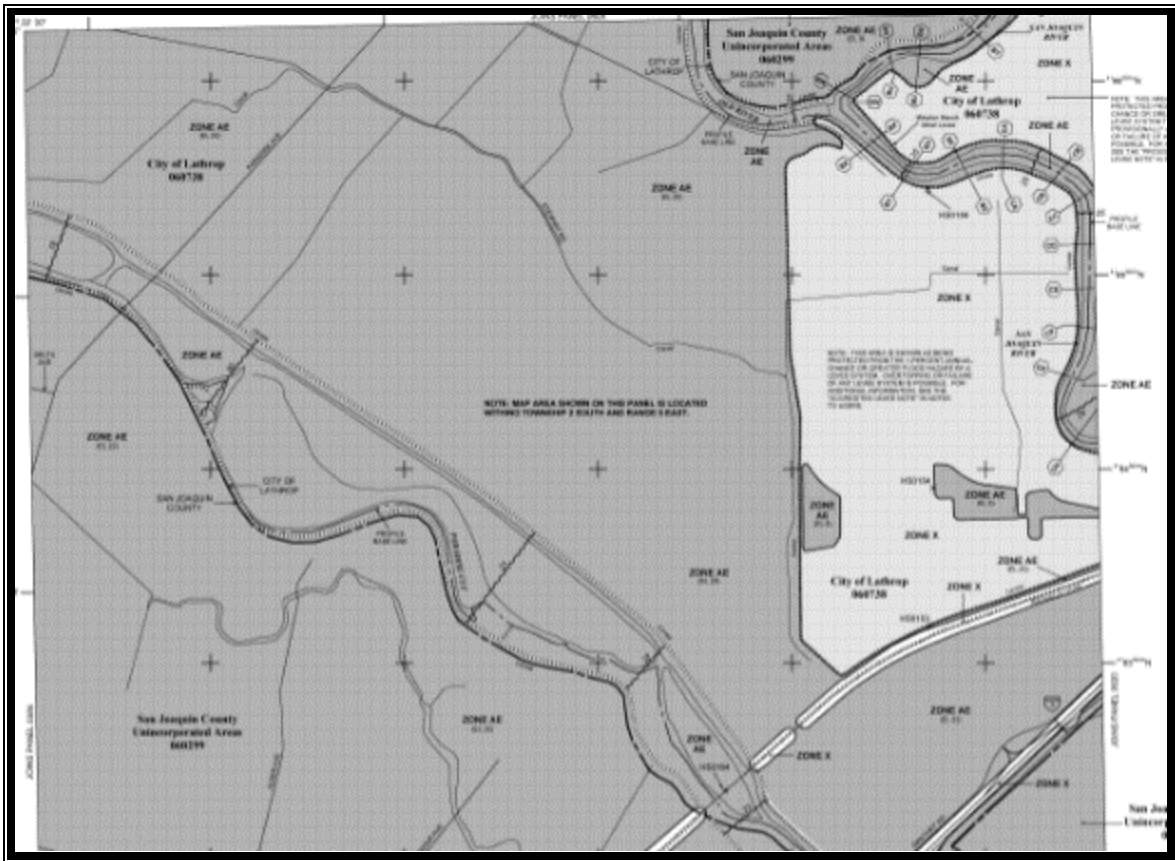
This area allows 6 to 20 dwelling units per acre. The small lots for home construction and town homes are included in this area.

#### RH-RI Residential High

This area allows 15 to 40 dwelling units per acre and includes the apartment and townhouse uses.

### **Soils and Drainage**

No soils report was provided for the Appraisers’ review. A review of FEMA flood plain maps 06077C0615F, 06077C0620F, and 06077C0605F indicate portions of the Property are located in flood plain X and A. 900 acres of the Property that are located in A appear to be consistent with the lakes and water features in the development. Development of areas in flood plain A would require removing them from the flood plain or flood insurance. Development of areas in Zone X do not require flood insurance.



FEMA Flood Plain Map



### **PUBLIC USE INFRASTRUCTURE IMPROVEMENTS**

The District for which bonds were issued to provide funds for the acquisition of domestic water and delivery systems, was formed in June of 2003. Since that time water rights have been acquired for potable water for all of Phase 1 and sanitary sewer system improvements for a portion of the Property have been completed. Over \$50,000,000 has been spent on these facilities as well as the construction of new levees. At present, approximately 900 developable acres of the Property are located in flood plain zone X. The Property currently has sanitary sewer capacity for 385 homes and will increase that number by 769 homes in the Spring of 2015 upon completion of plant improvements under construction.

The purpose of this Appraisal is to support the issuance of approximately \$155,000,000 of special tax bonds for the District. The following table outlines the land uses approved by the Vesting Tentative Tract Map 3694 for the Property.

# RIVER ISLANDS PHASE 1

## Land Use Summary

### Residential Lots

	Acres	Units	Density
Large Lots (over 7,000 sf)			
100' x 100'	31.3	81	2.0
70' x 100'	27.6	132	2.0
	58.9	213	
Medium/Large Lots (5801-7000 sf)			
65' x 95'	33.3	143	4.0
60' x 100'	171.0	703	4.2
	204.3	846	
Medium Lots (4801-5800 sf)			
55' x 100'	16.4	84	4.6
50' x 100'	210.6	1,008	5.1
	227.0	1,092	
Medium/Small Lots (4000-4800 sf)			
60' x 80'	14.5	80	4.5
50' x 90'	24.8	152	6.0
47' x 85'	30.4	167	6.2
40' x 100'	77.5	517	7.0
	147.2	916	
Small Lots (below 4000 sf)			
45' x 70'	20.6	128	8.0
40' x 90'	7.7	66	8.0
35' x 85'	14.8	180	8.4
35' x 72'	9.0	84	8.4
Courtyards	25.5	216	9.0
	77.6	674	
Apartments	5.0	100	19.0
Townhouses	27.1	443	14.0
Subtotal	747.1	4,284	
Commercial - Town Center	61.9		
Commercial - Employment	164.3		
Schools	41.1		
Parks and Open Space	213.9		
Streets	130.8		
Designated Remainers	433.9		
Total Acreage	1793.0		

## **SUPPLY AND DEMAND - RESIDENTIAL USE**

The anticipated absorption for the planned residential products within the Property is an important variable in estimating the current value of the Property. In an effort to arrive at an estimated absorption for the future land uses of the Property, the local market area was surveyed to determine the relative level of supply of future products, as well as the evidence of historical demand experienced by subdivisions at competing locations.

### **Supply Analysis**

The Property is part of a larger development area known as the West Lathrop Specific Plan, including Mossdale Village and the Stewart Tract. Residential products constructed on the Property will compete with other developments in this development area, which will eventually encompass over 14,000 residences.

The most dramatic growth area in San Joaquin County over the past 10 years has been the communities of Lathrop, Manteca, and Mountain House. Mountain House is approximately 15 minutes west of the location of the Property. Prior to the most recent economic and real estate downturn in 2008 these areas had 20 to 30 active subdivisions selling homes at a pace of 3 to 7 units per month. During the downturn there was no active development and some smaller developers went out of business. As the economy and market improved, starting around 2011, the area has once again seen an increase in real estate prices and development.

In November 2000, the voters of Tracy approved a growth initiative which further limited the number of new single family homes permitted each year. This measure essentially cut the permitted new housing to approximately 300 units per year. It was later determined, however, that subdivision maps which had been approved prior to the voter-approved initiative could proceed. These subdivisions were selling homes on aggregate at a pace of approximately 600 units per year. Tracy's ability to accommodate new residential construction will be very limited and speculative in years to come.

Mountain House, is perhaps the most comparable project in the area to the Property. This project encompasses 4,784 acres of land that is being developed in 12 neighborhoods that are centered around a park and or a school. Three of the neighborhoods have been entirely built out and several others are currently selling homes. At this point there is only one small commercial building, and no apartments of higher density have been constructed.

The site of this development is west and north of Tracy. The project has plans to eventually extend development all the way to I-205, but is currently setback off of I-205 and is isolated by itself. There is a potential of more than 15,000 residential units within this project area. Approximately 10 years ago Lennar Communities entered into a contract to purchase 932 residential lots over a two-year period at a reported cost of \$115,000 each. Since sales began here in 2003, the Mountain House project has been successful at marketing multiple subdivisions by multiple developers. During the economic downturn, Mountain House was hit very hard and experienced home sales prices below the cost of production. Those that were able to hold on to their properties have enjoyed increased real estate values over the last several years and prices are at or near their previous highs. At the end of 2012, approximately 3,500 homes have been sold and are occupied. Prices now range from \$400,000 to \$650,000. Throughout 2014 there were 21 active residential subdivisions in Tracy and Mountain House, some of which have since sold out of new homes.

Manteca, to the east of the Property, is a fairly compact community of approximately 71,948 people which has seen modest growth over the past few years. There have been new subdivisions built in Manteca but on a smaller scale than is projected for the West Lathrop Specific Plan Area. It is likely that Manteca will continue to grow with smaller in fill subdivisions and a few subdivisions at the perimeter, but again on a smaller scale than is projected for the West Lathrop area. Throughout 2014 there were 16 active residential subdivisions, some of which have since sold out of new homes.

Some future competition for homes to be constructed on the Property may come from the Central Lathrop Specific Plan Area, which lies adjacent to the Property to the north. This area encompasses a total land area of approximately 1,500 acres and is proposed for approximately 6,000 homes. The Specific Plan for this area was adopted in November 2004. As a result, this location will create some competition for the Property in future years.

As discussed earlier, the Property is part of a larger West Lathrop Specific Plan Area, which includes the Mossdale Village project. Nearly all of the Mossdale Village project benefits from recorded subdivision maps and home construction which is well under way with 294 remaining entitled residential lots.

There will be some benefit created by the build out of the Mossdale Village project, as it will create some synergy and has given the entire area some home sales momentum. Prices range

from \$300,000 to \$450,000. The absorption estimates arrived at in this report take into consideration the development of the 294 lots and competition from the Mossdale Village project.

In summary, with regards to supply, there will be significant competition for buyers of homes built at the Property from other developments in the West Lathrop area. To some extent, there will be modest competition from the communities of Manteca and Tracy. Homes in Tracy have historically sold at a premium over homes offered in the Lathrop area, but the supply will be limited. Manteca will offer a few homes for sale, but again not on a significant scale. Mountain House will also offer the most competitive product in terms of location, but prices are likely to be higher, due to its closer proximity to the Bay Area job market.

Projects located north of the Property, in the areas of Stockton and Lodi, will not create significant competition for the homes to be built on the Property due to their location, which is considered inferior.

### **Demand Analysis**

To gauge the demand for residential homes at the Property and to arrive at a specific estimate of absorption of homes for the Property, local residential subdivisions within Lathrop and competing locations were surveyed. The results of this survey are included on the following table titled Survey of Active Subdivisions. A New Home Subdivision Statistics report is included in the Addenda and gives additional information regarding active subdivision development in San Joaquin County throughout 2014. This data was supplied by Hanley Wood. The prices reflected in the survey are base prices. In nearly every case, buyers are purchasing upgrades which add \$5,000 to \$25,000 to the base price.

A review of the subdivision survey confirms that homes in Mountain House sell at a premium over homes in communities such as Lathrop, Stockton, and Manteca. The reason for this is the closer proximity to urban employment centers. In recent months the Mountain House development has had five active developers with seven active subdivisions. In recent months, the active subdivisions have been selling 3 to 5 homes per month.

Over the last twelve months the residential real estate market has continued to be strong, but has slowed slightly in recent months, which is typical of the holiday season. All of the

subdivisions surveyed indicated they have had steady interest from home buyers in their subdivisions.

## **Conclusions**

San Joaquin County has been one of the strongest residential home growth areas in Northern California over the past 15 years. This has led to dramatic residential construction which proceeded at a very strong pace, until the downturn in the economy in 2008. Since the downturn new residential home prices have increased dramatically and are at or near pre-recession prices. The quality and size of new home products offered in this region has also increased over this period. The sales experience at any one subdivision is often a function of the price range for the products offered compared to other nearby subdivisions, as well as the availability of homes. Developers are typically releasing product in phases that range from one to five units and are selling them out quickly. In many cases, home sales at subdivisions in the surrounding area are limited by the availability of lots.

From here forward, it is anticipated that the Property will benefit from a good location just east of Tracy at the intersections of I-205 and I-5, as well as a highly planned community, which will take advantage of its river front location and its high level of design standards. The most competition is anticipated to be from Mountain House, north of Tracy. However, the Property offers a more desirable setting with its water features. Additionally, the location of the Property is considered superior to other developments to the east and north because of its closer proximity to the urban employment centers of the greater San Francisco Bay Area.

At any given time, it is likely that there will be 4 to 10 subdivisions offering single family detached homes at different locations within the River Islands project area. It is anticipated that these subdivisions will sell homes at a pace of 3 to 6 dwelling units per month and will be able to close sales of these homes at a similar pace. This suggests an absorption of detached residential units in the subject area of about 36 units per month (8 projects at 4.5 dwelling units per month) or about 432 units per year. Dividing this into the remaining 3,144 unsold detached units (3,226 total – 82 sold or pending) for the Property, suggests an absorption of about 7.3 years for the Property. For the purpose of this Appraisal Report, it is estimated that sales of residential home units for the Property will be completed within eight years of the date of value of this Appraisal Report, recognizing that there may be some slower periods of absorption reflecting normal business cycles during that period. This estimated absorption



recognizes the fact that the Mossdale Landing portion of the West Lathrop Specific Plan Area will also be selling its remaining unsold homes during this period.

The cash flow model at the end of this Report reflects this projected absorption. The model shows the lots selling over an 8-year period or an average of about 525 lots per year, including town homes and apartments (4,202 remaining unsold units / 8). It is anticipated that lots will be sold in advance to home builders over the course of the development period in order to stay ahead of demand.

### Survey of Active Subdivisions

Date of Survey: December 2014

Neighborhood Name Builder	Total Lots	Typical Lot Size	Product SqFt	Base Price	Price / SqFt	Sales Started	Pending Sales Closed Sales	Sales Per Month
Drakes Bend DeNova Homes River Islands, Lathrop, CA	104	5,000	1,886 2,450	\$ 335,900 \$ 375,900	\$ 178 \$ 153	Nov-14	<u>6</u> 0	6.0
Edgewater DeNova Homes River Islands, Lathrop, CA	92	5,500	1,841 2,568	\$ 352,900 \$ 415,500	\$ 192 \$ 162	May-14	<u>29</u> 18	4.1
Windrift Brookfield River Islands, Lathrop, CA	121	5,800	2,100 2,800	\$ 379,880 \$ 440,000	\$ 181 \$ 157	Aug-14	<u>22</u> 9	5.5
Waterpointe Van Daele Homes River Islands, Lathrop, CA	68	9,000	2,859 3,601	\$ 436,990 \$ 489,990	\$ 153 \$ 136	Jun-14	<u>25</u> 4	4.2
River Park Woodside Homes Mossdale, Lathrop, CA	143	5,000	1,879 3,285	\$ 320,990 \$ 405,990	\$ 171 \$ 124	Apr-14	<u>21</u> 11	0.4
River Walk Woodside Homes Mossdale, Lathrop, CA	52	5,000	1,658 2,706	\$ 302,990 \$ 377,990	\$ 183 \$ 140	Not Open Jan-15		
Alicante at Questa Standard Pacific Mountain House, CA	62	5000-8000	2,935 3,219 3,435	\$ 545,000 \$ 584,470 \$ 634,020	\$ 186 \$ 182 \$ 185	Apr-13	<u>52</u> 44	2.6
Santorini Richmond American Mountain House, CA	89	6,000	2,318 3,217	\$ 477,950 \$ 529,950	\$ 206 \$ 165	Apr-13	78 35	3.9
Maplewood William Lyon Homes Tracy, CA	59	5,200	1,820 3,324	\$ 420,000 \$ 460,000	\$ 230.77 \$ 138.39	Sep-14	<u>14</u> 0	4.7

## **SUPPLY AND DEMAND - RETAIL AND COMMERCIAL USE**

Within the Property area, there are approximately 226.2 acres of land designated for retail and employment commercial use. To arrive at some conclusion with regards to supply and demand for these properties, the recent commercial market was reviewed within the San Joaquin County market area. The most important retail development in western San Joaquin County is the West Valley Mall regional shopping district located on the north side of I-205, approximately 10 minutes west of the Property, within the City of Tracy. This retail area, which includes a regional mall with tenants such as Target, Best Buy, JCPenney, Macy's, Sears, and others, has developed along with satellite retail and service commercial uses over the past 20 years. At present, there are several auto dealerships adjacent to the mall, as well as other stand-alone retail and service commercial uses consisting of numerous fast-food restaurants, a Home Depot center, Bed Bath & Beyond, Michael's, and Costco. As a result of this regional development, there is likely to be limited demand in the immediate future for regional retail and commercial uses at the location of the Property. The most likely demand will come first for neighborhood commercial and retail users, which will eventually serve the West Lathrop residential development. Demand for employment commercial uses are anticipated to grow as the residential use grows, and be viable in the next three or four years.

Immediately east of the Property, south of Louise Avenue at I-5, is the Crossroads Commerce Center, a large retail and industrial development. Most of the users in this industrial park are warehouse or truck oriented industrial uses and there is a significant amount of highway oriented freeway use along Louise Avenue adjacent to I-5. These include several fast-food restaurants and some limited office space. At the present time, there are still more than 5.0 acres of freeway oriented commercial land available at this location. There is very little other retail use in the immediate area of the Property. Demand for this use will grow as the residential uses are developed over the next several years.

Within the Property, there are approximately 226.2 acres of land designated for either retail commercial use or employment commercial use. The total acreage for the town center use is 61.9 acres. The total land designated for employment commercial use is 164.3 acres.

The demand and build-out for the non-residential sites within the Property is more difficult to quantify than the residential use as discussed in the previous section. It is anticipated, however, that there will be strong demand for some retail use within the first four years of the

development of the Property, and that there will be some demand for service commercial uses within the next four to eight year period as the residential portions of the Property develop. The land designated for employment commercial use will also be in demand for employment oriented uses such as offices, research and development, and other services. These are also likely to be restaurant or lodging uses.

The town center use will see some development earlier in the development stage as a combination of retail, office and civic uses. For purposes of this Appraisal, the 226.2 acres of land included in the town center and employment center is anticipated to be developed over the next three to eight years. As described earlier a fund is being set aside that include \$5,000 from each finished residential home sale in River Islands that can be used to aid in the development or enticing a tenant to this location.

Later in this Report, a cash flow model is included, which anticipates the sale of the subject non-residential portions of the Property over the next nine years.

### **HIGHEST AND BEST USE**

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." This analysis is applied to the Property as though vacant and as improved. The as though vacant analysis will determine if the highest and best use is to leave the site vacant or to improve it. If the conclusion is to improve the site, an ideal improvement is also concluded. The as improved analysis compares the existing improvements to the ideal improvements.

The four tests or criteria applied in highest and best use analysis, both as though vacant and as improved are:

- 1) Legally permissible (conforming to zoning, general plan, and any other legal restrictions)
- 2) Physically possible (site topography, size, access, utilities, etc.)
- 3) Financially feasible (is there market-demand for the site/improvements?)
- 4) Maximally productive (which use that meets the first three tests will produce the highest return?)

The highest and best of the Property is driven by its highest and best use as though vacant. The majority of the Property is vacant land that is planned for future development. As a result, the highest and best use of the Property, as improved, is not analyzed. Only the highest and best use, as vacant, is considered. Any improvements that have been built are consistent with the long term planning for this area and have been constructed within the last several years and represent the highest and best use of the Property as improved.

### **Legally Permissible**

The City of Lathrop annexed the Property in 1997 and they have been the focus of a great deal of planning for many years. The Property was originally part of a development concept which was to include a regional theme park, however, that use has been abandoned in favor of a more traditional residential community. The City adopted a Specific Plan for this area in 1997. That document was substantially revised in October 2002. The Property which is the subject of this appraisal (Phase 1 of the River Islands development), is addressed in an Urban Design Concept document revised January 10, 2003, which sets out specific land use criteria for the Property. Further, the Property is the subject of Vesting Tentative Map 3694 approval in March of 2007. This map allows for the construction of 3,226 single family detached homes and 1,058 apartments and town homes.

### **Physically Possible**

The Property comprises a total gross area of 1,793 acres. The land is level in topography, lying west of I-5 and west of the San Joaquin River. The land is protected by a 200 foot wide levee and the developable areas are outside of the 100-year flood plain. While the shape of the property is irregular, it is of sufficient size to accommodate a wide range of development layouts. This site is physically well-suited to the uses as set out in the City's Specific Plan and Urban Design Concept document.

### **Financially Feasible**

The uses proposed for the Property are very similar and consistent with other successful residential and commercial developments in San Joaquin County and in adjacent counties. The steady growth in population in San Joaquin County over the past 20 years or more has demonstrated that this is a desirable residential location and that there are sufficient employment opportunities to create a demand for single family detached homes and supporting commercial services. The project development, as set out in the Urban Design

Concept and City's Specific Plan, has been demonstrated to be successful and financially feasible over the past several years.

Recent development and absorption of the four active subdivisions on the Property is a strong indicator of the financial feasibility of the approved River Islands development.

### **Maximally Productive**

The maximally productive use of any real estate is that use which provides the greatest return over the development period. The project planned for the Property is consistent with successful development in surrounding communities. The Property benefits from a good location central to San Joaquin County and adjacent to its most important transportation corridor, I-5. The use for the Property, as proposed, will create a desirable residential habitat with complementary use areas including schools and parks. The scope of the project will require that it be built-out over the next five to ten years, depending on business cycles.

In conclusion, the highest and best use of the Property is to develop in a manner consistent with the City's approved Urban Design Concept, the Vesting Tentative Tract Map, and the West Lathrop Specific Plan.

### **APPRAISAL METHODOLOGY**

The purpose of this Appraisal is to estimate the current market value for the Property consisting of approximately 973.3 net acres in Phase 1 of the River Islands development, on a bulk sale basis. The market value of the privately owned real estate is included at its estimated market value. The Property is in the process of being developed and is planned to continue to be developed until all units are sold. Development of the Property includes, in the near future, primarily single family residences, but also to include some high density residential use, as well as retail and business park uses going forward.

There are three generally accepted approaches to estimating market value of real estate. These are the Cost Approach, the Sales Comparison Approach, and the Income Approach. All three approaches rely on market data which is analyzed independently of the other approaches to arrive at an indication of the subject's value.

The Property currently includes unimproved agricultural land as well as developed areas. To value the Property a cash flow model is utilized, which predicts the development and sales process of the Property (developed building sites), over the next several years. In the subject area, parcels intended for residential development are typically marketed as developed subdivision parcels that are purchased by merchant builders, who build out the retail finished products, i.e., single family homes. These parcels are generally purchased in increments of 50 to 200 lots and buyers pay an amount for the paper lots plus the cost to build out the land to a semi-finished product. The product that is sold is a finished development pad to which is supplied backbone infrastructure including collector streets, sewer, water, electrical service, as well as improved public use parcels such as parks and open space. The merchant builders generally will finish out the residential lots which have received final subdivision map approval. The cost to finish out those lots will range from \$10,000 to \$15,000. Non-residential or commercial parcels are generally sold on a similar pad basis. Commercial parcels typically range from 1 or 2 acres to 6 acres.

To arrive at a current value estimate for the Property, sales prices are estimated for the subject lots based on recent sales, as well as the commercial development parcels. The sale of the paper lots and commercial land is projected over the next nine years based on the absorption analysis discussed earlier in this Report. From these projected annual revenues, holding costs such as taxes, cost of sales, an administration and entitlement cost are deducted.

These net annual revenues are then discounted at a rate which is appropriate to the risk and opportunity cost for this type of investment and which allows for a profit to the land developer. The resulting present value calculation yields an estimate of value for the Property on an as is basis net of assessment district liens and future special tax levies.

In summary, the valuation methodology used in this analysis draws from the three basic approaches to market value - those being the income approach, as this method processes income generated from the sale of development parcels; direct sales comparison as the basis for the estimated product sales is generated directly in comparison with other sale properties in the competing area; and the cost approach in that the cash flow model recognizes costs to create the land products.



### **DIRECT SALES COMPARISON ANALYSIS - PAPER LOTS**

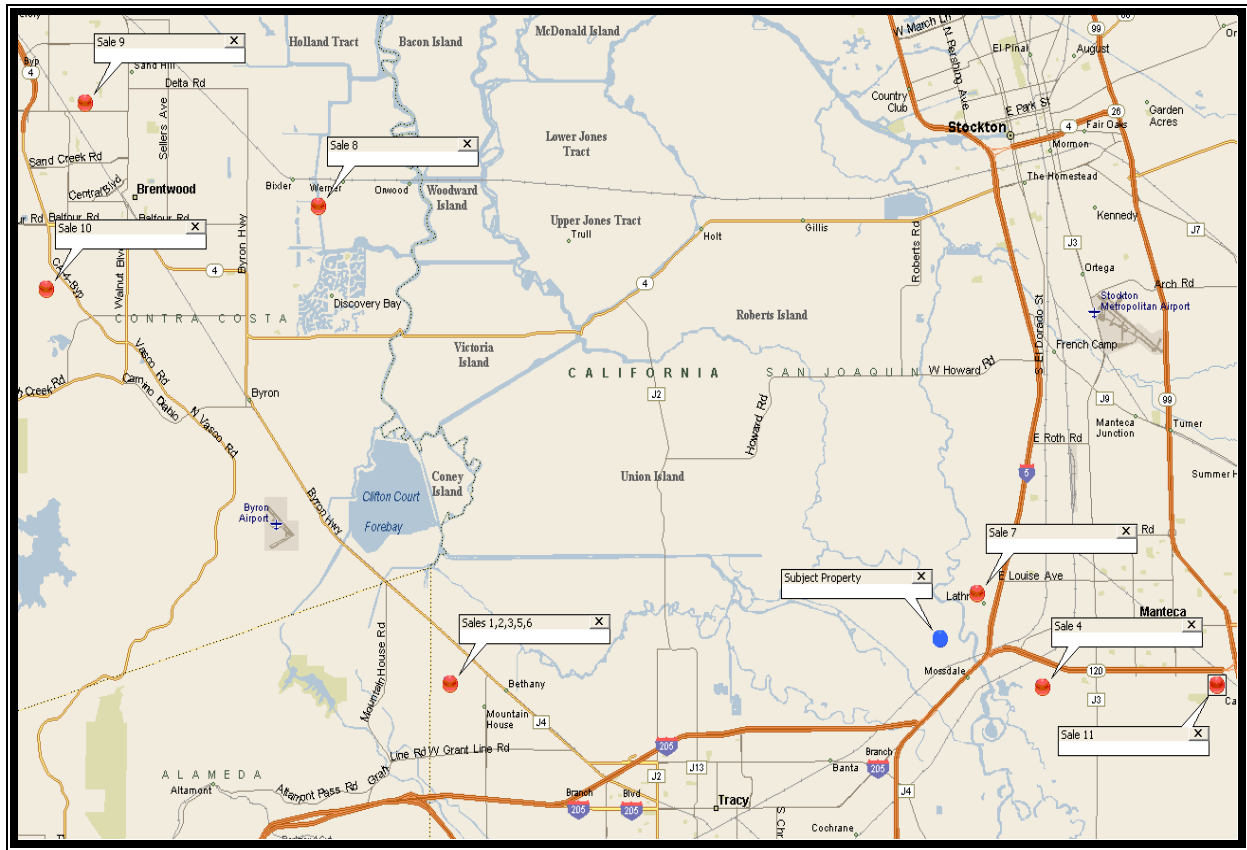
The table which follows summarizes land transactions used to arrive at an opinion of value for the residential semi-finished lots. These sales were selected for their comparability to the subject in terms of date of sale, location, product type, and overall size. Additional information regarding each of these transactions is retained in the Appraisers work file.

191 Paper lots in the Property were sold to developers in 2014 for prices ranging from \$102,000 to \$110,000 per lot net of fees. Master Development Fee's associated with the development of these lots are reported to be \$20,000 per lot, which includes the \$5,000 Economic Development Fee. The home builders that purchased these lots also acquired rights to purchase an additional 195 lots. As of the date of value of this report none of the developers have exercised their right to purchase the additional lots.

The sales of lots from River Island were not included as comparable sales in the following table in order to estimate the value of the Property without relying on sales of the Property. While the River Island sales are not included in the table, they are relied on as a test for reasonableness and assigned weight in the final valuation of the subject lots.

## RESIDENTIAL LAND SALES SUMMARY

Sale No.	Location	Sale Date Grantor Grantee	Price Acres	Units Density	Zoning Lot Size	Price Per Unit	Comment
<b>Finished Lot Sales</b>							
1	Neighborhood G Mountain House, CA 256-030, -060, -070 (por.)	<u>Aug-12</u> <u>Trimark Communities</u> Lennar Homes	\$ 5,005,000 7.21	77 11	<u>R-M</u> 4,080	\$ 65,000	Finished lots within a master planned community in Mountain House.
2	Neighborhood H Mountain House, CA 256-370, 380 (por.)	<u>Nov-12</u> <u>Shea Mountain House</u> Richmond America	\$ 10,012,500 14.24	89 6	<u>R-L</u> 5,224	\$ 110,000 to \$ 115,000	Finished lots within a master planned community in Mountain House.
3	Sundance Mountain House, CA Neighborhood G	<u>May-10</u> <u>Trimark Communities</u> DR Horton	\$ 4,300,000 4.44	43 9 est.	<u>R-M</u> 4,500	\$ 100,000	43 finished lots. Price included most fees and plans associated with developing.
4	1699 Bella Lago Wy. Manteca, CA 241-720, 241-730, 241-740	<u>Dec-12</u> <u>Lafferty Communitites</u> Woodside Homes	\$ 5,243,000 6.19	49 7.9	<u>R-L / C-R</u> 5,500	\$ 107,000	49 finished lots with an average lot size of 5,500 square feet.
5	Alicante Mountain House, CA 256-044-	<u>Sep-12</u> <u>Shea Homes</u> Standard Pacific	\$ 8,060,000 7.83	62 7.9	<u>R-L</u> 5,500	\$ 128,000 to \$ 133,000	62 finished lots with an average lot size of 5,500 square feet.
6	Terrazo Mountain House, CA 256-031- and 256-032-	<u>Aug-12</u> <u>Shea Homes</u> Lennar Homes	\$ 7,395,000 6.97	102 14.6	<u>R-M</u> 2,975	\$ 70,000 to \$ 75,000	102 finished lots with an average lot size of 2,975 square feet. Net of Fees.
7	16825 Gold Nugget Trail Lathrop, CA 191-380-, 610-, 620-, 630-,	<u>Mar-13</u> <u>Legacy Homes</u> Woodside Homes	\$ 6,277,500 4.63	81 17.5	<u>R1</u> 2,400	\$ 77,500	81 finished lots located in Mossdale Landing. Net of fees.
8	Westport Cir. Discovery Bay, CA 011-580- and -590-	<u>Sep-14</u> <u>Hoffman Builders &amp; Developers</u> Kiper Development	\$ 10,285,000 12.60	81 6.4	<u>P-1</u> 6,000	\$ 126,975	81 finished lots located in Discovery Bay. Net of Fees.
9	Steeple Blvd. & Beau Ave. Brentwood, CA 018-610-, -620-	<u>Mar-14</u> <u>Brentwood Steeple Chase</u> Van Daele Seveloment	\$ 10,260,000 30.60	73 2.4	<u>PD-59</u> 6,500	\$ 140,548	73 finished lots to be assembled and developed by the buyer. Phase 2 of a buy down, price established in 12/2012
10	Reserve Dr. & Vintage Cir. Brentwood, CA 007-610-, -600-	<u>May-14</u> <u>Black Hawk Services</u> Shea Homes	\$ 26,500,000 19.40	132 6.8	<u>PD-64</u> 15,000	\$ 200,758 \$ 170,758 (net of fees)	132 finished lots including a large oper space area. Developer fees of \$30,000 per lot included in sale price.
11	1201 Tesoro Dr. Manteca, CA 224-430-41	<u>Oct-14</u> <u>Union Ranch Partners, LLC</u> PD Danna, LLC	\$ 2,550,000 8.01	25 3.1	<u>R-1</u> 15,001	\$ 102,000	Entitled for 25 lots. Level Topography. Larger lots located in a developed area.



**Comparable Sales Map**

## COMMENTS REGARDING LAND SALE COMPARABLES

### Land Sale 1

This is the sale of 77 residential lots that are located in Neighborhood G of Mountain House. The lots were purchased by Lennar Homes who intended on developing them with single-family residences. The average size lot is 4,080 square feet. All public utilities and infrastructure are in place to the sites and they are ready to be developed. The lots were purchased from Trimark Communities who entitled the land. They were sold out of foreclosure, but the buyer indicated they were purchased at a market price.

### Land Sale 2

This is the sale of 89 residential lots that are located in Neighborhood H of Mountain House. The lots were purchased by Richmond America who intended on developing them with single-family residences as soon as possible. The average size lot is 5,224 square feet. All public utilities and infrastructure are in place to the sites and they are ready to be developed. The

lots were purchased from Shea Homes who foreclosed on the property. The buyer was interviewed and suggested that it will cost approximately \$125,000 per lot to develop the residences.

### **Land Sale 3**

This is the sale of 43 residential lots that were purchased by DR Horton for \$100,000 per lot. These lots are located in Mountain House and were developed and sold by the buyer. The lots average 4,500 square feet in size. The sale closed in May 2010 after a typical escrow period. The buyer indicated that this price included most fees associated with the development of the parcels. The parcels are being developed as the Sundance subdivision and are located in Neighborhood G of Mountain House. The buyer indicated the sale was a market transaction.

### **Land Sale 4**

This is the sale of 49 residential lots that were purchased by Woodside Homes for \$107,000 per lot. These lots are located in east of Mountain House in Manteca. The sale closed in December 2012 after a typical escrow period. The buyer indicated that this price included \$22,000 for permits and fee's. The sale is part of a larger subdivision that is being developed. This is a more remote location than the subject. These lots average 5,500 square feet in size. The buyer indicated the sale was a market transaction.

### **Land Sale 5**

This is the sale of 62 residential lots in Neighborhood H of Mountain House. The lots were purchased by Standard Pacific Homes for between \$128,000 and \$133,000 per lot. The seller was interviewed but was unable to disclose the exact price of the transaction but did disclose the range. For the purpose of this analysis the middle of the range was used. These were residential lots that are already being developed. The sale closed in September 2012 after a typical escrow period. The buyer indicated that the price included all permits and fees. These lots average 5,500 square feet in size. The buyer indicated the sale was a market transaction.

### **Land Sale 6**

This is the sale of 102 residential lots in Neighborhood H of Mountain House. The lots were purchased by Lennar Homes for between \$70,000 and \$75,000 per lot. The seller was interviewed but was unable to disclose the exact price of the transaction but did disclose the

range. For the purpose of this analysis the middle of the range was used. These were residential lots that are already being developed. The sale closed in August 2012 after a typical escrow period. The buyer indicated that the price included all permits and fees. These lots average 2,975 square feet in size. The buyer indicated the sale was a market transaction.

#### **Land Sale 7**

This is the transaction of 81 residential lots that are part of the Mossdale Landing development. The properties were sold by Legacy Homes and purchased by Woodside Homes, who intends on developing the parcels with single-family residences. The average lot size is 5,500 square feet. The property was not listed for sale, but was purchased in an off market transaction for all cash. All public utilities and infrastructure are in place to the site.

#### **Land Sale 8**

This is the transaction of 81 residential lots that are located in Discovery Bay in eastern Contra Costa County. The properties were sold by Hoffman Builders and Developers and purchased by Kiper Development Inc., who intend on developing the parcels with single-family residences. The average lot size is 6,000 square feet. The property was not listed for sale, but was purchased in an off market transaction for all cash. All public utilities and infrastructure are in place to the site.

#### **Land Sale 9**

This is the transaction of 73 residential lots that are located in Brentwood in eastern Contra Costa County. The properties were sold by Brentwood Steeplechase, LLC and purchased by Van Deale Development Corporation, who intend on developing the parcels with single-family residences. This was the second take down of lots sold in the transaction. The initial purchase was made in December 2012, which set the price of the second take down at \$5,000 per lot more. The average lot size is 6,500 square feet.

#### **Land Sale 10**

This is the transaction of 132 paper lots that are located in Brentwood in eastern Contra Costa County. The properties were sold by Black Hawk Services and purchased by Shea Homes, who intend on developing the parcels with single-family residences. The average lot size is 15,000 square feet. All public utilities and infrastructure are in place to the site.

### **Land Sale 11**

This is the transaction of 25 paper lots that are located in Manteca in eastern San Joaquin County. The property was sold by Union Ranch Partners, LLC and purchased by PD Danna, LLC. The sale was contingent on a proposed subdivision being approved for 25 detached single family lots. The subdivision was approved on September 29, 2014. The site was previously proposed as a school site, but was never developed. The property is planned to be developed by Atherton Homes with 25 lots that range from 8,000 to 15,000 square feet. All public utilities and infrastructure are in place to the site.

Additional sales of paper lots at the Property were reviewed. The lots were sold to home builders for prices ranging from \$102,000 to \$110,000 per lot. These sales closed in late 2013 and the lots are currently being built out by the buyers. These sale prices account for a profit share mechanism that the land developer used to entice buyers. The seller sold the paper lots to the home builders at a discounted price, in return for a share of the profit upon sale of the finished product. As of the date of value of this Appraisal Report the effective sale price of the lots is unknown.

### **LAND SALES ADJUSTMENTS**

The absorption of finished single-family residences has been steady over the last two plus years and developers are continuing to develop smaller phases. A representative from DR Horton was interviewed and indicated that they are capable of buying finished lots in Mountain House and can be breaking ground within six months. They stated that outside of Mountain House this number is even less, but Mountain House has several permitting hurdles that slow down the development process. The representative also indicated that on average it takes them three and a half months to finish a house. A representative from Shea Homes indicated once they have the necessary permits they can build a house in three months.

The sales summarized on the previous pages have been used to arrive at an estimate of value for the vacant land intended for residential home development throughout the Property. The comparable sales were selected for their similarity to the expected sales to occur for the Property in terms of potential use, location and date of sale.

The following adjustment grid was created to account for differences between the Property and the comparable sales. When possible, the adjustments are based on quantifiable evidence;



however, some adjustments, such as location, are more subjective. The Appraiser based these adjustments on personal experience with the subject market, as well as interviews with real estate brokers, property owners or others involved with the transactions. The following table outlines the adjustments made to the comparable sales.

## Land Sales Adjustment Table

Element of Comparison	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6	Sale 7	Sale 8	Sale 9	Sale 10	Sale 11
Sale Price Per Lot	-	\$65,000	\$112,500	\$100,000	\$107,000	\$130,500	\$72,500	\$77,500	\$126,975	\$140,548	\$170,758	\$102,000
Real Property Rights Conveyed	Fee Simple	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
Adjusted Price		\$65,000	\$112,500	\$100,000	\$107,000	\$130,500	\$72,500	\$77,500	\$126,975	\$140,548	\$170,758	\$102,000
Financing	Cash to Seller	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
Adjusted Price		\$65,000	\$112,500	\$100,000	\$107,000	\$130,500	\$72,500	\$77,500	\$126,975	\$140,548	\$170,758	\$102,000
Conditions of Sale	At Market	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
Adjusted Price		\$65,000	\$112,500	\$100,000	\$107,000	\$130,500	\$72,500	\$77,500	\$126,975	\$140,548	\$170,758	\$102,000
Market Conditions	-	<u>28.0%</u>	<u>25.0%</u>	<u>36.0%</u>	<u>24.0%</u>	<u>27.0%</u>	<u>28.0%</u>	<u>21.0%</u>	<u>1.5%</u>	<u>4.5%</u>	<u>1.0%</u>	<u>1.0%</u>
Adjusted Price		\$83,200	\$140,625	\$136,000	\$132,680	\$165,735	\$92,800	\$93,775	\$128,880	\$146,873	\$172,466	\$103,020
Location	River Islands	-15%	-15%	-15%	10%	-15%	-15%	10%	0%	-15%	-20%	20%
Entitlements	Approved	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Zoning	Mixed	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Topography/Shape/Size	Mostly Level	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>-10%</u>	<u>0%</u>
Total Adjustment		-15%	-15%	-15%	10%	-15%	-15%	10%	0%	-15%	-30%	20%
ESTIMATED PRICE PER LOT		\$71,000	\$120,000	\$116,000	\$146,000	\$141,000	\$79,000	\$103,000	\$129,000	\$125,000	\$121,000	\$124,000

The foregoing data has been adjusted in an attempt to reconcile the various differences between the sale properties and the residential portion of the subject Property. Adjustments were made for market conditions to reflect the strong rising prices during recent years. Locational adjustments were made as well to reflect the difference between the pricing of product at the sale locations, versus the anticipated pricing of finished products at the subject Property. The average for the transactions addressed in this analysis is \$110,000 per paper lot, before adjustments. After adjustments, the average lot is valued at \$116,000, rounded.

In addition to the comparable sales listed in this Report, weight was placed on three pending sales that are located in Mountain House. While the exact details of the transactions were not provided to the Appraiser, multiple sources confirmed the transactions. All three sales are of finished lots in Mountain House that average 5,000 square feet. The purchase price for the lots was \$178,000 per lot not including fees of \$32,000 per lot. These sales are not included in the previous table in this Report because they are pending, but support a value for the lots in the Property that is at the high end of the range.

The Property will continue to market residential lots to merchant home builders. These lots will benefit from a high level of public infrastructure including man-made public use areas such as lakes and canals. The foregoing land sales have been used to estimate a current value for the subject residential lots. After adjustments the sales provide a price per unit range for residential lots from \$71,000 to \$146,000. This data, as well as information regarding the history of the Property and land sales from other locations, supports the final estimated values. An average paper lot value through this analysis is estimated at \$110,000 each.

This value estimate takes into account the \$5,000 "Economic Development Fee" that is levied against the final sale of a finished residence. The revenue generated by this is offset by a discounted sale price of the finished lots as the home builders pass through this expense.

### **RESIDENTIAL LAND RESIDUAL ANALYSIS**

As a second measure of value for the residential development land which will be marketed at the Property, a static dollar residual model is prepared. The model starts with an estimated value for typical finished products which are likely to be sold within the subject subdivisions. From this amount, the cost to create those homes and other land construction costs to arrive at

a value estimate residual to the semi-finished lots is deducted. The table below summarizes these calculations.

To estimate the value for the proposed finished homes, the results from the survey of homes in the competing market area for the Property is relied on. It was found that typically homes fall in a size range between 1,750 to 3,500 square feet and therefore three homes have been selected for this analysis: one of 1,750 square feet, one of 2,500 square feet and one of 3,500 square feet. The projected sale prices for each of these products is \$350,000, \$425,000 and \$525,000, respectively. These prices are based on actual sales data from the Property, which is detailed later in this report.

In estimating the cost to create these products the Appraiser's personal experience with residential development projects, as well as information provided by River Islands, Discovery Builders, Shea Homes, and other local developers was relied on. The resulting value residual to the finished lots ranges from \$125,000 to \$140,000 per lot. For this analysis, homes on lots of 4,000, 5,500 and 7,000 square feet each were projected. This analysis supports the value estimated for paper lots in this analysis. The following table outlines this analysis.

## Paper Lot Residual Analysis

Estimated Finished Home Values		\$ 350,000	\$ 425,000	\$ 525,000
Typical Lot Size		4,000	5,500	7,000
Living Area		1,750	2,500	3,500
Price Per Square Foot		\$ 200	\$ 170	\$ 150
Construction Costs	Per Unit			
Direct Cost Per Sq Ft		\$ 70.00	\$ 70.00	\$ 70.00
Direct Construction		\$ 122,500	\$ 175,000	\$ 245,000
Indirect Costs	\$ 10.00	\$ 17,500	\$ 25,000	\$ 35,000
Intract Cost and Fees		\$ 25,000	\$ 25,000	\$ 25,000
Master Dev Cost		\$ 20,000	\$ 20,000	\$ 20,000
Admin and Marketing	2%	\$ 5,250	\$ 6,375	\$ 7,875
Profit to Builder	10%	<u>\$ 35,000</u>	<u>\$ 42,500</u>	<u>\$ 52,500</u>
Total All Costs		\$ 225,250	\$ 293,875	\$ 385,375
Net to Paper Lots, rounded		\$ 125,000	\$ 131,000	\$ 140,000

### **LAND VALUE ESTIMATE BY PRODUCT TYPE**

The following table summarizes value conclusions regarding the land value for each of the residential development types which are likely to be developed at the Property. These range from attached high density residential units of up to 18 units per acre (2,420 square feet per lot) to lots of 8,000 square feet or larger. The basis for each value estimate is the direct market comparison analysis described on previous pages, supported by the Residual Analysis above.

The approved plans for the Property take advantage of the existing San Joaquin River and add a total of 10 lakes to the Property. Many of the planned residences have view amenities or lake front amenities that add value to the parcels. Using the available site plan map, the Appraiser estimated that 210 lots will be lakefront and 76 will have views of the lake. In addition, 155 single-family lots will be riverfront and 122 lots will have views of the river. Currently only the Edgewater subdivision, being built by DeNova Homes has lake front lots available for sale. The sales office suggested the lakefront units that have been released have sold out and there is waiting list for future lots. The value added for the waterfront features is supported in the final estimate of lot values used in this Appraisal Report.

For the largest lots, a value of \$135,000 is estimated, which reflects the larger size of these lots. The estimated value in all cases are net of all community facilities district and assessment liens. Values for the smaller lots are estimated on the following table. For the attached high-density development, a gross value of \$20,000 per unit is estimated and \$70,000 per unit is estimated for the townhouse sites. These estimates will be used in the following cash flow model when estimating an average land value for each of the property ownerships.

## Lot Valuation - Finished Lots

	<u>Lots</u>	<u>Acreage</u>	<u>Estimated Value/Lot</u>	<u>Gross Value</u>
Large Lots (over 7,000 sf)	213	58.9	\$135,000	\$ 28,755,000
Medium/Large Lots (5801-7000 sf)	846	204.3	\$125,000	\$ 105,750,000
Medium Lots (4801-5800 sf)	1092	227	\$115,000	\$ 125,580,000
Medium/Small Lots (4000-4800 sf)	916	147.2	\$110,000	\$ 100,760,000
Small Lots (below 4000 sf)	674	77.6	\$100,000	\$ 67,400,000
Apartments	100	5	\$ 20,000	\$ 2,000,000
Townhouses	<u>443</u>	<u>27.1</u>	\$ 70,000	<u>\$ 31,010,000</u>
	<b>4284</b>	<b>747.1</b>		<b>\$ 461,255,000</b>

### **HIGH DENSITY RESIDENTIAL LAND VALUE ANALYSIS**

The subject property is entitled for the development of 600 apartment units. No building permits to develop the apartment units have been applied for or approved. The apartment units are located throughout the planned project and are well located. To value the apartment land, comparable sales from the marketplace are relied on. The market was surveyed to find the most comparable sales of properties with a similarity of use, location, and size. The transactions selected for this analysis are summarized in the following sales comparison table.



## HIGH DENSITY RESIDENTIAL LAND SALES SUMMARY

Sale No.	Location	Sale Date Grantor Grantee	Price Acres	Units Density	Zoning Lot Size	Price Per Unit	Comment
12	Golden Valley Pkwy. Lathrop, CA 241-020-61, -65, -66	<u>Jul-13</u> <u>Lsc Lathrop California</u> Pegasus Development	<u>\$ 1,000,000</u> 9.0	200 22	<u>M2 (IG)</u>	\$ 5,000	Sold out of bankruptcy. Entitled with 200 apartments. Discounted price, due to legal issues.
13	6600 Golden Gate Dr. Dublin, CA 941-1500-046-01	<u>Nov-09</u> <u>Union Bank</u> Essex Dublin	<u>\$ 5,000,000</u> 3.55	309 87	<u>PUD</u>	\$ 16,200	Sold out of bankruptcy. Entitled with 309 apartments. Adjacent to I-580 and near BART.
14	1201 E. Atherton Dr. Manteca, CA 224-050-24 (por.)	<u>Mar-11</u> <u>Tesoro Apartments</u> Manteca Atherton Assoc.	<u>\$ 2,500,000</u> 7.86	153 19	<u>R4-P</u>	\$ 16,300	Purchased with approved plans. Located in a residential area.
15	Tracy Pavillions Pavillion Parkway Tracy, CA 212-280-15 & -02	<u>May-13</u> <u>Judy Robertson Inc.</u> Tracy 300	<u>\$ 9,000,000</u> 10.8	300 27.8	<u>PUD</u>	\$ 30,000	Vacant land sold to be developed with a 300 unit apartment building. Plans approved February 2013.



Comparable Sales Map – High Density Residential

## **DISCUSSION OF HIGH DENSITY RESIDENTIAL LAND SALES**

### **Land Sale 12**

This is the sale of three adjacent parcels that have a total land area of 9.0 acres. The property sold for \$1,000,000 or \$5,000 per unit in July 2013. The property was in bankruptcy at the time of sale and the buyer indicated he purchased the property at a below market price. The buyer indicated since purchasing the property they have spent over one million dollars in a legal battle over sanitation rights at the property. The site is approved for 200 apartment units with a density of 22 units per acres. The buyer intends on developing the property with the approved plan, once the legal dispute is over. This property is located in an inferior location and is adjacent to a large above ground storage tank. It is anticipated the subject would sell at a premium when compared with this sale.

### **Land Sale 13**

This is the sale of a single parcel that has a total land area of 3.55 acres. The property sold for \$5,000,000 or \$16,200 per unit in November 2009. The property sold out of bankruptcy at a price the broker indicated was below market value. The site is approved for 309 apartment units with a density of 87 units per acre. The buyer intends on developing the property with the approved plans. This property is located in an area that has historically had higher real estate prices, due to its proximity to the Bay Area job market.

### **Land Sale 14**

This is the sale of a 7.86 portion of single parcel. The property sold for \$2,500,000 or \$16,300 per unit in March 2011. The site is approved for 153 apartment units with a density of 19 units per acre. The buyer intends on developing the property with the approved apartment project. This property is located in an area that has historically had lower real estate values than the subject's location, because it is further from the Bay Area job market.

### **Land Sale 15**

This is the sale of two adjacent parcels with a total land area of 10.8 acres. The property sold for \$9,000,000 or \$30,000 per unit in May 2013. The site is approved for 300 apartment units with a density of 27.8 units per acre. The buyer intends on developing the property with the approved apartment project. This property is located in a mixed use area and is a good indicator of value to the subject property.

## **LAND SALES ADJUSTMENTS**

Demand for apartments units has been limited since the most recent recession. The market for higher density residential uses typically lags the market for detached single-family residences. During the last real estate boom, which ended in 2008, the subject neighborhood and surrounding areas saw real estate values dramatically increase in a short period of time. As developers raced to fill the demand for residential units the market for apartments made a drastic correction and many developers were left holding inventory. The large amount of available residences created an oversupply of apartments, which caused prices to drop.

Over the last few years real estate values have increased and developers have re-entered the market. There has been limited, if any, new development of apartment units in this market. Although developers interviewed in the course of the research for this report indicated several developers are poised to begin developing apartment units, when they feel there is demand. Smaller single-family residences have historically performed well in this market, which supports the need for apartment units.

The sales summarized on the previous pages have been used to arrive at an estimate of value for the vacant high density residential land throughout the Property. The comparable sales were selected for their similarity to the subject in terms of potential use, location and date of sale. The limited number of transaction of similar properties required broadening the area used to search for comparable sales.

The following adjustment grid was created to account for differences between the subject and the comparable sales. When possible, the adjustments are based on quantifiable evidence; however, some adjustments, such as location, are more subjective. The Appraiser based these adjustments on personal experience with the subject market, as well as interviews with real estate brokers, property owners or others involved with the transactions.

The following table outlines the adjustments made to the comparable sales.

## High Density Land Sales Adjustment Table

Element of Comparison	Subject	Sale 12	Sale 13	Sale 14	Sale 15
<b>Sale Price Per UNIT</b>	-	\$5,000	\$16,200	\$16,300	\$30,000
<b>Real Property Rights Conveyed</b>	Fee Simple	<u>30%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
<b>Adjusted Price</b>		\$6,500	\$16,200	\$16,300	\$30,000
<b>Financing</b>	Cash to Seller	<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
<b>Adjusted Price</b>		\$6,500	\$16,200	\$16,300	\$30,000
<b>Conditions of Sale</b>	At Market	<u>30%</u>	<u>30%</u>	<u>0%</u>	<u>0%</u>
<b>Adjusted Price</b>		\$8,450	\$21,060	\$16,300	\$30,000
<b>Market Conditions</b>	-	<u>8.5%</u>	<u>12.0%</u>	<u>12.0%</u>	<u>9.5%</u>
<b>Adjusted Price</b>		\$9,168	\$23,587	\$18,256	\$32,850
<b>Location</b>	River Islands	20%	-20%	20%	-10%
<b>Entitlements</b>	Approved	0%	0%	0%	0%
<b>Zoning</b>	Mixed	0%	0%	0%	0%
<b>Density</b>	Mixed	0%	-10%	0%	0%
<b>Topography/Shape/Size</b>	Mostly Level	<u>20%</u>	<u>0%</u>	<u>0%</u>	<u>0%</u>
<b>Total Adjustment</b>		40%	-30%	20%	-10%
<b>ESTIMATED PRICE PER UNIT</b>		\$13,000	\$17,000	\$22,000	\$30,000

The foregoing data has been adjusted in an attempt to reconcile the various differences between the sale properties and the subject properties. Adjustments were made for market conditions to reflect the strong rising prices during recent years. Locational adjustments were made as well to reflect the difference between the pricing of product at the sale locations, versus the anticipated pricing of finished products at the Property. The average for the

transactions addressed in this analysis is \$16,900 per paper unit, before adjustments. After adjustments, the average lot is valued at \$20,500.

No development of apartment units is anticipated at the Property for several years. When they are ready to be developed, the Property will benefit from a high level of public infrastructure including man-made public use areas such as lakes and canals. The foregoing land sales have been used to estimate a current value for the 600 entitled apartment units. After adjustments, the sales provide a price per unit for apartment units ranging from \$13,000 to \$30,000. This data, as well as information regarding the history of the Property and land sales from other locations, supports the final estimated values for the apartments. An average paper lot value through this analysis is estimated at \$20,000 per unit.

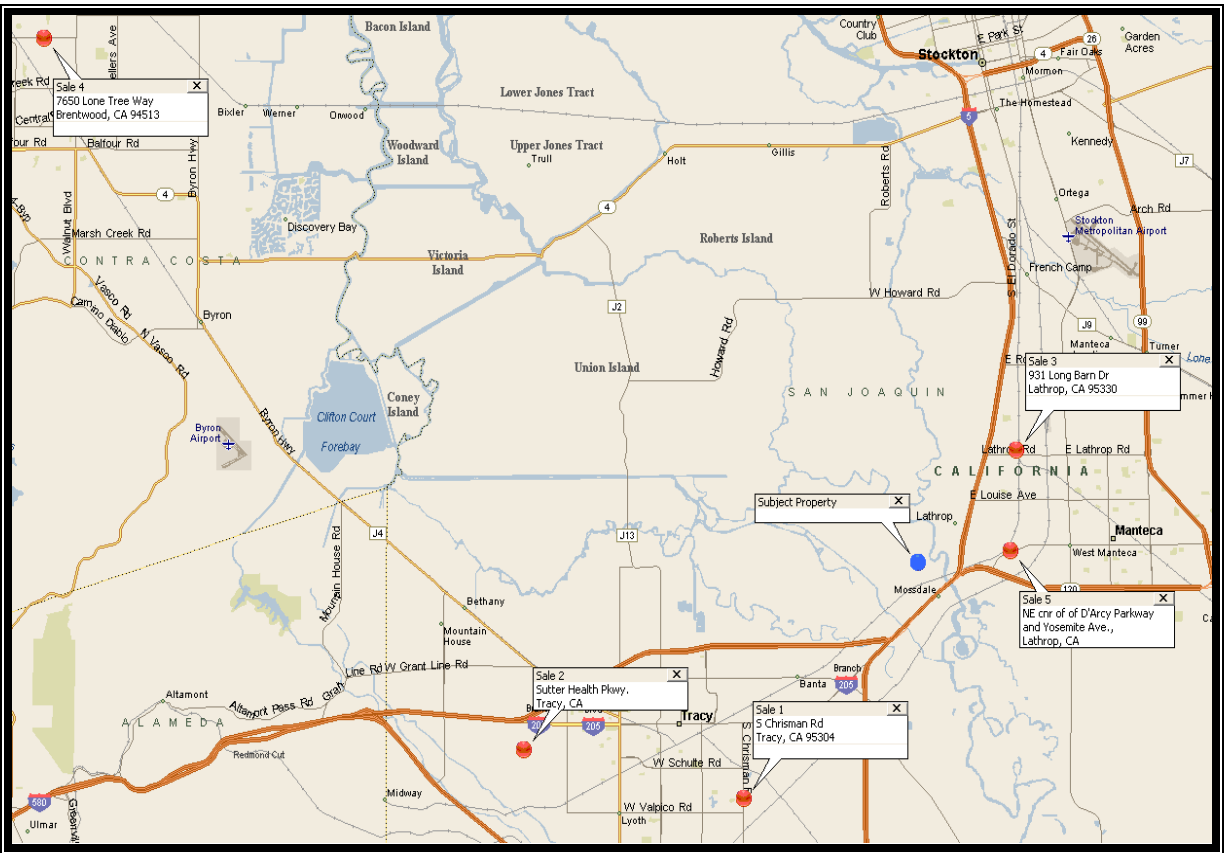
#### **COMMERCIAL LAND VALUATION ANALYSIS**

Included within the Property will be three non-residential or commercial land use types. These include village commercial uses designed for pedestrian oriented retail use, service, and employment uses. To value these properties, comparable sales from the marketplace are relied on. The market was surveyed to find the most comparable sales of properties with a similarity of use, location, and size. The transactions selected for this analysis are summarized in the following commercial land sales table.

## Commercial Land Sales

<u>Sale</u> <u>No.</u>	<u>Location</u>	<u>Sale Date</u> <u>Grantor</u> <u>Grantee</u>	<u>Price</u>	<u>Acres</u>	<u>Zoning</u> <u>Use</u>	<u>Price</u> <u>Per SqFt</u>
1	25419 Chrisman Rd. Tracy, CA 258-180-08 & -07	<u>Mar-14</u> <u>Highland Lots, LLC</u> Nijjar	\$ 1,100,000	38	<u>AU-20</u> Raw Land	\$ 0.66
2	Sutter Health Pkwy. Tracy, CA 209-250-50	<u>Aug-13</u> <u>Ernest Pombo Jr.</u> South Parcel Partners	\$ 4,691,500	71.6	<u>PUD</u>	\$ 1.50
3	931-991 E. Long Barn Dr Lathrop 196-040-13 & -11	<u>Mar-13</u> <u>RPM Company</u> City of Lathrop	\$ 900,000	6.15	<u>I/G</u>	\$ 3.36
4	7650 Lone Tree Wy. Brentwood, CA 018-060-006	<u>Jan-14</u> <u>Frank Nicoletti Tr.</u> Roman Catholic Bishop	\$ 2,875,000	11.5	<u>Commercial</u> Raw Land	\$ 5.74
5	NW Cnr. C'Arcy Pkwy & Yosemite Ave. Lathrop, CA	<u>LISTING</u>	\$ 387,684	4.45	<u>C-G</u> Raw Land	\$ 2.00





**Commercial Land Sales Map – Commercial Land**

## **DISCUSSION OF COMMERCIAL LAND SALES**

### **Commercial Sale 1**

This is the sale of two adjacent parcels that have a total land area of 38.07 acres. The property sold for \$1,100,000 or \$0.66 per square foot in March 2014. The property was raw land at the time of sale and has level topography. This property was listed for sale a speculative land sale for possible future development. The site is located in a rural area east of Tracy. The property has historically been farmed with an agricultural use. This sale sets the low end of the possible value range for future commercial development land.

### **Commercial Sale 2**

This is the sale of a single parcel with a total land area of 71.60 acres. The property sold for \$4,694,500 or \$1.51 per square foot in August 2013. The property was raw land at the time of sale and has level topography. The site is zoned for Planned Urban Development, which

allows a variety of uses including commercial. The site is located in a rural area western Tracy. The property has historically been farmed with an agricultural use. A higher price is anticipated for the Property.

### **Commercial Sale 3**

This is the sale of two adjacent parcels of land with a total land area of 6.15 acres. The property sold for \$900,000 or \$3.36 per square foot in March 2013. The property was raw land with level topography and is located east of I-5 in Lathrop. The site was purchased by the City of Lathrop and is zoned for Neighborhood Commercial use. The site is located adjacent to suburban residential uses. This sale is a good indicator of value for the Property. While the property is located in a more developed location, the overall location of the subject property is more desirable and closer to the bay area job market.

### **Commercial Sale 4**

This is the sale of two adjacent parcels of land that have level topography and were under common ownership and purchased by a common user. The property has a combined land area of 16.18 acres. The property sold for \$4,085,000 or \$5.80 per square foot in January 2014. The property was mostly raw land with level topography and is located in central Brentwood in a developed area. One of the parcels was improved with a 2,448 square foot single-family residence that was built in 1966. The broker indicated the property was purchased based on land value. The site was purchased by the Roman Catholic Bishop of Oakland and is zoned for Neighborhood Commercial use. The site is located adjacent to suburban residential uses. The location of this property suggests price that is lower is appropriate for the Property.

### **Commercial Sale 5**

This is the listing of 4.45 acres of land that is located in Lathrop, east of I-5. The site is made up of two parcels that are divided by D'Arcy Parkway. The listing agent indicated they have had limited interest in the property. The site is listed for \$387,684 or \$2.00 per square foot. The location and layout of the site make this property inferior to the Property.

## **VALUE CONCLUSIONS REGARDING COMMERCIAL NON-RESIDENTIAL LAND USES**

In arriving at an opinion of value for the non-residential commercial land which will be included in the Property, the sales transactions suggest a fairly broad range of prices on a per square

foot basis. It is anticipated that the town center properties will not be in demand for the first several years. When there is demand for this land it is anticipated to generate higher values more consistent with the retail oriented comparable data. For the employment center parcels, which will be larger in size, a lower land value is anticipated. The data tends to suggest that the land prices for the non-residential sites will range from \$2.00 to \$4.00 per square foot net of assessment and community facilities district liens. Again, here, the larger employment center sites will fall towards the lower end of this range, while the more retail oriented town center sites will fall towards the upper end of this range or perhaps higher. For the purposes of this analysis, these properties have been grouped together and a current market value of \$130,000 per acre is estimated, which is equivalent to approximately \$3.00 per square foot, which falls towards the lower middle of the range suggested by the market data. The sale of these properties is likely to occur later in the development cycle beginning in year 3.

### **ANNUAL LAND SALES PROJECTION**

The following table summarizes an estimated absorption for the various land uses within the Property. They are listed in the following table by lot type.

For the residential properties, the absorption estimate is based on the previous supply and demand analysis for residential properties in San Joaquin County. Within the subject Property, there will be a potential for 4,284 residential units. These will range from high density attached units to low density detached homes on lots of 8,000 square feet or larger. Most of the residential units will be detached units on lots of 4,000 to 7,000 square feet. It is estimated that groups of lots can be sold following the required infrastructure construction. Lots will be absorbed at a pace consistent with the absorption analysis as described earlier.

In estimating an absorption for the commercial properties, it is anticipated that a significant amount of residential construction will have taken place and become occupied before there is sufficient demand to generate interest in the retail and employment center parcels. The absorption of these sites will also depend to a great deal on the economy. The first demand for the non-residential sites is estimated in year 3, with the sale of approximately 50 acres. This will be followed with the consistent absorption of 50 acres until the available area is completely sold.

## Annual Sales Projection

### Residential Lots and Land

	Residential <u>Units</u>	SFR Completed or <u>Under Construction</u>	Remaining <u>SFR</u>	<u>Year 1</u> <u>Dec-15</u>	<u>Year 2</u> <u>Dec-16</u>	<u>Year 3</u> <u>Dec-17</u>	<u>Year 4</u> <u>Dec-18</u>	<u>Year 5</u> <u>Dec-19</u>	<u>Year 6</u> <u>Dec-20</u>	<u>Year 7</u> <u>Dec-21</u>	<u>Year 8</u> <u>Dec-22</u>
<b>Lot Type</b>											
100' x 100' = 10,000 sf	81	0	81	0	10	20	20	20	11	0	0
70' x 100' = 7,000 sf	<u>132</u>	<u>16</u>	<u>116</u>	<u>10</u>	<u>10</u>	<u>20</u>	<u>20</u>	<u>20</u>	<u>15</u>	<u>10</u>	<u>11</u>
Subtotal Large Lots	213	16	197	10	20	40	40	40	26	10	11
65 x 95 = 6,175 sf	143	3	140	10	20	20	20	20	20	15	15
60 x 100 = 6,000 sf	<u>703</u>	<u>3</u>	<u>700</u>	<u>50</u>	<u>75</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>75</u>
Subtotal Medium/Large Lots	846	6	840	60	95	120	120	120	120	115	90
55 x 100 = 5,500 sf	84	14	70	10	10	10	10	10	10	10	-
50 x 100 = 5,000 sf	<u>1,008</u>	<u>22</u>	<u>986</u>	<u>50</u>	<u>125</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>140</u>	<u>111</u>
Subtotal Medium Lots	1,092	36	1,056	60	135	150	150	150	150	150	111
60 x 80 = 4,800 sf	80	0	80	10	10	10	10	10	10	10	10
50 x 90 = 4,500 sf	152	7	145	15	20	20	20	20	20	20	10
47 x 95 = 4,465 sf	167	22	145	15	20	25	25	20	20	20	-
40 x 100 = 4,000 sf	<u>517</u>	<u>22</u>	<u>495</u>	<u>40</u>	<u>55</u>	<u>65</u>	<u>70</u>	<u>70</u>	<u>70</u>	<u>65</u>	<u>60</u>
Subtotal Med./Small Lots	916	51	865	80	105	120	125	120	120	115	80
45 x 70 = 3,150 sf	128	13	115	16	16	16	16	16	16	16	3
40 x 90 = 3,600 sf	66	0	66	5	10	10	10	10	10	10	1
35 x 85 = 2,975 sf	180	0	180	15	25	25	25	25	25	20	20
35 x 72 = 2,520 sf	84	0	84	10	15	15	15	10	10	5	4
Courtyards	<u>216</u>	<u>0</u>	<u>216</u>	<u>15</u>	<u>20</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>30</u>	<u>31</u>
Subtotal Small Lots	674	13	661	61	86	96	96	91	91	81	59
Apartments	100	0	100	-	-	-	-	100	-	-	-
Townhouses/Condos	<u>443</u>	<u>0</u>	<u>443</u>	<u>-</u>	<u>50</u>	<u>50</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>43</u>	<u>-</u>
Total Phase 1	4,284	122	4,162	271	491	576	631	721	607	514	351

### **FINISHED SINGLE FAMILY RESIDENCE VALUES**

As of the date of value of this Appraisal Report, the best available data indicated there were 191 development permits issued for single-family residences at the Property. This number was provided by the City of Lathrop Community Development Department and was as of November 19, 2014. Out of the 191 permits issued, there were 73 remaining units for construction. This suggests 118 units were either completed, in some level of construction, or the home builder was getting ready to construct the homes.

The following table outlines an inventory of residential home sales at the Property, completed by the Appraiser, as of December 5, 2014:

### **SURVEY OF DEVELOPMENT**

As of December 5, 2014

Line No.	Assessor's Book and Page	Typical Lot Size (sqft)	Completed SFR or Owner Occupied	Developer Finished Lots	Developer Under Construction
1	213-370	6,000	25	3	18
2	213-380	5,800	19	9	5
3	213-390	6,300	4	24	0
4	213-400	8,000	9	9	0
5	213-410	6,300	5	8	8
6	UNKNOWN	5,500	<u>3</u>	<u>8</u>	<u>8</u>
<b>TOTAL, rounded</b>			<b>65</b>	<b>61</b>	<b>39</b>

The total lots accounted for in the Appraiser's survey is 165. The 26 lots that are the difference between the Appraiser's 165 lots and the total 191 permitted lots are still vacant, residential lots and are accounted for as such. The date of value of this Appraisal Report is December 31, 2014, which suggests homes on additional lots would be completed as of the date of value. An additional 18 residences are estimated to be completed as of the date of value. This estimate is based on the absorption rate estimated earlier in this report of 4.5 units per month and is extrapolated to account for four active subdivisions over 26 days.

The value of the completed single-family residences is estimated based on actual sale prices of closed transactions from the home builders to individuals, when possible, or a sales comparison approach analysis of comparable sales properties. The following table outlines the current value of the closed sales in all four subdivisions. For the purpose of this analysis the closed sales are assumed to be of completed homes. Sales information provided by the home builders was used to extract an average sale price, which was used to estimate a value for residences that are completed and not sold as well as the forecasted completed units.

The following table outlines the value estimate of the completed single family residences.

## VALUE OF COMPLETED RESIDENCES

As of December 5, 2014

<u>Subdivision</u>	<u>Closed Sales</u>	<u>Total Value of Closed Sales</u>	<u>Average Sale Price</u>	<u>Completed Construction</u>	Forecast to be		
					<u>Total Value of Completed Units</u>	<u>By 12/31/14</u>	<u>Total Value of Forecasted Units</u>
Drakes Bend	0	\$ -	\$ 365,433	5	\$ 1,827,167	5	\$ 1,827,167
Edgewater	18	\$ 7,753,177	\$ 430,732	14	\$ 6,030,249	5	\$ 2,153,660
Windrift	9	\$ 3,724,425	\$ 413,825	10	\$ 4,138,250	4	\$ 1,655,300
Waterpointe	<u>4</u>	<u>\$ 1,865,685</u>	\$ 466,421	<u>5</u>	<u>\$ 2,332,106</u>	<u>4</u>	<u>\$ 1,865,685</u>
<b>TOTAL, rounded</b>	31	\$ 13,343,287		34	\$ 14,327,772	18	\$ 7,501,812

Estimated Value of All Completed Residences as of December 31, 2014 **\$ 35,170,000**

A value is also added for the lots with homes that are under construction, but not completed. The Appraiser's survey of the Property indicated that homes were under construction on 39 lots as of December 5, 2014. This includes construction ranging from poured concrete pads to residences that are within a week or two of being completed. A value for the 39 properties under construction is included as a line item on the cash flow, with no discount. The number of lots under construction is not increased over time, because home builders are cautious about over extending themselves and are working in small phases. Given current absorption rates, the homes on all of these lots could be completed and sold in less than five months and no discount is warranted.

The contributory value of the improvements are estimated based on the average sale price of a finished residence minus the average lot price. For the purpose of this analysis the average is used, which accounts for all types of lots and finished homes. The average lot value is

estimated at \$115,000 and the average sale price of a finished residence is estimated at \$430,000. This suggests the contributory value of the improvements is equal to \$315,000 (\$430,000 - \$115,000). The lots under construction are in various states and for the purpose of this analysis 50% of the estimated improvement value is utilized or \$157,500 (50% x \$315,000). The \$157,500 is added to the average site value of \$115,000 to estimate the average value of the 39 lots that are under construction. This suggests the average value of the 39 lots is \$272,500 and the total value added is \$10,630,000 (39 units x \$272,500 per unit), rounded. This number is included as a line item in the final Cash Flow.

### **LAND LEASE INCOME**

A line item is included in the cash flow analysis to account for the additional income due to the property owner for the lease in place on the agricultural land portions of the Property. The property owner indicated the undeveloped areas of Phases 1 and 2 of the River Islands development are leased to an individual who pays \$300,000 a year to utilize the property for agricultural purposes. The Appraiser was not provided with a copy of the lease, but it is assumed to be short term in nature, given the expected future development of the property. For the purpose of this Appraisal Report the income generated by the leased area of the Property is estimated to be \$100,000 per year. It is estimated the leased land in the Property will continue to generate income for the first two years of the cash flow. This income has been included as a line item in the cash flow analysis.

### **CASH FLOW MODEL**

The cash flow model included on the following page summarizes the valuation and absorption conclusions arrived at earlier in this Report. The Property has been divided into seven categories reflecting the various residential land products and commercial land that is part of River Islands Phase 1.

This cash flow model reflects the estimated starting values for each of the Property types and the estimated absorption for those products as described earlier. Prices are increased at a rate of 3% annually, for the first two years, to reflect modest anticipated price appreciation. After the first two year period the inflation rate is anticipated to increase to 4% per year for the remainder of the projection period. This estimate is supported by data from the Korpacz



Investors Survey second quarter of 2014. Everyone that participated in the survey anticipated residential land values to increase over the next 12 months. The survey indicated that appreciation estimates range from 0% to 10% and averages 3.6%. From the annual revenues, estimated property taxes (net of community facilities district special tax levies) and an insurance are subtracted. Typically additional land costs required to bring the Property to the finished lot status would be subtracted as well. However, the principal property owner indicated at this point that it does not foresee spending more money on the Property. Proceeds of sales of special tax bonds for the District are anticipated to be adequate to bring the existing land to a state that is marketable.

Other costs deducted from the model include a sales and marketing cost estimated at 1% of the gross revenues and an administration/entitlement cost estimated at 3% of gross revenues. These estimates are based on the Appraiser's experience as well as interviews with the principal land owner.

After deducting the estimated costs to bring the lots to completion and market them, the annual cash flow is discounted at a yield rate of 16.0%. This yield rate reflects the risk and opportunity cost associated with this type of development and allows for a profit to the master land developer. The discount rate used for this analysis has proven to be appropriate for this market area and this type of land development project.

The latest Korpacz Investors Survey by Pricewater House Cooper was reviewed and indicated a discount rate for the second quarter of 2014 for the national land development market ranging from 10.0% to 25.0% with an average of 18.15%. A slightly lower rate is anticipated, because the Property has no entitlement risk and benefits from a considerable amount of infrastructure expenditure and development and extensive planning. The Property also benefits from home builders actively building homes with good absorption rates.

Discussions with home builders, the results of yield rate surveys, and the Appraiser's experience in discounting this type of project confirm that a rate of 16.0% is appropriate. The present value of the net cash flows, as reflected in the cash flow model, is \$268,000,000 for the Property, rounded. To this amount several line items are added to account for items that are either completed or add value to the Property. A value for the partially completed and completed residences is included. In addition, \$16,630,000 is added to account for the excess

water capacity acquired with proceeds of bonds issued for the District at a total cost of approximately \$3,600 per unit for 7,000 units or \$25,200,000. The Property will use about one third of the acquired water rights leaving an excess capacity of 4,620 units which may be sold to offset costs to complete the infrastructure development of the Property. The purchase price of the water rights is used to estimate the current value of the rights held. The estimated value of the water rights is \$16,630,000 (4,620 units x \$3,600 per unit, rounded).

The value of the next two years of lease income for the agricultural portions of the Property also is valued. All of these items are added to the final value estimate in this Report. The total value indicated for the Property is \$330,600,000 or approximately \$188,500 per acre. This value does not assign any value to the 306 acres included in the District but not included in the area of the Vesting Tentative Tract Map 3694, or any value for improvements to be made to the Property with approximately \$29,000,000 expected to be realized from the proceeds of the special tax bonds to be sold.

## Cash Flow - Undeveloped Land

Print Date: 28-Jan-15

	Remaining Inventory	Year 1 Dec-15	Year 2 Dec-16	Year 3 Dec-17	Year 4 Dec-18	Year 5 Dec-19	Year 6 Dec-20	Year 7 Dec-21	Year 8 Dec-22
<b>Revenue</b>									
Large Lots 7,000+									
Price Per Lot		\$ 135,000	\$ 139,050	\$ 144,612	\$ 150,396	\$ 156,412	\$ 162,669	\$ 169,176	\$ 175,943
Lot Sales	197	<u>10</u>	<u>20</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>26</u>	<u>10</u>	<u>11</u>
Subtotal Large Lots		\$ 1,350,000	\$ 2,781,000	\$ 5,784,480	\$ 6,015,859	\$ 6,256,494	\$ 4,229,390	\$ 1,691,756	\$ 1,935,369
Med./Large Lots (5,801 -6,999 sf)									
Price Per Lot		\$ 125,000	\$ 128,750	\$ 133,900	\$ 139,256	\$ 144,826	\$ 150,619	\$ 156,644	\$ 162,910
Lot Sales	840	<u>60</u>	<u>95</u>	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>	<u>115</u>	<u>90</u>
Subtotal Med./Large Lots		\$ 7,500,000	\$ 12,231,250	\$ 16,068,000	\$ 16,710,720	\$ 17,379,149	\$ 18,074,315	\$ 18,014,067	\$ 14,661,884
Medium Lots (4,801-5,800 sf)									
Price Per Lot		\$ 115,000	\$ 118,450	\$ 123,188	\$ 128,116	\$ 133,240	\$ 138,570	\$ 144,113	\$ 149,877
Lot Sales	1,056	<u>60</u>	<u>135</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>150</u>	<u>111</u>
Subtotal Medium Lots		\$ 6,900,000	\$ 15,990,750	\$ 18,478,200	\$ 19,217,328	\$ 19,986,021	\$ 20,785,462	\$ 21,616,880	\$ 16,636,351
Medium/Small Lots 4,000 to 4,800 sf)									
Price Per Lot		\$ 110,000	\$ 113,300	\$ 117,832	\$ 122,545	\$ 127,447	\$ 132,545	\$ 137,847	\$ 143,361
Lot Sales	865	<u>80</u>	<u>105</u>	<u>120</u>	<u>125</u>	<u>120</u>	<u>120</u>	<u>115</u>	<u>80</u>
Subtotal Medium/Small Lots		\$ 8,800,000	\$ 11,896,500	\$ 14,139,840	\$ 15,318,160	\$ 15,293,651	\$ 15,905,397	\$ 15,852,379	\$ 11,468,852
Small Lots Below 4,000 sf									
Price Per Lot		\$ 100,000	\$ 103,000	\$ 107,120	\$ 111,405	\$ 115,861	\$ 120,495	\$ 125,315	\$ 130,328
Lot Sales	661	<u>61</u>	<u>86</u>	<u>96</u>	<u>96</u>	<u>91</u>	<u>91</u>	<u>81</u>	<u>59</u>
Subtotal Small Lots		\$ 6,100,000	\$ 8,858,000	\$ 10,283,520	\$ 10,694,861	\$ 10,543,350	\$ 10,965,084	\$ 10,150,535	\$ 7,689,344
Apartment Units									
Price Per Unit		\$ 20,000	\$ 20,600	\$ 21,424	\$ 22,281	\$ 23,172	\$ 24,099	\$ 25,063	\$ 26,066
Unit Sales	100	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal Apartments		\$ -	\$ -	\$ -	\$ -	\$ 2,317,220	\$ -	\$ -	\$ -
Townhouses									
Price Per Unit		\$ 70,000	\$ 72,100	\$ 74,984	\$ 77,983	\$ 81,103	\$ 84,347	\$ 87,721	\$ 91,230
Unit Sales	443	<u>-</u>	<u>50</u>	<u>50</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>43</u>	<u>-</u>
Subtotal Townhouse Units	4,162	\$ -	\$ 3,605,000	\$ 3,749,200	\$ 7,798,336	\$ 8,110,269	\$ 8,434,680	\$ 3,771,989	\$ -
Retail and Commercial Land									
Price Per Acre		\$ 130,000	\$ 133,900	\$ 139,256	\$ 144,826	\$ 150,619	\$ 156,644	\$ 162,910	\$ 169,426
Acre Sales	226.2	<u>-</u>	<u>-</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>26</u>
Subtotal Comm'l. Sales		\$ -	\$ -	\$ 5,570,240	\$ 5,793,050	\$ 6,024,772	\$ 6,265,762	\$ 6,516,393	\$ 4,438,967
<b>Annual Revenue Phase I</b>		\$ 30,650,000	\$ 55,363,000	\$ 74,073,000	\$ 81,548,000	\$ 85,911,000	\$ 84,660,000	\$ 77,614,000	\$ 56,831,000
<b>Cost of Sales</b>									
Property Taxes/Insurance		\$ 350,000	\$ 325,500	\$ 287,000	\$ 245,000	\$ 182,000	\$ 136,500	\$ 80,500	\$ 45,570
Land Construction Cost: \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales Cost	1.0%	\$ 306,500	\$ 553,630	\$ 740,730	\$ 815,480	\$ 859,110	\$ 846,600	\$ 776,140	\$ 568,310
Admin/Entitlements	3.0%	\$ 919,500	\$ 1,660,890	\$ 2,222,190	\$ 2,446,440	\$ 2,577,330	\$ 2,539,800	\$ 2,328,420	\$ 1,704,930
Annual Cost		\$ 1,576,000	\$ 2,540,020	\$ 3,249,920	\$ 3,506,920	\$ 3,618,440	\$ 3,522,900	\$ 3,185,060	\$ 2,318,810
Net Revenue Phase I		\$ 29,074,000	\$ 52,822,980	\$ 70,823,080	\$ 78,041,080	\$ 82,292,560	\$ 81,137,100	\$ 74,428,940	\$ 54,512,190
Present Value Phase I			\$ 268,000,000			Inflation Rate:	Year 1-2	3%	
Value of Partially Completed Residences			\$ 10,630,000				Year 3-8	4%	
Value of Completed Residences			\$ 35,170,000			Discount Rate:		16.0%	
Value of Excess Water Capacity			\$ 16,630,000						
Land Lease (2 years @\$100,000 per year)			\$ 200,000						
<b>Total Phase I, rounded</b>			<b>\$ 330,630,000</b>						

### **RECONCILIATION AND FINAL VALUE CONCLUSION**

To value the Property a price per paper lot value analysis is used. It is based on direct sales of paper lots and a residual analysis which started with an estimate of value for proposed finished products. From that analysis a cash flow model which reflects the anticipated sale of lots to builders over the next eight years is used. This model is based on the approved Vesting Tentative Tract Map, which is specific with regard to lot size and layout for the Property. The value of the completed single-family residences, residences under construction, value added from the excess water capacity are added to the final analysis. This analysis indicates a value for the Property, as of December 31, 2014 of:

**THREE HUNDRED THIRTY MILLION SIX HUNDRED THOUSAND DOLLARS**

**-\$330,600,000-**

The above value estimate represents the Appraiser's estimate of the market value of the Property on a bulk sale basis consistent with the definition of "Market Value" as included in the addendum of this report and is net of all property taxes including assessment liens and special taxes authorized to be levied under the Act by the District or by any other community facilities district formed under the Act.

## **STATEMENT OF LIMITING CONDITIONS**

### **CONTINGENT AND LIMITING CONDITIONS**

The appraiser's certification that appears in the appraisal report is subject to the following conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it. The appraiser assumes that the title is good and marketable and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership.
2. Any sketch or topographic maps included in the report may show approximate dimensions and is included to assist the reader in visualizing the property. The appraiser has made no survey of the property.
3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and have noted in the appraisal report whether the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he makes no guarantees, express or implied, regarding this determination.
4. The appraiser will not give testimony or appear in court because they made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand.
5. The appraiser has noted in the appraisal report any adverse conditions (such as, needed repairs, depreciation, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject or that they became aware of during the normal research involved in performing the appraisal. Unless otherwise stated in the appraisal report, the appraiser has no knowledge of any hidden or unapparent conditions of the property or adverse environmental conditions (including the presence of hazardous wastes, toxic substances, etc.) that would make the property more or less valuable, and have assumed that there are no such conditions and makes no guarantees or warranties, express or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal report must not be considered as an environmental assessment of the property.
6. The appraiser obtained the information, estimates, and opinions that were expressed in the appraisal report from sources that he considers to be reliable and believe them to be true and correct. The appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.

7. The appraiser will not disclose the contents of the appraisal report except as provided for in the Uniform Standards of Professional Appraisal Practice.
8. The appraiser must provide prior written consent before the lender/client specified in the appraisal report can distribute the appraisal report (including conclusions about the property value, the appraisers' identity and professional designations, and references to any professional appraisal organizations or the firm with which the appraiser is associated) to anyone other than the borrower; the mortgagee or its successors and assigns; the mortgage insurer; consultants; professional appraisal organizations; any state or federally approved financial institution; or any department, agency, or instrumentality of the United States or any state or the District of Columbia; except that the lender/client may distribute the property description section of the report only to data collection reporting service(s) without having to obtain the appraisers' prior written consent. The appraiser's written consent and approval must also be obtained before the appraisal can be conveyed by anyone to the public through advertising, public relations, news, sales, or other media.
9. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed 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 Act. 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, they are not considered in noncompliance with the requirements of ADA in estimating the value of the property.

### **APPRAISER'S CERTIFICATION**

The undersigned appraiser certifies and agrees that to the best of his knowledge and belief:

1. The statements of fact contained in this appraisal report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions, limiting conditions, and legal instructions, and are my personal, impartial and unbiased professional analyses, opinions and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. I have made a personal inspection of the property that is the subject of this report. The property owner, or his/her designates representative, was given opportunity to accompany the appraiser on the property inspection.
8. . No one has provided significant real property appraisal assistance to the person signing this certification.
9. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
10. The Appraisal Institute conducts a program of continuing education for its designated members. As of the date of this report, Trentin P. Krauss, MAI has completed the requirements of the continuing education program of the Appraisal Institute.



11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its authorized representatives.
12. The appraiser has performed services regarding the subject property in the last five years. The appraiser previously appraised the subject property for the property owners in 2008 and 2013.



Trentin P. Krauss, MAI  
SCREA No. AG043134  
January 20, 2015

**TRENTIN P. KRAUSS, MAI**  
**1839 Ygnacio Valley Rd., #171**  
**Walnut Creek, CA 94598**  
**(925) 947-1140**  
**tkrauss@kraussappraisal.com**

## **EXPERIENCE**

Mr. Krauss has over twelve years of experience as a real estate appraiser. Appraisal assignments have covered a wide range of existing and proposed properties, including residential developments, offices, industrial, retail, raw acreage, and special purpose properties. His clients include individuals, attorneys, lenders, and public agencies.

2003 to	Smyers & Krauss Appraisal, LLC.
Present	Walnut Creek, California
2000 to	Investment Bank, Barclays Global Investors
2002	Walnut Creek, California

## **EDUCATION**

**California Polytechnic State University, San Luis Obispo**  
B.S. - Finance, Minor Economics (1999)

### **Appraisal Institute**

<u>Courses:</u>	Basic Appraisal Principles Basic Income Capitalization General Applications Advanced Income Capitalization Highest and Best Use and Market Analysis Advanced Sales Comparison and Cost Approaches Report Writing and Valuation Analysis Advanced Applications Condemnation Appraising: Basic Principles & Applications National USPAP Course
<u>Seminars:</u>	Arbitration: What you Can't Learn from Books Inspecting Commercial Properties Real Estate Damage Economics Appraising Partial Interests Appraising Green Properties Appraising Outside the Box Liability, Errors, Omissions Investment Analysis Subdivision Analysis

## **PROFESSIONAL CREDENTIALS**

**Appraisal Institute** – MAI Designated Member # 413313  
**Certified General Real Estate Appraiser** - State of California # AG043134

## **DEFINITIONS OF TERMS**

The following definitions are reprinted from the *Uniform Standards of Professional Practice* as promulgated by the Appraisal Standards Board of The Appraisal Foundation or *The Dictionary of Real Estate Appraisal*, which is published by the Appraisal Institute.

### **Market Value**

“Market value is the major focus of most real property appraisal assignments; developing an estimate of market value is the purpose of most appraisal assignments. The current definition of market value was first formally identified by Adam Smith and has been continually refined.”

Market value as employed in this report is defined as follows:

“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 and 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:

- buyer and seller are typically motivated;
- both parties are well-informed or well-advised, and acting in what they consider their own best interests;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 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.”

### **Bulk Sale Value**

The most probable price, in a sale of all parcels within a tract or development project, to a single purchaser or sale to multiple buyers, over a reasonable absorption period discounted to present value, as of a specified date, in case, or in terms equivalent to cash, for which the property rights should sell after reasonable exposure, in a competitive market under all conditions requisite to a fair sale, with buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue stress.

**Cash Equivalent**

"A price expressed in terms of cash, as distinguished from a price expressed totally or partly in terms of the face amounts of notes or other securities that cannot be sold at their face amounts."

**Condominium**

"A form of fee ownership of separate units or portions of multi-unit buildings that provides for formal filing and recording of a divided interest in real property, where the division is vertical as well as horizontal; fee ownership of units in a multi-unit property with joint ownership of common areas."

**Dedication**

"A voluntary gift by the owner of private property for some public use, e.g., the dedication of land for streets and schools in a development."

**Fee Simple Estate**

"Absolute ownership unencumbered by any other interest or estate; subject only to the limitations of eminent domain, escheat, police power, and taxation."

**Floor Area Ratio**

"The relationship between the aboveground floor area of a building and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the floor area of a building is twice the total land area."

**Leased Fee Estate**

"An ownership interest held by a landlord with the right of use and occupancy conveyed by lease to others; usually consists of the right to receive rent and the right to repossession at the termination of the lease."

**Leasehold Estate**

"The right to use and occupy real estate for a stated term and under certain conditions; conveyed by a lease."

**Right of Way**

"A privilege to pass over the land of another in some particular path; usually an easement over the land of another; a strip of land used in this way for railroad and highway purposes, for pipelines or pole lines, and for private or public passage."

**Subject Property Photographs**



**Main Entrance**



**Lake**



**Typical Street**



**Finished Residences**





**SFR Under Construction**



**Landscaped Roundabout**





**Grass Area**



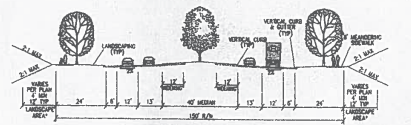
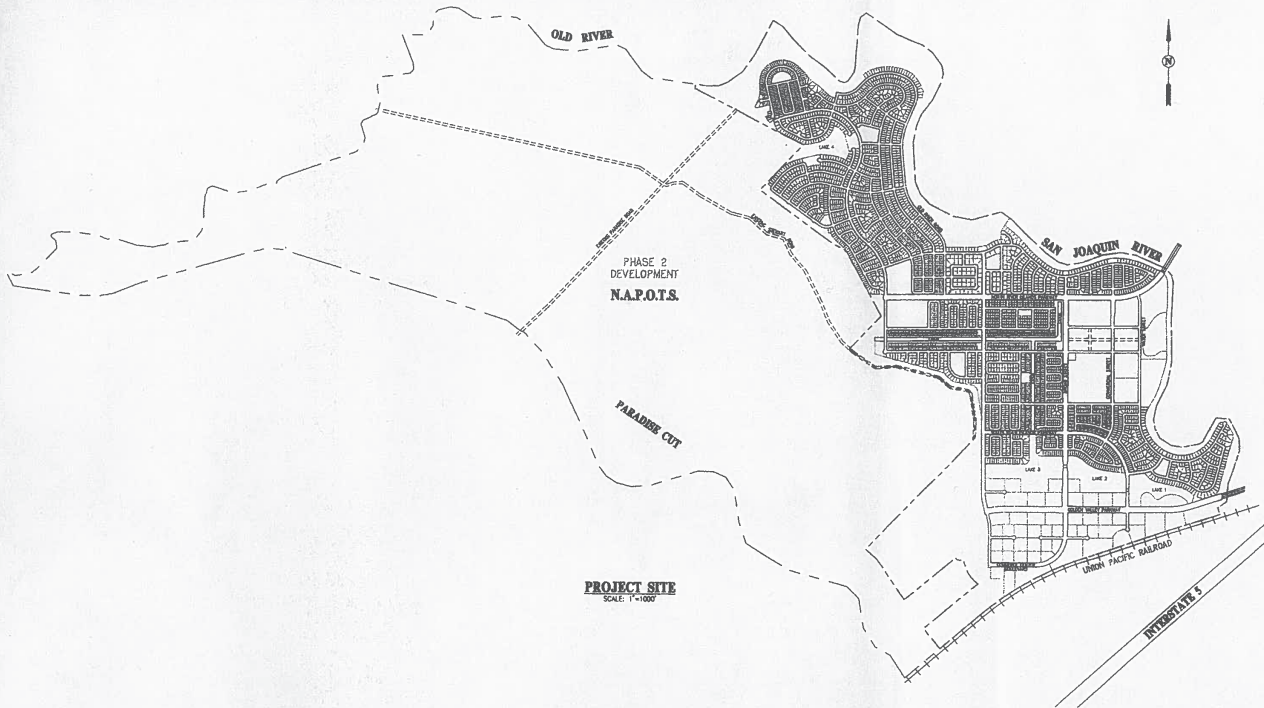
**SFR Under Construction**



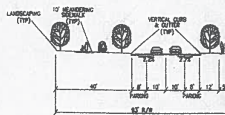
Tract 3694 Development Proposal

Exhibit 2-1

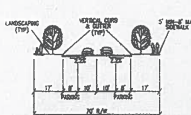




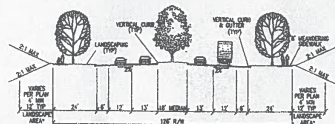
**GOLDEN VALLEY PARKWAY  
(WITH 6 LANE R.O.W.)**  
NOT TO SCALE



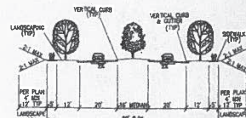
**2 LANE COLLECTOR  
(PARKING ON BOTH SIDES)  
32' STREET**  
NOT TO SCALE



**2 LANE COLLECTOR  
(PARKING ON BOTH SIDES)**  
NOT TO SCALE



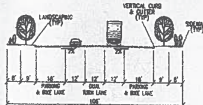
**4 LANE PARKWAY  
NORTH RIVER ISLANDS PARKWAY AND BROAD STREET**  
NOT TO SCALE



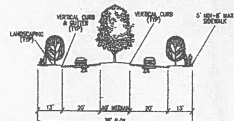
**2 LANE PARKWAY  
SOUTH RIVER ISLANDS PARKWAY**  
NOT TO SCALE



**LOCAL STREET - 2 LANE  
(PARKING ON BOTH SIDES)**  
NOT TO SCALE



**2 LANE MAJOR COLLECTOR  
(PARKING ON BOTH SIDES)  
COMMERCE CENTER BOULEVARD**  
NOT TO SCALE



**ENTRY STREET - 2 LANE**  
NOT TO SCALE



**ALLEY STREET**  
NOT TO SCALE

# GENERAL NOTES

- OWNER: CAFTA LLC, 800 WEST LATHROP AT LA VERG, 73 N. STREET ROAD, LATHROP, CA 95243
- SUBOWNER: THE CHERRY GROUP, 1024 WEST RAIL, SUITE 200, RIVERSIDE, CA 92506
- DESIGNER: CARLSON BARBOE & GIBSON, INC., 1000 SOUTH MAIN ROAD, LATHROP, CA 95243 (916) 858-1000
- GEOTECHNICAL ENGINEER: DAVIS, INC., 580 N. 10TH AVE., SUITE A, RIVER, CA 95243 (916) 858-1000
- PLANNER/LANDSCAPE ARCHITECT: DAN GROUP, 2000 BROADWAY, SUITE 200, LATHROP, CA 95243
- ADJACENT PARCEL NUMBERS (APNs): 213-230-02, 213-230-03, 213-230-04, 213-230-05, 213-230-06, 213-230-07, 213-230-08, 213-230-09, 213-230-10, 213-230-11, 213-230-12, 213-230-13, 213-230-14, 213-230-15, 213-230-16, 213-230-17, 213-230-18, 213-230-19, 213-230-20, 213-230-21, 213-230-22, 213-230-23, 213-230-24, 213-230-25, 213-230-26, 213-230-27, 213-230-28, 213-230-29, 213-230-30, 213-230-31, 213-230-32, 213-230-33, 213-230-34, 213-230-35, 213-230-36, 213-230-37, 213-230-38, 213-230-39, 213-230-40, 213-230-41, 213-230-42, 213-230-43, 213-230-44, 213-230-45, 213-230-46, 213-230-47, 213-230-48, 213-230-49, 213-230-50, 213-230-51, 213-230-52, 213-230-53, 213-230-54, 213-230-55, 213-230-56, 213-230-57, 213-230-58, 213-230-59, 213-230-60, 213-230-61, 213-230-62, 213-230-63, 213-230-64, 213-230-65, 213-230-66, 213-230-67, 213-230-68, 213-230-69, 213-230-70, 213-230-71, 213-230-72, 213-230-73, 213-230-74, 213-230-75, 213-230-76, 213-230-77, 213-230-78, 213-230-79, 213-230-80, 213-230-81, 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## New Home Subdivision Statistics

Report Date: 12/12/2014 , Year: 2014

San Joaquin (CA)

City   Subdivision	Builder Name	Product Type	Closings	Avg Closing Price	Closing Price Range	Avg Living Sq Ft	Living Sq Ft Range	Avg Land Sq Ft
<b>TOTALS</b>			<b>732</b>	<b>\$412,594</b>	<b>\$135,250 - \$679,500</b>	<b>1,917</b>	<b>1,329 - 4,041</b>	<b>7,061</b>
Escalon, CA			37	\$337,944	\$296,000 - \$410,000	2,171	1,987 - 2,669	6,617
WESTWOOD	PACIFIC PRIDE COMMUNITIES	SINGLE FAMILY	1	\$330,000	\$330,000		0	6,101
WESTWOOD COUNTRY	PACIFIC PRIDE COMMUNITIES	SINGLE FAMILY	36	\$338,164	\$296,000 - \$410,000	2,232	1,987 - 2,669	6,631
Lathrop, CA			78	\$361,188	\$270,000 - \$598,000	1,603	1,546 - 3,240	5,830
MOSSDALE LANDING EAST	LEGACY HOMES	OTHER/UNKNO WN	1	\$282,000	\$282,000		0	4,000
MOSSDALE LANDING NORTH	WOODSIDE HOMES	OTHER/UNKNO WN	1	\$384,000	\$384,000		0	7,075
MOSSDALE LANDING/CROSSROADS	LEGACY HOMES	SINGLE FAMILY	24	\$311,854	\$270,000 - \$341,500	1,953	1,546 - 2,636	5,390
MOSSDALE LANDING/RIVER PARK	WOODSIDE HOMES	SINGLE FAMILY	10	\$357,460	\$300,100 - \$440,000	1,718	1,718	6,693
MOSSDALE LANDING/THE RANCH	WILLIAM LYON HOMES	SINGLE FAMILY	2	\$316,250	\$315,500 - \$317,000	2,072	1,944 - 2,200	7,038
OAKWOOD SHORES/BELLA VISTA & BELLA LAGO	LAFFERTY COMMUNITIES	SINGLE FAMILY	6	\$468,167	\$359,000 - \$598,000	2,948	2,292 - 3,240	7,529
RIVER ISLAND @ LATHROP/DRAKE'S BEND	DENOVA HOMES	SINGLE FAMILY	6	\$431,333	\$361,000 - \$462,000		0	6,498
RIVER ISLAND @ LATHROP/EDGEWATER	DENOVA HOMES	SINGLE FAMILY	6	\$404,683	\$377,000 - \$462,500		0	5,698
RIVER ISLAND @ LATHROP/WATERPOINTE	VAN DAELE DEVELOPMENT	SINGLE FAMILY	1	\$440,500	\$440,500		0	
VALLEY CROSSINGS	WOODSIDE HOMES	SINGLE FAMILY	16	\$334,813	\$315,000 - \$364,500	2,445	1,872 - 3,075	5,305
*Unknown or Custom Home	*Builder TBD	OTHER/UNKNO WN	2	\$405,250	\$399,500 - \$411,000		0	5,202
*Unknown or Custom Home	DENOVA HOMES	SINGLE FAMILY	3	\$460,667	\$453,500 - \$471,000		0	6,563
Lodi, CA			2	\$457,550	\$425,100 - \$490,000	1,082	2,164	6,625
CANNERY PARK/THE RETREAT	BENNETT DEVELOPMENT	SINGLE FAMILY	1	\$490,000	\$490,000		0	7,249
VINTAGE OAKS	DURAN HOMES	SINGLE FAMILY	1	\$425,100	\$425,100	2,164	2,164	6,000
Manteca, CA			293	\$399,039	\$170,800 - \$570,000	1,555	1,329 - 4,041	7,947
MONTCLAIR	DR HORTON	SINGLE FAMILY	1	\$340,000	\$340,000		0	9,308
OAKWOOD LAKE	WOODSIDE HOMES	SINGLE FAMILY	2	\$392,500	\$385,000 - \$400,000		0	8,820

## New Home Subdivision Statistics

Report Date: 12/12/2014 , Year: 2014

San Joaquin (CA)

City   Subdivision	Builder Name	Product Type	Closings	Avg Closing Price	Closing Price Range	Avg Living Sq Ft	Living Sq Ft Range	Avg Land Sq Ft
Manteca, CA			293	\$399,039	\$170,800 - \$570,000	1,555	1,329 - 4,041	7,947
OAKWOOD SHORES/BELLA VISTA & BELLA LAGO	LAFFERTY COMMUNITIES	SINGLE FAMILY	14	\$523,214	\$415,000 - \$570,000	3,186	2,732 - 3,841	8,450
OAKWOOD SHORES/THE ENCLAVE	WOODSIDE HOMES	SINGLE FAMILY	22	\$419,500	\$344,500 - \$495,500	2,432	2,034 - 3,016	6,974
OLEANDER ESTATES/WILDWOOD	DR HORTON	SINGLE FAMILY	14	\$316,614	\$170,800 - \$439,000		0	7,596
ORCHARD PARK - MANTECA	MERITAGE HOMES	SINGLE FAMILY	56	\$397,366	\$341,000 - \$493,500		0	9,051
POMELO GROVE	BRIGHT HOMES	SINGLE FAMILY	16	\$383,878	\$366,500 - \$451,000	2,365	2,071 - 2,902	7,664
TERRA BELLA	BRIGHT HOMES	SINGLE FAMILY	12	\$386,417	\$363,000 - \$416,500	2,220	2,071 - 2,356	9,178
UNION RANCH/THE SUMMIT COLLECTION	ATHERTON HOMES	SINGLE FAMILY	58	\$400,691	\$315,000 - \$506,000	2,339	1,877 - 4,041	8,586
UNION RANCH/WOODBRIDGE	PULTE-DEL WEBB-CENTEX	SINGLE FAMILY	3	\$317,667	\$289,500 - \$347,500		0	
UNION RANCH/WOODBRIDGE V & VII	PULTE-DEL WEBB-CENTEX	SINGLE FAMILY	76	\$395,154	\$294,500 - \$526,500	2,072	1,329 - 2,741	6,999
*Unknown or Custom Home	ATHERTON HOMES	SINGLE FAMILY	3	\$410,167	\$350,500 - \$481,500		0	8,875
*Unknown or Custom Home	DR HORTON	OTHER/UNKNO WN	3	\$395,833	\$372,000 - \$439,000		0	7,105
*Unknown or Custom Home	DR HORTON	SINGLE FAMILY	3	\$383,667	\$341,000 - \$420,000		0	7,241
*Unknown or Custom Home	MERITAGE HOMES	SINGLE FAMILY	7	\$420,571	\$380,500 - \$501,500		0	9,398
*Unknown or Custom Home	PULTE-DEL WEBB-CENTEX	SINGLE FAMILY	3	\$345,833	\$318,000 - \$366,500		0	6,111
Ripon, CA			14	\$395,607	\$373,500 - \$415,000	2,284	2,176 - 2,396	9,982
CORNERSTONE - RIPON	MCROY-WILBUR COMMUNITIES	SINGLE FAMILY	2	\$397,500	\$397,500 - \$397,500	2,176	2,176	9,206
ORCHARD VIEW	MCROY-WILBUR COMMUNITIES	SINGLE FAMILY	12	\$395,292	\$373,500 - \$415,000	2,302	2,210 - 2,396	10,111
Stockton, CA			59	\$295,194	\$135,250 - \$400,000	2,015	1,360 - 3,075	10,633
AUTUMN LANE	CARESCO HOMES	SINGLE FAMILY	2		\$ - \$0		0	6,895
GAYLA MANOR	AFFORDABLE HOUSING ASSISTANCE	SINGLE FAMILY	1	\$312,000	\$312,000	2,219	2,219	17,335
NORTHBROOK	WOODSIDE HOMES	OTHER/UNKNO WN	1	\$312,500	\$312,500		0	6,800
NORTHBROOK	WOODSIDE HOMES	SINGLE FAMILY	45	\$313,487	\$135,250 - \$400,000	2,137	1,360 - 3,075	7,068
PRESTON MEADOWS & STERLINGSHIRE	WOODSIDE HOMES	SINGLE FAMILY	2	\$357,500	\$339,000 - \$376,000	2,271	2,271	7,416



## New Home Subdivision Statistics

Report Date: 12/12/2014 , Year: 2014

San Joaquin (CA)

City   Subdivision	Builder Name	Product Type	Closings	Avg Closing Price	Closing Price Range	Avg Living Sq Ft	Living Sq Ft Range	Avg Land Sq Ft
Stockton, CA			59	\$295,194	\$135,250 - \$400,000	2,015	1,360 - 3,075	10,633
RIVERBEND - SAN JOAQUIN	KB HOME	SINGLE FAMILY	6	\$278,000	\$255,500 - \$315,000	2,002	1,898 - 2,209	5,503
RIVERBEND EAST	KB HOME	SINGLE FAMILY	1	\$302,000	\$302,000	2,209	2,209	5,753
*Unknown or Custom Home	*Builder TBD	OTHER/UNKNO WN	1		\$	1,718	1,718	217,800
Tracy, CA			247	\$488,071	\$341,500 - \$679,500	2,373	1,347 - 3,695	5,466
MH/ALICANTE	STANDARD PACIFIC HOMES	SINGLE FAMILY	24	\$576,479	\$501,000 - \$679,500	3,114	2,935 - 3,435	6,522
MH/ANTIGUA	SHEA HOMES	SINGLE FAMILY	2	\$603,250	\$590,500 - \$616,000	3,540	3,540	5,528
MH/CAMPANIA	SHEA HOMES	SINGLE FAMILY	21	\$507,881	\$439,500 - \$628,000	2,652	2,144 - 3,695	5,539
MH/COBBLESTONE	LENNAR	SINGLE FAMILY	8	\$404,000	\$345,500 - \$419,000	2,002	1,347 - 2,236	3,922
MH/CRESTON PARK	LENNAR	SINGLE FAMILY	3	\$364,500	\$341,500 - \$409,500	1,643	1,347 - 2,236	3,683
MH/ESPLANADE	SHEA HOMES	SINGLE FAMILY	21	\$521,910	\$445,000 - \$646,500	2,822	2,295 - 3,695	6,816
MH/MIRAMONTE	STANDARD PACIFIC HOMES	SINGLE FAMILY	23	\$521,609	\$431,000 - \$644,500	2,482	2,111 - 2,935	6,238
MH/SANTORINI	RICHMOND AMERICAN HOMES-MDC	SINGLE FAMILY	33	\$508,379	\$432,000 - \$624,000	3,021	2,318 - 3,450	5,917
MH/TERRAZZO	LENNAR	SINGLE FAMILY	54	\$413,593	\$341,500 - \$449,500	1,948	1,347 - 2,193	3,852
MOUNTAIN HOUSE ESPLANADE	RICHMOND AMERICAN HOMES-MDC	SINGLE FAMILY	1	\$582,500	\$582,500		0	6,669
MOUNTAIN HOUSE NEIGHBORHOOD	LENNAR	SINGLE FAMILY	6	\$433,000	\$412,500 - \$482,500	2,029	1,867 - 2,191	4,011
MOUNTAIN HOUSE NEIGHBORHOOD	SHEA HOMES	SINGLE FAMILY	1	\$585,000	\$585,000		0	6,100
MOUNTAIN HOUSE NEIGHBORHOOD	STANDARD PACIFIC HOMES	SINGLE FAMILY	2	\$614,750	\$585,000 - \$644,500		0	5,724
MUIRFIELD - SAN JOAQUIN	STANDARD PACIFIC HOMES	SINGLE FAMILY	4	\$499,000	\$479,000 - \$547,000		0	
STARFLOWER	STANDARD PACIFIC HOMES	SINGLE FAMILY	18	\$494,194	\$457,000 - \$550,500	2,336	2,111 - 2,486	6,275
YOSEMITE VISTA @ THE FALLS	BRIGHT HOMES	SINGLE FAMILY	21	\$478,381	\$438,000 - \$536,500	2,482	2,071 - 2,902	6,781
*Unknown or Custom Home	RICHMOND AMERICAN HOMES-MDC	OTHER/UNKNO WN	1	\$500,000	\$500,000		0	5,103
*Unknown or Custom Home	STANDARD PACIFIC HOMES	SINGLE FAMILY	3	\$492,667	\$480,000 - \$508,000		0	5,879
*Unknown or Custom Home	WOODSIDE HOMES	OTHER/UNKNO WN	1	\$542,500	\$542,500		0	7,456

## New Home Subdivision Statistics

Report Date: 12/12/2014 , Year: 2014

San Joaquin (CA)

City   Subdivision	Builder Name	Product Type	Closings	Avg Closing Price	Closing Price Range	Avg Living Sq Ft	Living Sq Ft Range	Avg Land Sq Ft
Woodbridge, CA			1	\$	\$	2,835	2,835	10,440
WINDWOOD ESTATES	CARESCO HOMES	SINGLE FAMILY	1		\$	2,835	2,835	10,440
*Unknown, CA			1	\$	\$		0	
*Unknown or Custom Home	ANDERSON HOMES	OTHER/UNKNO WN	1		\$		0	



## Housing Inventory City of Lathrop, Community Development November 19, 2014

Ready Lots (Approved Final Map, Ready to Build)			
Tract/Subd Name	Total Units	Remaining Units	Final Map
MSDL Tract 3338	66	16	1/27/2003
MSDL Tract 3410	132	34	1/27/2003
MSDL Tract 3490 (Village 7)	52	44	8/14/2014
RI South River Bend Tract 3703	61	23	9/30/2013
RI South River Bend Tract 3704	34	8	9/30/2013
RI South River Bend Tract 3705	46	2	9/30/2013
RI South River Bend Tract 3706	50	40	7/21/2014
<b>Sub total:</b>	<b>441</b>	<b>167</b>	
Ready Apts (Approved Site Plan, Ready to Build)			Approval
MSDL Fairfield Apartments	208	208	2/28/2007
<b>Total Lots &amp; Apts:</b>	<b>649</b>	<b>375</b>	

Entitled Lots (Approved Tentative Map, Pending Final Map)			
Tract/Subd Name	Total Units	Remaining Units	Tent. Map
CLSP VTM Tract 3647	1,040	1,040	3/20/2007
CLSP VTM Tract 3789	430	430	1/13/2014
MSDL Queirolo South Tract 3626	74	74	8/15/2006
MSDL VTM Tract 3225	60	60	1/27/2003
MSDL VTM Tract 3073 Unit 2	66	66	3/2/2004
RI VTM 3694	4,284	4,093	3/27/2007
<b>Total:</b>	<b>5,954</b>	<b>5,763</b>	

Pending Lots (Subdivision Projects in Review)		
Tract/Subd Name	Total Units	Application
<b>Total:</b>		

CLSP = Central Lathrop Specific Plan  
MSDL = Mossdale Landing  
RI = River Islands

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**APPENDIX D**  
**MARKET DEMAND ANALYSIS**

# Demand Analysis

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# Demand Model

To understand the demand potential for River Islands going forward, we estimated new home demand for Lathrop. This was calculated using the model below, and starts with expected household growth and turnover by income category, and then filters out those that plan to own a home (versus rent) and those that plan to purchase a new home (versus a resale). This model was repeated for each year through 2018, and is summarized on the following pages.

## Hypothetical For-Sale Housing Demand Analysis (2014 – 2018 Averages)

	\$35K to \$50K Incomes	\$50K to \$75K Incomes	\$75K to \$100K Incomes	\$100K to \$150K Incomes	\$150K to \$200K Incomes	\$200K+ Incomes	ALL INCOMES OVER \$100K
Demand Generated by Household Growth	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers
Annual Projected New Household Growth 1/	539	539	539	539	539	539	539
Income Qualified Ratio 2/	13.4%	20.9%	18.7%	21.7%	4.8%	1.3%	
Annual Income Qualified Household Growth	72	113	101	117	26	7	150
Percent of Households Purchasing a Home 3/	70.8%	72.7%	76.2%	87.3%	91.1%	91.1%	
<b>Annual Homebuyer Household Growth</b>	<b>51</b>	<b>82</b>	<b>77</b>	<b>102</b>	<b>24</b>	<b>6</b>	<b>132</b>
Percent of Households That Purchase a New Home 4/	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	
<b>Annual NEW Homebuyer Household Growth</b>	<b>32</b>	<b>51</b>	<b>49</b>	<b>65</b>	<b>15</b>	<b>4</b>	<b>84</b>
Demand Generated From Turnover of Existing Households	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers
Total Existing Households 5/	6,856	6,856	6,856	6,856	6,856	6,856	6,856
Annual Household Turnover Ratio 6/	11.1%	11.1%	11.1%	11.1%	11.1%	11.1%	
Annual Turnover Households	761	761	761	761	761	761	761
Income Qualified Ratio 2/	13.4%	20.9%	18.7%	21.7%	4.8%	1.3%	
Annual Income Qualified Turnover Households	102	159	142	166	37	10	213
Percent of Households Planning to Purchase a Home 3/	70.8%	72.7%	76.2%	87.3%	91.1%	91.1%	
<b>Annual Homebuyer Turnover Households</b>	<b>72</b>	<b>115</b>	<b>109</b>	<b>145</b>	<b>34</b>	<b>9</b>	<b>187</b>
Percent of Households Planning to Purchase a New Home 4/	63.0%	63.0%	63.0%	63.0%	63.0%	63.0%	
<b>Annual NEW Homebuyer Household Growth</b>	<b>47</b>	<b>74</b>	<b>71</b>	<b>95</b>	<b>22</b>	<b>6</b>	<b>123</b>
Total Demand Generated	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers	Demand Level & Qualifiers
Primary New Home Demand	79	126	119	159	37	10	207
Secondary/Investor New Home Demand	39	63	60	80	19	5	103
<b>Total New Home Demand - Primary / Secondary / Investor</b>	<b>118</b>	<b>189</b>	<b>179</b>	<b>239</b>	<b>56</b>	<b>15</b>	<b>310</b>
Primary Home Demand - New and Existing	123	197	185	247	57	15	319
Secondary/Investor Home Demand	62	99	93	123	29	8	160
<b>Total Home Demand - Primary / Secondary / Investor</b>	<b>185</b>	<b>296</b>	<b>278</b>	<b>370</b>	<b>86</b>	<b>23</b>	<b>479</b>

### Footnotes:

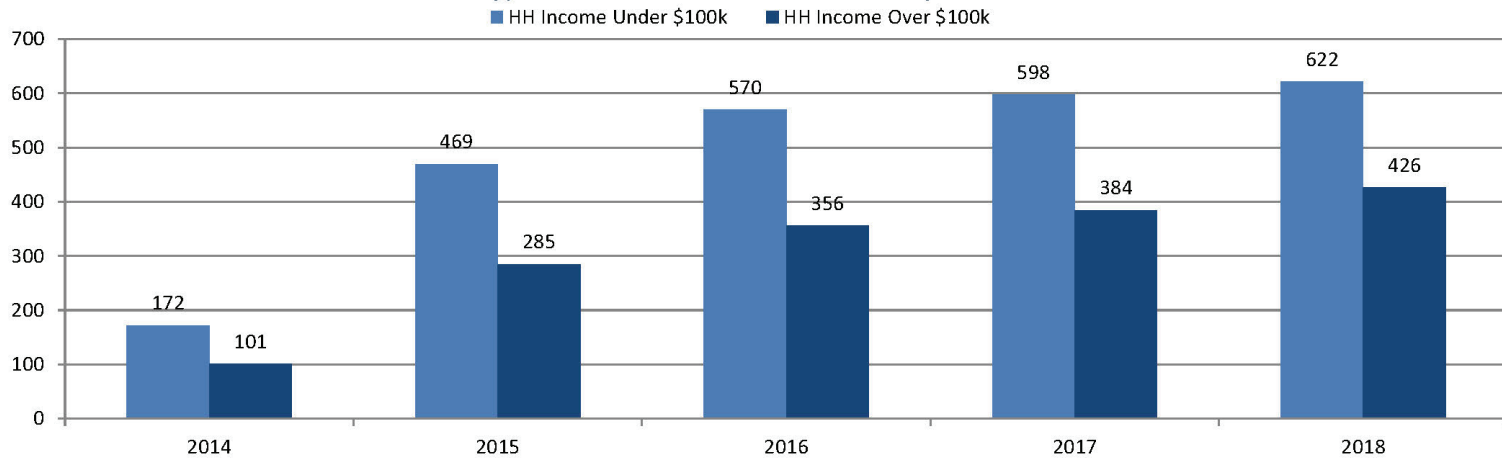
- 1/ Estimated annual household growth for the area (Per Economy.com with Meyers Research adjustments)
- 2/ Percentage of households in the study area earning the income range indicated for each column (Per ESRI)
- 3/ Meyers LLC extrapolation of the average ownership rate by income in the County from the 2012 American Community Survey
- 4/ Based on Meyers LLC extrapolation of new versus existing home sales in the study area.
- 5/ Projected total existing households in the study area (Per Economy.com)
- 6/ Meyers LLC extrapolation of 2012 American Community Survey data for the average turnover of existing owner occupied households in the MSA



## New Home Demand (2014 to 2018)

Our model indicates demand by age and income, as well as implied home price. It indicates that in Lathrop, new home demand from income-qualified buyers (households making over \$100,000 per year) is projected to increase from 101 units this year up to 426 in 2018. Demand from households making less than \$100k is projected to remain higher than those making over \$100k for the next five years.

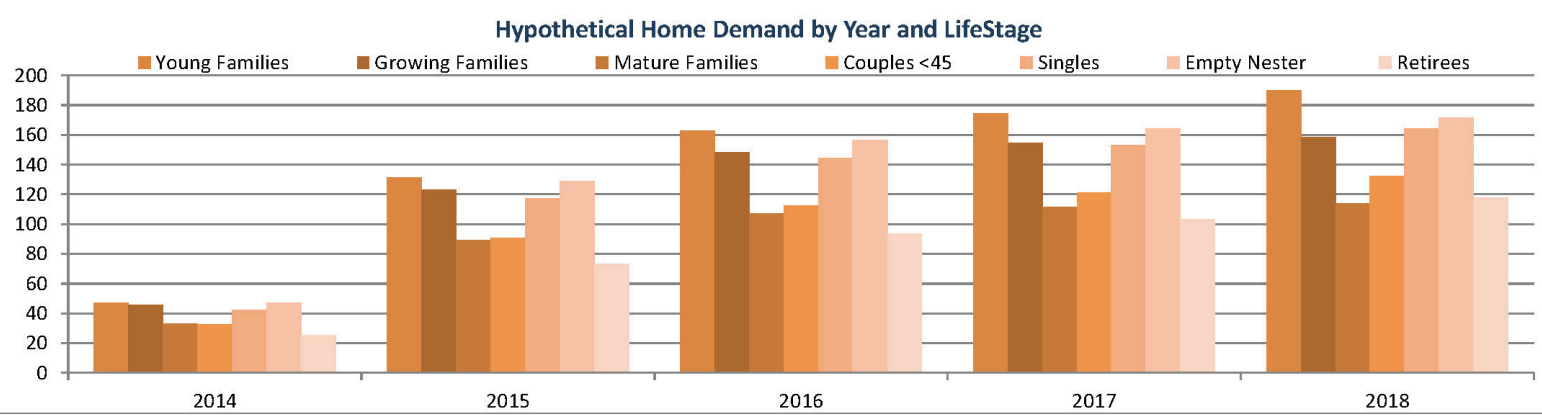
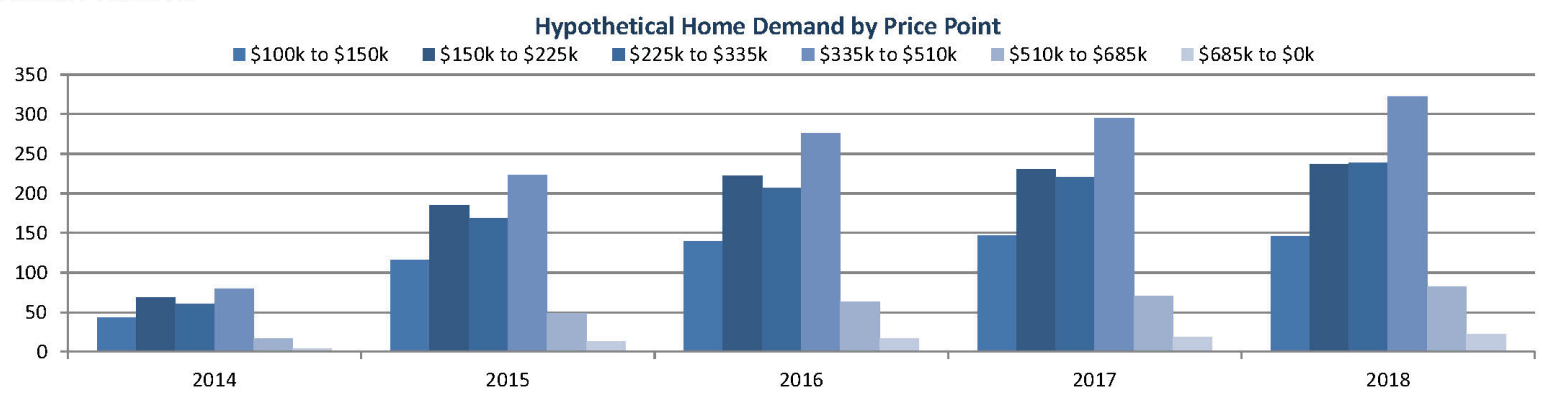
**Hypothetical New Home Demand by Year**



Five-Year Average Demand by Home Price Range				2014 to 2018		Demand by Age and Income (Absolute Numbers)						
Annual Household Income Range	Income Range Households	% of Total Households	Home Price Purchase Range*	Annual Demand (Averages)	% of Annual Demand	Under 25	25 to 34	35 to 44	45 to 54	55 to 64	65 to 74	75 & Older
Income \$35,000 - \$49,999	963	13.4%	\$100,000 to \$150,000	118	15.0%	4	29	23	22	22	13	5
Income \$50,000 - \$74,999	1,498	20.9%	\$150,000 to \$225,000	189	24.0%	6	45	40	39	32	18	8
Income \$75,000 - \$99,999	1,343	18.7%	\$225,000 to \$335,000	179	22.4%	4	40	43	46	32	10	5
Income \$100,000 - \$149,999	1,565	21.7%	\$335,000 to \$510,000	239	29.9%	2	49	71	65	34	14	3
Income \$150,000 - \$199,999	348	4.8%	\$510,000 to \$685,000	56	6.9%	1	8	14	19	8	6	0
Income \$200,000 +	93	1.3%	\$685,000 +	15	1.8%	0	2	7	3	2	1	0
Total Demand	5,811	80.8%	\$100,000 + -	796	100.0%	18	173	197	194	131	62	20

# New Home Demand (2014 to 2018)

This illustrates how demand in the market is expected to steadily increase over the next few years, the price points those households can afford and the age of the heads of households. The demand for homes in the \$335k - \$510k price range represents 29% of all home demand in 2014 and is projected to increase to 31% of all home demand in 2018. The top LifeStage groups driving new home demand in Lathrop is the "Young Families" group followed closely by "Growing Families," "Empty Nester," and "Singles." Demand from these groups is projected to increase 277% from 2014 to 2018.



# Hypothetical Community Build-Out by Phase and Product

D-6

HYPOTHETICAL COMMUNITY SELL OUT					Dec. 2014					
Phase - Tract/Product	Type	Configuration	# of Units	Sales Pace	Sold to Date	2015	2016	2017	2018	2019
Phase 1A / 47' x 95's	Single Family	4,465	92	4.5	29	54	9			
Phase 1A / 50' x 80's	Single Family	4,000	105	4.5	5	54	46			
Phase 1A / 50' x 100's	Single Family	5,000	121	5.0	22	60	39			
Phase 1A / 60' x 90's (Alley)	Single Family	5,400	48	4.0	-	24	24			
Phase 1A / 60' x 100's	Single Family	6,000	68	4.0	24	44				
Phase 1A / 70' x 100's	Single Family	7,000	55	4.0	-	24	31			
Phase 1A / 100' x 125's	Single Family	12,500	9	2.0	-	3	6			
Phase 1B / Courtyards	Single Family	-	64	4.5	-		24	40		
Phase 1B / 42' x 85's	Single Family	3,570	101	4.5	-			30	54	17
Phase 1B / 45' x 90's	Single Family	4,050	144	4.5	-		24	80	40	
Phase 1B / 48' x 90's	Single Family	4,320	112	4.5	-	12	54	46		
Phase 1B / 55' x 90's	Single Family	4,950	205	4.5	-	12	54	80	59	
Phase 1B / 50' x 100's	Single Family	5,000	46	4.5	-			15	31	
Phase 1B / 52' x 100's	Single Family	5,200	97	4.0	-	10	48	39		
Phase 1B / 55' x 100's	Single Family	5,500	73	4.0	-				48	25
Phase 1B / 65' x 90's	Single Family	5,850	77	4.0	-	10	48	19		
Phase 1B / 60' x 100's	Single Family	6,000	131	4.0	-		24	70	37	
Phase 1B / 70' x 100's	Single Family	7,000	25	4.0	-				25	
COMMUNITY SUMMARY			1,573	75	80	307	431	419	294	42

## APPENDIX E

### SUMMARY OF THE FISCAL AGENT AGREEMENT

*The following is a summary of certain provisions of the Fiscal Agent Agreement not otherwise described in the text of this Limited Offering Memorandum. This summary does not purport to be comprehensive or definitive and is subject to all of the complete terms and provisions of the Fiscal Agent Agreement, to which reference is hereby made.*

#### Definitions

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

*“Administrative Expenses”* means costs directly related to the administration of the District consisting of the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the Treasurer or designee thereof or both) and the costs of collecting the Special Taxes (whether by the County, the Authority or otherwise); the costs of remitting the Special Taxes to the Fiscal Agent; fees and costs of the Fiscal Agent (including its legal counsel) in the discharge of the duties required of it under the Fiscal Agent Agreement; the costs of the Authority or any designee of either the Authority of complying with the disclosure provisions of the Act, the Continuing Disclosure Agreement and the Fiscal Agent Agreement, including those related to public inquiries regarding the Special Tax and disclosures to Bondowners and the Original Purchaser; the costs of the Authority, the County or any designee of either the Authority or the County related to an appeal of the Special Tax; any amounts required to be rebated to the federal government in order for the Authority to comply with the rebate provisions of the Fiscal Agent Agreement; an allocable share of the salaries of Authority staff directly related to the foregoing and a proportionate amount of Authority general administrative overhead related thereto. Administrative Expenses will also include amounts advanced by the Authority for any administrative purpose of the District, including costs related to prepayments of Special Taxes, recordings related to such prepayments and satisfaction of Special Taxes, amounts advanced to ensure compliance with the rebate provisions of the Fiscal Agent Agreement, administrative costs related to the administration of any joint community facilities agreement regarding the District (including costs related to the administration of the Lathrop Agreement, as well as any costs related to sales or proposed sales of water under Section 4(e) of the Lathrop Agreement), and the costs of commencing and pursuing foreclosure of delinquent Special Taxes.

*“Administrative Expense Fund”* means the fund by that name established by the Fiscal Agent Agreement.

*“Agreement”* means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions of the Fiscal Agent Agreement.

*“Annual Debt Service”* means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of the provisions of the Fiscal Agent Agreement providing for mandatory sinking payments), and (ii) the principal amount of the Outstanding Bonds due in such Bond Year (including any mandatory sinking payment due in such Bond Year pursuant to the Fiscal Agent Agreement).

*“Auditor”* means the auditor/controller of the County, or such other official at the County who is responsible for preparing property tax bills.

*“Authority”* means the River Islands Public Financing Authority and any successor thereto.

*“Authority Attorney”* means any attorney or firm of attorneys employed by the Authority in the capacity of counsel to the Authority.

*“Authorized Officer”* means the Chair, Executive Director, Treasurer, Secretary or any other officer or employee authorized by the Board of Directors of the Authority or by an Authorized Officer to undertake the action referenced in the Fiscal Agent Agreement as required to be undertaken by an Authorized Officer.

*“Board”* means the Board of Directors of the Authority.

*“Bond Counsel”* means (i) Quint & Thimmig LLP, or (ii) any other attorney or firm of attorneys acceptable to the Authority and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

*“Bond Fund”* means the fund by that name established by the Fiscal Agent Agreement.

*“Bond Register”* means the books for the registration and transfer of Bonds maintained by the Fiscal Agent under the Fiscal Agent Agreement.

*“Bond Year”* means the one-year period beginning on September 1 in each year and ending on the day prior to September 1 in the following year, except that the first Bond Year will begin on the Closing Date and will end on August 31, 2015.

*“Bonds”* means, collectively, the Series A Bonds and the Series B Bonds and, if the context requires, any Parity Bonds, at any time Outstanding under the Fiscal Agent Agreement or any Supplemental Agreement.

*“Business Day”* means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the state in which the Fiscal Agent has its principal corporate trust office are authorized or obligated by law or executive order to be closed.

*“Change Proceedings”* means proceedings conducted by the Authority under the Act to modify the description of the facilities authorized to be funded by the District, including proceedings pursuant to Resolution No. 05-02, adopted by the Board on August 2, 2005, Resolution No. 06-03, adopted by the Board on May 12, 2006, Resolution No. 06-06, adopted by the Board on November 7, 2006, and Resolution No. 13-03, adopted by the Board on March 5, 2013.

*“City”* means the City of Lathrop, California.

*“Closing Date”* means February 26, 2015, being the date upon which there was a physical delivery of the Bonds in exchange for the amount representing the purchase price of the Bonds by the Original Purchaser.

*“Code”* means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced the Fiscal Agent Agreement) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with

applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

*“Continuing Disclosure Agreement”* will mean that certain Continuing Disclosure Agreement, dated as of February 1, 2015, executed by the Authority and Goodwin Consulting Group, Inc. as the initial dissemination agent, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

*“Costs of Issuance”* means items of expense payable or reimbursable directly or indirectly by the Authority and related to the authorization, sale, delivery and issuance of the Bonds and the refunding of the Prior Bonds, which items of expense will include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, appraisal costs, filing and recording fees, fees and expenses of counsel to the Authority, initial fees and charges of the Fiscal Agent including its first annual administration fees and its legal fees and charges, including the allocated costs of in-house attorneys, administrative charges of and expenses incurred by the Authority in connection with the issuance of the Bonds, and the refunding of the Prior Bonds, Bond discount, legal fees and charges, including bond counsel and disclosure counsel, escrow verification agent fees, Escrow Bank fees and expenses, charges for execution, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

*“Costs of Issuance Fund”* means the fund by that name established by the Fiscal Agent Agreement.

*“County”* means the County of San Joaquin, California.

*“DTC”* means the Depository Trust Company, New York, New York, and its successors and assigns.

*“Debt Service”* means the scheduled amount of interest and amortization of principal payable on the Bonds during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

*“Depository”* means (a) initially, DTC, and (b) any other Securities Depository acting as Depository pursuant to the Fiscal Agent Agreement.

*“Developed Property”* means, in any Fiscal Year, all Taxable Property in the Improvement Areas for which a building permit for new construction was issued by the City prior to June 30 of the preceding Fiscal Year.

*“District”* means the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) formed pursuant to the Resolution of Formation, and includes the two Improvement Areas.

*“District Value”* means the market value, as of the date of the appraisal described below, of all parcels of real property in the District subject to the levy of the Special Taxes and not delinquent in the payment of any Special Taxes then due and owing, including with respect to such nondelinquent parcels the value of the then existing improvements and any facilities to be constructed or acquired with any amounts then on deposit in the Improvement Fund (and any account therein) and with the proceeds of any proposed series of Parity Bonds, as determined by reference to (i) an appraisal performed within six (6) months of the date of issuance of any proposed Parity Bonds by an MAI appraiser (the “Appraiser”) selected by the Authority, or (ii), in the alternative, the assessed value of all such nondelinquent parcels and



improvements thereon as shown on the then current County real property tax roll available to the Treasurer. Neither the Authority nor the Treasurer will be liable to the Owners, the Original Purchaser or any other person or entity in respect of any appraisal provided for purposes of this definition or by reason of any exercise of discretion made by any Appraiser pursuant to this definition.

*“Escrow Agreement – CFD 2003-1”* means the Escrow Agreement, dated as of February 1, 2015, between the Authority and the Escrow Bank pertaining to the Prior CFD 2003-1 Bonds, as amended from time to time.

*“Escrow Agreement – CFD 2011-1”* means the Escrow Agreement, dated as of February 1, 2015, between the Authority and the Escrow Bank pertaining to the Prior CFD 2011-1 Bonds, as amended from time to time.

*“Escrow Bank”* means The Bank of New York Trust Company, N.A., and its successor and assigns, acting as escrow bank under the Escrow Agreement – CFD 2003-1 and the Escrow Agreement – CFD 2011-1.

*“Fair Market Value”* means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of section 1273 of the Code) and, otherwise, the term *“Fair Market Value”* means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, or (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt.

*“Federal Securities”* means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State of California for funds held by the Fiscal Agent: (i) direct general obligations of the United States of America (including obligations issued or held in book entry form on the books of the United States Department of the Treasury) and obligations, the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America, including, without limitation, such of the foregoing which are commonly referred to as stripped obligations and coupons; or (ii) any of the following obligations of the following agencies of the United States of America: (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration (d) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America.

*“Fiscal Agent”* means Wilmington Trust, National Association, the Fiscal Agent appointed by the Authority and acting as an independent fiscal agent with the duties and powers provided in the Fiscal Agent Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Fiscal Agent Agreement.



*"Fiscal Year"* means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

*"General Account"* means the account by that name established within the Improvement Fund by the Fiscal Agent Agreement.

*"Improvement Area"* means either or both of Improvement Area No. 1 or Improvement Area No. 2 of the District, as the context requires, as such Improvement Areas were designated pursuant to Section 7 of the Resolution of Formation.

*"Improvement Fund"* means the fund by that name established by the Fiscal Agent Agreement.

*"Independent Financial Consultant"* means any consultant or firm of such consultants appointed by the Authority or the Treasurer, and who, or each of whom: (i) is judged by the Treasurer to have experience in matters relating to the issuance and/or administration of bonds under the Act; (ii) is in fact independent and not under the domination of the Authority; (iii) does not have any substantial interest, direct or indirect, with or in the Authority, or any owner of real property in the District, or any real property in the District; and (iv) is not connected with the Authority as an officer or employee of the Authority, but who may be regularly retained to make reports to the Authority.

*"Information Services"* means the Electronic Municipal Market Access System (referred to as "EMMA"), a facility of the Municipal Securities Rulemaking Board, (at <http://emma.msrb.org>); and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such services providing information with respect to called bonds as the Authority may designate in an Officer's Certificate delivered to the Fiscal Agent.

*"Interest Payment Dates"* means March 1 and September 1 of each year, commencing with September 1, 2015.

*"Lathrop Agreement"* means the Amended and Restated Joint Community Facilities Agreement, dated as of June 30, 2003, between the City and the Authority, as originally executed and as it may thereafter be amended or supplemented.

*"Maximum Annual Debt Service"* means the largest Annual Debt Service for any Bond Year after the calculation is made through the final scheduled maturity date of any Outstanding Bonds.

*"Net Water Sale Proceeds"* means Water Sale Proceeds after any deduction for Administrative Expenses, as described in the Fiscal Agent Agreement.

*"Officer's Certificate"* means a written certificate of the Authority signed by an Authorized Officer of the Authority.

*"Ordinance Levying Taxes"* means any ordinance of the Board of Directors of the Authority levying the Special Taxes, as amended from time to time.

*"Original Purchaser"* means the first purchaser of the Bonds from the Authority, being Southwest Securities Inc.

*"Other District"* means the River Islands Public Financing Authority Community Facilities District No. 2011-1 (Additional Public Improvement Financing).

*“Outstanding,”* when used as of any particular time with reference to Bonds, means all Bonds except (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation; (ii) Bonds paid or deemed to have been paid within the meaning of the Fiscal Agent Agreement; and (iii) Bonds in lieu of or in substitution for which other Bonds will have been authorized, executed, issued and delivered by the Authority pursuant to the Fiscal Agent Agreement or any Supplemental Agreement.

*“Owner”* means any person who will be the registered owner of any Outstanding Bond.

*“Parity Bonds”* means bonds issued by the Authority for the District on a parity with any then Outstanding Bonds pursuant to the Fiscal Agent Agreement.

*“Permitted Investments”* means the following, but only to the extent that the same are acquired at Fair Market Value and are otherwise legal investments for funds of the Authority:

(a) Federal Securities.

(b) Registered state warrants or treasury notes or bonds of the State of California (the “State”), including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the State or by a department, board, agency, or authority of the State, which are rated in one of the two highest short-term or long-term rating categories by either Moody’s Investors Service or Standard and Poor’s Ratings Group, and which have a maximum term to maturity not to exceed three years.

(c) Time certificates of deposit or negotiable certificates of deposit issued by a state or nationally chartered bank or trust company, or a state or federal savings and loan association which may include the Fiscal Agent and its affiliates; provided, that the certificates of deposit will be one or more of the following: continuously and fully insured by the Federal Deposit Insurance Corporation, and/or continuously and fully secured by securities described in subdivision (a) or (b) of this definition of Permitted Investments which will have a market value, as determined on a marked-to-market basis calculated at least weekly, and exclusive of accrued interest, or not less than 102 percent of the principal amount of the certificates on deposit.

(d) Commercial paper which at the time of purchase is of “prime” quality of the highest ranking or of the highest letter and numerical rating as provided by either Moody’s Investors Service or Standard and Poor’s Ratings Services, which commercial paper is limited to issuing corporations that are organized and operating within the United States of America and that have total assets in excess of five hundred million dollars (\$500,000,000) and that have an “A” or higher rating for the issuer’s debentures, other than commercial paper, by either Moody’s Investors Service or Standard and Poor’s Ratings Services, provided that purchases of eligible commercial paper may not exceed 180 days’ maturity nor represent more than 10 percent of the outstanding commercial paper of an issuing corporation. Purchases of commercial paper may not exceed 20 percent of the total amount invested pursuant to this definition of Permitted Investments.

(e) A repurchase agreement with a state or nationally chartered bank or trust company or a national banking association or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York, provided that all of the following conditions are satisfied: (1) the agreement is secured by any one or more of the securities described in subdivision (a) of this

definition of Permitted Investments, (2) the underlying securities are required by the repurchase agreement to be held by a bank, trust company, or primary dealer having a combined capital and surplus of at least one hundred million dollars (\$100,000,000) and which is independent of the issuer of the repurchase agreement, and (3) the underlying securities are maintained at a market value, as determined on a marked-to-market basis calculated at least weekly, of not less than 103 percent of the amount so invested.

(f) An investment agreement or guaranteed investment contract with, or guaranteed by, a financial institution the long-term unsecured obligations of which are rated Aa2 and "AA" or better, respectively, by Moody's Investors Service and Standard and Poor's Ratings Services at the time of initial investment. The investment agreement will be subject to a downgrade provision with at least the following requirements: (1) the agreement will provide that within five business days after the financial institution's long-term unsecured credit rating has been withdrawn, suspended, other than because of general withdrawal or suspension by Moody's Investors Service or Standard and Poor's Ratings Services from the practice of rating that debt, or reduced below "AA-" by Standard and Poor's Ratings Services or below "Aa3" by Moody's Investors Service (these events are called "rating downgrades") the financial institution will give notice to the Authority and, within the five-day period, and for as long as the rating downgrade is in effect, will deliver in the name of the Authority or the Fiscal Agent to the Authority or the Fiscal Agent Federal Securities allowed as investments under subdivision (a) of this definition of Permitted Investments with aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement invested with the financial institution at that time, and will deliver additional allowed federal securities as needed to maintain an aggregate current market value equal to at least 105 percent of the principal amount of the investment agreement within three days after each evaluation date, which will be at least weekly, and (2) the agreement will provide that, if the financial institution's long-term unsecured credit rating is reduced below "A3" by Moody's Investors Service or below "A-" by Standard and Poor's Ratings Services, the Fiscal Agent or the Authority may, upon not more than five business days' written notice to the financial institution, withdraw the investment agreement, with accrued but unpaid interest thereon to the date, and terminate the agreement.

(g) The Local Agency Investment Fund of the State of California.

(h) Investments in a money market fund (including any funds of the Fiscal Agent or its affiliates and including any funds for which the Fiscal Agent or its affiliates provides investment advisory or other management services) rated in the highest rating category (without regard to plus (+) or minus (-) designations) by Moody's Investors Service or Standard & Poor's Ratings Services.

(i) Any other lawful investment for Authority funds.

*"Principal Office"* means the principal corporate trust office of the Fiscal Agent set forth in the Fiscal Agent Agreement, except for the purpose of maintenance of the Bond Register and presentation of Bonds for payment, transfer or exchange, such term will mean the office at which the Fiscal Agent conducts its corporate agency business, or such other or additional offices as may be designated by the Fiscal Agent.

*"Prior Bonds"* means, collectively, the Prior CFD 2003-1 Bonds and the Prior CFD 2011-1 Bonds.

*"Prior CFD 2003-1 Bonds"* means, collectively, the Series 2003-A Bonds, the Series 2003-B Bonds, the Series 2003-C Bonds, the Series 2005-A Bonds, the Series 2005-B Bonds and the Series 2007-A Bonds, all as referred to in the third Recital to the Fiscal Agent Agreement.

*"Prior CFD 2011-1 Bonds"* means, collectively, the 2011 Bonds, the 2012 Bonds and the 2013 Bonds, all as referred to in the fourth Recital to the Fiscal Agent Agreement.

*"Prior Bonds Account"* means the account by that name established within the Improvement Fund by the Fiscal Agent Agreement.

*"Priority Administration Amount"* means, for Fiscal Year 2014-2015, \$90,000.00, and for each Fiscal Year thereafter an amount equal to 102% of the Priority Administration Amount in effect for the prior Fiscal Year.

*"Proceeds"* when used with reference to the Bonds, means the face amount of the Bonds, plus accrued interest and premium, if any, less any original issue discount.

*"Project"* means the facilities authorized to be funded by the District pursuant to the Resolution of Formation and the Change Proceedings.

*"Rate and Method of Apportionment"* means, collectively, the Rate and Method of Apportionment of Special Tax for each Improvement Area, as approved pursuant to the Resolution of Formation, and as it has been, and may in the future, be amended from time to time in accordance with the provisions of the Act. As of the Closing Date, the Rate and Method of Apportionment is as approved pursuant to proceedings conducted in accordance with Resolution No. 14-10 adopted by the Board on August 7, 2014.

*"Record Date"* means the fifteenth day of the month next preceding the month of the applicable Interest Payment Date, whether or not such day is a Business Day.

*"Refunding Bonds"* means bonds issued by the Authority for the District the net proceeds of which are used solely to refund all or a portion of the then Outstanding Bonds; provided that, as of the date they are issued, the scheduled debt service on the Refunding Bonds in each Bond Year over their term is not in excess of the remaining scheduled debt service on the Bonds being refunded, and the final maturity of the Refunding Bonds is not later than the final maturity of the Bonds being refunded.

*"Refunding Fund – CFD 2003-1"* means the Refunding Fund created and maintained under the Escrow Agreement – CFD 2003-1.

*"Refunding Fund – CFD 2011-1"* means the Refunding Fund created and maintained under the Escrow Agreement – CFD 2011-1.

*"Regulations"* means temporary and permanent regulations promulgated under the Code.

*"Reserve Fund"* means the fund by that name established pursuant to the Fiscal Agent Agreement.

*"Reserve Requirement"* means, as of any date of calculation, an amount equal to the lesser of (i) the then Maximum Annual Debt Service, (ii) one hundred twenty-five percent (125%) of the then average Annual Debt Service, or (iii) ten percent (10%) of the then outstanding principal amount of the Bonds.

*“Resolution”* means Resolution No. 14-28, adopted by the Board on December 17, 2014, authorizing the issuance of the Bonds, as amended in part by Resolution No. 15-1, adopted by the Board on January 22, 2015.

*“Resolution of Formation”* means Resolution No. 03-06, adopted by the Board on June 12, 2003.

*“S&P”* means Standard & Poor’s Ratings Group, a division of McGraw-Hill, and its successors and assigns.

*“Securities Depositories”* means The Depository Trust Company, 55 Water Street, 15L, New York, New York 10041-0099, Fax (212) 855-7232; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in an Officer’s Certificate delivered to the Fiscal Agent.

*“Series A Bonds”* means, collectively, the Series A-1 Bonds and the Series A-2 Bonds.

*“Series A-1 Bonds”* means the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt), issued and outstanding under the Fiscal Agent Agreement.

*“Series A-2 Bonds”* means the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-2 (Taxable), issued and outstanding the Fiscal Agent Agreement.

*“Series B Bonds”* means the means the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2015B (Tax-Exempt), issued and outstanding under the Fiscal Agent Agreement.

*“Special Tax Fund”* means the fund by that name established by the Fiscal Agent Agreement.

*“Special Tax Prepayments”* means the proceeds of any prepayments of Special Taxes received by the Authority, as calculated pursuant to the Rate and Method of Apportionment of the Special Taxes for the District, less any administrative fees or penalties collected as part of any such prepayment.

*“Special Tax Prepayments Account”* means the account by that name established within the Bond Fund by the Fiscal Agent Agreement.

*“Special Tax Revenues”* means the proceeds of the Special Taxes received by the Authority, including any scheduled payments and prepayments thereof, and 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 interest thereon, but will not include any penalties collected in connection with any delinquent Special Taxes that are in excess of the rate of interest payable on the Bonds.

*“Special Taxes”* means the special taxes levied within the two Improvement Areas of the District pursuant to the Act, the Ordinance Levying Taxes and the Fiscal Agent Agreement, and any special taxes levied in the Other District received by the Authority after the Closing Date.



*“Supplemental Agreement”* means an agreement the execution of which is authorized by a resolution which has been duly adopted by the Authority under the Act and which agreement is amendatory of or supplemental to the Fiscal Agent Agreement, but only if and to the extent that such agreement is specifically authorized under the Fiscal Agent Agreement.

*“Tax Consultant”* means Goodwin Consulting Group, Inc. or another independent financial or tax consultant retained by the Authority for the purpose of computing the Special Taxes.

*“Tax-Exempt Bonds”* means, collectively, the Series 2015A-1 Bonds and the Series 2015B Bonds.

*“Taxable Property”* has the meaning given to it in the Rate and Method of Apportionment.

*“Term Bonds”* means the Series A Bonds, the Series B Bonds, and any other Bonds the principal of which is subject to mandatory sinking payment redemption.

*“Treasurer”* means the Treasurer of the Authority or such other officer or employee of the Authority performing the functions of the chief financial officer of the Authority.

*“2015 Account”* means the account by that name established within the Improvement Fund by the Fiscal Agent Agreement.

*“Undeveloped Property”* means, in any Fiscal Year, all Taxable Property within the Improvement Areas that is not Developed Property.

*“Water Sale Proceeds”* means proceed of sales of any “Unused River Islands Allotment” remitted by the City to the Authority under and as such term is defined in Section 4(e) of the Lathrop Agreement; and any amount remitted by the City to the Authority pursuant to Section 4(c) of the Lathrop Agreement.

### **Pledge of Special Tax Revenues**

The Bonds are secured by a first pledge of all of the Special Tax Revenues (other than the Special Tax Revenues to be deposited to the Administrative Expense Fund pursuant to the Fiscal Agent Agreement) and all moneys deposited in the Bond Fund, the Reserve Fund, and, until disbursed as provided in the Fiscal Agent Agreement, in the Special Tax Fund. Such Special Tax Revenues and all moneys deposited into said funds (except as otherwise provided in the Fiscal Agent Agreement) are dedicated to the payment of the principal of and interest and any premium on the Bonds as provided in the Fiscal Agent Agreement and in the Act until all of the Bonds have been paid and retired or until moneys or Federal Securities have been set aside irrevocably for that purpose in accordance with the Fiscal Agent Agreement.

Amounts in the Costs of Issuance Fund, the accounts within the Improvement Fund, the Refunding Fund – CFD 2003-1, the Refunding Fund – CFD 2011-1, and the Administrative Expense Fund, the Special Tax Revenues to be deposited to the Administrative Expense Fund pursuant to the Fiscal Agent Agreement and any Water Sale Proceeds, are not pledged to the repayment of the Bonds. The facilities financed with the proceeds of the Prior Bonds or funded with proceeds of the Series B Bonds are not in any way pledged to pay the Debt Service on the Bonds. Any proceeds of condemnation or destruction of any facilities financed with the proceeds of the Prior Bonds or with proceeds of the Series B Bonds are not pledged to pay the Debt Service on the Bonds and are free and clear of any lien or obligation imposed under the Fiscal Agent Agreement.

## **Funds and Accounts**

Improvement Fund. There is established under the Fiscal Agent Agreement a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2003-1 (Public Improvements) Improvement Fund,” and, within said fund, three accounts designated the Prior Bonds Account, the 2015 Account and the General Account. Deposits will be made to the Prior Bonds Account, to the 2015 Account, and to the General Account all pursuant to the corresponding provisions in the Fiscal Agent Agreement. Moneys in the Improvement Fund, including the accounts therein, are held by the Fiscal Agent for the benefit of the Authority, and will be disbursed, except as otherwise provided in the Fiscal Agent Agreement, for the payment or reimbursement of costs of the Project.

Disbursements from the Improvement Fund will be made by the Fiscal Agent upon receipt of an Officer’s Certificate which must:

- (i) set forth the amount required to be disbursed, the account from which the amount is to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid; and
- (ii) certify that the disbursement is for a purpose eligible to be funded with such amounts to be so disbursed, and in any event that no portion of the amount then being requested to be disbursed was set forth in any Officer’s Certificate previously filed requesting disbursement.

Notwithstanding the foregoing, draws on amounts in the accounts within the Improvement Fund will be made first, from amounts in the 2015 Account until an amount equal to five percent (5%) of the initial principal amount of the Series B Bonds has been withdrawn therefrom, then from amounts in the Prior Bonds Account until such account has been fully depleted, then from amounts in the 2015 Account until such account has been fully depleted, then from amounts in the General Account.

Moneys in the accounts within the Improvement Fund will be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits from the investment of amounts in the 2015 Account, the Prior Bonds Account and the General Account will be retained by the Fiscal Agent in the respective accounts of the Improvement Fund to be used for the purposes of such accounts.

Upon the filing of an Officer’s Certificate stating that the portion of the Project to be financed and any other expenses to be paid from the Improvement Fund have been completed and paid, respectively, the Fiscal Agent will transfer the amount, if any, remaining in the accounts within the Improvement Fund to the Bond Fund for application to the payment of principal of and interest on the Bonds in accordance with the Fiscal Agent Agreement, and the accounts of the Improvement Fund will be closed.

Special Tax Fund. There is established under the Fiscal Agent Agreement as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2003-1 (Public Improvements) Special Tax Fund” to the credit of which the Fiscal Agent will deposit amounts received from or on behalf of the Authority consisting of Special Tax Revenues, and any amounts required by the Fiscal Agent Agreement to be deposited therein.



Notwithstanding the foregoing,

(i) the first Special Tax Revenues collected by the Authority in any Fiscal Year, commencing with Fiscal Year 2015-16, in an amount equal to the portion of such Fiscal Year's Special Tax levy for Administrative Expenses (but not to exceed, in any Fiscal Year, the Priority Administration Amount for such Fiscal Year), will be transferred by the Treasurer to the Fiscal Agent for deposit by the Fiscal Agent in the Administrative Expense Fund;

(ii) any proceeds of Special Tax Prepayments, as identified by the Treasurer to the Fiscal Agent, will be transferred by the Treasurer to the Fiscal Agent for deposit by the Fiscal Agent as follows (as directed in writing by the Treasurer): first, that portion of any Special Tax Prepayment constituting a prepayment of construction costs will be deposited by the Fiscal Agent to the General Account of the Improvement Fund, and second, any remaining portion of any Special Tax Prepayment will be deposited by the Fiscal Agent directly in the Special Tax Prepayments Account, and

(iii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes will be separately identified by the Treasurer and will be deposited by the Fiscal Agent first, in the Bond Fund to the extent needed to pay any past due debt service on the Bonds; second, to the Reserve Fund to the extent needed to increase the amount then on deposit in the Reserve Fund up to the then Reserve Requirement, third to the Administrative Expense Fund to the extent that amounts in such fund were used to pay costs related to the collection of such delinquencies; and fourth, to the Special Tax Fund for use as described below.

Moneys in the Special Tax Fund will be held by the Fiscal Agent for the benefit of the Authority and the Owners of the Bonds, will be disbursed as provided in the Fiscal Agent Agreement and, pending any disbursement, will be subject to a lien in favor of the Owners of the Bonds.

From time to time as needed to pay the obligations of the District, but no later than each Interest Payment Date, the Fiscal Agent will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority (i) to the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund such that the amount in the Bond Fund equals the principal, premium, if any, and interest then due on the Bonds, and (ii) to the Reserve Fund an amount equal to the amount of any draw on the Reserve Fund during the most recent prior Fiscal Year to pay the debt service due on the Bonds.

In addition to the foregoing, if in any Fiscal Year there are sufficient funds in the Special Tax Fund to make the foregoing transfers to the Bond Fund and the Reserve Fund in respect of the Interest Payment Dates occurring in the Bond Year that commences in such Fiscal Year, the Treasurer may direct the transfer of funds in the Special Tax Fund to Fiscal Agent, for deposit by the Fiscal Agent to the Administrative Expense Fund, from time to time, any amount in the Special Tax Fund in excess of the amount needed to make such transfers to the Bond Fund and the Reserve Fund, if monies are needed or are expected to be needed to pay Administrative Expenses in excess of the amount then on deposit in the Administrative Expense Fund.

Moneys in the Special Tax Fund will be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from such investment will be retained in the Special Tax Fund to be used for the purposes thereof.

Administrative Expense Fund. There is established under the Fiscal Agent Agreement as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2003-1 (Public Improvements) Administrative Expense Fund” to the credit of which deposits will be made as required by the Fiscal Agent Agreement. Moneys in the Administrative Expense Fund will be held by the Fiscal Agent for the benefit of the Authority, and will be disbursed as provided below.

Amounts in the Administrative Expense Fund will be withdrawn by the Fiscal Agent and paid to the Authority or its order upon receipt by the Fiscal Agent of an Officer's Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense, and the nature of such Administrative Expense.

Annually, on the last day of each Fiscal Year, the Fiscal Agent will withdraw any amounts then remaining in the Administrative Expense Fund in excess of \$50,000.00 that have not been allocated to pay Administrative Expenses incurred but not yet paid, and which are not otherwise encumbered, and transfer such amounts to the Special Tax Fund.

Moneys in the Administrative Expense Fund will be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment will be retained in the Administrative Expense Fund to be used for the purposes of such fund.

Costs of Issuance Fund. There is established under the Fiscal Agent Agreement as a separate fund to be held by the Fiscal Agent, the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Costs of Issuance Fund (the “Costs of Issuance Fund”), to the credit of which a deposits will be made as required by the Fiscal Agent Agreement. Moneys in the Costs of Issuance Fund will be held in trust by the Fiscal Agent and will be disbursed as provided below for the payment or reimbursement of Costs of Issuance.

Amounts in the Costs of Issuance Fund will be disbursed from time to time to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed by an Authorized Officer and delivered to the Fiscal Agent concurrently with the delivery of the Bonds, or in any future requisition submitted by an Authorized Officer to the Fiscal Agent. The Fiscal Agent will pay all Costs of Issuance after receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee pursuant to an Officer's Certificate requesting payment of Costs of Issuance. The Fiscal Agent will maintain the Costs of Issuance Fund for a period of 90 days from the date of delivery of the Bonds and then will transfer any moneys remaining therein, including any investment earnings thereon, to the Administrative Expense Fund.

Moneys in the Costs of Issuance Fund will be invested and deposited in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment will be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

Bond Fund. There is established under the Fiscal Agent Agreement as a separate fund to be held by the Fiscal Agent the “Community Facilities District No. 2003-1 (Public Improvements) Bond Fund” to the credit of which deposits will be made as required by the Fiscal Agent Agreement. There is also established in the Bond Fund, a separate account held by the Fiscal Agent, consisting of the Special Tax Prepayments Account. Moneys in the Bond Fund and the account therein will be held by the Fiscal Agent for the benefit of the Authority and the Owners of the Bonds, will be disbursed for the payment of the principal of, and

interest and any premium on, the Bonds as provided below, and, pending such disbursement, will be subject to a lien in favor of the Owners of the Bonds.

*Bond Fund Disbursements.* On each Interest Payment Date, the Fiscal Agent will withdraw from the Bond Fund and pay to the Owners of the Bonds the principal, and interest and any premium, then due and payable on the Bonds, including any amounts due on the Bonds by reason of the sinking payments set forth in the Fiscal Agent Agreement, or a redemption of the Bonds required by the Fiscal Agent Agreement, such payments to be made in the priority listed in the second succeeding paragraph. Notwithstanding the foregoing, (a) amounts in the Bond Fund as a result of a transfer pursuant to the Fiscal Agent Agreement will be used to pay the principal of and interest on the Bonds prior to the use of any other amounts in the Bond Fund for such purpose; and (b) amounts in the Bond Fund as a result of a transfer pursuant to the Fiscal Agent Agreement will be immediately disbursed by the Fiscal Agent to pay past due amounts owing on the Bonds.

In the event that amounts in the Bond Fund are insufficient for the purposes set forth in the preceding paragraph, the Fiscal Agent will withdraw from the Reserve Fund to the extent of any funds therein, amounts to cover the amount of such Bond Fund insufficiency. Amounts so withdrawn from the Reserve Fund will be deposited in the Bond Fund.

If, after the foregoing transfers, there are insufficient funds in the Bond Fund to make the payments provided for in two preceding paragraphs, the Fiscal Agent will apply the available funds: (a) first to the payment of interest due on the Bonds, (b) second, pro rata to the payment of principal due on the Bonds other than by reason of sinking payments, and to the final sinking fund payment then due on any Term Bonds; and (c) then pro rata to payment of principal due on the Term Bonds by reason of sinking payments (other than the final sinking fund payment for any Term Bond paid pursuant to the preceding clause (b)). Any sinking payment not made as scheduled will be added to the sinking payment to be made on the next sinking payment date.

*Special Tax Prepayments Account Disbursements.* Moneys in the Special Tax Prepayments Account will be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds can timely be given under the Fiscal Agent Agreement, and notice to the Fiscal Agent can timely be given under the Fiscal Agent Agreement, and will be used (together with any amounts transferred from the Reserve Fund pursuant to the Fiscal Agent Agreement) to redeem Bonds on the redemption date selected in accordance with the Fiscal Agent Agreement.

Moneys in the Bond Fund and the account therein will be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from such investment of amounts in the Bond Fund and the Special Tax Prepayments Account will be retained in the Bond Fund and the Special Tax Prepayments Account, respectively, to be used for purposes of such fund and account.

If at any time the Fiscal Agent is unable to pay principal, interest and premium, if any, due on any Interest Payment Date for the Bonds due to insufficient funds in the Bond Fund, the Fiscal Agent will notify the Treasurer in writing of such fact, and if there was a withdrawal from the Reserve Fund the Treasurer will notify the California Debt and Investment Advisory Commission of such fact within 10 days of such Interest Payment Date.

Reserve Fund. There is established under the Fiscal Agent Agreement as a separate fund to be held by the Fiscal Agent the "Community Facilities District No. 2003-1 (Public

Improvements) Reserve Fund,” to the credit of which a deposits will be made as required by the Fiscal Agent Agreement in an aggregate amount equal to the Reserve Requirement as of the Closing Date for the Bonds, and deposits will be made as provided in the Fiscal Agent Agreement. Moneys in the Reserve Fund will be held in trust by the Fiscal Agent for the benefit of the Owners of the Bonds as a reserve for the payment of principal of, and interest and any premium on, the Bonds and will be subject to a lien in favor of the Owners of the Bonds.

Except as otherwise provided below, all amounts deposited in the Reserve Fund will be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency at any time in the Bond Fund of the amount then required for payment of the principal of, and interest and any premium on, the Bonds or, in accordance with the provisions below, for the purpose of redeeming Bonds from the Bond Fund.

Whenever transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund, the Fiscal Agent will provide written notice thereof to the Treasurer, specifying the amount withdrawn.

Whenever, on the Business Day prior to any September 1 occurring on or after September 1, 2015, or on any other date at the request of the Treasurer, the amount in the Reserve Fund exceeds the Reserve Requirement, the Fiscal Agent will provide written notice to the Treasurer of the amount of the excess and will transfer an amount equal to the excess from the Reserve Fund to the Bond Fund to be used for the payment of interest on the Bonds on the next Interest Payment Date in accordance with the Fiscal Agent Agreement.

Whenever the balance in the Reserve Fund equals or exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent will upon the written direction of the Treasurer transfer the amount in the Reserve Fund to the Bond Fund to be applied, on the next succeeding Interest Payment Date to the payment and redemption, in accordance with the Fiscal Agent Agreement, of all of the Outstanding Bonds. In the event that the amount so transferred from the Reserve Fund to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund will be transferred to the Authority to be used for any lawful purpose under the Act.

Notwithstanding the foregoing, no amounts will be transferred from the Reserve Fund until after (i) the calculation of any amounts due to the federal government pursuant to the rebate provisions of the Fiscal Agent Agreement following payment of the Bonds and withdrawal of any such amount from the Reserve Fund for purposes of making such payment to the federal government, and (ii) payment of any fees and expenses due to the Fiscal Agent.

Whenever Special Taxes are prepaid and Bonds are to be redeemed with the proceeds of such prepayment pursuant to the Fiscal Agent Agreement, funds in the Reserve Fund in the amount of any applicable “Reserve Fund Credit,” as such term is defined in and otherwise determined in accordance with Section H of the Rate and Method of Apportionment, will be transferred on the Business Day prior to the redemption date by the Fiscal Agent to the Bond Fund to be applied to the redemption of the Bonds pursuant to the Fiscal Agent Agreement. The Treasurer will deliver to the Fiscal Agent an Officer’s Certificate specifying any amount to be so transferred, and the Fiscal Agent may rely on any such Officer’s Certificate.

Amounts in the Reserve Fund will be withdrawn, at the written request of an Authorized Officer, for purposes of paying any rebate liability under the Fiscal Agent Agreement.

Moneys in the Reserve Fund will be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment will be retained by the Fiscal Agent in the Reserve Fund to be used for the purposes of such fund, including any of the purposes specified for the Reserve Fund in the Fiscal Agent Agreement.

### **Water Sale Proceeds**

Water Sale Proceeds, if any, received by the Authority will be disposed of by the Authority, promptly following any receipt thereof, in the following order of priority: (A) the Authority will remit to the Fiscal Agent, for deposit by the Fiscal Agent in the Administrative Expense Fund, an amount equal to any Administrative Expenses related to sales of water under Section 4(e) of the Lathrop Agreement; and (B) the Authority will remit to the Fiscal Agent, for deposit by the Fiscal Agent to the General Account of Improvement Fund, the Net Water Sale Proceeds. The Authority will identify and direct, by means of an Officer's Certificate delivered to the Fiscal Agent, the allocation between the Administrative Expense Fund and the General Account of the Improvement Fund of any amounts transferred to the Fiscal Agent as described in this paragraph.

### **Certain Covenants of the Authority**

The Authority will punctually pay or cause to be paid the principal of, and interest and any premium on the Bonds when and as due in strict conformity with the terms of the Fiscal Agent Agreement and any Supplemental Agreement, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Fiscal Agent Agreement and all Supplemental Agreements and of the Bonds.

The Bonds and all other obligations of the Authority under the Fiscal Agent Agreement are limited obligations payable solely from and secured solely by the Special Tax Revenues (other than the Special Tax Revenues to be deposited to the Administrative Expense Fund pursuant to the Fiscal Agent Agreement), and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund created thereunder.

In order to prevent any accumulation of claims for interest after maturity, the Authority will not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and will not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest will be extended or funded, whether or not with the consent of the Authority, such claim for interest so extended or funded will not be entitled, in case of default under the Fiscal Agent Agreement, to the benefits of the Fiscal Agent Agreement, except subject to the prior payment in full of the principal and premium, if any, of all of the Bonds then Outstanding and of all claims for interest which will not have so extended or funded.

The Authority will not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien created for the benefit of the Bonds in the Fiscal Agent Agreement, except as permitted by the Fiscal Agent Agreement.

The Authority will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Authority, in which complete and correct entries will be made of all transactions relating to the Special Tax Revenues and the Administrative Expense Fund. Such books of record and accounts will during business hours and under reasonable conditions be subject to the inspection of the Owners of not less than ten



percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

The Authority will preserve and protect the security for the Bonds and the rights of the Owners thereto, and will warrant and defend their rights to such security against all claims and demands of all persons. From and after the delivery of any of the Bonds by the Authority, the Bonds will be incontestable by the Authority.

The Authority will comply with all applicable provisions of the Act and law in administering the District; provided that the Authority will have no obligation to advance any of its own funds for any purpose whatsoever under the Fiscal Agent Agreement.

The Authority will assure that the proceeds of the Tax-Exempt Bonds and of the Prior Bonds are not so used as to cause the Tax-Exempt Bonds to satisfy the private business tests of section 141(b) of the Code or the private loan financing test of section 141(c) of the Code.

The Authority will not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Tax-Exempt Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

The Authority will comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes. Five Business Days prior to each Interest Payment Date, the Authority will remit to the Fiscal Agent, for deposit by the Fiscal Agent in the Special Tax Fund, sufficient Special Taxes to pay amounts due on the Bonds on such Interest Payment Date.

On or within five (5) Business Days of each June 1, the Fiscal Agent will provide a written notice to the Treasurer stating the amount then on deposit in the Bond Fund, and informing the Authority that the Special Taxes may need to be levied pursuant to the Ordinance as necessary to provide for the debt service to become due on the Bonds in the calendar year that commences in the Fiscal Year for which the levy is to be made, and Administrative Expenses. The receipt of such notice by the Treasurer will in no way affect the obligations of the Treasurer under the following two paragraphs. On or about each June 1, the Treasurer will communicate with the Auditor or other appropriate official of the County to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The Treasurer will effect the levy of the Special Taxes each Fiscal Year, in accordance with the Ordinance Levying Taxes by each July 15 that the Bonds are Outstanding, or otherwise such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the Improvement Areas for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the Treasurer will prepare or cause to be prepared, and will transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next secured real property tax roll.

The Treasurer will fix and levy the amount of Special Taxes within the Improvement Areas required for the payment of principal of and interest on any outstanding Bonds becoming due and payable during the ensuing calendar year, including any amount necessary to cure any past delinquency on the Bonds, any amount needed to replenish any draws made on the Reserve Fund that have not theretofore been replenished and an amount estimated to be sufficient to pay the Administrative Expenses during such calendar year. The Special Taxes so levied will not exceed the authorized amounts as provided in the Rate and Method of Apportionment.

The Special Taxes will be payable and be collected in the same manner and at the same time and in the same installment as the ad valorem taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property; provided that, pursuant to and in accordance with the Ordinance, the Special Taxes may be collected by means of direct billing of the property owners within the Improvement Areas, in which event the Special Taxes will become delinquent if not paid when due pursuant to said billing.

The Treasurer is authorized to employ consultants to assist in computing the levy of the Special Taxes under the Fiscal Agent Agreement and any reconciliation of amounts levied to amounts received. The fees and expenses of such consultants and the costs and expenses of the Treasurer (including a charge for Authority staff time) in conducting its duties under the Fiscal Agent Agreement will be an Administrative Expense under the Fiscal Agent Agreement.

The Authority 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 the Fiscal Agent Agreement, and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Fiscal Agent Agreement.

The Authority will not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the Bonds or the proceeds of the Prior Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Tax-Exempt Bonds would have caused the Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

The Authority will take all actions necessary to assure the exclusion of interest on the Tax-Exempt Bonds from the gross income of the owners of the Tax-Exempt Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Tax-Exempt Bonds.

The following requirements apply to the Bonds:

(A) Annual Reporting. Not later than October 30 of each calendar year, commencing October 30, 2015 and until the October 30 following the final maturity of the Bonds, the Treasurer will supply the following information to the California Debt and Investment Advisory Commission ("CDIAC"): (i) the name of the Authority; (ii) the full name of the District; (iii) the name, title, and series of the Bond issue; (iv) any credit rating for the Bonds and the name of the rating agency; (v) the Closing Date of the Bond issue and the original principal amount of the Bond issue; (vi) the amount of the Reserve Requirement; (vii) the principal amount of Bonds outstanding; (viii) the balance in the Reserve Fund; (ix) the amount of any capitalized interest for the Bonds; (x) the number of parcels in the District that are delinquent with respect to Special Tax payments, the amount that each parcel is delinquent, the total amount of Special Taxes due on the delinquent parcels, the length of time that each has been delinquent, when foreclosure was commenced for each delinquent parcel, the total number of foreclosure parcels for each date specified, and the total amount of tax due on the foreclosure parcels for each date specified; (xi) the balance in the Improvement Fund (including the accounts therein); (xii) the assessed value of all parcels subject to the Special Tax to repay the Bonds as shown on the most recent equalized roll, the date of assessed value reported, and the source of the information; (xiii) the total amount of Special Taxes



due, the total amount of unpaid Special Taxes, and whether or not the Special Taxes are paid under the County's Teeter Plan (Chapter 6.6 (commencing with Section 54773) of the California Government Code); (xiv) the reason and the date, if applicable, that the Bonds were retired; and (xv) contact information for the party providing the foregoing information. The annual reporting will be made using such form or forms as may be prescribed by CDIAC.

(B) Other Reporting. If at any time the Fiscal Agent fails to pay principal and interest due on any scheduled payment date for the Bonds, or if funds are withdrawn from the Reserve Fund to pay principal or interest on the Bonds, the Fiscal Agent will notify the Treasurer of such failure or withdrawal in writing. The Treasurer will notify CDIAC of such failure or withdrawal within 10 days of such failure or withdrawal, and the Authority will provide notice under the Continuing Disclosure Agreement of such event as required thereunder.

(C) Special Tax Reporting. The Treasurer will file a report with the Authority no later than January 1, 2016, and at least once a year thereafter, which annual report will contain: (i) the amount of Special Taxes collected and expended with respect to the District, (ii) the amount of Bond proceeds collected and expended with respect to the District, and (iii) the status of the Project. It is acknowledged that the Special Tax Fund and the Special Tax Prepayments Account are the accounts into which Special Taxes collected on the District will be deposited for purposes of Section 50075.1(c) of the California Government Code, and the funds and accounts listed in the Fiscal Agent Agreement are the funds and accounts into which Bond proceeds will be deposited for purposes of Section 53410(c) of the California Government Code, and the annual report described in the preceding sentence is intended to satisfy the requirements of Sections 50075.1(d), 50075.3(d) and 53411 of the California Government Code.

(D) Amendment. The reporting requirements above will be amended from time to time, without action by the Authority or the Fiscal Agent (i) to reflect any amendments to Section 53359.5(b) or Section 53359.5(c) of the Act, and (ii) to reflect any amendments to Section 50075.1, 50075.3, 53410 or 53411 of the California Government Code. Notwithstanding the foregoing, any such amendment will not, in itself, affect the Authority's obligations under the Continuing Disclosure Agreement. The Authority will notify the Fiscal Agent in writing of any such amendments which affect the reporting obligations of the Fiscal Agent under the Fiscal Agent Agreement.

(E) No Liability. None of the Authority and its officers, agents and employees, the Treasurer or the Fiscal Agent will be liable for any inadvertent error in reporting the information required by the Fiscal Agent Agreement.

The Treasurer will provide copies of any of such reports to any Bondowner upon the written request of a Bondowner and payment by the person requesting the information of the cost of the Authority to produce such information and pay any postage or other delivery cost to provide the same, as determined by the Treasurer.

Pursuant to Section 53356.1 of the Act, the Authority covenants under the Fiscal Agent Agreement with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as provided in the Fiscal Agent Agreement, and thereafter diligently prosecute to judgment (unless such delinquency is theretofore brought current), an action in the superior court to foreclose the lien of any Special Tax or installment thereof not paid when due as provided in the following paragraph. The Treasurer will notify the Authority Attorney of any such delinquency of which it is aware, and the Authority Attorney will commence, or cause to be commenced, such proceedings.

On or about February 15 and June 15 of each Fiscal Year, the Treasurer will compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the Authority, and:

(A) Individual Delinquencies. If the Treasurer determines that any single parcel subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$3,500 or more, then the Treasurer will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner within 45 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the Authority within 90 days of such determination. Notwithstanding the foregoing, the Treasurer may defer such action if the amount in the Reserve Fund is at least equal to the Reserve Requirement.

(B) Aggregate Delinquencies. If the Treasurer determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire District, (including the total of delinquencies under subsection (A) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the Treasurer will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 45 days of such determination, and the Authority will commence foreclosure proceedings within 90 days of such determination against each parcel of land in the District with a Special Tax delinquency.

The Treasurer and the Authority Attorney, as applicable, are authorized under the Fiscal Agent Agreement to employ counsel to conduct any such foreclosure proceedings. The fees and expenses of any such counsel (including a charge for City staff time) in conducting foreclosure proceedings will be an Administrative Expense under the Fiscal Agent Agreement.

The Authority covenants under the Fiscal Agent Agreement and agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Fiscal Agent Agreement, failure of the Authority to comply with the Continuing Disclosure Agreement will not be considered a default under the Fiscal Agent Agreement; however, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the Authority of its obligations thereunder, including seeking mandate or specific performance by court order.

The Authority covenants and agrees to not consent or conduct proceedings with respect to a reduction in the maximum Special Taxes that may be levied in the Improvement Areas in any event below an amount, for any Fiscal Year, equal to 110% of the Maximum Annual Debt Service, plus a reasonable estimate of Administrative Expenses for such Fiscal Year. It is acknowledged under the Fiscal Agent Agreement that the Bondowners are purchasing the Bonds in reliance on the foregoing covenant, and that said covenant is necessary to assure the full and timely payment of the Bonds.

The Authority covenants not to exercise its rights under the Act to waive delinquency and redemption penalties related to the Special Taxes or to declare Special Tax penalties amnesty program if to do so would materially and adversely affect the interests of the owners of the Bonds. The Authority further covenants not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the Authority having insufficient Special Tax revenues to pay the principal of and interest on the Bonds that will remain Outstanding following such tender.

In determining the yield of the Bonds to comply with the no arbitrage provisions of the Fiscal Agent Agreement, the Authority will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the Authority, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the Bonds, without regard to whether or not prepayments are received or Bonds are redeemed.

The Authority will not bid at a foreclosure sale of property in respect of delinquent Special Taxes, unless it expressly agrees to take the property subject to the lien for Special Taxes imposed by the District.

Except as expressly permitted by the Fiscal Agent Agreement, the Authority will not issue any additional bonds secured by (A) a pledge of Special Taxes on a parity with or senior to the pledge thereof under the Fiscal Agent Agreement; or (B) any amounts in any funds or accounts established under the Fiscal Agent Agreement.

The Authority will take or cause to be taken all actions reasonably necessary to continue its existence until such time as the Bonds have been paid in full, including but not limited to the addition or substitution of one or more new members.

### **Deposit and Investment of Moneys in Funds**

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Treasurer or the Fiscal Agent will be invested by the Treasurer or the Fiscal Agent, respectively, in Permitted Investments. The following will apply to such investments:

(A) The Treasurer or the Fiscal Agent, as applicable, will invest any such moneys described in the definition of Permitted Investments in the Authority Bonds Indenture. Obligations purchased as an investment of moneys in any fund or account will be deemed to be part of such fund or account, subject, however, to the requirements of the Fiscal Agent Agreement for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts.

(B) The Treasurer or the Fiscal Agent, as applicable, may act as principal or agent in the acquisition or disposition of any investment. Neither the Treasurer nor the Fiscal Agent, as applicable, will incur any liability for losses arising from any investments made pursuant to the Fiscal Agent Agreement. For purposes of determining the amount on deposit in any fund or account held under the Fiscal Agent Agreement, all Permitted Investments or investments credited to such fund or account will be valued at Fair Market Value. The Fiscal Agent will have no duty in connection with the determination of the Fair Market Value of any investment other than to follow: (i) its normal practices in the purchase, sale and determining the value of Permitted Investments; and (ii) the investment directions of the Authority.

(C) The Fiscal Agent will invest any moneys held by it under the Fiscal Agent Agreement in Permitted Investments, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments or, in the absence of any such Officer's Certificate in Permitted Investments described in clause (h) of the definition of Permitted Investments in the Authority Bonds Indenture; provided, however, that any such investment will be made by the Fiscal Agent only if, prior to the date on which such investment is to be made, the Fiscal Agent will have received an Officer's Certificate specifying a specific money market fund into which the funds will be invested and, if no such Officer's Certificate is so received, the Fiscal Agent will hold such moneys uninvested.

(D) The Fiscal Agent may act as principal or agent in the acquisition or disposition of any investment.

(E) Investments in any funds or accounts held by the Fiscal Agent may at the discretion of the Fiscal Agent be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions in the Fiscal Agent Agreement for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent under the Fiscal Agent Agreement, provided that the Fiscal Agent will at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Fiscal Agent Agreement.

(F) The Fiscal Agent will sell or present for redemption any investment security whenever it will be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and the Fiscal Agent will not be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance with the Fiscal Agent Agreement.

(G) The Authority acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority the right to receive brokerage confirmations of security transactions as they occur, the Authority specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the Authority periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Fiscal Agent Agreement; provided, however, that the Authority retains its rights to, upon written request to the Fiscal Agent, receive brokerage confirmation on any investment transaction requested by the Authority.

(H) Except as otherwise provided in subsection (I) above, the Authority covenants that all investments of amounts deposited in any funds or accounts created by the Fiscal Agent Agreement, or otherwise containing gross proceeds of the Bonds (as defined by section 148 of the Code) will be acquired, disposed of and valued (as of the date that valuation is required by the Fiscal Agent Agreement or the Code) at Fair Market Value.

(I) Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code will be valued at their present value (within the meaning of section 149 of the Code).

### **Rebate of Excess Investment Earnings to the United States**

The Authority will take any and all actions necessary to assure compliance with section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Bonds.

The Authority will withdraw such amounts from the Administrative Expense Fund as necessary to make any required rebate payments on the Authority Bonds, and pay such amounts to the federal government as required by the Code and the Regulations. In the event of any shortfall in amounts available for such purpose in the Administrative Expense Fund to make such payments, the Executive Director will make such payment from any lawfully available funds of the Authority, including amounts in the Reserve Fund. Any fees or expenses incurred by the Authority under or pursuant to this section will be Administrative Expenses.

In order to provide for the administration of this section, the Executive Director may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the Executive Director may deem appropriate and in addition, the Executive Director may rely conclusively upon and be fully protected from all liability in relying upon the opinions, determinations, calculations and advice of such agents, attorneys and consultants employed under the Fiscal Agent Agreement.

### **Liability of Authority**

The Authority will not incur any responsibility in respect of the Bonds or the Fiscal Agent Agreement other than in connection with the duties or obligations explicitly in the Fiscal Agent Agreement or in the Bonds assigned to or imposed upon it. The Authority will not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful default. The Authority will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent in the Fiscal Agent Agreement or of any of the documents executed by the Fiscal Agent in connection with the Bonds, or as to the existence of a default or event of default thereunder.

In the absence of bad faith, the Authority, including the Treasurer, may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Authority and conforming to the requirements of the Fiscal Agent Agreement. The Authority, including the Treasurer, will not be liable for any error of judgment made in good faith unless it will be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement will require the Authority to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers, if it will have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Authority and the Treasurer may rely and will be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Authority may consult with counsel, who may be the Authority Attorney, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Fiscal Agent Agreement in good faith and in accordance therewith.

The Authority will not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

In order to perform its duties and obligations under the Fiscal Agent Agreement, the Authority and/or the Treasurer may employ such persons or entities as it deems necessary or advisable. The Authority will not be liable for any of the acts or omissions of such persons or entities employed by it in good faith under the Fiscal Agent Agreement, and will be entitled to rely, and will be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.



## **Fiscal Agent**

The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in the Fiscal Agent Agreement, and no implied covenants or obligations will be read into the Fiscal Agent Agreement against the Fiscal Agent.

Any company into which the Fiscal Agent 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 will be a party or any company to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such company will be eligible under the following paragraph will be the successor to such Fiscal Agent without the execution or filing of any paper or any further act, anything in the Fiscal Agent Agreement to the contrary notwithstanding. The Fiscal Agent will give the Executive Director written notice of any such succession under the Fiscal Agent Agreement.

The Authority may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor will (A) also be serving as the Trustee, and (B) be a national banking association, bank or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least fifty million dollars (\$50,000,000), and subject to supervision or examination by federal or state authority. If such national banking association, bank or trust company 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 combined capital and surplus of such bank or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Fiscal Agent may at any time resign by giving written notice to the Authority by certified mail return receipt requested, and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the Authority will promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent will become effective upon acceptance of appointment by the successor Fiscal Agent.

If no appointment of a successor Fiscal Agent will be made pursuant to the Fiscal Agent Agreement within forty-five (45) days after the Fiscal Agent will have given to the Authority written notice or after a vacancy in the office of the Fiscal Agent will have occurred by reason of its inability to act, the Fiscal Agent, at the expense of the Authority, or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

If, by reason of the judgment of any court, the Fiscal Agent is rendered unable to perform its duties under the Fiscal Agent Agreement, all such duties and all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement will be assumed by and vest in the Treasurer of the Authority in trust for the benefit of the Owners. The Authority covenants for the direct benefit of the Owners that its Treasurer in such case will be vested with all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement, and will assume all of the responsibilities and perform all of the duties of the Fiscal Agent under the Fiscal Agent Agreement, in trust for the benefit of the Owners of the Bonds.

The recitals of facts, covenants and agreements in the Fiscal Agent Agreement and in the Bonds contained will be taken as statements, covenants and agreements of the Authority, and the Fiscal Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of the Fiscal Agent Agreement or of the Bonds, nor will the Fiscal Agent incur any responsibility in respect thereof, other than in connection



with the duties or obligations in the Fiscal Agent Agreement or in the Bonds assigned to or imposed upon it. The Fiscal Agent will not be liable in connection with the performance of its duties under the Fiscal Agent Agreement, except for its own negligence or willful misconduct. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

In the absence of bad faith, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates, documents, written instructions or opinions furnished to the Fiscal Agent and conforming to the requirements of the Fiscal Agent Agreement; but in the case of any such certificates, documents, written instructions or opinions by which any provision of the Fiscal Agent Agreement are specifically required to be furnished to the Fiscal Agent, the Fiscal Agent will be under a duty to examine the same to determine whether or not they conform to the requirements of the Fiscal Agent Agreement. Except as provided above in this paragraph, the Fiscal Agent will be protected and will incur no liability in acting or proceeding, or in not acting or not proceeding, in accordance with the terms of the Fiscal Agent Agreement, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, or other paper or document which it will reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of the Fiscal Agent Agreement, and the Fiscal Agent will not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

The Fiscal Agent will not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Authority or the District in the Fiscal Agent Agreement or of any of the documents executed by the Authority or the District in connection with the Bonds, or as to the existence of a default or event of default thereunder.

The Fiscal Agent will not be liable for any error of judgment made in good faith by a responsible officer of the Fiscal Agent unless it will be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement will require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Fiscal Agent Agreement, or in the exercise of any of its rights or powers, unless an indemnity and security satisfactory to the Fiscal Agent will have been provided to the Fiscal Agent.

The Fiscal Agent will be under no obligation to exercise any of the rights or powers vested in it by the Fiscal Agent Agreement at the request or direction of any of the Owners pursuant to the Fiscal Agent Agreement unless such Owners will have offered to the Fiscal Agent reasonable security or indemnity satisfactory to the Fiscal Agent against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Fiscal Agent may become the owner of the Bonds with the same rights it would have if it were not the Fiscal Agent.

The Fiscal Agent may execute any of the powers of the Fiscal Agent Agreement and perform any of its duties by and through attorneys, agents, receivers, consultants or employees and will not be responsible for any loss or damage resulting from any action or nonaction exercised reasonably and in good faith in reliance on the opinion or advice of such attorneys,

agents, receivers, consultants or employees. The Fiscal Agent may pay reasonable compensation to all attorneys, agents, receivers, consultants and employees as may reasonably be employed in connection with the discharge of its duties under the Fiscal Agent Agreement, and will be entitled to reimbursement therefor.

At any and all reasonable times, the Fiscal Agent and its duly authorized agents, attorneys, experts, accountants and representatives will have the right fully to inspect all books, papers and records of the Authority pertaining to the Bonds and to make copies of any such books, papers and records such as may be desired but which is not privileged by statute or law.

The right of the Fiscal Agent to perform any discretionary act enumerated or contemplated in the Fiscal Agent Agreement will not be construed as a duty.

The Fiscal Agent will not be responsible for or accountable to anyone for the subsequent use or application of any moneys which will be released or withdrawn in accordance with the provisions of the Fiscal Agent Agreement.

The Fiscal Agent has no obligation or liability to the Owners for the payment of principal of, redemption price, or interest on the Bonds from its own funds.

Whether or not expressly provided in the Fiscal Agent Agreement, every provision of the Fiscal Agent Agreement relating to the conduct or affecting the liability of or affording protection to the Fiscal Agent will be subject to the provisions of the Fiscal Agent Agreement, and extend to the directors, officers and employees of the Fiscal Agent.

The Fiscal Agent will not be required to give any bonds or surety in respect of the execution of the duties created by the Fiscal Agent Agreement or the powers granted under the Fiscal Agent Agreement.

The Fiscal Agent will have no duty or obligation whatsoever to enforce the collection of Reassessments or other funds to be deposited with it under the Fiscal Agent Agreement, or as to the correctness of any amounts received, and its liability will be limited to the proper accounting for such funds as it will actually receive.

The Fiscal Agent may consult with counsel, who may be counsel of or to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered by it under the Fiscal Agent Agreement in good faith and in accordance therewith.

The Fiscal Agent agrees to accept and act upon instructions or directions pursuant to the Fiscal Agent Agreement sent by unsecured e-mail, facsimile transmission or other similar unsecured electronic methods; provided, however, that the Fiscal Agent will have received an incumbency certificate listing persons designated to give such instructions or directions and containing specimen signatures of such designated persons, which such incumbency certificate will be amended and replaced whenever a person is to be added or deleted from the listing. If the Authority elects to give the Fiscal Agent e-mail or facsimile instructions (or instructions by a similar electronic method) and the Fiscal Agent in its discretion elects to act upon such instructions, the Fiscal Agent's reasonable understanding of such instructions will be deemed controlling. The Fiscal Agent will not be liable for any losses, costs or expenses arising directly or indirectly from the Fiscal Agent's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Authority agrees to assume all risks arising out of the use of such electronic

methods to submit instructions and directions to the Fiscal Agent, including without limitation the risk of interception and misuse by third parties.

The Fiscal Agent will not be considered in breach of or in default in its obligations under the Fiscal Agent Agreement or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, acts of god or of the public enemy or terrorists, acts of a government, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Fiscal Agent.

The Fiscal Agent will provide to the Authority such information relating to the Bonds and the funds and accounts maintained by the Fiscal Agent under the Fiscal Agent Agreement as the Authority will reasonably request, including but not limited to monthly statements reporting funds held and transactions by the Fiscal Agent, including the value of any investments held by the Fiscal Agent.

The Fiscal Agent will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries will be made of all transactions relating to the expenditure of amounts disbursed from the Bond Fund (including the Special Tax Prepayments Account therein), the Special Tax Fund, the Administrative Expense Fund, the Reserve Fund and the Improvement Fund (including the accounts therein). Such books of record and accounts will, upon reasonable notice, during business hours be subject to the inspection of the Authority and the Owners of not less than ten percent (10%) of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

The Fiscal Agent may rely and will be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, written instructions, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Fiscal Agent may consult with counsel, who may be counsel to the Authority, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken, suffered or omitted by it under the Fiscal Agent Agreement in accordance therewith.

The Fiscal Agent will not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

Whenever in the administration of its duties under the Fiscal Agent Agreement the Fiscal Agent will deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Fiscal Agent Agreement, such matter (unless other evidence in respect thereof be specifically prescribed in the Fiscal Agent Agreement) may, in the absence of willful misconduct on the part of the Fiscal Agent, be deemed to be conclusively proved and established by an Officer's Certificate of the Authority, and such certificate will be full warrant to the Fiscal Agent for any action taken or suffered under the provisions of the Fiscal Agent Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Authority will pay to the Fiscal Agent from time to time reasonable compensation for all services rendered as Fiscal Agent under the Fiscal Agent Agreement, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys (including the allocated costs of in-house attorneys), agents and employees, incurred in and about the performance of their powers and duties under the Fiscal Agent Agreement, but the Fiscal Agent will not have a lien therefor on any funds at any time held by it under the Fiscal Agent Agreement. The Authority further agrees, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents harmless against any costs, claims, expenses and liabilities of any kind, including, without limitation, fees and expenses of its attorneys, which it may incur in the exercise and performance of its powers and duties under the Fiscal Agent Agreement which are not due to its negligence or willful misconduct. The obligations of the Authority pertaining to the Fiscal Agent will survive resignation or removal of the Fiscal Agent under the Fiscal Agent Agreement and payment of the Bonds and discharge of the Fiscal Agent Agreement, but any monetary obligation of the Authority arising under the Fiscal Agent Agreement will be limited solely to amounts on deposit in the Administrative Expense Fund.

### **Amendment of the Fiscal Agent Agreement**

The Fiscal Agent Agreement and the rights and obligations of the Authority and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of Owners, or with the written consent without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement. No such modification or amendment will (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the Authority to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the Authority of any pledge or lien upon the Special Taxes superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Fiscal Agent Agreement), or (iii) reduce the percentage of Bonds required for the amendment of the Fiscal Agent Agreement.

The Fiscal Agent Agreement and the rights and obligations of the Authority and of the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(A) (i) to add to the covenants and agreements of the Authority in the Fiscal Agent Agreement contained, other covenants and agreements thereafter to be observed, or (ii) to limit or surrender any right or power reserved in the Fiscal Agent Agreement to or conferred upon the Authority;

(B) to make modifications not adversely affecting any Outstanding Bonds in any material respect;

(C) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Fiscal Agent Agreement, or in regard to questions arising under the Fiscal Agent Agreement, as the Authority and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Fiscal Agent Agreement, and which will not adversely affect the rights of the Owners of the Bonds;

(D) to make such additions, deletions or modifications as may be necessary or desirable to assure exclusion from gross income for federal income tax purposes of interest on the Authority Bonds; or

(E) in connection with the issuance of Parity Bonds under the Fiscal Agent Agreement.

Any amendment of the Fiscal Agent Agreement may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent may obtain an opinion of counsel that any such Supplemental Agreement entered into by the Authority and the Fiscal Agent complies with the provisions of the Fiscal Agent Agreement and the Fiscal Agent may conclusively rely on such opinion and will be absolutely protected in so relying.

The Authority may at any time call a meeting of the Owners. In such event the Authority is authorized to fix the time and place of said meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of said meeting.

The Authority and the Fiscal Agent may at any time adopt a Supplemental Agreement amending the provisions of the Bonds or of the Fiscal Agent Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Fiscal Agent Agreement, to take effect when and as provided in the Fiscal Agent Agreement. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, will be mailed by first class mail, by the Fiscal Agent, at the expense of the Authority), to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request will not affect the validity of the Supplemental Agreement when assented to as provided in the Fiscal Agent Agreement.

Such Supplemental Agreement will not become effective unless there will be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Fiscal Agent Agreement) and a notice will have been mailed as provided in the Fiscal Agent Agreement. Each such consent will be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof will be such as is permitted by the Fiscal Agent Agreement. Any such consent will be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice provided in the Fiscal Agent Agreement for has been mailed.

After the Owners of the required percentage of Bonds will have filed their consents to the Supplemental Agreement, the Authority will mail a notice to the Owners in the manner provided in the Fiscal Agent Agreement for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in the Fiscal Agent Agreement (but failure to mail copies of said notice will not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice will be filed with the Fiscal Agent. A record, consisting of the papers required by the Fiscal Agent Agreement to be filed with the Fiscal Agent, will be proof of the matters therein stated until the contrary is proved. The Supplemental Agreement will become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement will be deemed conclusively binding (except as otherwise specifically provided in the Fiscal Agent Agreement) upon the Authority and the Owners of all Bonds at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction



setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

Bonds owned or held for the account of the Authority, excepting any pension or retirement fund, will not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in the Fiscal Agent Agreement, and will not be entitled to vote upon, consent to, or take any other action provided for in the amendment and modification provisions of the Fiscal Agent Agreement; provided, however, that for the purposes of any vote, consent or other action or any calculation only Bonds which the Fiscal Agent knows to be so owned or held will be disregarded. Upon request, the Authority will specify to the Fiscal Agent those Bonds disqualified pursuant to the Fiscal Agent Agreement.

From and after the time any Supplemental Agreement becomes effective pursuant to the Fiscal Agent Agreement, the Fiscal Agent Agreement will be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations under the Fiscal Agent Agreement of the Authority, the Fiscal Agent and all Owners of Bonds Outstanding will thereafter be determined, exercised and enforced under the Fiscal Agent Agreement subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement will be deemed to be part of the terms and conditions of the Fiscal Agent Agreement for any and all purposes.

The Authority may determine that Bonds issued and delivered after the effective date of any action taken as provided in the Fiscal Agent Agreement will bear a notation, by endorsement or otherwise, in form approved by the Authority, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond for that purpose at the Principal Office of the Fiscal Agent or at such other office as the Authority may select and designate for that purpose, a suitable notation will be made on such Bond. The Authority may determine that new Bonds, so modified as in the opinion of the Authority is necessary to conform to such Owners' action, will be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds will be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for Bonds then Outstanding, upon surrender of such Bonds.

The provisions of the Fiscal Agent Agreement will not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

### **Discharge of Agreement**

If the Authority will pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding in any one or more of the following ways:

(A) by well and truly paying or causing to be paid the principal of, and interest and any premium on, such Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, in trust, at or before maturity, money which, together with the amounts then on deposit in the funds and accounts provided for in the Fiscal Agent Agreement is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premium; or

(C) by irrevocably depositing with the Fiscal Agent, in trust, cash and/or Federal Securities in such amount as the Authority will determine, as confirmed by



Bond Counsel or an independent certified public accountant, will, together with the interest to accrue thereon and moneys then on deposit in the funds and accounts provided for in the Fiscal Agent Agreement (to the extent invested in Federal Securities), be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premium) at their respective maturity dates;

then, at the election of the Authority, and notwithstanding that any Bonds will not have been surrendered for payment, the pledge of the Special Taxes and other funds provided for in the Fiscal Agent Agreement and all other obligations of the Authority under the Fiscal Agent Agreement with respect to all Bonds Outstanding will cease and terminate, except only the obligations of the Authority under the maintenance of tax-exemption and rebate provisions of the Fiscal Agent Agreement and of the Authority to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, and the obligation of the Authority to pay all amounts owing to the Fiscal Agent pursuant to the Fiscal Agent Agreement; and thereafter Special Taxes will not be payable to the Fiscal Agent. Notice of such election will be filed with the Fiscal Agent. The satisfaction and discharge of the Fiscal Agent Agreement will be without prejudice to the rights of the Fiscal Agent to charge and be reimbursed by the Authority for the expenses which it will thereafter incur in connection therewith.

Any funds thereafter held by the Fiscal Agent upon payment of all fees and expenses of the Fiscal Agent will be paid over to the Authority to be used for any lawful purpose permitted under the Act.

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**APPENDIX F**  
**FORM OF OPINION OF BOND COUNSEL**

February 26, 2015

River Islands Public Financing Authority  
73 West Stewart Road  
Lathrop, California 95330

**OPINION:** \$111,915,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt), \$13,235,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-2 (Taxable), and \$32,345,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2015B (Tax-Exempt)

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Members of the Board of Directors of the Authority:

We have acted as bond counsel in connection with the issuance by the River Islands Public Financing Authority (the "Authority"), for the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) (the "District"), of its \$111,915,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt) (the "Series 2015A-1 Bonds"), \$13,235,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-2 (Taxable) (the "Series 2015A-2 Bonds"), and \$32,345,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2015B (Tax-Exempt) (the "Series 2015B Bonds," and, collectively with the Series 2015A-1 Bonds and the Series 2015A-2 Bonds, the "Bonds") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, constituting Sections 53311 et seq., of the California Government Code (the "Act"), a Fiscal Agent Agreement, dated as of February 1, 2015 (the "Fiscal Agent Agreement"), by and between the Authority, for and on behalf of the District, and Wilmington Trust, National Association, as fiscal agent, and Resolution No. 14-28 of the Board of Directors of the Authority adopted on December 17, 2014, as amended by Resolution No. 15-1 of the Board of Directors of the Authority adopted on January 22, 2015 (Resolution No. 14-28, as so amended, being referred to below as the "Resolution").

In connection with this opinion, we have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Resolution and in the certified proceedings and certifications of public officials and others furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Authority is a joint exercise of powers agency duly organized and existing under the laws of the State of California, with the power to adopt the Resolution, enter into the Fiscal Agent Agreement and perform the agreements on its part contained therein and to issue the Bonds.

2. The Fiscal Agent Agreement has been duly entered into by the Authority and constitutes a valid and binding obligation of the Authority enforceable upon the Authority in accordance with its terms.

3. Pursuant to the Act, the Fiscal Agent Agreement creates a valid lien on the funds pledged by the Fiscal Agent Agreement for the security of the Bonds, on a parity with the pledge thereof with respect to any Parity Bonds that may be issued under, and as such term is defined in, the Fiscal Agent Agreement.

4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding limited obligations of the Authority for the District, payable solely from the sources provided therefor in the Fiscal Agent Agreement.

5. Subject to the Authority's compliance with certain covenants, interest on the Series 2015A-1 Bonds and on the Series 2015B Bonds (collectively, the "Tax-Exempt Bonds") (i) is excludable from gross income of the owners thereof for federal income tax purposes, and (ii) is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended, but is taken into account in computing an adjustment used in determining the federal alternative minimum tax for certain corporations. Failure by the Authority to comply with certain of such covenants could cause interest on the Tax-Exempt Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Tax-Exempt Bonds.

6. The interest on the Bonds is exempt from personal income taxation imposed by the State of California.

Ownership of the Bonds may result in other tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Resolution and the Fiscal Agent Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and also may be subject to the exercise of judicial discretion in accordance with general principles of equity.

In rendering this opinion, we have relied upon certifications of the Authority and others with respect to certain material facts. Our opinion represents our legal judgment based upon such review of the law and facts that we deem relevant to render our opinion and is not a guarantee of a result. This opinion is given as of the date hereof and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

## APPENDIX G

### FORMS OF CONTINUING DISCLOSURE AGREEMENTS

#### FORM OF CONTINUING DISCLOSURE AGREEMENT OF THE AUTHORITY

THIS CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement"), dated as of February 1, 2015, is by and between GOODWIN CONSULTING GROUP, INC., as dissemination agent (the "Dissemination Agent"), and the RIVER ISLANDS PUBLIC FINANCING AUTHORITY, a joint powers agency duly organized and existing under the laws of the State of California (the "Authority").

#### RECITALS:

WHEREAS, the Authority has issued, for and on behalf of the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) (the "District"), its River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt), its River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-2 (Taxable), and its River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2015B (Tax-Exempt) (collectively, the "Bonds"); and

WHEREAS, the Bonds have been issued pursuant to a Fiscal Agent Agreement, dated as of February 1, 2015 (the "Fiscal Agent Agreement"), by and between Wilmington Trust, National Association, as fiscal agent (the "Fiscal Agent"), and the Authority, for and on behalf of the District; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the Authority and the Dissemination Agent for the benefit of the owners and beneficial owners of the Bonds and in order to assist the underwriter of the Bonds in complying with S.E.C. Rule 15c2-12(b)(5).

#### AGREEMENT:

NOW, THEREFORE, for and in consideration of the premises and mutual covenants herein contained, and for other consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions. In addition to the definitions of capitalized terms set forth in Section 1.03 of the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section or in the Recitals above, the following terms shall have the following meanings when used in this Disclosure Agreement:

*"Annual Report"* means any Annual Report provided by the Authority pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

*"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 persons holding any Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

*"Disclosure Representative"* means the Treasurer, or the Treasurer's designee, or such other officer or employee as the Authority shall designate as the Disclosure Representative hereunder in writing to the Dissemination Agent from time to time.

*"Dissemination Agent"* means Goodwin Consulting Group, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Authority and which has filed with the Authority a written acceptance of such designation.

*"EMMA"* or *"Electronic Municipal Market Access"* means the centralized on-line repository for documents to be filed with the MSRB, such as official statements and disclosure information relating to municipal bonds, notes and other securities as issued by state and local governments.

*"Limited Offering Memorandum"* means the Limited Offering Memorandum, dated February 13, 2015, relating to the Bonds.

*"Listed Events"* means any of the events listed in Section 5(a) or 5(b) of this Disclosure Agreement.

*"MSRB"* means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information which may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

*"Participating Underwriter"* means the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds.

*"Rule"* means 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 2. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Authority and the Dissemination Agent 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 3. Provision of Annual Reports.

(a) *Delivery of Annual Report.* The Authority shall, or shall cause the Dissemination Agent to, not later than the April 1, 2015 (for the first Annual Report for fiscal year 2013-14), and not later than the March 1 occurring after the end of each fiscal year of the Authority, commencing with the report for the 2014-15 fiscal year, which is due not later than March 1, 2016, file with EMMA, in a readable PDF or other electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that any audited financial statements of the Authority may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date.

(b) *Change of Fiscal Year.* If the Authority's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c), and subsequent



Annual Report filings shall be made no later than six months after the end of such new fiscal year end.

(c) *Delivery of Annual Report to Dissemination Agent.* Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for the report for the 2014-15 fiscal year and for fiscal years thereafter (or, if applicable, subsection (b) of this Section 3 for providing the Annual Report to EMMA), the Authority shall provide the Annual Report to the Dissemination Agent (if other than the Authority). If by any such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the Authority.

(d) *Report of Non-Compliance.* If the Authority is the Dissemination Agent and is unable to file an Annual Report by the date required in subsection (a) (or, if applicable, subsection (b)) of this Section 3, the Authority shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the Authority is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent for fiscal year 2014-2015 and following fiscal years by the date required in subsection (c) of this Section 3, the Dissemination Agent shall send a notice to EMMA in substantially the form attached hereto as Exhibit A.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the Authority, file a report with the Authority certifying that the Annual Report has been filed with EMMA pursuant to Section 3 of this Disclosure Agreement, stating the date it was so provided and filed.

Section 4. Content of Annual Reports. It is acknowledged that the Closing Date for the Bonds occurred after the end of the 2013-2014 fiscal year of the Authority. In light of the foregoing, submission of the Limited Offering Memorandum shall satisfy the Authority's obligation to file an Annual Report for fiscal year 2013-2014.

The Annual Report for each fiscal year commencing with the Annual Report for the 2014-2015 fiscal year, shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the Authority for the most recently completed fiscal year, prepared in accordance generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Authority's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) *Other Annual Information.* The Annual Report for each fiscal year commencing with fiscal year 2014-2015 shall also include the following information:

(i) The principal amount of Bonds Outstanding as of the September 30 next preceding the date of the Annual Report.

(ii) The balance in the Reserve Fund, and a statement of the Reserve Requirement, as of the September 30 next preceding the date of the Annual Report.

(iii) The balance in the accounts within the Improvement Fund as of the September 30 next preceding the date of the Annual Report.

(iv) The total assessed value of all parcels within the District on which the Special Taxes are levied, as shown on the assessment roll of the Authority Assessor last equalized prior to the September 30 next preceding the date of the Annual Report, and

a statement of assessed value-to-lien ratios therefor, either by individual parcel or by categories, in a table similar to Table 4 in the Limited Offering Memorandum.

(v) The Special Tax aggregate delinquency rate for all parcels within the District on which the Special Taxes are levied, the aggregate number of parcels within the District on which the Special Taxes are levied and which are delinquent in payment or Special Taxes, and the percentage of the most recent annual Special Tax levy that is delinquent, all as of the September 30 next preceding the date of the Annual Report.

(vi) The status of foreclosure proceedings for any parcels within the District on which the Special Taxes are levied and a summary or the results of any foreclosure sales, or other collection efforts with respect to delinquent Special Taxes, as of the September 30 next preceding the date of the Annual Report.

(vii) The identity of any property owner representing more than five percent (5%) of the annual Special Tax levy who is delinquent in payment of such Special Taxes, as shown on the assessment roll of the County Assessor last equalized prior to the September 30 next preceding the date of the Annual Report, the number of parcels so delinquent, and the total dollar amount of all such delinquencies.

(viii) A land ownership summary listing property owners responsible for more than five percent (5%) of the annual Special Tax levy, as shown on the assessment roll of the County Assessor last equalized prior to the January 1 next preceding the date of the Annual Report, in a table similar to Table 1 in the Limited Offering Memorandum (but which may include only a single line item for parcels owned by individual homeowners).

(ix) The most recent annual information required to be provided to the California Debt and Investment Advisory Commission pursuant to Section 5.14 of the Fiscal Agent Agreement.

(c) *Cross References.* Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Authority or related public entities, which are available to the public on EMMA. The Authority shall clearly identify each such other document so included by reference.

If the document included by reference is a final official statement, it must be available from EMMA.

(d) *Further Information.* In addition to any of the information expressly required to be provided under paragraph (b) of this Section 4, the Authority shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

#### Section 5. Reporting of Listed Events.

(a) *Reportable Events.* The Authority shall, or shall cause the Dissemination (if not the Authority) to, give notice of 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)     Defeasances.
- (6)     Rating changes.
- (7)     Tender offers.
- (8)     Bankruptcy, insolvency, receivership or similar event of the obligated person.
- (9)     Adverse tax opinions, 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 security, or other material events affecting the tax status of the security.

Note: For the purposes of the event identified in subparagraph (8), the event is considered to occur when any of the following occur: the appointment of a receiver, trustee or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) *Material Reportable Events.* The Authority shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1)     Non-payment related defaults.
- (2)     Modifications to rights of security holders.
- (3)     Bond calls.
- (4)     The release, substitution, or sale of property securing repayment of the securities.
- (5)     The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.
- (6)     Appointment of a successor or additional fiscal agent, or the change of name of a fiscal agent.

(c) *Time to Disclose.* The Authority shall, or shall cause the Dissemination Agent (if not the Authority) to, file a notice of such occurrence with EMMA, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of any Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(5) and (b)(3) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to owners of affected Bonds under the Fiscal Agent Agreement.

Section 6. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Agreement shall be accompanied by identifying information as prescribed by the MSRB.

Section 7. Termination of Reporting Obligation. The Authority's obligations under this Disclosure Agreement shall terminate upon the 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 Authority shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. Dissemination Agent.

(a) *Appointment of Dissemination Agent.* The Authority may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement and may discharge any such agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Goodwin Consulting Group, Inc.

If the Dissemination Agent is not the Authority, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Authority pursuant to this Disclosure Agreement. It is understood and agreed that any information that the Dissemination Agent may be instructed to file with EMMA shall be prepared and provided to it by the Authority. The Dissemination Agent has undertaken no responsibility with respect to the content of any reports, notices or disclosures provided to it under this Disclosure Agreement and has no liability to any person, including any Bond owner, with respect to any such reports, notices or disclosures. The fact that the Dissemination Agent or any affiliate thereof may have any fiduciary or banking relationship with the Authority shall not be construed to mean that the Dissemination Agent has actual knowledge of any event or condition, except as may be provided by written notice from the Authority.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the Authority for its services provided hereunder as agreed to between the Dissemination Agent and the Authority from time to time and all expenses, legal fees and expenses and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder, with payment to be made from any lawful funds of the District. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Authority, the owners of the Bonds, the Beneficial Owners, or any other party. The Dissemination Agent may rely, and shall be protected in acting or refraining from acting, upon any written direction from the Authority or a written opinion of nationally recognized bond counsel. The Dissemination Agent may at any time resign by giving written notice of such resignation to the Authority. The Dissemination Agent shall not be liable hereunder except for its negligence or willful misconduct.

(c) *Responsibilities of Dissemination Agent.* In addition of the filing obligations of the Dissemination Agent set forth in Sections 3(e) and 5, the Dissemination Agent shall be obligated, and hereby agrees, to provide a request to the Authority to compile the information

required for its Annual Report at least 30 days prior to the date such information is to be provided to the Dissemination Agent pursuant to subsection (c) of Section 3. The failure to provide or receive any such request shall not affect the obligations of the Authority under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Authority may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Authority that does not impose any greater duties or risk of liability on the Dissemination Agent), and any provision of this Disclosure Agreement may be waived, provided that all of the following conditions are satisfied:

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

(b) *Compliance as of Issue Date.* The undertaking, as amended or taking into account such waiver, would, in the opinion of a nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances.

(c) *Consent of Holders; Non-impairment Opinion.* The amendment or waiver either (i) is approved by the Bond owners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Bond owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Bond owners or Beneficial Owners.

If this Disclosure Agreement is amended or any provision of this Disclosure Agreement is waived, the Authority shall describe such amendment or waiver in the next following Annual Report and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Authority. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 10. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Authority from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Authority chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Authority shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or future notice of occurrence of a Listed Event.

Section 11. Default. In the event of a failure of the Authority to comply with any provision of this Disclosure Agreement, any Bond owner, any Beneficial Owner, the Fiscal Agent or the Participating Underwriter may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Authority to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the Authority to comply with this Disclosure Agreement shall be an action to compel performance.

Section 12. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Authority, the Fiscal Agent, the Dissemination Agent, the Participating Underwriter and the owners and the Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 13. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.



IN WITNESS WHEREOF, the parties hereto have executed this Disclosure Agreement as of the date first above written.

RIVER ISLANDS PUBLIC FINANCING  
AUTHORITY

By: \_\_\_\_\_  
Herb Moniz,  
Executive Director

GOODWIN CONSULTING GROUP, INC.,  
as Dissemination Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligor: River Islands Public Financing Authority

Name of Bond Issue: \$111,915,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt), \$13,235,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-2 (Taxable), and \$32,345,000 River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2015B (Tax-Exempt)

Date of Issuance: February 26, 2015

NOTICE IS HEREBY GIVEN that the Obligor has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.16 of the Fiscal Agent Agreement, dated as of February 1, 2015, between the Obligor and Wilmington Trust, National Association, as fiscal agent. The Obligor anticipates that the Annual Report will be filed by \_\_\_\_\_.

Date: \_\_\_\_\_

By: Goodwin Consulting Group, Inc., as  
Dissemination Agent

**FORM OF CONTINUING DISCLOSURE AGREEMENT –  
RIVER ISLANDS DEVELOPMENT, LLC and CALIFIA, LLC**

This Continuing Disclosure Agreement – Developer (the “Disclosure Agreement”) dated as of February 1, 2015, is executed and delivered by River Islands Development, LLC and Califia, LLC (collectively, the “Developer”), and Goodwin Consulting Group, Inc., as dissemination agent (the “Dissemination Agent”), in connection with the execution and delivery by the River Islands Public Financing Authority (the “Authority”) of its River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-1 (Tax-Exempt), its River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Refunding Bonds, Series 2015A-2 (Taxable), and its River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements) Special Tax Bonds, Series 2015B (Tax-Exempt) (collectively, the “Bonds”). The Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of February 1, 2015, by and between the Authority, for and on behalf of the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements), and Wilmington Trust, National Association, as fiscal agent (the “Fiscal Agent Agreement”).

The Developer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Developer for the benefit of the Bondowners and Beneficial Owners and in order to assist the Participating Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings when used herein:

“Affiliate” shall mean, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially or as an agent, guardian or other fiduciary, twenty-five percent (25%) or more of any class of Equity Securities of such Person, (b) each Person that controls, is controlled by or is under common control with such Person or any Affiliate of such Person or (c) each of such Person’s executive officers, directors, joint venturers and general partners; provided, however, that in no case shall the Authority be deemed to be an Affiliate of the Developer for purposes of this Disclosure Agreement. For the purpose of this definition, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

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

“Assumption Agreement” shall mean an agreement between a Successor, or an Affiliate thereof, and the Dissemination Agent containing terms substantially similar to this Disclosure Agreement, whereby such Successor or Affiliate agrees to provide Annual Reports and notices of Listed Events with respect to the portion of the Property owned by such Successor or Affiliate.

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

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

“Dissemination Agent” shall mean Goodwin Consulting Group, Inc., acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Developer and which has filed with the Developer and the County a written acceptance of such designation.

“District” shall mean the River Islands Public Financing Authority Community Facilities District No. 2003-1 (Public Improvements).

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

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

“Event of Bankruptcy” shall mean, with respect to a Person, that such Person files a petition or institutes a proceeding under any act or acts, state or federal, dealing with or relating to the subject or subjects of bankruptcy or insolvency, or under any amendment of such act or acts, either as a bankrupt or as an insolvent, or as a debtor, or in any similar capacity, wherein or whereby such Person asks or seeks or prays to be adjudicated a bankrupt, or is to be discharged from any or all of such Person's debts or obligations, or offers to such Person's creditors to effect a composition or extension of time to pay such Person's debts or asks, seeks or prays for reorganization or to effect a plan of reorganization, or for a readjustment of such Person's debts, or for any other similar relief, or if any such petition or any such proceedings of the same or similar kind or character is filed or instituted or taken against such Person and the same shall remain undismissed for a period of sixty days, or if a receiver of the business or of the property or assets of such Person is appointed by any court, or if such Person makes a general assignment for the benefit of such Person's creditors.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30.

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

“Limited Offering Memorandum” shall mean the Limited Offering Memorandum, dated February 13, 2015, relating to the Bonds.

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

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds, which is Southwest Securities, Inc.

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

“Property” shall mean the parcels within the boundaries of the District subject to Special Taxes.

“Quarterly Report” shall mean any Quarterly Report provided by the Developer pursuant to, and as described in, Section 3(b) and 4(b) of this Disclosure Agreement.

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

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

“State” shall mean the State of California.

“Successor” shall mean any Person, other than the Developer, who acquires any portion of the Property from Califia, LLC or River Islands Development, LLC or any Affiliate of either such entity following the date of the issuance of the Bonds.

### SECTION 3. (a) Provision of Annual Reports.

(i) The Developer shall, or shall cause the Dissemination Agent to, not later than June 15 of each year, commencing June 15, 2015, provide to the Repository an Annual Report which is consistent with the requirements of Section 4(a) of this Disclosure Agreement. If, in any year, June 15 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent’s offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent’s offices are open for business. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4(a) of this Disclosure Agreement, provided that the financial statements, if any, of the Developer may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date.

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

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

(iv) The Developer shall, or shall cause the Dissemination Agent to:

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

(B) promptly file a report with the Developer and the Authority certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided to the Repository.

(b) Provision of Quarterly Reports. The Developer shall, or shall cause the Dissemination Agent to, not later than thirty (30) days after each quarterly anniversary of the commencement of each Fiscal Year (except no Quarterly Report need be filed for the fourth (4th) quarter of any Fiscal Year, which will be effectively covered by each Annual Report), commencing with the quarter ending June 30, 2015, provide to the Repository a Quarterly Report which is consistent with the requirements of Section 4(b) of this Disclosure Agreement, with a copy to the Authority and the Participating Underwriter.

Not later than fifteen (15) days prior to each such date by which a Quarterly Report is due, the Developer shall provide the Quarterly Report to the Dissemination Agent. The Developer shall provide a written certification with each Quarterly Report furnished to the Dissemination Agent, the Authority and the Participating Underwriter to the effect that such Quarterly Report constitutes the Quarterly Report required to be furnished by the Developer hereunder. The Dissemination Agent may conclusively rely upon such certification of the Developer, and none of the Dissemination Agent, the Authority or the Participating Underwriter shall have any duty or obligation to review any such Quarterly Report. The Quarterly 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(b) of this Disclosure Agreement.

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

SECTION 4. (a) Content of Annual Report. The Developer's Annual Report shall contain the following:

(i) *Financial Statements.* Unaudited financial statements of River Islands Development, LLC and of Califia, LLC for the most recently completed fiscal year. If any such unaudited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a)(i), the unaudited financial statements shall be filed in the same manner as the Annual Report when they become available.

(ii) *Other Annual Information.* The Annual Report for each fiscal year commencing with fiscal year 2014-15 shall also include the following information:

A. A discussion of the sources of funds to finance development of property owned by the Developer within the District, and whether any material defaults exist under any loan arrangement related to such financing.



B. A summary of development activity within the District, including a description or update of the status of tentative and final maps recorded on property within the District, the number of parcels for which building permits have been issued, and as to property owned by the Developer, any sales of such property including the number of residential lots and commercial or other acres sold and the identity of the purchaser or purchasers.

C. Status of completion of the development being undertaken by the Developer in the District, and any major legislative, administrative and judicial challenges known to the Developer to or affecting the construction of the development or the time for construction of any public or private improvements to be made by the Developer within the District.

D. With respect to any portion of the Property owned by the Developer or any Affiliates, a statement as to whether any taxes or assessment installments applicable to such portion of the Property are delinquent.

E. A description of any change in the ownership structure of River Islands Development, LLC or Califia, LLC and/or the financial condition of River Islands Development, LLC or Califia, LLC or any of their Affiliates if such change in ownership structure and/or financial condition could materially interfere with the Developer's ability to complete the development of the infrastructure improvements for the Property.

F. Any amendments to land use entitlements for any portion of the Property owned by the Developer that could have a material adverse affect on the ability of the Developer or any Affiliate to complete the development of the Property as described in the section of the Limited Offering Memorandum entitled "THE DISTRICT-River Islands Phase 1," or to pay installments of Special Taxes when due.

G. Any precondition to commencement or continuation of development on any portion of the Property owned by the Developer or any Affiliate imposed by a governmental entity after the date of issuance of the Bonds which has not been previously disclosed and which could have a material adverse affect, or any change in the status of any such precondition that was previously disclosed in the Limited Offering Memorandum or an Annual Report, which could have a material adverse affect on the ability of the Developer, or any Affiliate to complete the development of the infrastructure improvements for the Property, or to pay installments of Special Taxes when due.

H. Any previously undisclosed legislative, administrative or judicial challenges to development of any portion of the Property owned by the Developer or any Affiliate, or any material change in the status of any such challenge that was previously disclosed in the Limited Offering Memorandum or an Annual Report, that could have a material adverse affect on the Developer's ability to complete the infrastructure improvements for the Property, or on the ability of the Developer or any Affiliate, to pay installments of Special Taxes when due.

I. An update of the status of any previously reported Listed Event described in Section 5.

In addition to any of the information expressly required to be provided pursuant to clauses (i) and (ii) above, the Developer shall provide such further information, if any, as may

be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(b) Content of Quarterly Reports. The Developer's Quarterly Reports shall contain or incorporate by reference the information described in Section 4(a)(ii)B, C, E, F, G, H and I, as of the end of the three month period referenced in the Quarterly Report. In addition to the foregoing information, the Developer shall provide such further information, if any, as may be necessary to make the specifically required statements, in light of the circumstances under which they were made, not misleading.

(c) In the event that as a result of subsequent amendment of the Rule, interpretive releases, no action letters or other official guidance from the Securities and Exchange Commission or its staff, the information required to satisfy the Rule shall differ from the information described in (a) and (b) above, the Developer shall provide to the Dissemination Agent such other information as is available to the Developer.

(d) Any and all of the items described above may be included by specific reference to other documents, including official statements of debt issues which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Developer 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 Developer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material under clauses (b) and (c) within 10 business days after the occurrence of any of the following events:

1. Failure to pay any real property taxes, special taxes or assessments levied within the Improvement Area on a parcel owned by the Developer or any Affiliate.

2. Damage to or destruction of any of the Property which has a material adverse effect on the value of the parcels owned by the Developer or any Affiliate.

3. Material default by the Developer or any Affiliate on any loan with respect to the construction financing for infrastructure improvements required to complete the development of the Property.

4. Material default by the Developer or any Affiliate on any loan secured by property within the Improvement Area owned by the Developer or any Affiliate.

5. Payment default by the Developer or any Affiliate on any loan of the Developer or any Affiliate (whether or not such loan is secured by property within the Improvement Area) which is beyond any applicable cure period in such loan.

6. The occurrence of an Event of Bankruptcy with respect to Califia, LLC or River Islands Development, LLC, or any Affiliate of either thereof.

7. The filing of any lawsuit against the Developer or any Affiliates which, in the reasonable judgment of the Developer, will adversely affect the completion of the development of the infrastructure improvements needed to complete the development of the Property, or litigation which if decided against the Developer, or any Affiliates, in

the reasonable judgment of the Developer, would materially adversely affect the financial condition of the Developer or any Affiliates.

8. The assumption of any obligations of the Developer in this Disclosure Agreement by a Successor pursuant to Section 12 hereof.

9. A change in the fiscal year of the Developer.

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

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

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

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

(b) if as of the date for filing the Annual Report the Developer and its Affiliates own property within the District which is responsible for less than twenty percent (20%) of the Special Taxes levied in the Fiscal Year for which the Annual Report is being prepared, or

(c) upon the delivery by the Developer to the Authority of an opinion of nationally recognized bond counsel to the effect that the information required by this Disclosure Agreement is no longer required. Such opinion shall be based on information publicly provided by the Securities and Exchange Commission or a private letter ruling obtained by the Developer or a private letter ruling obtained by a similar entity to the Developer.

In addition, the Developer's obligations hereunder shall terminate with respect to any portion of the Property on the date such obligations have been assumed by one or more Successors or Affiliates thereof pursuant to an Assumption Agreement, as described in Section 12 hereof.

If any such termination occurs prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for a Listed Event hereunder.

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

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Developer may amend this Disclosure Agreement, and any

provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

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

(b) This Disclosure Agreement, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel addressed to the County, the Fiscal Agent and the Participating Underwriter, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

(c) The amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the County and the Fiscal Agent, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds; and

(d) The Developer, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) and (c) above.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Developer shall describe such amendment in the next Annual Report or Semiannual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Developer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given to the Repository, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison of financial data described in clause (ii) of the preceding sentence shall be provided at the time financial statements, if any, are filed under Section 4(a)(5) hereof.

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

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

other action, may not fully discharge all duties and obligations of the Developer under such laws.

SECTION 10. Default. In the event of a failure of the Developer to comply with any provision of this Disclosure Agreement, any Participating Underwriter or any Bondowner 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 Developer or the Dissemination Agent to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Developer to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement and the Developer agrees to indemnify and save the Dissemination Agent, 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 attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Developer agrees to pay the Dissemination Agent a reasonable annual fee for the performance of its duties hereunder. The Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Developer, the Participating Underwriter, Bondowners or Beneficial Owners or any other party. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon a direction from the Developer or an opinion of nationally recognized bond counsel. The obligations of the Developer 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 Agreement. The Dissemination Agent may conclusively rely upon the Annual Report provided to it by the Developer as constituting the Annual Report required of the Developer in accordance with this Disclosure Agreement and shall have no duty or obligation to review such Annual Report. The Dissemination Agent shall have no duty to prepare the Annual Report nor shall the Dissemination Agent be responsible for filing any Annual Report not provided to it by the Developer in a timely manner in a form suitable for filing with the Repositories. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act.

SECTION 12. Reporting Obligation of Successors. The Developer shall, in connection with any sale or transfer of ownership of land within the District which will result in the Successor (which term shall include any successors and assigns of the Developer) becoming responsible for the payment of more than twenty percent (20%) of the Special Taxes levied on property within the District in the Fiscal Year following such transfer, cause such Successor to enter into an Assumption Agreement with terms substantially similar to the terms of this Disclosure Agreement; provided that such Successor's obligations under such Assumption Agreement may terminate upon the sold or transferred land being improved with structures, or the land owned by the Successor becoming responsible for the payment of less than twenty percent (20%) of the annual Special Taxes.

SECTION 13. Identifying Information for Filings with EMMA. All documents provided to EMMA under this Disclosure Agreement shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 14. Developer as Independent Contractor. In performing under this Disclosure Agreement, it is understood that the Developer is an independent contractor and not an agent of the County or the District.

SECTION 15. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Disclosure Representative:	The Cambay Group, Inc. 2999 Oak Road, Suite 400 Walnut Creek, CA 94597 Attention: Chief Financial Officer
Dissemination Agent:	Goodwin Consulting Group, Inc. 555 University Avenue, Suite 280 Sacramento, CA 95825 Attention: Cindy Yan
Fiscal Agent:	Wilmington Trust, National Association 650 Town Center Drive, Suite 600 Costa Mesa, CA 92626 Attention: Corporate Trust Department
Participating Underwriter:	Southwest Securities 2533 South Coast Highway 101, Suite 210 Cardiff by the Sea, CA 92007
Authority or District:	River Islands Public Financing Authority 73 West Stewart Road Lathrop, CA 95330 Attention: Treasurer

SECTION 16. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Developer, the County, the Dissemination Agent, the Fiscal Agent, the Participating Underwriter and Bondowners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 17. Assignability. The Developer shall not assign this Disclosure Agreement or any right or obligation hereunder except to the extent permitted to do so under the provisions of Section 12 hereof. The Dissemination Agent may, with prior written notice to the Developer and the County, assign this Disclosure Agreement and the Dissemination Agent's rights and obligations hereunder to a successor Dissemination Agent.

SECTION 18. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 19. Governing Law. The validity, interpretation and performance of this Disclosure Agreement shall be governed by the laws of the State of California applicable to contracts made and performed in California.



SECTION 20. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

RIVER ISLANDS DEVELOPMENT, LLC

By: \_\_\_\_\_

Its: \_\_\_\_\_

CALIFIA, LLC

By: \_\_\_\_\_

Its: \_\_\_\_\_

GOODWIN CONSULTING GROUP, INC.,  
as Dissemination Agent

By: \_\_\_\_\_

Its: \_\_\_\_\_

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## APPENDIX H

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix H has been provided by The Depository Trust Company (“DTC”), New York, NY, for use in securities offering documents, and the Authority does not take responsibility for the accuracy or completeness thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute the Beneficial Owners either (a) payments of interest, principal or premium, if any, with respect to the 2015 Bonds or (b) certificates representing ownership interest in or other confirmation of ownership interest in the 2015 Bonds, or that they will so do on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this Limited Offering Memorandum.*

*The following description of DTC, the procedures and record keeping with respect to beneficial ownership interests in the 2015 Bonds, payment of principal, interest and other payments on the 2015 Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the 2015 Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the 2015 Bonds (the “Issuer”) nor the trustee, fiscal agent or paying agent appointed with respect to the 2015 Bonds (the “Agent”) take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the 2015 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2015 Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2015 Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and the current “Procedures” of DTC to be followed in dealing with DTC Participants are on file with DTC.*

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the 2015 Bonds (the “Securities”). The Securities 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 Security certificate will be issued for each issue of the Securities, each in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. 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"). On August 8, 2011, Standard & Poor's downgraded its rating of DTC from AAA to 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) and [www.dtc.org](http://www.dtc.org). *The information contained on this Internet site is not incorporated herein by reference.*

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("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 Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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.

5. 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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.

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

THE FISCAL AGENT, AS LONG AS A BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE 2015 BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES ONLY TO CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE. ANY FAILURE OF CEDE & CO., OR ITS SUCCESSOR AS DTC'S PARTNERSHIP NOMINEE TO ADVISE ANY PARTICIPANT, OR OF ANY PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE 2015 BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, 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 Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

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

11. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

12. THE DISTRICT, THE AUTHORITY AND THE UNDERWRITER CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL, INTEREST OR PREMIUM, IF ANY, WITH RESPECT TO THE 2015 BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY REDEMPTION NOTICES OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS LIMITED OFFERING MEMORANDUM. THE DISTRICT, THE AUTHORITY AND THE UNDERWRITER ARE NOT RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE 2015 BONDS OR AN ERROR OR DELAY RELATING THERETO.

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