

**PRELIMINARY OFFICIAL STATEMENT DATED AS OF MAY 27, 2015**

NEW ISSUE – BOOK ENTRY ONLY

NOT RATED

*In the opinion of Quint & Thimmig LLP, Larkspur, California, Bond Counsel, subject however, to certain qualifications described in this Official Statement, under existing law, interest on the 2015 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."*



**\$3,515,000\***  
**CITY OF SEAL BEACH**  
**COMMUNITY FACILITIES DISTRICT NO. 2002-01**  
**(HERON POINTE)**  
**2015 SPECIAL TAX REFUNDING BONDS**

Dated: Date of Issuance

Due: September 1, as shown on inside cover

The City of Seal Beach, California (the "City"), for and on behalf of the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) (the "District"), is issuing the above-captioned bonds (the "2015 Bonds") to (i) refund in full the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) Special Tax Bonds, Series 2005 (the "Prior Bonds"), (ii) fund a reserve fund for the 2015 Bonds, and (iii) pay costs of issuing the 2015 Bonds. See "PLAN OF REFUNDING." The Prior Bonds were issued by the City, for and on behalf of the District, to finance various public infrastructure improvements within the City. The 2015 Bonds are being issued pursuant to a Fiscal Agent Agreement, dated as of July 1, 2015 (the "Fiscal Agent Agreement"), by and between the City, for and on behalf of the District, and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent").

The 2015 Bonds are payable from the proceeds of an annual Special Tax (as defined in this Official Statement) being levied on property located within the District (see "THE DISTRICT"), 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 approved in 2002 by the then-qualified elector of the District, as amended in 2004 with the approval of the then qualified elector of the District. See "SECURITY FOR THE 2015 BONDS – Special Taxes" and Appendix B – "Rate and Method."

Interest on the 2015 Bonds is payable on March 1 and September 1 of each year, commencing on March 1, 2016. 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. Purchasers of the 2015 Bonds will not receive physical certificates representing their ownership interests in the 2015 Bonds purchased. 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" and Appendix F – "DTC and the Book-Entry Only System."

The 2015 Bonds are subject to optional redemption, mandatory sinking payment redemption and mandatory redemption from Special Tax Prepayments, prior to their respective maturities. See "THE 2015 BONDS—Redemption."

The City may issue additional bonded indebtedness that is secured by a lien on the Special Tax Revenues and by funds pledged under the Fiscal Agent Agreement for the payment of the 2015 Bonds on a parity with the 2015 Bonds ("Parity Bonds"), but only for the purpose of refunding the 2015 Bonds and refunding any outstanding Parity Bonds. See "SECURITY FOR THE 2015 BONDS – Issuance of Additional Bonds."

NONE OF THE FAITH AND CREDIT OF THE DISTRICT, THE CITY OR THE STATE OF CALIFORNIA OR OF ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF THE 2015 BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2015 BONDS. THE 2015 BONDS ARE NEITHER GENERAL NOR SPECIAL OBLIGATIONS OF THE CITY, NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE CITY FOR THE DISTRICT, PAYABLE SOLELY FROM CERTAIN AMOUNTS PLEDGED THEREFOR UNDER THE FISCAL AGENT AGREEMENT, AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.

This cover page contains certain information for quick reference only. Investors should read the entire Official Statement 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 Official Statement for a discussion of certain risk factors that should be considered, in addition to the other matters set forth in this Official Statement, 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 City and the District by Richards, Watson & Gershon, Los Angeles, California, in their capacity as attorneys for the City, and for the City by Quint & Thimmig LLP, Larkspur, California, acting as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. It is anticipated that the 2015 Bonds in definitive form will be available for delivery to DTC on or about July 8, 2015.

**STIFEL**

The date of this Official Statement is June \_\_, 2015.

\* Preliminary, subject to change.

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

**\$3,515,000\***  
**CITY OF SEAL BEACH**  
**COMMUNITY FACILITIES DISTRICT NO. 2002-01**  
**(HERON POINTE)**  
**2015 SPECIAL TAX REFUNDING BONDS**

**MATURITY SCHEDULE**

\$\_\_\_\_\_ Serial Bonds; CUSIP\* Prefix 812054†

| <u>Maturity Date</u><br>(September 1) | <u>Principal</u><br><u>Amount</u> | <u>Interest</u><br><u>Rate</u> | <u>Yield</u> | <u>Price</u> | <u>CUSIP</u><br><u>Suffix†</u> |
|---------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|--------------------------------|
|---------------------------------------|-----------------------------------|--------------------------------|--------------|--------------|--------------------------------|

\$\_\_\_\_\_ % Term Bond due September 1, 2035, Yield \_\_\_\_\_%, Price \_\_\_\_\_%, CUSIP+ No. 812054 \_\_\_\_\_

† Copyright 2015, American Bankers Association. CUSIP data is provided by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. Neither the City nor the Underwriter assumes any responsibility for the accuracy of the CUSIP data.

\* Preliminary, subject to change.

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

The information contained in this Official Statement 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 Official Statement, including, without limitation, the information contained in the Appendices, and nothing contained in this Official Statement should be relied upon as a promise or representation by the Underwriter.

Neither the City 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 the 2015 Bonds other than as contained in this Official Statement. If given or made, any such information or representations must not be relied upon as having been authorized by the City or the Underwriter. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale 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 Official Statement, or in the status of any property described in this Official Statement, subsequent to the date as of which such information is presented.

This Official Statement and the information contained in this Official Statement 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 Official Statement is delivered in final form. Under no circumstances shall this Official Statement 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 Official Statement, in any continuing disclosure by the City, in any press release, or in any oral statement made with the approval of an authorized officer of the City or any other entity described or referenced in this Official Statement, 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 Official Statement 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 Official Statement: "The Underwriter has reviewed the information in this Official Statement 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.**

The City maintains an Internet website, but the information on the website is not incorporated in this Official Statement.

## **CITY OF SEAL BEACH**

### **City Council**

Ellery A. Deaton, *Mayor*  
David W. Sloan, *Mayor Pro Tem*  
Mike Varipapa, *Councilmember*  
Gary A. Miller, *Councilmember*  
Sandra Massa-Lavitt, *Councilmember*

### **City Officials**

Jill R. Ingram, *City Manager*  
Patrick Gallegos, *Assistant City Manager*  
Victoria L. Beatley, *Director of Finance / City Treasurer*  
Tina Knapp, *City Clerk*

## **PROFESSIONAL SERVICES**

### **City Attorney**

Richards, Watson & Gershon  
Los Angeles, California

### **Financial Advisor**

Fieldman, Rolapp & Associates  
Irvine, California

### **Bond Counsel and Disclosure Counsel**

Quint & Thimmig LLP  
Larkspur, California

### **Special Tax Consultant**

Albert A. Webb Associates  
Riverside, California

### **Dissemination Agent**

Willdan Financial Services  
Temecula, California

### **Fiscal Agent and Escrow Bank**

The Bank of New York Mellon Trust Company, N.A.  
Los Angeles, California

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# REGIONAL MAP



## OFFICIAL STATEMENT

**\$3,515,000\***  
**CITY OF SEAL BEACH**  
**COMMUNITY FACILITIES DISTRICT NO. 2002-01**  
**(HERON POINTE)**  
**2015 SPECIAL TAX REFUNDING BONDS**

### INTRODUCTION

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

#### **General**

The purpose of this Official Statement, which includes the cover page, the inside cover page, the table of contents and the attached appendices (the “**Official Statement**”), is to provide certain information concerning the issuance of the above-captioned bonds (the “**2015 Bonds**”). The 2015 Bonds are being issued by the City of Seal Beach, California (the “**City**”), for and on behalf of the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) (the “**District**”), to (i) refund in full the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) Special Tax Bonds, Series 2005 currently outstanding in the aggregate principal amount of \$3,425,000 (the “**Prior Bonds**”), (ii) fund a reserve fund for the 2015 Bonds, and (iii) pay costs of issuing the 2015 Bonds. See “PLAN OF REFUNDING.” The Prior Bonds were issued to finance various public infrastructure improvements (the “**Improvements**”) within the City.

#### **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.

*Bond Authority.* The 2015 Bonds are authorized to be issued pursuant to the Act, Article 11 of Chapter 3 of Part 1 of Division 2 of the Government Code of the State of California (the “**Refunding Law**”), a Resolution adopted on May 26, 2015 by the City Council of the City (the

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\* Preliminary, subject to change.

“**City Council**”) acting as the legislative body of the District, and the Fiscal Agent Agreement dated as of July 1, 2015 (the “**Fiscal Agent Agreement**”), between the City, for and on behalf of the District, and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “**Fiscal Agent**”).

For more detailed information about the formation of the District, the authority for issuance of the Prior Bonds and the authority for issuance of the 2015 Bonds, see “THE DISTRICT – Authority for Issuance.”

## **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 Official Statement. 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 March 1, 2016. See “THE 2015 BONDS.” 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 redemption, mandatory sinking payment redemption and mandatory redemption from Special Tax prepayments prior to their respective maturities. 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, in each Fiscal Year, up to the first \$25,000 of Special Tax Revenues that may be deposited into the Administrative Expense Fund) 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 Taxes (as defined below) received by the City, including any scheduled payments and any prepayments thereof, interest and penalties thereon 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, but does not include interest and penalties, if any, collected with the Special Taxes that are in excess of the rate of interest payable on the Bonds. The 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 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.”

Amounts in the Administrative Expense Fund and the Costs of Issuance Fund, each of which is established under the Fiscal Agent Agreement, are neither pledged to nor available for the repayment of the 2015 Bonds. Proceeds of the 2015 Bonds and other amounts deposited to the Refunding Fund under the Escrow Agreement (see “PLAN OF REFUNDING – Redemption of Prior Bonds”) are not pledged to, and will not be available for, the payment of the 2015 Bonds.

*Special Taxes; Rate and Method.* The Special Taxes 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 Tax (as described under the heading “THE 2015 BONDS – Authority for Issuance”). “**Special Taxes**” are those taxes levied on the Taxable Property within the District pursuant to the Rate and Method and the Fiscal Agent Agreement.

*Limitations.* The Improvements are not pledged as collateral for the 2015 Bonds. The proceeds of condemnation or destruction of any of the Improvements 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 under the Fiscal Agent Agreement in the Bond Fund and the Reserve Fund, amounts held by the City under the Fiscal Agent Agreement in the Special Tax Fund, and the proceeds, if any, from foreclosure sales of parcels with delinquent Special Taxes.

### **Reserve Fund**

The Fiscal Agent Agreement establishes a Reserve Fund to be held by the Fiscal Agent 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 the lesser of (i) Maximum Annual Debt Service, (ii) 125% of average Annual Debt Service, or (iii) 10% of the initial principal amount of the Bonds (the “**Reserve Requirement**”). The Reserve Fund will be available to pay debt service on the 2015 Bonds and any Parity Bonds (as defined below), in the event that there is a shortfall in the amount in the Bond Fund to pay such debt service. The Reserve Requirement as of the date of issuance of the 2015 Bonds will be \$247,793.76. See “SECURITY FOR THE 2015 BONDS—Reserve Fund.”

### **The District**

The District is located in the northern portion of the City, and includes 64 separate Orange County Assessor’s parcels each improved with a detached single-family home. See “THE DISTRICT—Location and Description of the District.” On the 2014-15 property tax roll, the Orange County Assessor valued the land and improvements comprising the property that is subject to the levy of Special Taxes in the District at \$94,523,972. See “THE DISTRICT—Assessed Property Values.”

The value of individual parcels varies significantly. In addition, City assessed values may not reflect current market values. No recent independent appraisal of the property subject to the levy of Special Taxes has been conducted in connection with the 2015 Bonds, and no assurance can be given that should Special Taxes levied on one or more of the parcels become delinquent, and should the delinquent parcels be offered for sale at a judicial foreclosure sale, that any bid would be received for the property or, if a bid is received, that such bid would be sufficient to pay such parcel’s delinquent Special Taxes. See “THE DISTRICT—Value-to-District Lien Ratio – Value to District Lien Ratio Distribution,” “SPECIAL RISK FACTORS—Property Value” and “SPECIAL RISK FACTORS—Insufficiency of Special Taxes.”

### **Limited Obligation**

NONE OF THE FAITH AND CREDIT OF THE DISTRICT, THE CITY OR THE STATE OF CALIFORNIA OR OF ANY OF ITS POLITICAL SUBDIVISIONS IS PLEDGED TO THE PAYMENT OF THE 2015 BONDS. EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE 2015 BONDS. THE 2015 BONDS ARE NEITHER GENERAL NOR SPECIAL OBLIGATIONS OF THE CITY, NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE LIMITED OBLIGATIONS OF THE CITY FOR THE DISTRICT

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· Preliminary, subject to change.

PAYABLE SOLELY FROM CERTAIN AMOUNTS PLEDGED THEREFOR UNDER THE FISCAL AGENT AGREEMENT, AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.

### **Issuance of Additional Bonds**

The City may issue additional bonded indebtedness for the District 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**”), but only for the purpose of refunding the 2015 Bonds or refunding any outstanding Parity Bonds. See “SECURITY FOR THE 2015 BONDS – Issuance of Additional Bonds.”

### **Bondowners’ Risks**

Certain events could affect the ability of the City to pay the principal of and interest on the 2015 Bonds when due. Except for the Special Taxes, no other taxes are pledged to the payment of the 2015 Bonds. 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**

For purposes of complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934, as amended (the “**Rule**”), the City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board (the “**MSRB**”) certain annual financial information and operating data and notice of certain significant events. These covenants have been made in order to assist the Underwriter in complying with the Rule. See “CONTINUING DISCLOSURE” and Appendix E 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 Agreement pursuant to which such reports and notices are to be made.

### **Other Information**

This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change without notice. Except where otherwise indicated, all information contained in this Official Statement has been provided by the City on behalf of the District.

Copies of the Fiscal Agent Agreement and certain other documents referenced in this Official Statement are available for inspection at the office of, and (upon written request and payment to the City of a charge for copying, mailing and handling) are available for delivery from, the Director of Finance/City Treasurer, City of Seal Beach, 211 Eighth Street, Seal Beach, California 90740.

## **PLAN OF REFUNDING**

### **Redemption of Prior Bonds**

A portion of the proceeds of the sale of the 2015 Bonds, together with available funds held under the Fiscal Agent Agreement, dated as of July 1, 2005, pursuant to which the Prior Bonds were issued (the “**2005 Prior Agreement**”), will be deposited in an escrow account (the

“Refunding Fund”) held by The Bank of New York Mellon Trust Company, N.A., as escrow bank (the “Escrow Bank”) pursuant to an Escrow Agreement dated as of July 1, 2015, between the City, for and on behalf of the District, and the Escrow Bank and applied to defease and refund all of the outstanding Prior Bonds. Amounts in the Refunding Fund will be sufficient, without reinvestment, to fully pay the Prior Bonds on September 1, 2015, at a redemption price of 100% of the principal amount thereof plus accrued interest to the redemption date. Upon the deposit of proceeds of the 2015 Bonds and certain amounts held under the 2005 Prior Agreement with the Escrow Bank and in accordance with the Escrow Agreement, the Prior Bonds will be legally defeased and will no longer be entitled to the benefits of, or be secured by, the 2005 Prior Agreement or any pledge of, or lien on, the Special Taxes levied in the District.

Amounts deposited in the Refunding Fund are not in any way available to pay debt service on the 2015 Bonds.

**Estimated Sources and Uses of Funds**

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

|  |          |
|--|----------|
| Principal amount of 2015 Bonds                   | \$ _____ |
| <i>Plus:</i> Amounts relating to the Prior Bonds |          |
| <i>Less:</i> Underwriter’s Discount              |          |
| <b>Total Sources</b>                             | \$ _____ |
|  |          |
| Deposit to Refunding Fund <sup>(1)</sup>         | \$ _____ |
| Deposit to Reserve Fund <sup>(2)</sup>           |          |
| Deposit to Costs of Issuance Fund <sup>(3)</sup> |          |
| <b>Total Uses</b>                                | \$ _____ |

- (1) See “PLAN OF REFUNDING—Redemption of Prior Bonds.”
- (2) Equal to the initial Reserve Requirement. See “SECURITY FOR THE 2015 BONDS—Reserve Fund.”
- (3) Costs of issuance include, without limitation, Fiscal Agent fees and expenses; Financial Advisor fees and expenses; Bond Counsel, Disclosure Counsel, City Attorney and other legal fees; Escrow Bank fees and expenses; printing costs and other costs related to the issuance of the 2015 Bonds and the redemption of the Prior Bonds.

**THE 2015 BONDS**

**Authority for Issuance**

Pursuant to the Act, on September 23, 2002, the City Council adopted Resolution No. 5063 establishing the District (“Resolution of Formation”). Also on September 23, 2002, the City Council adopted Resolution No. 5064 calling an election to authorize the issuance of bonds and the levying of a special tax within the District. On September 23, 2002, the then sole owner of land in the District voted to authorize the issuance of bonded indebtedness to finance the Improvements, and approved the rate and method of apportionment of Special Tax for the District.

Pursuant to proceedings conducted by the City Council under its Resolution No. 5191 adopted on December 8, 2003, certain changes were made to the rate and method of

apportionment of Special Tax for the District, and a copy of the rate and method of apportionment of Special Tax, as so modified and currently in effect for the District (the “**Rate and Method**”), is attached to this Official Statement as Appendix B.

The 2015 Bonds are authorized to be issued pursuant to the Act, the Refunding Law, Resolution No. \_\_\_\_\_ adopted on May 26, 2015, by the City Council, acting as the legislative body of the District, and the Fiscal Agent Agreement. The Special Taxes 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 Official Statement. The 2015 Bonds will be dated the date of their issuance and interest will be payable on each Interest Payment Date, commencing March 1, 2016.

Each 2015 Bond will bear interest from the Interest Payment Date next preceding the date of authentication thereof, unless (a) it is authenticated after a Record Date and on or before the following Interest Payment Date, in which event it will bear interest from such Interest Payment Date; or (b) it is authenticated on or before February 15, 2016, in which event it will bear interest from the date of issuance of the 2015 Bonds; provided, however, that if, as of the date of authentication of any Bond, interest thereon is in default, such Bond will bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment thereon. “Record Date” is defined in the Fiscal Agent Agreement as the fifteenth day of the month next preceding the month of the applicable Interest Payment Date, whether or not such fifteenth (15th) 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. The principal of the 2015 Bonds and any premium due upon the redemption thereof will be payable upon presentation and surrender at the principal corporate trust office of the Fiscal Agent. Interest on each 2015 Bond will be computed using a year of 360 days comprised of twelve 30-day months.

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 F – “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 Official Statement 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 are subject to optional redemption prior to their stated maturities on any Interest Payment Date, as a whole or in part, upon payment from any source of funds available for that purpose, at a redemption price (expressed as a percentage of the principal amount of the 2015 Bonds to be redeemed) as set forth below, together with accrued interest thereon to the date fixed for redemption:

| <u>Redemption Dates</u>  | <u>Redemption Prices</u> |
|--|--------------------------|
| any Interest Payment Date from March 1, 2016<br>to and including March 1, 2023 | 103%                     |
| September 1, 2023 and March 1, 2024  | 102                      |
| September 1, 2024 and March 1, 2025  | 101                      |
| September 1, 2025 and any Interest Payment<br>Date thereafter                  | 100                      |

***Mandatory Sinking Payment Redemption.*** The 2015 Bonds maturing on September 1, 2035 are subject to mandatory sinking payment redemption in part on September 1, \_\_\_\_\_, and on each September 1 thereafter as set forth below, 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:

2015 Bond Maturing September 1, 2035

| <u>Redemption Date<br/>(September 1)</u> | <u>Sinking<br/>Payment</u> |
|--|----------------------------|
|--|----------------------------|

The amounts in the foregoing table will be reduced, in such a manner as to maintain substantially level Debt Service, as a result of any prior partial redemption of the 2015 Bonds pursuant to the optional redemption provisions described above or the mandatory redemption from Special Tax Prepayments described below.

***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 a whole or in part, at a redemption price (expressed as a percentage of the principal amount of the 2015 Bonds to be redeemed), as set forth below, together with accrued interest thereon to the date fixed for redemption:

| <u>Redemption Dates</u>  | <u>Redemption Prices</u> |
|--|--------------------------|
| any Interest Payment Date from March 1, 2016<br>to and including March 1, 2023 | 103%                     |
| September 1, 2023 and March 1, 2024  | 102                      |
| September 1, 2024 and March 1, 2025  | 101                      |
| September 1, 2025 and any Interest Payment<br>Date thereafter                  | 100                      |

Since the formation of the District, there have been no prepayments of Special Taxes; however, no assurance can be given that prepayments of Special Taxes will not occur in the future. See "SECURITY FOR THE 2015 BONDS—Summary of Rate and Method – Prepayment of the Special Tax Obligation."

***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, the Fiscal Agent will select the 2015 Bonds to be redeemed, from among the maturities of the 2015 Bonds or such given portion thereof not previously redeemed, so as to maintain substantially level debt service on the Bonds, and within a maturity by lot in any manner which the Fiscal Agent in its sole discretion shall deem appropriate and fair. For purposes of such selection, all 2015 Bonds shall be deemed to be comprised of separate \$5,000 portions, and such portions shall be treated as separate 2015 Bonds that may be separately redeemed.

***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, in the case of any redemption of the 2015 Bonds pursuant to the redemption provisions described above under "-- Optional Redemption" or "-- Mandatory Redemption from Special Tax Prepayments," the notice of redemption 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 City 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 City having insufficient Special Tax Revenues to pay the principal or 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 F – “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 2015 Bond or 2015 Bonds are surrendered for transfer or exchange, the City will execute and the Fiscal Agent will authenticate and deliver a new 2015 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 City 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 City 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 City 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 names the Owners designate at that time, in accordance with the Fiscal Agent Agreement.

To the extent that the Beneficial Owners are designated as the transferees 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 table shows the annualized debt service on the 2015 Bonds, assuming no optional redemption of the 2015 Bonds and no redemption of the 2015 Bonds from Special Tax Prepayments:

| Bond Year<br>ending<br><u>September 1</u> | <u>Principal</u> | <u>Interest</u> | <u>Annual<br/>Debt Service</u> |
|---|------------------|-----------------|--------------------------------|
| 2016                                      | \$               | \$              | \$                             |
| 2017                                      |                  |                 |                                |
| 2018                                      |                  |                 |                                |
| 2019                                      |                  |                 |                                |
| 2020                                      |                  |                 |                                |
| 2021                                      |                  |                 |                                |
| 2022                                      |                  |                 |                                |
| 2023                                      |                  |                 |                                |
| 2024                                      |                  |                 |                                |
| 2025                                      |                  |                 |                                |
| 2026                                      |                  |                 |                                |
| 2027                                      |                  |                 |                                |
| 2028                                      |                  |                 |                                |
| 2029                                      |                  |                 |                                |
| 2030                                      |                  |                 |                                |
| 2031                                      |                  |                 |                                |
| 2032                                      |                  |                 |                                |
| 2033                                      |                  |                 |                                |
| 2034                                      |                  |                 |                                |
| 2035                                      |                  |                 |                                |
| Totals                                    | \$ _____         | \$ _____        | \$ _____                       |

## 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, each Fiscal Year, a maximum of \$25,000 of Special Tax Revenues that may be deposited to the Administrative Expense Fund on a priority basis, and referred to in the Fiscal Agent Agreement as the “**Minimum Administrative Expense Requirement**”), 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, if any, collected in respect of delinquent Special Taxes in excess of the rate of interest payable on the Bonds. The 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 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 and the Refunding Fund, and Special Tax Revenues collected in any Fiscal Year in the amount of the Minimum Administrative Expense Requirement that may be deposited to the Administrative Expense Fund on a priority basis, are not pledged to the repayment of the 2015 Bonds.



The Improvements are not pledged as collateral for the 2015 Bonds. The proceeds of condemnation or destruction of any of the Improvements are not pledged to pay the Debt Service on the 2015 Bonds.

### **Limited Obligation**

The 2015 Bonds are limited obligations of the City on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues 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 and the Reserve Fund, amounts held by the City under the Fiscal Agent Agreement in the Special Tax Fund, and the proceeds, if any, from foreclosure sales of parcels with delinquent Special Tax levies.

### **Special Taxes**

In accordance with the provisions of the Act, the Rate and Method was approved in 2002 by the then sole qualified elector of the District and was modified by proceedings taken by the City Council under the Act in 2004. The Rate and Method as so modified and currently in effect is set forth in its entirety in Appendix B. Under the Fiscal Agent Agreement, the City 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 City. The Special Taxes levied on any parcel of Taxable Property (as defined in "SECURITY FOR THE 2015 BONDS—Summary of Rate and Method") may not exceed the maximum amount as provided in the Rate and Method and the Act.

The Special Taxes are payable and are to be collected in the same manner, at the same time and in the same installment as 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 County secured tax roll.

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 City 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 that 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," and "—Covenant for Superior Court Foreclosure" and "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments."

The property located within the District is subject to other liens for taxes and assessments, and other such liens 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 assessed valuations and the payment of, and delinquencies with respect to, Special Taxes in the District, see "THE DISTRICT."

## **Special Tax Fund**

*Deposit of Special Tax Revenues.* The Fiscal Agent Agreement establishes a Special Tax Fund to be held by the Director of Finance/City Treasurer. Under the Fiscal Agent Agreement, the City is obligated to deposit, as soon as practicable following receipt, in the Special Tax Fund all Special Tax Revenues received by the City.

Notwithstanding the foregoing,

(i) the first Special Tax Revenues collected by the City in any Fiscal Year, 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 Minimum Administrative Expense Requirement) will be deposited by the Director of Finance/City Treasurer in the Administrative Expense Fund;

(ii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes will be separately identified by the Director of Finance/City Treasurer and will be disposed of by the Director of Finance/City Treasurer first, for transfer to the Fiscal Agent for deposit by the Fiscal Agent in the Bond Fund to pay any past due debt service on the Bonds; second, to the Fiscal Agent for deposit by the Fiscal Agent in the Reserve Fund to the extent needed to increase the amount then on deposit in the Reserve Fund to the then Reserve Requirement; and third, to be held in the Special Tax Fund and used for its purposes; and

(iii) any proceeds of Special Tax Prepayments will be separately identified by the Director of Finance/City Treasurer and will be remitted by the Director of Finance/City Treasurer to the Fiscal Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account and used to redeem Bonds, except that the Current Tax Component of the Special Tax Prepayment will be retained by the Director of Finance/City Treasurer in the Special Tax Fund to be disbursed as described under "Disbursements" below.

Moneys in the Special Tax Fund will be held by the Director of Finance/City Treasurer for the benefit of the City and the Owners of the Bonds, will be disbursed as provided below and, pending any disbursement, will be subject to a lien in favor of the Owners of the Bonds.

*Disbursements.* From time to time as needed to pay the obligations of the District, but no later than the Business Day before each Interest Payment Date, the Director of Finance/City Treasurer will withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority:

(i) to the Fiscal Agent for deposit by the Fiscal Agent in the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers under the Fiscal Agent Agreement from the Special Tax Fund and the Reserve Fund to 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 on the next Interest Payment Date (including the redemption price of any Bonds to be optionally redeemed or redeemed from Special Tax Prepayments on such Interest Payment Date), 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 Director of Finance/City Treasurer may 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 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 Formula - Calculation of Annual Special Tax.* The Rate and Method is used to allocate the amount of the Special Tax that is needed to be collected each fiscal year among the Taxable Properties within the District, based upon the development status of the Taxable Property and its size, subject to a maximum tax rate that may be levied against each class of Taxable Property. The Rate and Method is set forth in full in Appendix B, and the following is a summary of the Rate and Method. Capitalized terms used, but not otherwise defined, in this section have the meanings given to them in the Rate and Method.

The calculation of the Special Tax payable by each parcel of Taxable Property in the District in each year proceeds by the following steps:

- First, the City determines the “**Special Tax Requirement**” to be funded from the Special Tax for the fiscal year. The Special Tax Requirement is comprised of five components – debt service on the 2015 Bonds, replenishment of the Reserve Fund, the annual cost of administering the District, a provision for tax delinquencies, and eligible “pay-as-you-go” capital expenditures. The Special Tax Requirement may be reduced in any fiscal year by taking into account revenues available from one or more of the following sources: (i) interest earnings on or surplus balances in the funds and accounts related to the 2015 Bonds, (ii) proceeds from the collection of penalties associated with delinquent Special Taxes, and (iii) any other funds available to reduce the annual Special Tax levy.
- Second, the City identifies all of the parcels within the District that are Taxable Property by excluding tax-exempt parcels and parcels for which the Special Tax obligation has been prepaid. Each parcel of Taxable Property is further classified as “Developed Property,” “Undeveloped Property,” “Taxable Property Owner Association Property” and “Taxable Public Property.”

The Rate and Method defines “**Developed Property**” as all parcels in the District, exclusive of Taxable Property Owner Association Property and Taxable Public Property, for which building permits have been issued on or prior to January 1 of the preceding fiscal year. All 64 parcels of Taxable Property in the District are currently classified as Developer Property.

The Rate and Method defines “Undeveloped Property” as Taxable Property that is not Developed Property, Taxable Property Owner Association Property or Taxable Public Property.

- Third, after classifying the parcels, the City identifies the Residential Floor Area of each parcel of Developed Property. The City assigns the Assigned Special Tax to each parcel of Developed Property using the Assigned Special Tax rates as shown in Table 1 on the following page.
- Fourth, the City determines if sufficient Special Tax revenues are available by taxing each parcel of Developed Property at 100% of its Assigned Special Tax. If revenues are sufficient, the Special Taxes are reduced Proportionately against parcels of Developed Property until the Special Taxes are set at an amount sufficient to cover the Special Tax Requirement.
- Fifth, if revenues from taxing parcels of Developed Property at 100% of the Assigned Special Tax are not sufficient, the City will then also tax parcels of Undeveloped Property up to 100% of the Maximum Special Tax for Undeveloped Property, as necessary to cover the Special Tax Requirement.
- Sixth, if additional monies are needed to satisfy the Special Tax Requirement after the Fourth and Fifth steps above have been completed, then the levy of the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is determined through the application of the Backup Special Tax will be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel.
- Seventh, if additional monies are needed to satisfy the Special Tax Requirement after the Fourth, Fifth and Sixth steps above have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Property Owner Association Property at up to the Maximum Special Tax for Taxable Property Owner Association Property.
- Eighth, if additional monies are needed to satisfy the Special Tax Requirement after all of the foregoing steps have been completed, then the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to the Maximum Special Tax for Taxable Public Property.

Notwithstanding the foregoing, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District.

The Maximum Special Tax for each Assessor’s Parcel classified as Developed Property is the greater of the Assigned Special Tax for the Parcel or the Backup Special Tax for the Parcel. The Assigned Special Tax rates per unit for each land use class of Taxable Property are shown in the table below.

**Table 1  
City of Seal Beach  
Community Facilities District No. 2002-01  
(Heron Pointe)  
Assigned Special Tax Rates**

| Land Use Class | Description              | Residential Floor Area                     | Assigned Special Tax <sup>o</sup> |
|----------------|--------------------------|--|-----------------------------------|
| 1              | Residential Property     | Greater than or equal to 4,000 square feet | \$6,521.62 per unit               |
| 2              | Residential Property     | 3,750 – 3,999 square feet                  | \$6,190.05 per unit               |
| 3              | Residential Property     | 3,500 – 3,749 square feet                  | \$5,973.07 per unit               |
| 4              | Residential Property     | Less than 3,500 square feet                | \$5,570.80 per unit               |
| 5              | Non-Residential Property | N/A  | \$51,169.73 per Acre              |

(1) The assigned Special Taxes were subject to an annual increase of two percent (2%) on each July 1, commencing July 1, 2003 through and including July 1, 2012.

The Backup Special Tax for an Assessor’s Parcel of Developed Property is \$51,169.73 per Acre. The Backup Special Tax was subject to annual increases of two percent (2%) on each July 1, commencing July 1, 2003 through and including July 1, 2012.

**Actual Special Tax Levy.** Since the buildout of the property in the District (which occurred in November of 2006), there have been only three land use classes applicable to the 64 Taxable Parcels all of which are improved with single family homes. See “THE DISTRICT—Land Use Distribution” for a table showing the distribution of Taxable Parcels among the land use classes of the Rate and Method. Also, there is no Taxable Property Owner Association Property and no Taxable Public Property in the District. Accordingly, annual Special Tax levies are not expected to go beyond step Fourth described under the subheading “Special Tax Formula – Calculation of Annual Special Tax” above.

**Prepayment of the Special Tax Obligation.** The Special Tax is subject to prepayment. The prepayment amount will be determined by the procedures that are described in Section H of the Rate and Method. Since the establishment of the District, there have been no prepayments of Special Taxes. However, no assurance can be given that there will not be prepayments of Special Taxes in the future, which if they occur will result in a redemption of a portion of the 2015 Bonds prior to their stated maturities. See “THE 2015 BONDS—Redemption – Mandatory Redemption From Special Tax Prepayments.”

**Duration of Levy.** The Special Tax is authorized to be levied for as long as needed to pay debt service on bonds issued for the District, but not later than fiscal year 2042-43.

**Exemptions.** The Rate and Method exempts up to 8.07 Acres of Property Owner Association Property. Tax-exempt status is irrevocably assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property. However, should an Assessor’s Parcel no longer be classified as Property Owner Association Property, its tax-exempt status will be revoked. Parcels for which the Special Tax has been prepaid are also exempt from further Special Taxes. See “SPECIAL RISK FACTORS - Exempt Properties.” Since formation of the District, there have been no Special Tax Prepayments for parcels in the District.

## Reserve Fund

The Fiscal Agent Agreement establishes a debt service reserve fund (the “**Reserve Fund**”) as a separate fund to be held by the Fiscal Agent for the benefit of the Owners of the Bonds (the 2015 Bonds and any Parity Bonds), as a reserve for the payment of principal of, and interest and any premium on, the Bonds and 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 maintained in an amount equal to the Reserve Requirement, which is defined in the Fiscal Agent Agreement, as of any date of calculation, as an amount equal to the lesser of (i) Maximum Annual Debt Service, (ii) 125% of average Annual Debt Service, or (iii) 10% of the initial principal amount of the Bonds issued under the Fiscal Agent Agreement. The Reserve Requirement as of the date of issuance of the 2015 Bonds will be \$247,793.76.

Except as otherwise provided in the Fiscal Agent Agreement (with respect to the use of moneys in the Reserve Fund for the payment of any rebate liability due to the federal government, and the use of moneys in excess of the Reserve Requirement 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 C – “Summary of Fiscal Agent Agreement – Reserve Fund.”

Whenever the balance in the Reserve Fund equals or exceeds the amount required to redeem or pay all of 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 used for 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 retained by the City, free of any encumbrance by the Fiscal Agent Agreement, 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 for purposes of making payment to the federal government in accordance with the Fiscal Agent Agreement, and (ii) payment of any fees and expenses due to the Fiscal Agent. See Appendix C – “Summary of Fiscal Agent Agreement – Reserve Fund.”

## 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 on the taxed parcel, the City may order the institution of a superior court action to foreclose the 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.

**City Foreclosure Covenant.** The City has covenanted for the benefit of the Bondowners that the Director of Finance/City Treasurer will determine on or about July 1 of each year whether or not all Special Taxes levied in the prior Fiscal Year have been received by the City and, consequently, whether any deficiencies in payment of Special Taxes exist. The Fiscal Agent Agreement provides that, following such determination, or if at any other time the Director of Finance/City Treasurer becomes aware of any delinquency in the payment of any Special Tax due and owing: (A) if the Director of Finance/City Treasurer determines that any single parcel

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· Preliminary, subject to change.

subject to the Special Tax in the District is delinquent in the payment of Special Taxes in the aggregate amount of \$10,000 or more, the Director of Finance/City Treasurer will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner by the following October 1, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City against the delinquent parcel within 90 days of the sending of such notice and will be diligently pursued by the City to completion; provided, that, the City may defer any such action if the amount then in the Reserve Fund is at least equal to the Reserve Requirement; and (B) if the Director of Finance/City Treasurer determines that the aggregate amount of Special Taxes levied in the District for the preceding Fiscal Year and theretofore collected is less than 90% of the total amount of Special Taxes levied for such Fiscal Year, the Director of Finance/City Treasurer shall send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to each property owner with delinquent Special Taxes by the following October 1, and (if any such delinquency remains uncured) foreclosure proceedings will be commenced by the City within 90 days of the sending of such notices against all such delinquent parcels. See Appendix C – “Summary of the Fiscal Agent Agreement.”

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

*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 non-exempt property within the District the current year’s debt service, administrative expenses, and replenishment of the Reserve Fund to the Reserve Requirement, including an amount reflecting the prior year’s delinquencies. 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 City of the proceeds of the foreclosure sale.

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 City, as judgment creditor, is entitled to purchase any property sold at foreclosure using a “credit bid,” where the City 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 City becomes the purchaser under a credit bid, the City 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 City to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such sale, and the City has no intent to be such a purchaser.

The City 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, in the event such superior court foreclosure proceedings are necessary, 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 City of the proceeds of the foreclosure sale. See “SPECIAL RISK FACTORS—Bankruptcy Delays” and “—Proceeds of Foreclosure Sales.”

## No Teeter Plan

Collection of the Special Taxes is not subject to the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds,” as provided for in Section 4701 et seq. of the California Revenue and Taxation Code (known as the “Teeter Plan”). Accordingly, collections of Special Taxes will reflect actual delinquencies, if any.

## 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 City. See Appendix C – “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.** The Fiscal Agent Agreement does not authorize the City to issue any additional “new money” bonds for the District on a parity with the 2015 Bonds, but it does authorize the City to issue one or more series of “**Refunding Bonds**” secured and payable on a parity under the Fiscal Agent Agreement with the 2015 Bonds. The Fiscal Agent Agreement defines Refunding Bonds as bonds issued by the City for the District the net proceeds of which are used to refund all or a portion of the then Outstanding Bonds; provided that the debt service on the Refunding Bonds in any Bond Year is not in excess of the 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.

Subject to meeting the conditions summarized below, Refunding Bonds will be “**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 Agreement on a parity with all other Bonds Outstanding under the Fiscal Agreement; the Fiscal Agreement defines “**Bonds**” as the 2015 Bonds and any Parity Bonds.

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

(A) **Current Compliance; Refunding Bonds.** The City must 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 Refunding Bonds must not cause the City to exceed the maximum authorized indebtedness of the District under the provisions of the Act. The Parity Bonds must in any event be Refunding Bonds.

(B) **Payment Dates.** The interest on the Parity Bonds must be payable on March 1 and September 1, and principal of the Parity Bonds must be payable on September 1 in any year in which principal is payable (provided that there is no requirement that any Parity Bonds pay interest on a current basis).

(C) **Reserve Fund Deposit.** There must be a deposit to the Reserve Fund (or to a separate account created for such purpose) in an amount necessary so that the amount on deposit in the Reserve Fund (together with the amount in any such separate account), following the issuance of such Parity Bonds, is equal to the Reserve Requirement.



(D) *Officer's Certificate.* The City must certify to the Fiscal Agent that the proposed issue of Parity Bonds constitutes Refunding Bonds, and that the conditions for the issuance of Parity Bonds in the Fiscal Agent Agreement have been met.

*Subordinate Bonds.* Nothing in the provisions described above will prohibit the City 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.

## THE DISTRICT

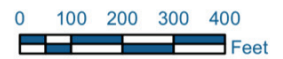
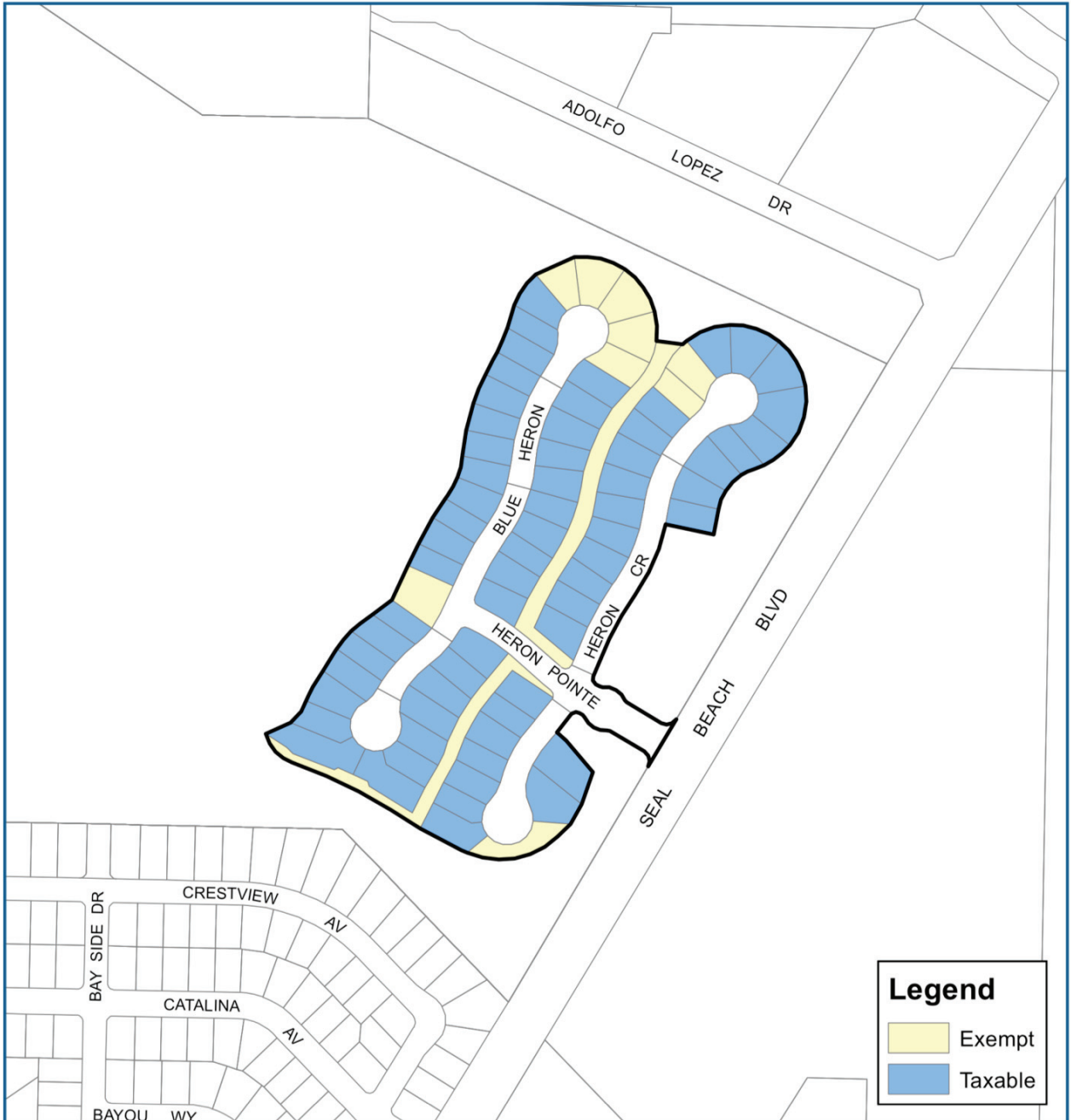
### Location and Description of the District

The District is located in the northern portion of the City. The property is generally located to the west side of Seal Beach Boulevard, approximately a quarter mile north of Bolsa Avenue and one mile south of Westminster Avenue. Surrounding land uses include residential, commercial, industrial and government uses, as well as large areas of open land. To the west and northwest of the District is a large area of undeveloped land which includes over 100 acres of wetlands, 28 acres of salt-marsh preserve and various oil operations. Adjacent to the north are City facilities, to the northwest is a 4.5 acre office building and the 106-acre Boeing North American complex. To the east is open space with oil wells and a future park area. To the northeast, east and south of the District is the United States Naval Weapons Station and Sea Breeze Village, a U.S. government housing community.

The following page contains a map of the District, indicating the locations of the 64 parcels of Taxable Property in the District.

CITY OF SEAL BEACH  
LOCATION MAP

COMMUNITY FACILITIES DISTRICT NO. 2002-01  
(HERON POINTE)



The District was established by the City Council of the City in 2002 pursuant to the Act to finance the Improvements, including (i) street, sidewalk, street light, traffic signal, drainage, signage median and appurtenant improvements to Seal Beach Boulevard, Aldolpho Lopez Drive, and Heron Pointe, including, but not limited to, relocation of existing overhead utilities lines and construction of a joint trench in furtherance of public safety, (ii) water and sanitary improvements serving real property within the District, including, but not limited to, a sewer lift station, (iii) dry utility improvements and burd vaults serving the District, (iv) improvements to Gum Grove Park, including, but not limited to, landscaping and access improvements, (v) landscape improvements along Seal Beach Boulevard, and (vi) sewer, water, park, storm drain, and transportation improvements to be funded through development fees charged by the City of Seal Beach in connection with the development of real property within the District. All of the Improvements to be funded by the District have been completed.

At the time of formation of the District, WL Homes, LLC, a Delaware limited liability company then doing business in California as John Laing Homes (the “Developer”) owned all of the taxable property in the District. The Developer began grading of the property in the District in November of 2003, and construction of homes in the District began in the second quarter of 2005. The last of the 64 homes in the District was completed in November of 2006.

**Land Use Distribution**

All of the property in the District has been developed for residential use, including 64 separate parcels each improved with a single-family detached home. The following table shows the distribution of land use classes of Taxable Property within the District based on the Rate and Method, the current Assigned Special Tax rate for those land use classes, the estimated Special Tax levy for fiscal year 2015-16 per parcel and in the aggregate for each land use class, and the percentage of the overall Special Tax levy by land use class.

**Table 2  
City of Seal Beach  
Community Facilities District No. 2002-01  
(Heron Pointe)  
Distribution of Land Use Classes Under the Rate and Method**

| <b>Land Use Class</b>                                  | <b>Number of Parcels</b> | <b>FY 2015-16 Assigned Special Tax Per Unit<sup>(1)</sup></b> | <b>Projected FY 2015-16 Special Tax Levy Per Unit<sup>(2)(3)</sup></b> | <b>Total Projected Fiscal Year 2015-16 Special Tax Levy<sup>(2)(3)</sup></b> | <b>% of Total<sup>(3)</sup></b> |
|--|--------------------------|---|--|--|---------------------------------|
| Residential Property (Floor Area > 4,000 sq. ft)       | 21                       | \$6,521.62  | \$4,452.34   | \$ 93,499.07   | 34.32%                          |
| Residential Property (Floor Area > 3,750-3,999 sq. ft) | 24                       | 6,190.05  | 4,225.97   | 101,423.40   | 37.23                           |
| Residential Property (Floor Area > 3,500-3,749 sq. ft) | 19                       | 5,973.07  | 4,077.84   | 77,478.98  | 28.44                           |
| <b>Totals</b>  | <b>64</b>                |   |  | <b>\$272,401.45</b>  | <b>100.00%</b>                  |

(1) See “SECURITY FOR THE 2015 BONDS—Summary of Rate and Method – Special Tax Formula – Calculation of Annual Special Tax.”  
(2) Based on the estimated scheduled debt service for the 2015 Bonds, allocated among land use classes based on their respective Assigned Special Taxes. Includes, in addition to the estimated scheduled debt service on the 2015 Bonds during calendar year 2016, \$25,000 in respect of the Minimum Administrative Expense Requirement. Total per Land Use Class may be slightly off due to rounding.  
(3) Preliminary, subject to change.  
Source: Albert A. Webb & Associates.

## Assessed Property Values

*No Appraisal of Property in the District.* The City has not commissioned an appraisal of the Taxable Property in the District in connection with the issuance of the 2015 Bonds. Therefore, the valuation of the Taxable Property in the District has been estimated for purposes of the Act, and as set forth in this Official Statement, based on the County Assessor’s values for Fiscal Year 2014-15.

*Assessed Valuation.* The valuation of real property in the City for ad valorem tax purposes is established by the County Assessor. Assessed valuations are reported at 100% of the full 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 March 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 assessed valuations presented in this Official Statement may not necessarily be representative of the actual market value of the property in the District.

According to the County Assessor’s records, as reported by the Special Tax Administrator, the fiscal year 2014-15 total assessed value of 64 parcels of Taxable Property in the District is \$94,523,972.

*Historical Assessed Values.* The table below shows annual changes in assessed valuations between fiscal years 2008-09 and 2014-15 with respect to the 64 parcels of Taxable Property in the District.

**Table 3**  
**City of Seal Beach**  
**Community Facilities District No. 2002-01**  
**(Heron Pointe)**  
**Historical Assessed Values**  
**Fiscal Years 2010-11 through 2014-15**

| Fiscal Year | Land Assessed Value | Improvement Assessed Value | Total Assessed Value | Annual Percentage Change |
|-------------|---------------------|----------------------------|----------------------|--------------------------|
| 2008-09     | \$49,021,200        | \$45,811,144               | \$94,832,344         | --                       |
| 2009-10     | 60,955,736          | 46,410,095                 | 107,365,831          | 13.22                    |
| 2010-11     | 61,040,747          | 46,453,085                 | 107,493,832          | 0.12                     |
| 2011-12     | 50,435,326          | 46,203,891                 | 96,639,217           | (10.10)                  |
| 2012-13     | 46,266,231          | 46,300,171                 | 92,566,402           | (4.21)                   |
| 2013-14     | 45,325,607          | 46,146,193                 | 91,471,800           | (1.18)                   |
| 2014-15     | 49,084,316          | 45,439,656                 | 94,523,972           | 3.34                     |

Sources: Data for Fiscal Years 2008-09 and 2009-10 sourced from Annual Disclosure Reports filed with the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access website; all other data sourced from information obtained from the Orange County Assessor’s Office as reported by Albert A. Webb & Associates.

## Value-to-District Lien Ratio

*General Information Regarding Value-to-District Lien Ratios.* The value-to-District lien 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 among the parcels within the District based on their respective assessed values; rather, the total Special Taxes have been allocated among the parcels within the District according to the Rate and Method.

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."

**Aggregate Value-to-District Lien Ratio.** The aggregate value-to-District lien ratio of Taxable Property in the District, based on fiscal year 2014-15 County assessed values (\$94,523,972) and the initial principal amount of the 2015 Bonds (\$3,515,000\*) is 26:89:1\*. There is, however, overlapping debt, and the properties in the District are subject to a number of taxes, direct charges and assessments. See "THE DISTRICT—Direct and Overlapping Governmental Obligations" below.

**Value-to-District Lien Ratio Distribution.** The following table sets forth the distribution of assessed value-to-District lien ratios among parcels of Taxable Property based on fiscal year 2014-15 assessed values and the initial principal amount of the 2015 Bonds.

**Table 4**  
**City of Seal Beach**  
**Community Facilities District No. 2002-01**  
**(Heron Pointe)**  
**Distribution of Value-to-District Lien Ratios**  
**Fiscal Year 2014-15\***

| <b>Value-to- District Lien Category<sup>(1)</sup></b> | <b>Parcel Count</b> | <b>Percent of Total</b> | <b>Assessed Value</b> | <b>% of Total Value</b> | <b>Allocation of Bond Principal<sup>(2)</sup></b> | <b>% of Bond Principal</b> |
|---|---------------------|-------------------------|-----------------------|-------------------------|---|----------------------------|
| greater than 29.01 <sup>(2)</sup>                     | 4                   | 6.25%                   | \$ 6,430,069          | 6.80%                   | \$ 219,133  | 6.23%                      |
| 27.01:1 to 29.00:1                                    | 31                  | 48.44                   | 47,142,809            | 49.87                   | 1,701,455   | 48.41                      |
| 25.01:1 to 27.00:1                                    | 22                  | 34.38                   | 31,882,179            | 33.73                   | 1,209,667   | 34.41                      |
| 21.01 to 25.00:1 <sup>(3)</sup>                       | 7                   | 10.94                   | 9,068,915             | 9.59                    | 384,745   | 10.95                      |
| <b>Total</b>  | <b>64</b>           | <b>100.00%</b>          | <b>\$94,523,972</b>   | <b>100.00%</b>          | <b>\$3,515,000</b>                                | <b>100.00%</b>             |

(1) This column does not reflect any overlapping bond debt. See "THE DISTRICT – Direct and Overlapping Governmental Obligations." The principal amount of the Bonds is allocated based on each property's fiscal year 2015-16 estimated Special Tax levy as a percentage of the total fiscal year 2015-16 estimated Special Tax levy. See "THE DISTRICT—Land Use Distribution" above.

(2) The highest estimated Value-to-District Lien for any parcel in the District is 29.40:1.

(3) The minimum estimated Value-to-District Lien for any parcel in the District is 21.01:1.

Source: Albert A. Webb & Associates

\* Preliminary, subject to change.

## No Major Land Owners

For the purposes of the fiscal year 2015-16 levy, no property owner owned more than one of the 64 parcels of Taxable Property in the District.

## Special Tax Delinquencies

The following table is a summary of Special Tax levies, collections and delinquency rates on taxable properties in the District for fiscal years 2010-11 through the first installment of property taxes for fiscal year 2014-15 based on amounts levied and outstanding delinquencies as of a specified date in the month of September following the respective Fiscal Year end, and as of May 5, 2015.

**Table 5**  
**City of Seal Beach**  
**Community Facilities District No. 2002-01**  
**(Heron Pointe)**  
**Special Tax Levies, Collections and Delinquencies**  
**Fiscal Years 2010-11 through 2014-15**

| Fiscal Year | Special Tax Amount Levied | Total Number of Parcels Subject to Levy | Delinquencies Following FY End <sup>(1)</sup> |                   |                    | As of May 5, 2015            |                             |                              |
|-------------|---------------------------|---|---|-------------------|--------------------|------------------------------|-----------------------------|------------------------------|
|             |                           |   | Number of Delinquent Parcels                  | Amount Delinquent | Percent Delinquent | Remaining Parcels Delinquent | Remaining Amount Delinquent | Remaining Percent Delinquent |
| 2010-11     | \$129,958.00              | 64                                      | 2   | \$1,981.00        | 1.52%              | 0                            | \$0.00                      | 0.00%                        |
| 2011-12     | 202,010.00                | 64                                      | 1   | 1,567.00          | 0.78               | 0                            | 0.00                        | 0.00                         |
| 2012-13     | 290,257.00                | 64                                      | 0   | 0.00              | 0.00               | 0                            | 0.00                        | 0.00                         |
| 2013-14     | 288,910.00                | 64                                      | 0   | 0.00              | 0.00               | 0                            | 0.00                        | 0.00                         |
| 2014-15     | 289,921.70                | 64                                      | N/A   | N/A               | N/A                | 4                            | 11,327.71                   | 3.91                         |

(1) Data sourced from annual Continuing Disclosure Reports for the Prior Bonds for Fiscal Year 2010-11 through Fiscal Year 2013-14. Data as of September 12, 2011, September 11, 2012, September 10, 2013 and September 16, 2014, respectively.

Source: Albert A. Webb & Associates.

## Direct and Overlapping Governmental Obligations

**Taxes, Charges and Assessments.** The base ad valorem secured property tax rate on property in the District is 1.00% (including ad valorem tax overrides). Property in the District is also subject, or will be subject, to certain annual charges and assessments (which are billed to property owners on a semi-annual basis). See “THE DISTRICT—Sample Tax Bill” below for a list of public agencies that currently levy annual charges and assessments on property in the District.

**Overlapping Public Debt.** The District is located within the boundaries of certain local agencies, other than the City, that provide public services and assess property taxes, assessments, special taxes and other charges on the property in the District. Some 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 the Special Tax Consultant and is included for general information purposes only. The City has not reviewed this report for completeness or accuracy and makes no representation in connection therewith.

**Table 6**  
**City of Seal Beach**  
**Community Facilities District No. 2002-01**  
**(Heron Pointe)**  
**Direct and Overlapping Bonded Debt**  
**(as of April 10, 2015)**

|   |      |                            |                            |                            |           |                    |
|---|------|----------------------------|----------------------------|----------------------------|-----------|--------------------|
| ASSESSED VALUE  |      |                            |                            |                            |           |                    |
| 2014-15 Secured Roll Assessed Valuation <sup>(1)</sup>                        |      |                            |                            |                            |           | \$94,523,972       |
| LAND SECURED BOND INDEBTEDNESS  |      |                            |                            |                            |           |                    |
| Outstanding Direct and Overlapping Bonded Debt                                | Type | Total<br>Parcels           | Issued                     | Outstanding                | %         | Amount<br>of Debt  |
| The District  | CFD  | 64                         | \$3,985,000 <sup>(2)</sup> | \$3,515,000 <sup>(2)</sup> | 100.000%  | <u>\$3,515,000</u> |
| TOTAL OUTSTANDING LAND SECURED BONDED DEBT                                    |      |                            |                            |                            |           | \$3,515,000        |
| Authorized and Unissued Direct and Overlapping<br>Bonded Debt                 | Type | Total<br>Parcels           | Authorized                 | Unissued                   | %         | Applicable         |
| The District  | CFD  | 64                         | \$5,000,000                | \$1,015,000 <sup>(3)</sup> | 100.000%  | <u>\$1,015,000</u> |
| TOTAL UNISSUED LAND SECURED INDEBTEDNESS                                      |      |                            |                            |                            |           | <u>\$0</u>         |
| TOTAL OUTSTANDING AND UNISSUED LAND<br>SECURED INDEBTEDNESS <sup>(4)</sup>    |      |                            |                            |                            |           | \$4,530,000        |
| GENERAL OBLIGATION BOND INDEBTEDNESS  |      |                            |                            |                            |           |                    |
| Outstanding Direct and Overlapping Bonded Debt                                | Type | Total<br>Parcels<br>Levied | Issued                     | Outstanding                | %         | Amount<br>of Debt  |
| Coast Community College District <sup>(5)</sup>                               | GO   | 64                         | \$570,000,000              | \$471,788,867              | 0.086909% | \$410,027          |
| Los Alamitos School Infrastructure Financing #1 <sup>(6)</sup>                | GO   | 64                         | 101,390,124                | 101,098,690 <sup>(6)</sup> | 1.243240  | \$,256,899         |
| Metropolitan Water District   | GO   | 64                         | 850,000,000                | 110,420,000                | 0.004083  | <u>4,508</u>       |
| TOTAL GENERAL OBLIGATION BONDED DEBT  |      |                            |                            |                            |           | \$1,671,434        |
| Authorized and Unissued Direct and Overlapping<br>Indebtedness                | Type | Total<br>Parcels<br>Levied | Authorized                 | Unissued                   | %         | Applicable         |
| Coast Community College District <sup>(5)</sup>                               | GO   | 64                         | \$1,068,000,000            | \$498,000,001              | 0.086909% | \$432,807          |
| Los Alamitos School Infrastructure Financing #1 <sup>(6)</sup>                | GO   | 64                         | 126,000,000                | 24,609,876                 | 1.243240  | 305,960            |
| Metropolitan Water District   | GO   | 64                         | 850,000,000                | 0                          | 0.004083  | <u>0</u>           |
| TOTAL UNISSUED GENERAL OBLIGATION INDEBTEDNESS                                |      |                            |                            |                            |           | <u>\$738,767</u>   |
| TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION INDEBTEDNESS <sup>(6)</sup> |      |                            |                            |                            |           | \$2,410,201        |
| TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT                   |      |                            |                            |                            |           | \$5,186,434        |
| TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING INDEBTEDNESS     |      |                            |                            |                            |           | \$6,940,201        |
| Ratios to 2014-2015 Assessed Valuation  |      |                            |                            |                            |           |                    |
| Outstanding Land Secured Bonded Debt  |      |                            |                            |                            |           | 26.89:1            |
| Outstanding Direct and Overlapping Bonded Debt                                |      |                            |                            |                            |           | 18.23:1            |

- (1) Property exempt from ad valorem tax levies is not included in the assessed value of the property in the District.
  - (2) Amount Issued reflects original principal amount of the Prior Bonds. Outstanding Amount is equal to the estimated principal amount of the 2015 Bonds.
  - (3) While the City may issue special tax bonds for the District secured on a subordinate basis to the Bonds, Parity Bonds may be issued only for refunding purposes. See "SECURITY FOR THE 2015 BONDS—Issuance of Additional Bonds."
  - (4) Los Alamitos CFD 90-1 levies a Special Tax on parcels in the District; however all CFD 90-1 Bonds have been retired early, and there are no current CFD 90-1 Bonds outstanding.
  - (5) Additional bonded debt or available bond authorization may exist but is not shown because a tax was not levied for the referenced fiscal year.
  - (6) Reflects Series 2003A Taxable and Tax-Exempt Bonds, 2005 General Obligation Refunding Current Interest Bonds and Capital Appreciation Bonds, Series 2006B Current Interest Bonds and Capital Appreciation Bonds, Series 2006C Convertible Capital Appreciation Bonds and Capital Appreciation Bonds, Series 2013A Tax-Exempt Bonds, Series 2013B Taxable Bonds, 2013 General Obligation Refunding Series A Tax-Exempt Bonds and Series B Taxable Bonds. Data sourced from Annual Disclosure Reports filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website.
  - (7) Reflects Los Alamitos Unified School District School Infrastructure Financing District #1 2008 Election, Series 2009 Bonds, 2008 Election Series 2010B Bank Qualified Bonds, 2008 Election, Series 2010C Federally Taxable Build America Bonds, 2008 Election, Series D Taxable Direct Pay Qualified School Construction Bonds, and 2008 Election, Series E Bonds. Data sourced from Official Statement and Audited Financial Report documents filed with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access website.
  - (8) Outstanding Amount does not include Accreted Interest.
- Source: Albert A. Webb Associates.

## Sample Tax Bill

Table 7 below provides, for an average parcel of Taxable Property in each applicable land use class under the Rate and Method, the expected property tax bill that would be received by an owner of the property in the District for fiscal year 2015-16, based on the projected Special Tax levy for that fiscal year.

**Table 7  
City of Seal Beach  
Community Facilities District No. 2002-01  
(Heron Pointe)**

**Estimated Average Fiscal Year 2015-2016 Tax Obligation<sup>(1)</sup>  
For Individually Owned Parcels of Developed Property**

| Tax Rate Category  | 3,500 sq. ft. to<br>3,749 sq. ft. | 3,750 sq. ft. to<br>3,999 sq. ft. | 4,000 sq. ft.<br>or greater |
|--|-----------------------------------|-----------------------------------|-----------------------------|
| Average Projected Home Value <sup>(2)</sup>                                | \$1,402,387.00                    | \$1,490,813.00                    | \$1,528,529.00              |
| Ad Valorem Property Taxes:   |                                   |                                   |                             |
| Basic Levy (1.0000%)   | 14,023.87                         | 14,908.13                         | 15,285.29                   |
| Metropolitan Water District (0.0035%)                                      | 49.08                             | 52.18                             | 53.50                       |
| Coast Community College District (Multiple Series 0.03015%)                | 422.82                            | 449.48                            | 460.85                      |
| Los Alamitos School Infrastructure Financing #1 (Multiple Series 0.21939%) | 3,076.70                          | 3,270.69                          | 3,353.44                    |
| <b>Total General Property Taxes</b>  | <b>\$17,572.47</b>                | <b>\$18,680.48</b>                | <b>\$19,153.08</b>          |
| Assessment, Special Taxes & Parcel Charges:                                |                                   |                                   |                             |
| Lighting Maintenance   | 21.86                             | 21.86                             | 21.86                       |
| Los Alamitos USD CFD 90-1  | 164.52                            | 164.52                            | 164.52                      |
| Mosq. Fire Ant Assmt   | 5.02                              | 5.02                              | 5.02                        |
| MWD Water Standby Charge   | 10.08                             | 10.08                             | 10.08                       |
| OCS D Sewer User Fee   | 316.00                            | 316.00                            | 316.00                      |
| Vector Control   | 1.92                              | 1.92                              | 1.92                        |
| The District <sup>(3),(4)</sup>  | 4,077.84                          | 4,225.97                          | 4,452.34                    |
| <b>Total Assessment Charges<sup>(4)</sup></b>                              | <b>\$4,597.24</b>                 | <b>\$4,745.37</b>                 | <b>\$4,971.74</b>           |
| <b>Average Total Property Tax<sup>(4)</sup></b>                            | <b>\$22,169.72</b>                | <b>\$23,425.85</b>                | <b>\$24,124.82</b>          |
| <b>Average Effective Tax Rate<sup>(4)</sup></b>                            | <b>1.58%</b>                      | <b>1.57%</b>                      | <b>1.58%</b>                |

(1) Average Fiscal Year 2015-16 tax rates based upon Fiscal Year 2014-15 Overlapping Taxes and Assessment Rates.

(2) Average Projected Home Value is based upon average Assessed Values for Fiscal Year 2014-15 per Orange County Assessor's Secured Roll data.

(3) Reflects average projected FY 2015-16 Special Tax levy. See "THE DISTRICT—Land Use Distribution.

(4) Preliminary, subject to change.

Source: Albert A. Webb Associates, based on home value information provided by Orange County.



## **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 Official Statement 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.*

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

The owners 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 parcels on which it is levied. If the value of the taxable parcels is not sufficient to secure fully the payment of the Special Tax, the City has no recourse against the landowners.

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

The City's obligations under the 2015 Bonds and under the Fiscal Agent Agreement are limited obligations of the City 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 City nor general obligations of the District, but are limited obligations of the City for the District payable solely from the revenues and funds pledged therefor and under the Fiscal Agent Agreement. None of the faith and credit of the District, the City or the State of California or of any of their respective political subdivisions is pledged to the payment of the 2015 Bonds.

### **Property Value**

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 parcel in an attempt to obtain funds with which to pay the Special Tax. The value of the taxable parcels in the District could be adversely affected by economic factors beyond the City'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 operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, wildfire, earthquakes and floods), which may result in uninsured losses. See "SPECIAL TAX FACTORS—Natural Disasters."

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 City to cause such an action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the City 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 City is not obligated and does not expect to be a bidder at any such foreclosure sale. See "SPECIAL TAX FACTORS—Proceeds of Foreclosure Sale."

## **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.

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 Rate, 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 Series Prior Bonds when due and a default would occur with respect to the payment of such principal and interest.

## **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 City, however, 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 parcels 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 District, 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. See “THE DISTRICT—Direct and Overlapping Governmental Obligations.”

## **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 City 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 C - “Summary of the Fiscal Agent Agreement—Reserve Fund.” Under the Fiscal

Agent Agreement, the City has covenanted to maintain in the Reserve Fund an amount equal to the Reserve Requirement; subject, however, to the limitations that (i) the City 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 and (ii) per the Rate and Method, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District. See "SECURITY FOR THE 2015 BONDS—Summary of Rate and Method Special Tax Formula – Calculation of Annual Special Tax." Consequently, if a delinquency occurs, the City 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 City 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 parcels 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 Delinquencies" for historical Special Tax delinquency history.

### **Bankruptcy Delays**

The payment of the Special Tax and the ability of the City 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. Legal opinions 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 City 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 City 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 City to cause such an action to be commenced and diligently pursued to completion, the Act does not specify any obligation of the City 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 City 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 City, 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**

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. 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.

### **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 City has not independently verified, but is not aware of, the presence of any hazardous substances within the District.

### **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 City has caused notices of the Special Tax to be recorded in the Office of the Recorder for the City against each parcel in 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 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 District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the "FDIC"), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

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, any Thing in the Constitution or Laws of any State to the contrary notwithstanding."

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within 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 City 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 District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited.

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

will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-ad valorem taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the 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 City 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 foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve 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 2015 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 City in violation of its covenants in the Fiscal Agent Agreement. There is no provision in the 2015 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 the 2015 Bonds will remain outstanding until maturity or until redeemed under one of the other redemption provisions contained in the Fiscal Agent Agreement.

In addition, as discussed under the caption "TAX MATTERS," Congress has considered in the past, is currently considering and may consider 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 City 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 2015 Bonds from gross income for federal income tax purposes. If the exclusion of interest on the 2015 Bonds from gross income for federal income tax purposes were amended or eliminated, it is likely that the market price for the 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 Official Statement 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 XIII C and Article XIII D to the California Constitution. According to the "Title and Summary" of the Initiative prepared by the California Attorney General, the Initiative limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." 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 XIII C 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 XIII C 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 XIII C 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 District or the City 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 City 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 on Developed Property below an amount, for any Bond Year, equal to 110% of the aggregate of the debt service due on the 2015 Bonds in such Bond Year, plus a reasonable estimate of Administrative Expenses for each such Bond 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 that 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 City, 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). See “TAX MATTERS.”

### **Recent Court Action Involving Landowner – Voted Special Tax District**

On August 1, 2014, in a decision in *City of San Diego v. Melvin Shapiro*, an Appellate Court invalidated an election held by the City of San Diego (the term “City” as used in this paragraph and the next paragraph means the City of San Diego) to authorize the levying of

special taxes on hotels City-wide pursuant to a City charter ordinance creating a convention center facilities district (the "CCFD") much like a community facilities district established under the provisions of the Act. While the CCFD is comprised of all of the real property in the entire City, the special tax was to be levied only on hotel properties located within the CCFD. At the election to authorize such special tax, the electorate was defined to consist solely of (a) the owners of real property in the City on which a hotel is located, and (b) the lessees of real property owned by a governmental entity on which a hotel is located. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Law, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax. The Court held that such landowners and lessees are neither "qualified electors" of the City for purposes of Articles XIII A, Section 4 of the California Constitution, nor a proper "electorate" under Article XIII C, Section 2(d) of the California Constitution.

The Court specifically noted that the decision did not require the Court to consider the distinct question of whether landowner voting to impose special taxes under Section 53326(b) of the Act (which was the nature of the voter approval through which the District was formed, as the developer of the land in the District was the sole owner of the land in the District at the time of the District formation and at the time the Rate and Method was altered) violates the California Constitution in districts that lack sufficient registered voters to conduct an election among registered voters. In the case of the CCFD, at the time of the election all of the registered voters in the City were within the CCFD. With respect to the District, there were no registered voters within the District at the time of the election to authorize the Special Tax and issuance of bonds by the District and at the time the Rate and Method was altered. Thus, by its terms, the Court's holding does not apply to the formation and Special Tax election in the District.

Moreover, Section 53341 of the Act provides that any "action or proceeding to attack, review, set aside, void or annul the levy of a special tax...shall be commenced within 30 days after the special tax is approved by the voters." Similarly, Section 53359 of the Law requires that any action to determine the validity of bonds issued pursuant to the Law be brought within 30 days of the voters approving the issuance of such bonds. Also, Section 860 et seq. of the California Code of Civil Procedure effectively provides that any legal challenge to the 2015 Bonds and the Fiscal Agent Agreement be filed within 60 days of the date the Fiscal Agent Agreement and the 2015 Bonds were approved by the City Council. The landowner in the District, as the sole qualified elector in the District at the time, approved the Special Tax and the issuance of bonds for the District in 2002; and the 2015 Bonds were authorized to be issued and the Fiscal Agent Agreement and the 2015 Bonds were approved by a Resolution adopted by the City Council, as the legislative body of the District, on May 26, 2015. The City is not aware of any action being filed challenging the formation of the District, the Rate and Method, the authority to levy the Special Tax on property in the District, or the validity or enforceability of the Fiscal Agent Agreement or the 2015 Bonds. See "NO LITIGATION." The City believes that, pursuant to Sections 53341 and 53359 of the Act, the statute of limitations period to challenge the validity of the Special Tax has expired.

## **TAX MATTERS**

Federal tax law contains a number of requirements and restrictions which apply to the 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 City has covenanted in the Fiscal Agent Agreement to comply with all requirements that must be satisfied in order for the interest on the 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 2015 Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the 2015 Bonds.

Subject to the City's compliance with the above-referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, Bond Counsel, interest on the 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 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 City with respect to certain material facts within the City'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 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 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 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 Official Statement.

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, 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 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 City 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 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 City 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 D.

#### **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 D to this Official Statement. Certain legal matters with respect to the 2015 Bonds will be passed upon for the City and the District by Richards, Watson & Gershon, Los Angeles, California, in their capacity as attorneys for the City, and for the City by Quint & Thimmig LLP, Larkspur, California, acting as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California. Payment of the fees and expenses of Bond Counsel, Disclosure Counsel and Underwriter's Counsel is contingent on the issuance of the 2015 Bonds.

#### **NO RATING**

The City 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.

#### **NO LITIGATION**

The City 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 City 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 Stifel, Nicolaus & Company, Incorporated (the “**Underwriter**”). The Underwriter agreed to purchase the 2015 Bonds at a price of \$\_\_\_\_\_ (which is equal to the par amount of the 2015 Bonds, less an underwriter’s discount of \$\_\_\_\_\_). The initial public offering prices set forth on the inside cover page 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 hereof.

## CONTINUING DISCLOSURE

The City has covenanted in a Continuing Disclosure Agreement for the benefit of the Owners of the 2015 Bonds to provide Annual Reports that include certain annual financial information and operating data, and to provide notices of the occurrence of certain enumerated events. The City has retained Willdan Financial Services to act as the Dissemination Agent under the Continuing Disclosure Agreement. The City or the Dissemination Agent, on behalf of the City, will file the Annual Reports and notices as required by the Continuing Disclosure Agreement with the Municipal Securities Rulemaking Board. See Appendix E – “Form of Continuing Disclosure Agreement” for the complete text of the City’s Continuing Disclosure Agreement. The covenants of the City in the Continuing Disclosure Agreement have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the “Rule”) promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

A failure by the City to comply with the provisions of the Continuing Disclosure Agreement is not an event of default under the Fiscal Agent Agreement (although the holders and beneficial owners of the 2015 Bonds do have remedies at law and in equity). However, a failure to comply with the provisions of the Continuing Disclosure Agreement must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the 2015 Bonds. Therefore, a failure by the City to comply with the provisions of the Continuing Disclosure Agreement may adversely affect the marketability of the 2015 Bonds on the secondary market.

Before the date of this Official Statement, the City requested that Willdan Financial Services conduct an examination (the “Examination”) of the filings during the five year period ending May 15, 2015 by the City and the former Redevelopment Agency of the City of Seal Beach (as succeeded by the Successor Agency to the Seal Beach Redevelopment Agency) required under their continuing disclosure undertakings with respect to the Rule in connection with various bond issues, including those related to the Prior Bonds. The Examination found that three notices (a notice of rating change and notices of defeasance and termination of reporting termination) relating to certain Certificates of Participation executed and delivered on behalf of the Seal Beach Public Financing Authority in 2000 were filed late. The Examination also found that two required notices of rating changes (relating to rating upgrades) had not been filed as of May 15, 2015. Supplemental filings regarding those rating upgrades were made before the date of this Official Statement. Except as noted above, the Examination found that the City, the former Redevelopment Agency and the Successor Agency materially complied with their relevant continuing disclosure undertakings during the five years preceding May 15, 2015.

**MISCELLANEOUS**

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

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

CITY OF SEAL BEACH, CALIFORNIA, for  
and on behalf of the CITY OF SEAL BEACH  
COMMUNITY FACILITIES DISTRICT NO.  
2002-01 (HERON POINTE)

By: \_\_\_\_\_  
City Manager

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## APPENDIX A

### SEAL BEACH AND ORANGE COUNTY GENERAL DEMOGRAPHIC INFORMATION

*The following information in this Appendix is included only to provide general demographic and economic information regarding the City of Seal Beach, California (the "City") and Orange County. The information set forth in this Appendix has been obtained from sources that the City believes are reliable, but does not guarantee as to the accuracy or completeness. As discussed in the forepart of this Official Statement, the 2015 Bonds are not general obligations of the City, but are limited obligations of the City for the District, payable solely from the sources provided therefor in the Fiscal Agent Agreement.*

#### **General**

*The City.* The City of Seal Beach (the "City") is located on the coast of northwestern Orange County (the "County") California, was incorporated on October 25, 1915. The City charter, which was adopted in 1964, established the form of government, states the powers and duties of the City Council, and establishes various City Offices.

The City has an area of 13.23 square miles and sits on the coast as the gateway to Orange County between the cities of Long Beach and Huntington Beach. In 1901 J.C. Ord, a Civil War veteran known as "the father of Seal Beach," hired a 30-mule team to bring his small general store building from Los Alamitos to Bay City where he set it down at the southwest corner of crossroads now known as Main Street. J.C. Ord was the first Trustee, the first Mayor, Postmaster, and the first Judge. His store on Main Street was the Post Office and Court House and the jail house when it was necessary.

The City is the home of Boeing Company Integrated Defense System international headquarters, the U.S. Naval Weapons Station, the first Leisure World Retirement Community and the 1,000 acre Seal Beach National Wildlife Refuge. The City's one and a half miles of beaches and the public pier attracts more than 2,000,000 visitors each year making recreation an important factor in the local economy. Seal Beach has a variety of local beach front stores at Main Street which include several fine dining establishments. Throughout the year many exciting community events take place in which the residents, and visitors, enjoy and participate.

The City is operated under the City Council/City Manager form of government, and is governed by a five-member city council elected by district serving four-year alternating terms and who, in turn elect the Mayor and Mayor Pro Tem from among themselves for a one year term. The governing council is responsible for policy-making, passing local ordinances, adopting the budget, appointing committees, and hiring the City Manager and City Attorney.

The City provides a full range of services for the citizens utilizing a mix of contracts with other governmental entities or private companies. The City has its own Police Department but contracts for fire and paramedic services through the Orange County Fire Authority (OCFA). The City also operates water and sewer utilities but contracts for refuse and sanitation treatment services.

*The County.* Orange County, incorporated in 1889 and located in the southern part of the State of California, is one of the major metropolitan areas in the state and nation. The County occupies a land area of 798 square miles with a coastline of 42 miles serving a population of over 3 million. It represents the third most populous county in the state, and ranks sixth in the nation.

Orange County's 3 million residents enjoy a nearly perfect climate in which parks and beaches provide abundant opportunities for outdoor activities. Orange County is the home of exciting professional sports, a wide range of tourist attractions and quality venues for visual and performing arts. Orange County boasts a thriving business economy and a well educated work force. The County of Orange is a regional service provider and planning agency whose core businesses include public safety, public health, environmental protection, regional planning, public assistance, social services and aviation

**Population**

The table below summarizes population of the City and the County.

**CITY OF SEAL BEACH and ORANGE COUNTY  
Population**

| Year | Population         |               |
|------|--------------------|---------------|
|      | City of Seal Beach | Orange County |
| 2011 | 24,212             | 3,028,846     |
| 2012 | 24,371             | 3,057,875     |
| 2013 | 24,514             | 3,085,269     |
| 2014 | 24,591             | 3,113,991     |
| 2015 | 24,684             | 3,147,655     |

Source: California Department of Finance, E-4 Population Estimate for Cities, Counties, and the State, 2011-2015, with 2010 Census Benchmark.

## Employment

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

**ANAHEIM-SANTA ANA-IRVINE MD  
(ORANGE COUNTY)  
Labor Force and Industry Employment  
Annual Averages by Industry**

|   | 2010      | 2011      | 2012      | 2013      | 2014 <sup>(1)</sup> |
|---|-----------|-----------|-----------|-----------|---------------------|
| Total, All Industries                   | 1,370,400 | 1,385,600 | 1,422,400 | 1,462,400 | 1,498,700           |
| Total Farm                              | 3,700     | 3,200     | 2,800     | 2,900     | 2,800               |
| Mining and Logging                      | 600       | 600       | 600       | 600       | 700                 |
| Construction                            | 68,000    | 69,200    | 71,300    | 76,800    | 82,000              |
| Manufacturing                           | 150,500   | 154,300   | 158,300   | 158,000   | 158,800             |
| Wholesale Trade                         | 77,800    | 77,300    | 77,200    | 79,400    | 81,700              |
| Retail Trade                            | 141,300   | 142,600   | 144,000   | 145,500   | 148,700             |
| Transportation, Warehousing & Utilities | 26,700    | 27,500    | 28,000    | 27,500    | 26,600              |
| Information                             | 24,800    | 23,800    | 24,300    | 25,000    | 24,200              |
| Financial Activities                    | 103,500   | 104,800   | 108,300   | 113,100   | 114,100             |
| Professional & Business Services        | 244,900   | 247,700   | 260,600   | 267,300   | 275,800             |
| Educational & Health Services           | 165,500   | 168,000   | 173,800   | 184,200   | 190,300             |
| Leisure & Hospitality                   | 168,600   | 174,000   | 180,600   | 187,800   | 193,500             |
| Other Services                          | 42,200    | 43,200    | 44,600    | 45,600    | 47,700              |
| Government                              | 152,300   | 149,300   | 147,900   | 148,700   | 151,900             |

Source: California Employment Development Department based on March 2015 benchmark.

Note: Does not include proprietors, self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor/management trade disputes. Employment reported by place of work. Items may not add to totals due to independent rounding.

(1) Last available full year data.

The following tables summarize historical employment and unemployment for the County, the State of California and the United States:

**ORANGE COUNTY, CALIFORNIA, and UNITED STATES  
Civilian Labor Force, Employment, and Unemployment  
(Annual Averages)  
2010-2014**

| Year              | Area          | Labor Force | Employment  | Unemployment | Unemployment Rate <sup>a</sup> |
|-------------------|---------------|-------------|-------------|--------------|--------------------------------|
| 2010              | Orange County | 1,592,500   | 1,441,500   | 151,000      | 9.5%                           |
|                   | California    | 18,336,300  | 16,091,900  | 2,244,300    | 12.2                           |
|                   | United States | 153,889,000 | 139,064,000 | 14,825,000   | 9.6                            |
| 2011              | Orange County | 1,600,100   | 1,460,100   | 140,000      | 8.8%                           |
|                   | California    | 18,419,500  | 16,260,100  | 2,159,400    | 11.7                           |
|                   | United States | 153,617,000 | 139,869,000 | 13,747,000   | 8.9                            |
| 2012              | Orange County | 1,613,600   | 1,491,600   | 122,000      | 7.6%                           |
|                   | California    | 18,554,800  | 16,630,100  | 1,924,700    | 10.4                           |
|                   | United States | 154,975,000 | 142,469,000 | 12,506,000   | 8.1                            |
| 2013              | Orange County | 1,610,900   | 1,510,600   | 100,400      | 6.2%                           |
|                   | California    | 18,671,600  | 17,002,900  | 1,668,700    | 8.9                            |
|                   | United States | 155,389,000 | 143,929,000 | 11,460,000   | 7.4                            |
| 2014 <sup>b</sup> | Orange County | 1,573,800   | 1,487,400   | 86,400       | 5.5%                           |
|                   | California    | 18,811,400  | 17,397,100  | 1,414,300    | 7.5                            |
|                   | United States | 155,922,000 | 146,305,000 | 9,617,000    | 6.2                            |

Sources: California Employment Development Department, Report 400 C Monthly Labor Force Data for Counties, Annual Averages and US 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.

(2) Latest available full-year data.

## Major Employers

The table below sets forth the principal employers of the County in 2015.

### ORANGE COUNTY 2015 Major Employers

| Employer Name                  | Location         | Industry                                 |
|--------------------------------|------------------|--|
| Anaheim City Hall              | Anaheim          | City Government-Executive Offices        |
| Blotagon Social Media          | Fountain Valley  | Internet Service                         |
| Boeing Co                      | Huntington Beach | Aircraft-Manufacturers                   |
| Boeing Co                      | Seal Beach       | Aerospace Industries (Mfrs)              |
| Broadcom Corp                  | Irvine           | Semiconductors & Related Devices (Mfrs)  |
| California State-Fullerton     | Fullerton        | Schools-Universities & Colleges Academic |
| Disneyland                     | Anaheim          | Amusement & Theme Parks                  |
| Emplicity                      | Irvine           | Employment Contractors-Temporary Help    |
| First American Title Ins Co    | Santa Ana        | Title Companies                          |
| Hoag Hospital Newport Beach    | Newport Beach    | Hospitals                                |
| James R Glidewell Dental Crmcs | Irvine           | Laboratories-Dental                      |
| Jones Lang La Salle            | Brea             | Real Estate Management                   |
| Laguna Woods Village Cmnty Ctr | Laguna Woods     | Senior Citizens Service                  |
| Puro Clean                     | Anaheim          | Fire Damage Restoration                  |
| Quiksilver Eyeware USA         | Huntington Beach | Optical Goods-Retail                     |
| Raytheon Co                    | Fullerton        | Search Detection/Nav Sys/Instr (Mfrs)    |
| St Jude Medical Ctr            | Brea             | Hospitals                                |
| St Jude Medical Ctr            | Fullerton        | Hospitals                                |
| Tenet Healthcare               | Fountain Valley  | Hospitals                                |
| Uc Irvine Healthcare           | Orange           | Hospitals                                |
| United Healthcare              | Cypress          | Health Plans                             |
| University of Ca-Irvine        | Irvine           | Schools-Universities & Colleges Academic |
| University-Ca Irvine Med Ctr   | Orange           | Medical Centers                          |
| US Health Care Svc             | Seal Beach       | Health & Allied Services                 |
| Walt Disney Parks & Resorts    | Anaheim          | Amusement & Theme Parks                  |

Source: California Employment Development Department, Major Employers in Orange County.

## Construction Activity

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

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

|                            | 2010   | 2011   | 2012   | 2013   | 2014   |
|----------------------------|--------|--------|--------|--------|--------|
| <u>Permit Valuation:</u>   |        |        |        |        |        |
| New Single-family          | 1,259  | 5,688  | 3,250  | 1,868  | 3,790  |
| New Multi-family           | -      | -      | -      | 158    | -      |
| Res. Alterations/Additions | 9,087  | 10,085 | 4,866  | 9,065  | 11,698 |
| Total Residential          | 10,347 | 15,773 | 8,116  | 11,092 | 15,488 |
| Total Nonresidential       | 32,750 | 5,124  | 6,831  | 23,189 | 13,476 |
| Total All Building         | 43,098 | 20,898 | 14,948 | 34,281 | 28,965 |
| <u>New Dwelling Units:</u> |        |        |        |        |        |
| Single Family              | 4      | 5      | 7      | 4      | 6      |
| Multiple Family            | -      | -      | -      | 2      | -      |
| Total                      | 4      | 5      | 7      | 6      | 6      |

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

Note: Totals may not add due to independent rounding.

### ORANGE COUNTY Building Permits and Valuation (Dollars in Thousands)

|                            | 2010      | 2011      | 2012      | 2013      | 2014      |
|----------------------------|-----------|-----------|-----------|-----------|-----------|
| <u>Permit Valuation:</u>   |           |           |           |           |           |
| New Single-family          | 492,529   | 518,681   | 752,931   | 1,237,994 | 1,234,498 |
| New Multi-family           | 208,046   | 378,599   | 438,118   | 994,873   | 985,454   |
| Res. Alterations/Additions | 328,830   | 450,105   | 363,854   | 363,674   | 413,518   |
| Total Residential          | 1,029,406 | 1,347,386 | 1,554,904 | 2,596,542 | 2,633,471 |
| Total Nonresidential       | 1,151,928 | 1,188,199 | 1,271,034 | 4,208,209 | 2,000,167 |
| Total All Building         | 2,181,334 | 2,535,586 | 2,825,938 | 6,804,752 | 4,633,639 |
| <u>New Dwelling Units:</u> |           |           |           |           |           |
| Single Family              | 1,553     | 1,908     | 2,438     | 3,889     | 3,646     |
| Multiple Family            | 1,538     | 2,897     | 3,725     | 6,564     | 6,990     |
| Total                      | 3,091     | 4,805     | 6,163     | 10,413    | 10,636    |

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

Note: Totals may not add due to independent rounding.

## Commercial Activity

Taxable sales in the City and 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.

### CITY OF SEAL BEACH Taxable Sales, 2009-2013 (Dollars in thousands)

|   | 2009    | 2010    | 2011    | 2012    | 2013 <sup>(#)</sup> |
|---|---------|---------|---------|---------|---------------------|
| Retail and Food Services                    |         |         |         |         |                     |
| Motor Vehicles and Parts Dealers            | #       | #       | #       | #       | #                   |
| Home Furnishings and Appliance Stores       | 20,162  | 18,578  | 20,129  | 21,211  | 22,108              |
| Bldg. Matrl. and Garden Equip. and Supplies | 2,100   | 1,679   | 1,968   | #       | 1,931               |
| Food and Beverage Stores                    | 19,920  | 20,178  | 21,394  | 22,992  | 23,267              |
| Gasoline Stations                           | 40,090  | 48,124  | 50,348  | 47,071  | 43,712              |
| Clothing and Clothing Accessories Stores    | 18,167  | 23,714  | 25,771  | 27,935  | 29,524              |
| General Merchandise Stores                  | 61,761  | 61,502  | 60,069  | 59,650  | 60,066              |
| Food Services and Drinking Places           | 70,998  | 71,606  | 78,237  | 83,293  | 84,836              |
| Other Retail Group                          | 29,343# | 30,353# | 30,540# | 37,899# | 46,131#             |
| Total Retail and Food Services              | 262,540 | 275,733 | 288,456 | 300,050 | 311,575             |
| All Other Outlets                           | 112,148 | 97,711  | 155,091 | 177,015 | 110,316             |
| Total All Outlets                           | 374,688 | 373,445 | 443,547 | 477,065 | 421,891             |

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

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

(2) Last available full year data.

(#) Sales omitted because their publication would result in disclosure of confidential information.

### ORANGE COUNTY Taxable Sales, 2009-2013 (Dollars in thousands)

|  | 2009       | 2010       | 2011       | 2012       | 2013 <sup>(#)</sup> |
|--|------------|------------|------------|------------|---------------------|
| Retail and Food Services                     |            |            |            |            |                     |
| Motor Vehicles and Parts Dealers             | 4,902,480  | 5,244,266  | 5,777,582  | 6,551,466  | 7,147,519           |
| Furniture and Home Furnishings Stores        | 850,889    | 869,868    | 909,455    | 965,018    | 1,050,308           |
| Electronics and Appliance Stores             | 1,978,869  | 2,058,383  | 2,319,992  | 2,536,415  | 2,488,963           |
| Bldg Mtrl. and Garden Equip. and Supplies    | 2,039,686  | 2,112,467  | 2,267,363  | 2,351,574  | 2,581,968           |
| Food and Beverage Stores                     | 1,894,642  | 1,911,192  | 1,990,893  | 2,056,803  | 2,111,209           |
| Health and Personal Care Stores              | 784,067    | 824,719    | 894,003    | 948,220    | 983,067             |
| Gasoline Stations                            | 3,383,678  | 3,801,651  | 4,826,228  | 5,063,762  | 4,706,666           |
| Clothing and Clothing Accessories Stores     | 2,742,626  | 2,923,680  | 3,164,857  | 3,510,757  | 3,764,088           |
| Sporting Goods, Hobby, Book and Music Stores | 1,074,579  | 1,075,996  | 1,101,159  | 1,133,702  | 1,176,097           |
| General Merchandise Stores                   | 4,376,154  | 4,527,201  | 4,771,143  | 5,026,911  | 5,169,057           |
| Miscellaneous Store Retailers                | 1,625,880  | 1,611,739  | 1,656,162  | 1,738,855  | 1,766,848           |
| Nonstore Retailers                           | 484,692    | 481,563    | 459,841    | 635,707    | 893,254             |
| Food Services and Drinking Places            | 5,024,379  | 5,109,383  | 5,449,117  | 5,853,267  | 6,186,883           |
| Total Retail and Food Services               | 31,162,619 | 32,552,107 | 35,587,795 | 38,372,456 | 40,025,929          |
| All Other Outlets                            | 14,550,164 | 15,115,073 | 16,143,344 | 16,858,156 | 17,565,288          |
| Totals All Outlets <sup>(#)</sup>            | 45,712,784 | 47,667,179 | 51,731,139 | 55,230,612 | 57,591,217          |

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

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

(2) 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 years 2010 through 2014.

### CITY OF SEAL BEACH, ORANGE COUNTY, CALIFORNIA and UNITED STATES Effective Buying Income

| Year | Area               | Total Effective Buying<br>Income (000's Omitted) | Median Household<br>Effective Buying Income |
|------|--------------------|--|---|
| 2010 | City of Seal Beach | 800,798  | 43,247                                      |
|      | Orange County      | 75,063,558                                       | 57,849                                      |
|      | California         | 801,393,028                                      | 47,177                                      |
|      | United States      | 6,365,020,076                                    | 41,368                                      |
| 2011 | City of Seal Beach | 826,928  | 43,790                                      |
|      | Orange County      | 76,315,505                                       | 57,607                                      |
|      | California         | 814,578,457                                      | 47,062                                      |
|      | United States      | 6,438,704,663                                    | 41,253                                      |
| 2012 | City of Seal Beach | 904,315  | 41,062                                      |
|      | Orange County      | 81,079,398                                       | 57,181                                      |
|      | California         | 864,088,827                                      | 47,307                                      |
|      | United States      | 6,737,867,730                                    | 41,358                                      |
| 2013 | City of Seal Beach | 910,718  | 41,779                                      |
|      | Orange County      | 81,151,078                                       | 59,589                                      |
|      | California         | 858,676,636                                      | 48,340                                      |
|      | United States      | 6,982,757,379                                    | 43,715                                      |
| 2014 | City of Seal Beach | 958,255  | 43,690                                      |
|      | Orange County      | 83,607,615                                       | 60,931                                      |
|      | California         | 901,189,699                                      | 50,072                                      |
|      | United States      | 7,357,153,421                                    | 45,448                                      |

Source: Nielsen Claritas, Inc.



## APPENDIX B

### AMENDED AND RESTATED RATE AND METHOD OF APPORTIONMENT FOR CITY OF SEAL BEACH COMMUNITY FACILITIES DISTRICT NO. 2002-01 (HERON POINTE)

A Special Tax as hereinafter defined shall be levied on all Assessor's Parcels in the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) ("CFD No. 2002-01") and collected each Fiscal Year commencing in Fiscal Year 2002-03, in an amount determined by the City Council of the City of Seal Beach, through the application of the Rate and Method of Apportionment as described below. All of the real property in CFD No. 2002-01, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

#### A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

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

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

**"Administrative Expenses"** means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2002-01: the costs of computing the Special Taxes and preparing the annual Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the County or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2002-01 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2002-01 or any designee thereof of complying with City, CFD No. 2002-01 or obligated persons disclosure requirements associated with applicable federal and state securities laws and of the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, CFD No. 2002-01 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from any escrow account; and the City's annual administration fees and third party expenses. Administrative Expenses shall also include amounts estimated or advanced by the City or CFD No. 2002-01 for any other administrative purposes of CFD No. 2002-01, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

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

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

**“Assigned Special Tax”** means the Special Tax for each Land Use Class of Developed Property, as determined in accordance with Section C below.

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

**“Bonds”** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued by the City on behalf of CFD No. 2002-01 under the Act.

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

**“CFD No. 2002-01”** means the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe).

**“City”** means the City of Seal Beach. **“Council”** means the City Council of the City.

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

**“Developed Property”** means for each Fiscal Year, all Taxable Property, exclusive of Taxable Public Property and Taxable Property Owner Association Property, for which a building permit for new construction was issued after January 1, 2001 and prior to January 1 of the prior Fiscal Year.

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

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

**“Land Use Class”** means any of the classes listed in Table 1 below.

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

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

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

**“Proportionately”** means, for Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is equal for all Assessor’s Parcels of Developed Property. For Undeveloped Property, **“Proportionately”** means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Undeveloped Property. For Taxable Public Property and Taxable Property Owner Association Property, **“Proportionately”** means that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is equal for all Assessor’s Parcels of Taxable Public Property or Taxable Property Owner Association Property, as applicable.

**“Property Owner Association Property”** means, for each Fiscal Year, any property within the boundaries of CFD No. 2002-01 that was owned by a property owner association, including any master or sub-association, as of January 1 of the prior Fiscal Year.

**“Public Property”** means, for each Fiscal Year, any property within CFD No. 2002-01 that is owned by, irrevocably offered for dedication to, or dedicated to the federal government, the State, the County, the City or any other public agency as of June 30 of the prior Fiscal Year; provided however that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be taxed and classified in accordance with its use. To ensure that property is classified as Public Property in the first Fiscal Year after it is acquired by, irrevocably offered for dedication to, or dedicated to a public agency, the property owner shall notify the CFD Administrator in writing of such acquisition, offer, or dedication not later than June 30 of the Fiscal Year in which the acquisition, offer, or dedication occurred.

**“Residential Floor Area”** means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the building permit(s) issued for such Assessor’s Parcel.

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

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

**“Special Tax Requirement”** means that amount required in any Fiscal Year for CFD No. 2002-01 to: (i) pay debt service on all Outstanding Bonds; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds; (v) pay directly for acquisition or construction of CFD No. 2002-01 facilities eligible under the Act; (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (vii) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

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

**“Taxable Property”** means all of the Assessor’s Parcels within the boundaries of CFD No. 2002-01 which are not exempt from the Special Tax pursuant to law or Section E below.

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

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

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

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

**B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year, all Taxable Property within CFD No. 2002-01 shall be classified as Developed Property, Taxable Public Property, Taxable Property Owner Association Property, or Undeveloped Property, and shall be subject to Special Taxes in accordance with the rate and method of apportionment determined pursuant to Sections C and D below.

**C. MAXIMUM SPECIAL TAX**

**1. Developed Property**

a. Maximum Special Tax

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

b. Assigned Special Tax

The Fiscal Year 2002-03 Assigned Special Tax for each Land Use Class is shown below in Table 1.

**TABLE 1**

**Fiscal Year 2002-03  
Assigned Special Taxes for Developed Property in  
Community Facilities District No. 2002-01 (Heron Pointe)**

| Land Use Class | Description              | Residential Floor Area | Assigned Special Tax |
|----------------|--------------------------|------------------------|----------------------|
| 1              | Residential Property     | 4,000 s.f.             | \$5,350 per unit     |
| 2              | Residential Property     | 3,750-3,999 s.f.       | \$5,078 per unit     |
| 3              | Residential Property     | 3, 500-3,749 s.f.      | \$4,900 per unit     |
| 4              | Residential Property     | < 3,500 s.f.           | \$4,570 per unit     |
| 5              | Non-Residential Property | NA                     | \$41,977 per Acre    |

c. Backup Special Tax

The Fiscal Year 2002-03 Backup Special Tax for an Assessor’s Parcel of Developed Property shall equal \$41,977 per Acre.

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

On each July 1, commencing on July 1, 2003 and through and including July 1, 2012, the Assigned Special Tax and the Backup Special Tax shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year. There will be no increase in the Assigned Tax or Backup Special Tax subsequent to July 1, 2012.

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

a. Maximum Special Tax

The Fiscal Year 2002-03 Maximum Special Tax for Undeveloped Property, Taxable Public Property, and Taxable Property Owner Association Property shall be \$47,043 per Acre.

b. Increase in the Maximum Special Tax

On each July 1, commencing on July 1, 2003 and through and including July 1, 2012, the Maximum Special Tax for Undeveloped Property, Taxable Public Property, and Taxable Property Owner Association Property shall be increased by an amount equal to two percent (2%) of the amount in effect for the previous Fiscal Year. There will be no increase in the Maximum Special Tax for Undeveloped Property, Taxable Public Property, and Taxable Property Owner Association Property subsequent to July 1, 2012.

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

Commencing with Fiscal Year 2002-03 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and shall levy the Special Tax until the amount of Special Taxes equal the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

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

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

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

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

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

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

**E. EXEMPTIONS**

No Special Tax shall be levied on up to 8.07 Acres of Property Owner Association Property. Tax-exempt status will be irrevocably assigned by the CFD Administrator in the chronological order in which property becomes Property Owner Association Property. However, should an Assessor's Parcel no longer be classified as Property Owner Association Property, its tax-exempt status will be revoked. No Public Property shall be exempt from Special Tax, except as required by law.

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

**F. APPEALS AND INTERPRETATIONS**

Any taxpayer may file a written appeal of the Special Tax on his/her property with the CFD Administrator, provided that the appellant is current in his/her payments of Special Taxes. During the pendency of an appeal, all Special Taxes previously levied must be paid on or before the payment date established when the levy was made. The appeal must specify the reasons why the appellant claims the calculation of the Special Tax is in error. The CFD Administrator shall review the appeal, meet with the appellant if the CFD Administrator deems necessary, and advise the appellant of its determination. If the CFD Administrator agrees with the appellant, the CFD Administrator shall eliminate or reduce the Special Tax on the appellant's property and/or provide a refund to the appellant. If the CFD Administrator disagrees with the appellant and the appellant is dissatisfied with the determination, the appellant then has 30 days in which to appeal to the Council by filing a written notice of appeal with the City clerk, provided that the appellant is current in his/her payments of Special Taxes. The second appeal must specify the reasons for its disagreement with the CFD Administrator's determination.

**G. MANNER OF COLLECTION**

The Special Tax will be collected in the same manner and at the same time as ordinary *ad valorem* property taxes; provided, however, that CFD No. 2002-01 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

**H. PREPAYMENT OF SPECIAL TAX**

The following definition applies to this Section H:

"CFD Public Facilities Cost" means either \$3.015 million in 2002 dollars, which shall increase by the Construction Inflation Index on July 1, 2003, and on each July 1 thereafter, or such lower number as (i) shall be determined by the CFD Administrator as sufficient to provide the public facilities to be provided by CFD No. 2002-01 under the authorized bonding program for CFD No. 2002-01, or (ii) shall be determined by the Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment as described in Section D.

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

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

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

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

"Previously Issued Bonds" means all Bonds that have been issued by CFD No. 2002-01 prior to the date of prepayment.

**1. Prepayment in Full**

The obligation of an Assessor's Parcel to pay the Special Tax may be prepaid and permanently satisfied as described herein; provided that a prepayment may be made only for Assessor's Parcels of Developed Property or Undeveloped Property for which a building permit has been issued, and only if there are no delinquent Special Taxes with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay

the Special Tax obligation shall provide the CFD Administrator with written notice of intent to prepay. Within 30 days of receipt of such written notice, the CFD Administrator shall notify such owner of the prepayment amount of such Assessor's Parcel. The CFD Administrator may charge a reasonable fee for providing this service. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given to the Trustee pursuant to the Indenture.

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

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

As of the proposed date of prepayment, the Prepayment Amount (defined below) shall be calculated as follows:

**Paragraph No.:**

1. Confirm that no Special Tax delinquencies apply to such Assessor's Parcel.
2. For Assessor's Parcels of Developed Property, compute the Assigned Special Tax and Backup Special Tax applicable for the Assessor's Parcel to be prepaid. For Assessor's Parcels of Undeveloped Property (for which a building permit has been issued) to be prepaid, compute the Assigned Special Tax and Backup Special Tax for that Assessor's Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Assessor's Parcel.
3. (a) Divide the Assigned Special Tax computed pursuant to paragraph 2 by the total estimated Assigned Special Taxes for the entire CFD No. 2002-01 based on the Developed Property Special Taxes which could be charged in the current Fiscal Year on all expected development through buildout of CFD No. 2002-01, excluding any Assessor's Parcels which have been prepaid, and  
  
(b) Divide the Backup Special Tax computed pursuant to paragraph 2 by the estimated Backup Special Taxes at buildout of CFD No. 2002-01 using the Backup Special Tax amount for the current Fiscal Year, excluding any Assessor's Parcels which have been prepaid.
4. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the "Bond Redemption Amount").
5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "Redemption Premium").



6. Compute the current Future Facilities Costs.
7. Multiply the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the "Future Facilities Amount").
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Taxes levied on the Assessor's Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the minimum amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount (as defined below) less the Future Facilities Amount and the Administrative Fees and Expenses (as defined below) from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the "Defeasance Amount").
12. Verify the administrative fees and expenses of CFD No. 2002-01, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the "Administrative Fees and Expenses").
13. If reserve funds for the Outstanding Bonds, if any, are at or above 100% of the reserve requirement (as defined in the Indenture) on the prepayment date, 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"). No Reserve Fund Credit shall be granted if reserve funds are below 100% of the reserve requirement.
14. If any capitalized interest for the Outstanding Bonds will not have been expended at the time of the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 3(a) or 3(b) by the expected balance in the capitalized interest fund after such first interest and/or principal payment (the "Capitalized Interest Credit").
15. The Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amounts computed pursuant to paragraphs 13 and 14 (the "Prepayment Amount").
16. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, 13 and 14 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the construction fund. The amount computed pursuant to paragraph 12 shall be retained by CFD No. 2002-01.

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

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

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Assigned Special Taxes that may be levied on Taxable Property within CFD No. 2002-01 both prior to and after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Bonds.

## **2. Prepayment in Part**

The Special Tax on an Assessor's Parcel of Developed Property or an Assessor's Parcel of Undeveloped Property for which a building permit has been issued may be partially prepaid. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

$$PP - P_E \times F.$$

These terms have the following meaning:

PP = the partial prepayment

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

F = the percentage by which the owner of the Assessor's Parcel(s) is partially prepaying the Special Tax.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax and the percentage by which the Special Tax shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within thirty (30) days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel that is partially prepaid, the City shall (i) distribute the funds remitted to it according to Section H.1, and (ii) indicate in the records of CFD No. 2002-01 that there has been a partial prepayment of the Special Tax and that a portion of the Special Tax with respect to such Assessor's Parcel, equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax, shall continue to be levied on such Assessor's Parcel pursuant to Section D.

I. **TERM OF SPECIAL TAX**

The Special Tax shall be levied for the period necessary to fully satisfy the Special Tax Requirement, but in no event shall it be levied after Fiscal Year 2042-43.

**EXHIBIT B**

**CITY OF SEAL BEACH  
COMMUNITY FACILITIES DISTRICT NO. 2002-01  
(HERON POINTE)**

**ASSIGNED SPECIAL TAX RATES FOR DEVELOPED PROPERTY**

| <b>Land Use Class</b> | <b>Description</b>                       | <b>FY 2002-03 Assigned Special Tax [1]</b> |
|-----------------------|--|--|
| 1                     | Residential Property(4,000 SF)           | \$5,350 per unit                           |
| 2                     | Residential Property (3,750 to 3,999 SF) | \$5,078 per unit                           |
| 3                     | Residential Property (3,500 to 3,749 SF) | \$4,900 per unit                           |
| 4                     | Residential Property(< 3,500 SF)         | \$4,570 per unit                           |
| 5                     | Non-Residential Property                 | \$41,977 per Acre                          |

- [1] On each July 1, commencing July 1, 2003 and ending on July 1, 2012, the Assigned Special Tax for Developed Property shall be increased by two percent (2.00%) of the amount in effect in the previous Fiscal Year.

**EXHIBIT C**

**CITY OF SEAL BEACH  
COMMUNITY FACILITIES DISTRICT NO. 2002-01  
(HERON POINTE)**

**MAXIMUM SPECIAL TAX FOR UNDEVELOPED PROPERTY, TAXABLE PUBLIC  
PROPERTY, AND TAXABLE PROPERTY OWNER ASSOCIATION PROPERTY**

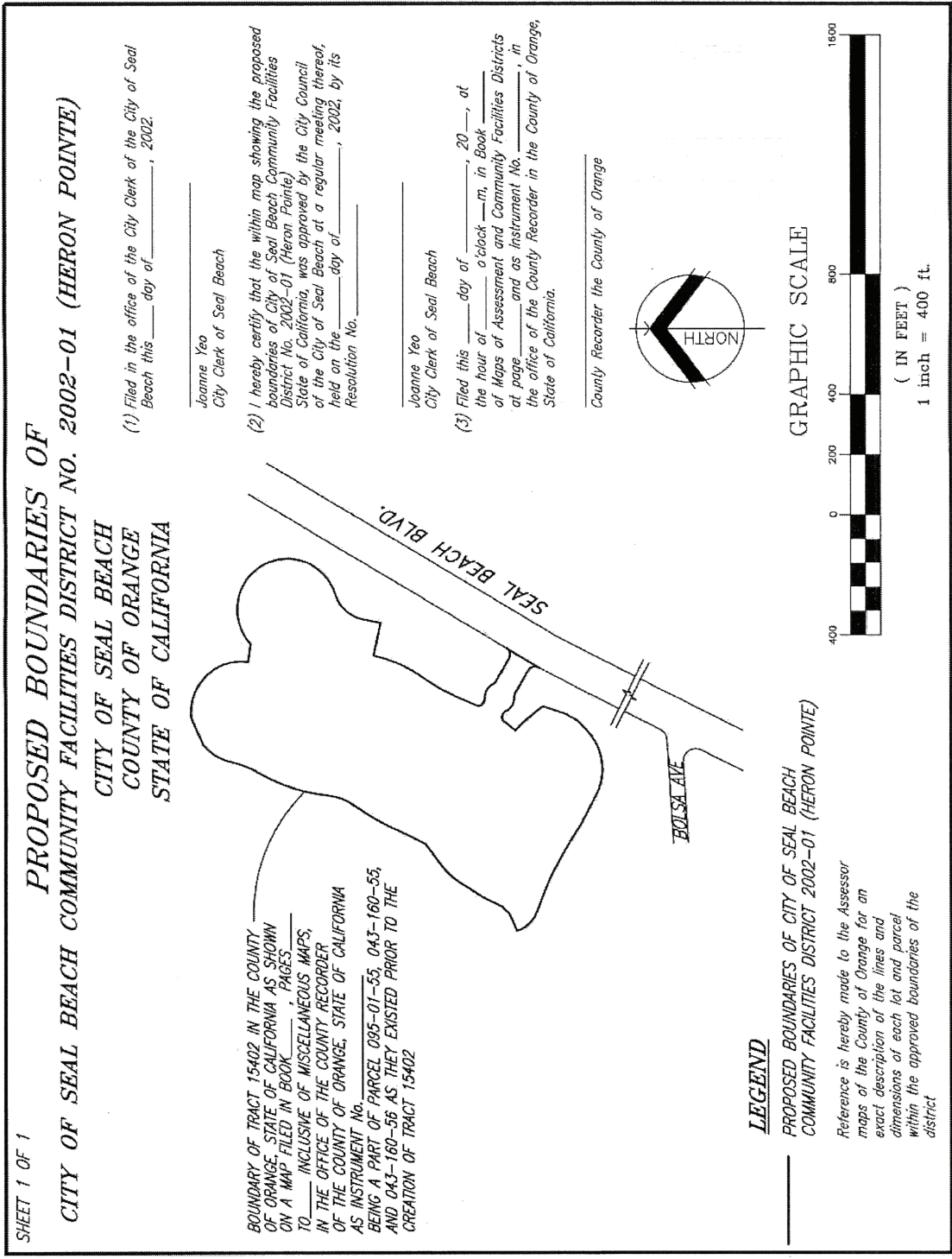
| <b>Description</b>   | <b>Fiscal Year 2002-03<br/>Maximum Special Tax [1]</b> |
|--|--|
| Undeveloped Property, Taxable Public Property, and Taxable Property Owner Association Property | \$47,043 per Acre                                      |

[1] On each July 1, commencing July 1, 2003 and ending on July 1, 2012, the Maximum Special Tax for Undeveloped Property, Taxable Public Property, and Taxable Property Owner Association Property shall be increased by two percent (2.00%) of the amount in effect in the previous Fiscal Year.

EXHIBIT D

CITY OF SEAL BEACH  
COMMUNITY FACILITIES DISTRICT NO. 2002-01  
(HERON POINTE)

BOUNDARY MAP



SHEET 1 OF 1

**PROPOSED BOUNDARIES OF  
CITY OF SEAL BEACH  
COMMUNITY FACILITIES DISTRICT NO. 2002-01 (HERON POINTE)**  
CITY OF SEAL BEACH  
COUNTY OF ORANGE  
STATE OF CALIFORNIA

(1) Filed in the office of the City Clerk of the City of Seal Beach this \_\_\_ day of \_\_\_, 2002.

Joanne Yeo  
City Clerk of Seal Beach

(2) I hereby certify that the within map showing the proposed boundaries of City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) State of California, was approved by the City Council of the City of Seal Beach at a regular meeting thereof, held on the \_\_\_ day of \_\_\_, 2002, by its Resolution No. \_\_\_\_\_

Joanne Yeo  
City Clerk of Seal Beach

(3) Filed this \_\_\_ day of \_\_\_ 20\_\_\_, at the hour of \_\_\_ o'clock \_\_\_m, in Book \_\_\_ of Maps of Assessment and Community Facilities Districts at page \_\_\_ and as Instrument No. \_\_\_ in the office of the County Recorder in the County of Orange, State of California.

County Recorder the County of Orange



GRAPHIC SCALE



( IN FEET )  
1 inch = 400 ft.

**LEGEND**

PROPOSED BOUNDARIES OF CITY OF SEAL BEACH  
COMMUNITY FACILITIES DISTRICT 2002-01 (HERON POINTE)

Reference is hereby made to the Assessor maps of the County of Orange for an exact description of the lines and dimensions of each lot and parcel within the approved boundaries of the district

BOUNDARY OF TRACT 15402 IN THE COUNTY OF ORANGE, STATE OF CALIFORNIA AS SHOWN ON A MAP FILED IN BOOK \_\_\_ PAGES TO \_\_\_ INCLUSIVE OF MISCELLANEOUS MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF THE COUNTY OF ORANGE, STATE OF CALIFORNIA AS INSTRUMENT No. \_\_\_ BEING A PART OF PARCEL 095-01-55, 043-160-55, AND 043-160-56 AS THEY EXISTED PRIOR TO THE CREATION OF TRACT 15402

## APPENDIX C

### 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 Official Statement. This summary does not purport to be comprehensive or definitive and is subject to 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 any or all of the following: the fees and expenses of the Fiscal Agent (including any fees or expenses of its counsel), the expenses of the City in carrying out its duties under the Fiscal Agent Agreement (including, but not limited to, the levying and collection of the Special Taxes, and the foreclosure of the lien in respect of any delinquent Special Taxes) including the fees and expenses of its counsel, an allocable share of the salaries of City staff related thereto and a proportionate amount of City general administrative overhead related thereto, any amounts paid by the City from its general funds pursuant to the rebate provisions of the Fiscal Agent Agreement, any amounts paid or payable to any persons or entities employed by the City in connection with the discharge of any of the City’s obligations under the Fiscal Agent Agreement (including, but not limited to, the calculation of the levy of the Special Taxes, foreclosures with respect to delinquent taxes, and the calculation of amounts subject to rebate to the United States), any fees or expenses of the Escrow Bank and any costs incurred by the City under or in connection with the Escrow Agreement, and all other costs and expenses of the City or the Fiscal Agent incurred in connection with the discharge of their respective duties under the Fiscal Agent Agreement or in connection with the 2015 Bonds or the refunding of the Prior Bonds and, in the case of the City, in any way related to the administration of the Bonds or the District (including, but not limited to, administrative costs and expenses of the City. Administrative Expenses shall include any such expenses incurred in prior years but not yet paid.

“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, 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.

“Authorized Officer” means the City Manager, the Director of Finance/City Treasurer, the City Clerk, or any other officer or employee authorized by the City Council or by an

Authorized Officer to undertake the action referenced in the Fiscal Agent Agreement as required to be undertaken by an Authorized Officer.

“Bond Counsel” means (i) Quint & Thimmig LLP, or (ii) any attorney or other firm of attorneys acceptable to the City 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 2 in each year and ending on September 1st in the following year, both dates inclusive, except that the first Bond Year shall begin on the Closing Date and end on September 1, 2015.

“Bonds” means, collectively, the 2015 Bonds, and, if the context requires, any Parity Bonds, at any time Outstanding under the Fiscal Agent 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 corporate trust office are authorized or obligated by law or executive order to be closed.

“City” means the City of Seal Beach, California.

“Closing Date” means the date upon which there is a physical delivery of the 2015 Bonds in exchange for the amount representing the purchase price of the 2015 Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the 2015 Bonds or (except as otherwise referenced in the Fiscal Agent Agreement) as it may be amended to apply to obligations issued on the date of issuance of the 2015 Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Continuing Disclosure Agreement” means the Continuing Disclosure Agreement, executed by the City and Willdan Financial Services as the initial Dissemination Agent thereunder, dated as of July 1, 2015, as originally executed and as it may be amended from time to time in accordance with its terms.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of the 2015 Bonds and the refunding and defeasance of the Prior Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee, fees and expenses of Fiscal Agent’s counsel, expenses incurred by the City in connection with the issuance of the 2015 Bonds and the defeasance and redemption of the Prior Bonds (including, but not limited to, administrative costs and expenses of the City and the City Attorney), Escrow Bank fees and expenses, special tax consultant fees and expenses, Bond (underwriter’s) discount, legal fees and charges, including bond counsel and disclosure counsel, financial consultants’ fees, charges for execution, transportation and safekeeping of the 2015 Bonds and other costs, charges and fees in connection with the foregoing.



“Cost of Issuance Fund” means the fund by that name established by the Fiscal Agent Agreement.

“County” means Orange County, California.

“Current Tax Component” means the portion of a Special Tax Prepayment received by the City consisting of the amount described in paragraph 9 of Section H of the Rate and Method of Apportionment.

“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 (including principal payable by reason of the mandatory sinking fund provisions of the Fiscal Agent Agreement) 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 (i) initially, DTC, and (ii) any other Securities Depository acting as Depository pursuant to the Fiscal Agent Agreement.

“Director of Finance/City Treasurer” means the Director of Finance/City Treasurer of the City, or such other person who performs the duties of the chief financial officer of the City.

“District” means the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe), formed pursuant to the Act and the Resolution of Formation.

“Escrow Agreement” means the Escrow Agreement, dated as of July 1, 2015, by and between the City and the Escrow Bank.

“Escrow Bank” means The Bank of New York Mellon Trust Company, N.A., in its capacity as escrow bank under the Escrow Agreement.

“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 the Fiscal Agent appointed by the City 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.

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by the City, and who, or each of whom: (i) is judged by the Director of Finance/City 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 City; (iii) does not have any substantial interest, direct or indirect, with or in the City, or any owner of real property in the District, or any real property in the District; and (iv) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“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 City 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 March 1, 2016.

“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 for any Outstanding Bonds.

“Minimum Administrative Expense Requirement” means \$25,000.00 per Fiscal Year.

“Officer’s Certificate” means a written certificate of the City signed by an Authorized Officer of the City.

“Ordinance” means Ordinance No. 1513, adopted by the City Council on January 26, 2004, and any other ordinance of the City amending or supplementing said Ordinance.

“Original Purchaser” means the first purchaser of the 2015 Bonds from the City, being Stifel, Nicolaus & Company, Incorporated.

“Outstanding”, when used as of any particular time with reference to Bonds, means (subject to the provisions of the Fiscal Agent Agreement relating to certain disqualified bonds) 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 shall have been authorized, executed, issued and delivered by the City pursuant to the Fiscal Agent Agreement or any Supplemental Agreement.

“Owner” or “Bondowner” means any person who is the registered owner of any Outstanding Bond.

“Parity Bonds” means bonds issued by the City for the District payable and secured on a parity with any then Outstanding Bonds, pursuant to the Parity Bond provisions of the Fiscal Agent Agreement.

“Participating Underwriter” shall have the meaning ascribed thereto in the Continuing Disclosure 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 City:

(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 shall be one or more of the following: continuously and fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, and/or continuously and fully secured by securities described in subdivision (a) or (b) of this definition of Permitted Investments which shall 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 Group, 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 Group, 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 Group at the time of initial investment. The investment agreement shall be subject to a downgrade provision with at least the following requirements: (1) the agreement shall 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 Group from the practice of rating that debt, or reduced below "AA-" by Standard and Poor's Ratings Group or below "Aa3" by Moody's Investors Service (these events are called "rating downgrades") the financial institution shall give notice to the City and, within the five-day period, and for as long as the rating downgrade is in effect, shall deliver in the name of the City or the Fiscal Agent to the City 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 shall 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 shall be at least weekly, and (2) the agreement shall 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 Group, the Fiscal Agent or the City may, upon not more than five business days' written notice to the financial institution, withdraw all funds invested under 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 rated in the highest rating category (without regard to plus (+) or minus (-) designations) by Moody's Investors Service or Standard and Poor's Ratings Group, including such funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services or for which the Fiscal Agent or an affiliate of the Fiscal Agent serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Fiscal Agent or an affiliate of the Fiscal Agent receives fees

from funds for services rendered, (ii) the Fiscal Agent collects fees for services rendered pursuant to this Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to this Agreement may at times duplicate those provided to such funds by the Fiscal Agent or an affiliate of the Fiscal Agent.

(i) Any other lawful investment for City funds.

“Principal Office” means the corporate trust office of the Fiscal Agent as identified in the Fiscal Agent Agreement; provided, however, for the purpose of maintenance of the Registration Books and surrender of Bonds for payment, transfer or exchange such term means 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 the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) Special Tax Bonds, Series 2005.

“Project” means the facilities eligible to be funded by the District, as specified by the Resolution of Formation.

“Rate and Method of Apportionment” means the Rate and Method of Apportionment of Special Tax for the District, as approved by proceedings conducted pursuant to the Resolution of Formation, and as altered by proceedings conducted pursuant to the Resolution of Consideration, and as it may be further altered or amended from time to time in accordance with the provisions of the Act.

“Rating Category” means one of the two highest rating categories then in effect under the rating systems of Moody’s Investors Service or Standard and Poor’s Ratings Group, a division of McGraw-Hill, without regard to plus or minus sign or numerical or other qualifying designation.

“Record Date” means the fifteenth day of the month next preceding the month of the applicable Interest Payment Date, whether or not such fifteenth (15<sup>th</sup>) day is a Business Day.

“Refunding Bonds” means bonds issued by the City for the District the net proceeds of which are used to refund all or a portion of the then Outstanding Bonds; provided that the debt service on the Refunding Bonds in any Bond Year is not in excess of the 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” means the fund by that name created by and held by the Escrow Bank pursuant to the Escrow Agreement.

“Refunding Law” means Article 11, commencing with Section 53580, of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code.

“Registration Books” means the records maintained by the Fiscal Agent pursuant to Fiscal Agent Agreement for the registration and transfer of ownership of the Bonds.

“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) Maximum Annual Debt Service, (ii) one hundred twenty-five percent (125%) of average Annual Debt Service, or (iii) ten percent (10%) of the initial principal amount of the Bonds issued under the Fiscal Agent Agreement.

“Resolution” means the Resolution adopted by the City Council on May 26, 2015, authorizing the issuance of the 2015 Bonds.

“Resolution of Consideration” means Resolution No. 5191, adopted by the City Council on December 8, 2003.

“Resolution of Formation” means Resolution No. 5063, adopted by the City Council of the City on September 23, 2002.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 15L, New York, New York 10041-0099 Attention: Call Notification Department, Fax (212) 855-3274; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“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 City, as calculated pursuant to the Rate and Method of Apportionment, less any administrative fees or penalties collected as part of any such prepayment.

“Special Tax Prepayments Account” means the account by that name within the Special Tax Fund established by the Fiscal Agent Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments and any prepayments thereof, interest and penalties thereon 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, but shall not include interest and penalties, if any, collected with the Special Taxes that are in excess of the rate of interest payable on the Bonds.

“Special Taxes” means the special taxes levied within the District pursuant to the Act, the Ordinance and the Fiscal Agent Agreement.

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution which has been duly adopted by the City 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.

“2015 Bonds” means the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) 2015 Special Tax Refunding Bonds at any time Outstanding under the Fiscal Agent Agreement.

## **Pledge of Special Tax Revenues**

The Bonds shall be secured by a first pledge of all of the Special Tax Revenues (other than the first Special Tax Revenues collected by the City in any Fiscal Year, 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 Minimum Administrative Expense Requirement), which are to be deposited to the Administrative Expense Fund under the Fiscal Agent Agreement) and all moneys deposited in the Bond Fund, the Special Tax Prepayments Account, 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 in the Fiscal Agent Agreement 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 defeasance provisions of the Fiscal Agent Agreement.

Amounts in the Administrative Expense Fund, the Costs of Issuance Fund and the Refunding Fund, and the Special Tax Revenues to be deposited to the Administrative Expense Fund as described in the parenthetical in the first sentence of the preceding paragraph, are not pledged to the repayment of the Bonds. The facilities financed by the District are not in any way pledged to pay the debt service on the Bonds. Any proceeds of the sale, condemnation or destruction of any facilities financed by the District 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**

Special Tax Fund. There is established under the Fiscal Agent Agreement a separate fund to be held by the Director of Finance/City Treasurer designated the Community Facilities District No. 2002-01(Heron Pointe) 2015 Special Tax Refunding Bonds Special Tax Fund, to the credit of which the City shall deposit, as soon as practicable following receipt, all Special Tax Revenues received by the City and any amounts required by the Fiscal Agent Agreement to be deposited to the Special Tax Fund.

Notwithstanding the foregoing,

(i) the first Special Tax Revenues collected by the City in any Fiscal Year, 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 Minimum Administrative Expense Requirement), shall be deposited by the Director of Finance/City Treasurer in the Administrative Expense Fund;

(ii) any Special Tax Revenues constituting the collection of delinquencies in payment of Special Taxes shall be separately identified by the Director of Finance/City Treasurer and shall be disposed of by the Director of Finance/City Treasurer first, for transfer to the Fiscal Agent for deposit by the Fiscal Agent in the Bond Fund to pay any past due debt service on the Bonds; second for transfer to the Fiscal Agent for deposit by the Fiscal Agent in the Reserve Fund to the extent needed to increase the amount then on deposit in the Reserve Fund up to the then Reserve Requirement; and third, to be held in the Special Tax Fund for use as described in the second and third succeeding paragraphs below; and

(iii) any proceeds of Special Tax Prepayments shall be separately identified by the Director of Finance/City Treasurer and shall be remitted by the Director of Finance/City Treasurer to the Fiscal Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account, except that the Current Tax Component of the Special Tax Prepayment shall be retained by the Director of Finance/City Treasurer in the Special Tax Fund for use as described in the second succeeding paragraph below.

Moneys in the Special Tax Fund and the Special Tax Prepayments Account shall be held by the Director of Finance/City Treasurer for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending and disbursement, shall 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 the Business Day before each Interest Payment Date, the Director of Finance/City Treasurer shall withdraw from the Special Tax Fund and transfer the following amounts in the following order of priority (i) to the Fiscal Agent for deposit by the Fiscal Agent in the Bond Fund an amount, taking into account any amounts then on deposit in the Bond Fund and any expected transfers from the Special Tax Fund and the Reserve Fund to the Bond Fund as described in the Fiscal Agent Agreement, such that the amount in the Bond Fund equals the principal (including any sinking payment provided for in the Fiscal Agent Agreement), premium, if any, and interest due on the Bonds on the next Interest Payment Date (including the redemption price of any Bonds to be redeemed on such Interest Payment Date pursuant to the Fiscal Agent Agreement), 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 Director of Finance/City Treasurer may 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 monies are needed to pay Administrative Expenses in excess of the amount then on deposit in the Administrative Expense Fund.

Moneys in the Special Tax Fund shall be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from investment of amounts in the Special Tax Fund shall 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 a separate fund to be held by the Director of Finance/City Treasurer, the Community Facilities District No. 2002-01(Heron Pointe) 2015 Special Tax Refunding Bonds Administrative Expense Fund, to the credit of which deposits shall be made as required by the Fiscal Agent Agreement. Moneys in the Administrative Expense Fund shall be held by the Director of Finance/City Treasurer for the benefit of the City, and shall be disbursed as provided in the Fiscal Agent Agreement. Amounts in this fund are not pledged as security for the Bonds.

Amounts in the Administrative Expense Fund shall be withdrawn by the Director of Finance/City Treasurer and paid to the City or its order upon receipt by the Director of Finance/City Treasurer of an Officer's Certificate stating the amount to be withdraw, that such amount is to be used to pay an Administrative Expense, and the nature of such Administrative Expense. Amounts transferred to the Administrative Expense Fund pursuant to Fiscal Agent



Agreement shall be used for purposes of such fund prior to using other available amounts therein.

Annually, on the last day of each Fiscal Year, the Director of Finance/City Treasurer shall withdraw any amounts then remaining in the Administrative Expense Fund in excess of \$25,000 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 shall be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be retained by the Director of Finance/City Treasurer 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 a separate fund to be held by the Fiscal Agent designated the Community Facilities District No. 2002-01 (Heron Pointe) 2015 Special Tax Refunding Bonds Costs of Issuance Fund, to the credit of which a deposit shall be made on the Closing Date as required by the Fiscal Agent Agreement. Moneys in the Costs of Issuance Fund shall be held by the Fiscal Agent and shall be disbursed as provided in the Fiscal Agent Agreement. Moneys in this fund are not pledged as security for the Bonds.

Amounts in the Costs of Issuance Fund shall 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 2015 Bonds. The Fiscal Agent shall pay all Costs of Issuance upon 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 in such requisition, or upon receipt of an Officer's Certificate requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Fiscal Agent on the Closing Date. Each such Officer's Certificate shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts.

The Fiscal Agent shall maintain the Cost of Issuance Fund for a period of 120 days from the Closing Date and then shall transfer any moneys remaining therein, including any investment earnings thereon, to the Director of Finance/City Treasurer for deposit by the Director of Finance/City Treasurer in the Administrative Expense Fund.

Moneys in the Cost of Issuance Fund shall be invested in accordance with the terms of the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be retained by the Fiscal Agent in the Cost of Issuance Fund to be used for the purposes of such fund.

Bond Fund And Special Tax Prepayments Account. There is established under the Fiscal Agent Agreement a separate fund to be held by the Fiscal Agent, the Community Facilities District No. 2002-01(Heron Pointe) 2015 Special Tax Refunding Bonds Bond Fund, to the credit of which deposits shall be made as required by the Fiscal Agent Agreement, and any other amounts required to be deposited therein by the Act. There is also hereby created in the Bond Fund a separate account held by the Fiscal Agent, consisting of the Special Tax Prepayments Account, to the credit of which deposits shall be made as required by the Fiscal Agent Agreement. Moneys in the Bond Fund and the Special Tax Prepayments Account shall be held by the Fiscal Agent for the benefit of the owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided in the

Fiscal Agent Agreement, and, pending such disbursement, shall be subject to a lien in favor of the owners of the Bonds.

On each Interest Payment Date, and following any transfers required under the Fiscal Agent Agreement in connection with such Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the owners of the Bonds the principal of, 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, amounts in the Bond Fund as a result of a transfer from the Special Tax Fund of amounts collected in respect of delinquent Special Taxes shall 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 purpose set forth in the preceding paragraph, the Fiscal Agent shall notify the Director of Finance/City Treasurer of the amount of the insufficiency, and the Fiscal Agent shall withdraw from the Reserve Fund to the extent of any funds therein an amount to cover the amount of such Bond Fund insufficiency. Amounts so withdrawn from the Reserve Fund shall be deposited by the Fiscal Agent in the Bond Fund.

If after the foregoing transfers, there are insufficient funds in the Bond Fund to make the payments described above, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, and then to payment of principal due on the Bonds by reason of sinking payments. Each such payment shall be made ratably to the Owners of the Bonds based on the then Outstanding principal amount of the Bonds, if there are insufficient funds to make the corresponding payment for all of the then Outstanding Bonds. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

Moneys in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent to the Bond Fund on the next date for which notice of redemption of Bonds under Fiscal Agent Agreement can timely be given by the Fiscal Agent under the Fiscal Agent Agreement, and shall be used (together with any amounts transferred 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 Special Tax Prepayments Account shall be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from investment of amounts in the Bond Fund and the Special Tax Prepayments Account shall be retained in the Bond Fund and the Special Tax Prepayments Account, respectively, to be used for the purposes of such fund and account.

Reserve Fund. There is established under the Fiscal Agent Agreement a separate fund to be held by the Fiscal Agent, the Community Facilities District No. 2002-01(Heron Pointe) 2015 Special Tax Refunding Bonds Reserve Fund, to the credit of which a deposit shall be made as required by the Fiscal Agent Agreement which deposit is equal to the initial Reserve Requirement, and deposits shall be made as provided in the Fiscal Agent Agreement. Moneys in the Reserve Fund shall be held 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 shall be subject to a lien in favor of the owners of the Bonds.

Except as otherwise provided in the Fiscal Agent Agreement, all amounts deposited in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund (as described in the Fiscal Agent Agreement) 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 for the purpose of redeeming Bonds from the Bond Fund.

Whenever, on the Business Day before any Interest Payment Date, or on any other date at the request of an Authorized Officer, the amount in the Reserve Fund exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the City of the amount of the excess and shall 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.

Amounts in the Reserve Fund shall be withdrawn, at the written request of the Director of Finance/City Treasurer, for purposes of making payment to the federal government to comply with the federal tax rebate provisions of the Fiscal Agent Agreement.

Whenever the balance in the Reserve Fund equals or exceeds the amount required to redeem or pay all of the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall transfer the amount in the Reserve Fund to the Bond Fund to be used for the payment and redemption, in accordance with the terms of the Fiscal Agent Agreement, as applicable, of all of the Outstanding Bonds. In the event that the amount then on deposit in the Reserve Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in the Reserve Fund in excess of the amount needed for such payment and redemption shall be transferred by the Fiscal Agent to the Director of Finance/City Treasurer, to be retained by the City, unencumbered by the Fiscal Agent Agreement, to be used by the City for any lawful purpose under the Act. Notwithstanding the foregoing, no amounts shall be transferred from the Reserve Fund for the purposes described in this paragraph until after (i) the calculation, of any amounts due to the federal government following payment of the Bonds and withdrawal of any such amount 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, a proportionate amount in the Reserve Fund (determined in accordance with the applicable provisions of the Rate and Method of Apportionment and communicated by the Director of Finance/City Treasurer to the Fiscal Agent) shall be transferred not later than 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.

Moneys in the Reserve Fund shall be invested in accordance with the Fiscal Agent Agreement. Interest earnings and profits resulting from said investment shall be retained by the Fiscal Agent in the Reserve Fund to be used for purposes of the Reserve Fund

### **Certain Covenants of the City**

The City 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 are limited obligations of the City on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund created under the Fiscal Agent Agreement.

In order to prevent any accumulation of claims for interest after maturity, the City shall 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 shall 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 shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall 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 of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

The City 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 by the Fiscal Agent Agreement for the benefit of the Bonds, except as permitted thereby.

The City will keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the deposits to and expenditure of amounts disbursed from the Administrative Expense Fund and the Special Tax Fund, and to the Special Tax Revenues. Such books of record and accounts shall at all times during City business hours and following reasonable prior written notice be subject to the inspection of the Fiscal Agent 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 City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

The City will comply with all applicable provisions of the Act in administering the District; provided that the City shall have no obligation to advance any of its own funds for any purpose whatsoever under the Fiscal Agent Agreement.

The City shall assure that the proceeds of the Prior Bonds and of the 2015 Bonds are not so used as to cause the Prior Bonds or the 2015 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 City shall 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 2015 Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

The City shall 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.

On or about July 1 of each year, the Fiscal Agent shall provide the Director of Finance/City Treasurer with a notice stating the amounts then on deposit in the Reserve Fund and in the Bond Fund. The receipt of such notice by the Director of Finance/City Treasurer shall in no way affect the obligations of the Director of Finance/City Treasurer under the

following three paragraphs. Also on or about July 1 of each year, the Director of Finance/City Treasurer shall 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. In computing the amount of Special Taxes to be levied, the Director of Finance/City Treasurer shall take into account funds in the Bond Fund and the Special Tax Fund, and any amounts then in the Reserve Fund in excess of the Reserve Requirement, available to make the payment of debt service on the Bonds due on the Interest Payment Dates occurring in the next calendar year.

The Director of Finance/City Treasurer shall effect the levy of the Special Taxes from time to time during each Fiscal Year in accordance with the Ordinance and the Rate and Method of Apportionment. Specifically, the Director of Finance/City Treasurer shall compute the amount of Special Taxes to be so levied each Fiscal Year before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the next secured or unsecured, as applicable, real property tax roll. Upon the completion of the computation of the amounts of the levy, the Director of Finance/City Treasurer shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll. The Special Taxes so levied shall 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 property levied on the tax roll 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 general ad valorem taxes levied on the County secured tax roll.

In the event that the Director of Finance/City Treasurer determines to levy all or a portion of the Special Taxes by means of direct billing of the property owners within the District, and to the extent permitted by the Ordinance, the Director of Finance/City Treasurer shall, not less than forty-five (45) days prior to each Interest Payment Date, send bills to the property owners in the District for Special Taxes necessary to meet the financial obligations of the District due on the next Interest Payment Date said bills to specify that the amounts so levied shall be due and payable not less than thirty (30) days prior to such Interest Payment Date and shall be delinquent if not paid when due.

In any event, the City shall fix and levy the amount of Special Taxes within the District required for the timely payment of principal of and interest on any outstanding Bonds becoming due and payable, including any necessary replenishment or expenditure of the Reserve Fund for the Bonds and an amount estimated to be sufficient to pay the Administrative Expenses, and shall take into account any prepayments of Special Taxes theretofore received by the City. The Special Taxes so levied shall not exceed the maximum amounts as provided in the Rate and Method of Apportionment.

The Director of Finance/City Treasurer is authorized to employ consultants to assist in computing the levy of the Special Taxes thereunder and any reconciliation of amounts levied to amounts received. The fees and expenses of such consultants and the costs and expenses of the Director of Finance/City Treasurer (including a charge for City staff time) in conducting its duties under the Fiscal Agent Agreement shall be an Administrative Expense under the Fiscal Agent Agreement .

The City 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 City shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the proceeds of the 2015 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 2015 Bonds would have caused the 2015 Bonds to be “arbitrage bonds” within the meaning of section 148 of the Code.

The City shall take all actions necessary to assure the exclusion of interest on the 2015 Bonds from the gross income of the owners of the 2015 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 2015 Bonds.

The City covenants with and for the benefit of the Owners of the Bonds that it will order, and cause to be commenced as described below, 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 described in the following paragraph. The Director of Finance/City Treasurer shall notify legal counsel of any such delinquency of which it is aware, and such legal counsel shall commence, or cause to be commenced, such proceedings.

On or about July 1 of each Fiscal Year, the Director of Finance/City Treasurer shall compare the amount of Special Taxes theretofore levied in the District to the amount of Special Tax Revenues theretofore received by the City. Following such comparison, or if at any other time the Director of Finance/City Treasurer becomes aware of any delinquency in the payment of any Special Tax due and owing:

(A) if the Director of Finance/City 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 \$10,000 or more, the Director of Finance/City Treasurer will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to the property owner by the following October 1, and (if the delinquency remains uncured) foreclosure proceedings shall be commenced by the City against the delinquent parcel within 90 days of the sending of such notice and will be diligently pursued by the City to completion. Notwithstanding the foregoing, the City need not take any such action so long as the amount then in the Reserve Fund is at least equal to the Reserve Requirement.

(B) If the Director of Finance/City Treasurer determines that the aggregate amount of Special Taxes levied in the District for the preceding Fiscal Year and theretofore collected is less than ninety-five percent (95%) of the total amount of Special Taxes levied for such Fiscal Year, the Director of Finance/City Treasurer will send or cause to be sent a notice of delinquency (and a demand for immediate payment thereof) to each property owner with delinquent Special Taxes by the following October 1, and (if any such delinquency remains uncured) foreclosure proceedings shall be commenced by the City within 90 days of the sending of such notices against all such delinquent parcels.

The Director of Finance/City Treasurer is 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 shall be an Administrative Expense under the Fiscal Agent Agreement.

Except as expressly permitted by the Fiscal Agent Agreement, the City shall 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.

In determining the yield of the 2015 Bonds to comply with the Fiscal Agent Agreement, the City will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the City, as of the Closing Date, regarding prepayments of Special Taxes and use of prepayments for redemption of the 2015 Bonds, without regard to whether or not prepayments are received or 2015 Bonds redeemed.

The City covenants 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 City to comply with the Continuing Disclosure Agreement shall not be considered a default on the Bonds or a breach of any other provision of the Fiscal Agent Agreement; however, the Participating Underwriter, any Bondowner or any beneficial owner of the Bonds may take such actions as may be necessary and appropriate to compel performance by the City, of its obligations under the Continuing Disclosure Agreement, including seeking mandate or specific performance by court order.

The City 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 District on Developed Property (as defined in the Rate and Method of Apportionment) below an amount, for any Bond Year, equal to 110% of the aggregate of the debt service due on the Bonds in such Bond Year, plus a reasonable estimate of Administrative Expenses for each such Bond Year. It is acknowledged that 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.

Not later than October 30 of each calendar year, beginning with the October 30, 2015, and in each calendar year thereafter until the October 30 following the final maturity of the Bonds, the Director of Finance/City Treasurer shall cause the following information to be supplied to the California Debt and Investment Advisory Commission ("CDIAC"): (i) the name of the City; (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) that there is no capitalized interest account 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) that there is no balance in any improvement fund for the District; (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 shall be made using such form or forms as may be prescribed by CDIAC.

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 by the Fiscal Agent from the Reserve Fund pursuant to the Fiscal Agent Agreement for transfer to the Fiscal Agent to be used to pay principal and interest on the Bonds, the Director of Finance/City Treasurer shall notify CDIAC and the Original Purchaser of such failure or withdrawal within 10 days of such failure or withdrawal, and the Director of Finance/City Treasurer shall provide notice under the Continuing Disclosure Agreement of any such event as required thereunder.

The Director of Finance/City Treasurer shall file a report with the City no later than January 1, 2012, and at least once a year thereafter, which annual report shall 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, the Bond Fund, the Reserve Fund, the Special Tax Prepayments Account and the Administrative Expense Fund are the accounts into which Special Taxes collected in 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.

The reporting requirements of the Fiscal Agent Agreement shall be amended from time to time, without action by the City or the Fiscal Agent (i) with respect to subparagraphs (A) and (B) above, to reflect any amendments to Section 53359.5(b) or Section 53359.5(c) of the Act, and (ii) with respect to subparagraph (C) above, to reflect any amendments to Section 50075.1, 50075.3, 53410 or 53411 of the California Government Code. Notwithstanding the foregoing, any such amendment shall not, in itself, affect the City's obligations under the Continuing Disclosure Agreement. The City shall notify the Fiscal Agent in writing of any such amendments which affect the reporting obligations of the Fiscal Agent under the Fiscal Agent Agreement.

None of the City and its officers, agents and employees (including but not limited to the Director of Finance/City Treasurer), or the Fiscal Agent, shall be liable for any inadvertent error in reporting the information required by the Fiscal Agent Agreement.

The Director of Finance/City Treasurer shall provide copies of any reports prepared pursuant to the above-described provisions of the Fiscal Agent Agreement to any Bondowner upon the written request of a Bondowner and payment by the person requesting the information of the cost of the City to produce such information and pay any postage or other delivery cost to provide the same, as determined by the Director of Finance/City Treasurer. The term "Bondowner" for purposes of the foregoing shall include any beneficial owner of the Bonds.

The City 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 City 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 City having insufficient Special Tax Revenues to pay the principal of and interest on the Bonds that will remain Outstanding following such tender.

The City 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 and that the Special Taxes levied on the property are payable while the City owns the property.

### **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 Fiscal Agent shall be invested by the Fiscal Agent 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. The Officer's Certificate shall contain a certification to the Fiscal Agent that the investments being directed are Permitted Investments as required hereunder. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in clause (h) of the definition thereof; provided, however, that any such investment shall be made by the Fiscal Agent only if, prior to the date on which such investment is to be made, the Fiscal Agent shall have received an Officer's Certificate specifying a specific money market fund into which the funds shall be invested and, if no such Officer's Certificate is so received, the Fiscal Agent shall hold such moneys uninvested.

Moneys in any fund or account created or established by the Fiscal Agent Agreement and held by the Director of Finance/City Treasurer shall be invested by the Director of Finance/City Treasurer in any lawful investments that the City may make or in any Permitted Investment, which in any event by their terms mature prior to the date on which such moneys are required to be paid out hereunder. Obligations purchased as an investment of moneys in any fund shall 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. Whenever in the Fiscal Agent Agreement any moneys are required to be transferred by the City to the Fiscal Agent, such transfer may be accomplished by transferring a like amount of Permitted Investments.

The Fiscal Agent or the Director of Finance/City Treasurer may act as principal or agent in the acquisition or disposition of any investment, and all investments may be made through the Fiscal Agent's investment department or that of its affiliates. The Fiscal Agent or its affiliates may act as sponsor, agent manager or depository with regard to any Permitted Investment. Neither the Fiscal Agent nor the Director of Finance/City Treasurer shall incur any liability for losses arising from any investments made pursuant to the Fiscal Agent Agreement.

Except as otherwise provided in the next sentence, the City shall direct or make investments hereunder such that all investments of amounts deposited in any fund or account created by or pursuant to the Fiscal Agent Agreement, or otherwise containing gross proceeds of the Bonds (within the meaning of section 148 of the Code) shall 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. The City shall direct or make investments under the Fiscal Agent Agreement such that investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the Reserve Fund shall be valued at their present value (within the meaning of section 148 of the Code). The Fiscal Agent shall have no duty in connection with the determination of the Fair Market Value of any investment other than to follow: (A) its normal practices in the purchase, sale and determining the value of Permitted Investments; and (B) the investment directions of the City.

Investments in any and all funds and accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions herein for transfer to or holding in or to the credit of particular funds or accounts of

amounts received or held by the Fiscal Agent or the Director of Finance/City Treasurer hereunder, provided that the Fiscal Agent or the Director of Finance/City Treasurer, as applicable, shall 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.

The Fiscal Agent shall sell in a commercially reasonable manner, or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited and neither the Fiscal Agent nor the Director of Finance/City Treasurer shall be liable or responsible for any loss resulting from the acquisition or disposition of such investment security in accordance herewith.

### **Liability of the City**

The City shall not incur any responsibility in respect of the Bonds or the Fiscal Agent Agreement other than in connection with the duties or obligations explicitly therein or in the Bonds assigned to or imposed upon it. The City shall 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 City shall 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 therein 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 under the Fiscal Agent Agreement.

In the absence of bad faith, the City, including the Director of Finance/City 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 City and conforming to the requirements of the Fiscal Agent Agreement. The City, including the Director of Finance/City Treasurer, shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement shall require the City 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 thereunder, or in the exercise of any of its rights or powers, if it shall 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 City may rely and shall 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 City may consult with counsel, who may be the City Attorney, with regard to legal questions, and the opinion of such counsel shall 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 City shall 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 satisfactory established, if disputed.

Whenever in the administration of its duties under the Fiscal Agent Agreement the City shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof be therein specifically prescribed) may, in the absence of willful misconduct on the part of the City, be

deemed to be conclusively proved and established by a certificate of the Fiscal Agent or other appropriate agent or consultant, and such certificate shall be full warrant to the City 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 City may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

### **Fiscal Agent**

The Bank of New York Mellon Trust Company, N.A., at its corporate trust office in Los Angeles, California is appointed Fiscal Agent and paying agent for the Bonds. 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 shall be read into the Fiscal Agent Agreement against the Fiscal Agent.

Any company or association into which the Fiscal Agent may be merged or converted or with which it may be consolidated or any company or association resulting from any merger, conversion or consolidation to which it shall be a party or any company or association to which the Fiscal Agent may sell or transfer all or substantially all of its corporate trust business, provided such company or association shall be eligible under the following paragraph, shall be the successor to such Fiscal Agent without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding. The Fiscal Agent shall give the Director of Finance/City Treasurer written notice of any such succession under the Fiscal Agent Agreement.

The City may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank, association 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 bank, association 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 for the purposes of the Fiscal Agent Agreement, combined capital and surplus of such bank, association or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Fiscal Agent may at any time resign by giving written notice to the City and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective only upon acceptance of appointment by the successor Fiscal Agent. Upon such acceptance, the successor Fiscal Agent shall be vested with all rights and powers of its predecessor under the Fiscal Agent Agreement without any further act.

If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of the Fiscal Agent Agreement within forty-five (45) days after the Fiscal Agent shall have given to the City written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent or any Bondowner 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, or reasonable agency, 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 hereunder shall be assumed by and vest in the Director of Finance/City Treasurer for the benefit of the Owners. The City covenants for the direct benefit of the Owners that its Director of Finance/City Treasurer in such case shall be vested with all of the rights and powers of the Fiscal Agent under the Fiscal Agent Agreement, and shall 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. In such event, the Director of Finance/City Treasurer may designate a successor Fiscal Agent qualified to act as Fiscal Agent under the Fiscal Agent Agreement.

The recitals of facts, covenants and agreements in the Fiscal Agent Agreement and in the Bonds contained shall be taken as statements, covenants and agreements of the City, and the Fiscal Agent assumes no responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Fiscal Agent Agreement or of the Bonds, or shall 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 shall 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 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 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 or opinions by which any provision of the Fiscal Agent Agreement are specifically required to be furnished by the City to the Fiscal Agent, the Fiscal Agent shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Fiscal Agent Agreement on their face. Except as described above in this paragraph, Fiscal Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Fiscal Agent Agreement, upon any resolution, order, notice, request, requisition, Officer's Certificate, consent or waiver, certificate, statement, affidavit, or other paper or document which it shall in good faith 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 shall 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 shall not be liable for any error of judgment made in good faith by a responsible officer unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

No provision of the Fiscal Agent Agreement shall 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.

The Fiscal Agent shall 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 shall have offered to the Fiscal Agent security or indemnity satisfactory to it against the fees, expenses and liabilities (including reasonable attorney's fees) 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 shall have no duty or obligation whatsoever to enforce the collection of Special Taxes 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 shall be limited to the proper accounting for such funds as it shall actually receive.

In order to perform its duties and obligations under the Fiscal Agent Agreement, the Fiscal Agent may employ such persons or entities as it deems necessary or advisable.

The Fiscal Agent shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to this Agreement and delivered using Electronic Means ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Fiscal Agent, or another method or system specified by the Fiscal Agent as available for use in connection with its services hereunder); provided, however, that the City shall provide to the Fiscal Agent an incumbency certificate listing officers with the authority to provide such Instructions and containing specimen signatures of such officers, which incumbency certificate shall be amended by the City whenever a person is to be added or deleted from the listing. If the City elects to give the Fiscal Agent Instructions using Electronic Means and the Fiscal Agent in its discretion elects to act upon such Instructions, the Fiscal Agent's reasonable understanding of such Instructions shall be deemed controlling provided, in the event of an ambiguity or a contradiction in such Instructions, the Fiscal Agent shall notify the City and request clarification from the City, and the Fiscal Agent shall not be required to act on such ambiguous or contradictory Instructions pending the City's clarification. The City understands and agrees that the Fiscal Agent cannot determine the identity of the actual sender of such Instructions and that the Fiscal Agent shall conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Fiscal Agent have been sent by such Authorized Officer. The City shall be responsible for ensuring that only Authorized Officers transmit such Instructions to the Fiscal Agent and that the City and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City. The Fiscal Agent shall 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 directions conflict or are inconsistent with a subsequent written instruction. The City agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Fiscal Agent, including without limitation the risk of the Fiscal Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) if the City elects to give the Fiscal Agent instructions using Electric Means the City acknowledges that there may be more secure methods of transmitting Instructions than the method(s) selected by the City; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Fiscal Agent immediately upon learning of any compromise or unauthorized use of the security procedures. Notwithstanding the foregoing, the protection afforded to the Fiscal Agent in each provision of this paragraph shall be operative only in the absence of the Fiscal Agent's negligence or willful misconduct.

The Fiscal Agent shall 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 shall provide to the City such information relating to the Bonds and the funds and accounts maintained by the Fiscal Agent under the Fiscal Agent Agreement as the City shall reasonably request, including but not limited to quarterly statements reporting funds held and transactions 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 shall be made of all transactions relating to the deposit to and expenditure of amounts disbursed from the Bond Fund, the Special Tax Prepayments Account, the Reserve Fund and the Costs of Issuance Fund. Such books of record and accounts shall upon reasonable prior notice at all times during business hours be subject to the inspection of the City 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 shall be protected in acting or refraining from acting upon any notice, resolution, request, requisition, Officer's Certificate, 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 Fiscal Agent may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion or advice of such counsel shall 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 shall 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 shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a certificate of the City, and such certificate shall 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.

### **Amendment of the Fiscal Agent Agreement**

The Fiscal Agent Agreement and the rights and obligations of the City 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 shall (i) extend the maturity of any Bond or

reduce the interest rate thereon, or otherwise alter or impair the obligation of the City 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 City 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 reduce the percentage of Bonds required for the amendment of the Fiscal Agent Agreement. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent.

The Fiscal Agent Agreement and the rights and obligations of the City 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) to add to the covenants and agreements of the City in the Fiscal Agent Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power herein reserved to or conferred upon the City;

(B) to make modifications not adversely affecting any outstanding series of Bonds of the City 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 City may deem necessary or desirable and not inconsistent with the Fiscal Agent Agreement, and which shall not materially 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 the exclusion from gross income, for purposes of federal income taxation, of interest on the 2015 Bonds; and

(E) in connection with the issuance of Parity Bonds under and pursuant to the Fiscal Agent Agreement.

The Fiscal Agent may in its discretion, but shall not be obligated to, enter into any such Supplemental Agreement authorized by the Fiscal Agent Agreement which materially adversely affects the Fiscal Agent's own rights, duties or immunities under the Fiscal Agent Agreement or otherwise with respect to the Bonds or any agreements related thereto. The Fiscal Agent may request and shall be fully protected in relying upon, an opinion of Bond Counsel that any proposed Supplemental Agreement complies with the applicable requirements of the Fiscal Agent Agreement.

### **Discharge of the Fiscal Agent Agreement**

The City shall have the option to 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 account provided in the Fiscal Agent Agreement is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent or another fiduciary, in trust, cash and Federal Securities in such amount as the City shall determine as confirmed by Bond Counsel, an Independent Financial Consultant or an independent certified public accountant will, together with the interest to accrue thereon and moneys then on deposit in the funds and account provided for in the Fiscal Agent Agreement, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates.

If the City shall have taken any of the actions specified in (A), (B) or (C) above, and if such Bonds are to be redeemed prior to the maturity thereof notice of such redemption shall have been given as in the Fiscal Agent Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any Bonds shall 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 City under the Fiscal Agent Agreement with respect to such Bonds Outstanding shall cease and terminate. Notice of such election shall be filed with the Fiscal Agent. Notwithstanding the foregoing, the obligations of the City to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon, to pay all amounts owing to the Fiscal Agent for its compensation, and otherwise to assure that no action is taken or failed to be taken if such action or failure adversely affects the exclusion of interest on the Bonds from gross income for federal income tax purposes, shall continue in any event.

Upon compliance by the City with the foregoing with respect to all Bonds Outstanding, any funds held by the Fiscal Agent after payment of all fees and expenses of the Fiscal Agent, which are not required for the purposes of the preceding paragraph, shall be paid over to the City and any Special Taxes thereafter received by the City shall not be remitted to the Fiscal Agent but shall be retained by the City to be used for any purpose permitted under the Act.



## APPENDIX D

### FORM OF OPINION OF BOND COUNSEL

July \_\_, 2015

City Council  
City of Seal Beach  
211 Eighth Street  
Seal Beach, California 90740

*OPINION:*     \$\_\_\_\_\_ City of Seal Beach Community Facilities District No. 2002-01  
(Heron Pointe) 2015 Special Tax Refunding Bonds

Members of the City Council:

We have acted as bond counsel to the City of Seal Beach, California (the "City") in connection with the issuance by the City, for and on behalf of the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) (the "District"), of its \$\_\_\_\_\_ City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) 2015 Special Tax Refunding 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"), Article 11 of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code, a Fiscal Agent Agreement, dated as of July 1, 2015 (the "Fiscal Agent Agreement"), by and between the City, for and on behalf of the District, and The Bank of New York Mellon Trust Company, N.A., as fiscal agent, and Resolution No. \_\_\_\_\_ adopted by the City Council of the City on May 26, 2015 (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 City contained in the Resolution and in the Fiscal Agent Agreement, 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 City is duly created and validly existing as a municipal corporation and political subdivision of the State of California, with the power to enter into the Fiscal Agent Agreement and perform the agreements on its part contained therein and issue the Bonds.

2. The Fiscal Agent Agreement has been duly entered into by the City and constitutes a valid and binding obligation of the City enforceable upon the City 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 City and are valid and binding limited obligations of the City for the District, payable solely from the sources provided therefor in the Fiscal Agent Agreement.

5. Subject to the City's compliance with certain covenants, interest on the 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 City to comply with certain of such covenants could cause interest on the Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the 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 City 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 E

### FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Agreement"), dated as of July 1, 2015, is by and between WILLDAN FINANCIAL SERVICES, as dissemination agent (the "Dissemination Agent"), and the CITY OF SEAL BEACH, CALIFORNIA, a municipal corporation and political subdivision of the State of California (the "City").

#### RECITALS:

WHEREAS, the City has issued, for and on behalf of the City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe) (the "District"), its City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe), 2015 Special Tax Refunding Bonds (the "Bonds") in the initial principal amount of \$\_\_\_\_\_; and

WHEREAS, the Bonds have been issued pursuant to a Fiscal Agent Agreement, dated as of July 1, 2015 (the "Fiscal Agent Agreement"), by and between The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the "Fiscal Agent"), and the City, for and on behalf of the District; and

WHEREAS, this Disclosure Agreement is being executed and delivered by the City 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 City 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 Director of Finance/City Treasurer, or such person's designee, or such other officer or employee of the City as the City shall designate as the Disclosure Representative hereunder in writing to the Dissemination Agent from time to time.

*"Dissemination Agent"* means Willdan Financial Services, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City and which has filed with the City 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.

“*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.

“*Official Statement*” means the Official Statement, dated \_\_\_\_\_, 2015, relating to the Bonds.

“*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 City 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 City shall, or shall cause the Dissemination Agent to, not later than the March 1 occurring after the end of each fiscal year of the City, 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 City 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 City’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) (or, if applicable, subsection (b) of this Section 3 for providing the Annual Report to EMMA), the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by such date, the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall notify the City.

(d) *Report of Non-Compliance.* If the City 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 City shall send a notice to EMMA substantially in the form attached hereto as Exhibit A. If the City is not the Dissemination Agent and is unable to provide an Annual Report to the Dissemination Agent 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 in a timely manner.

(e) *Annual Compliance Certification.* The Dissemination Agent shall, if the Dissemination Agent is other than the City, file a report with the City 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 2014-2015 fiscal year of the City. In light of the foregoing, submission of the Official Statement shall satisfy the City's obligation to file an Annual Report for fiscal year 2014-2015.

The Annual Report for each fiscal year commencing with the Annual Report for the 2015-2016 fiscal year, shall contain or incorporate by reference the following:

(a) *Financial Statements.* Audited financial statements of the City for the most recently completed fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City'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 2015-2016 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 total assessed value of all parcels within the District on which the Special Taxes are levied, 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, 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 Official Statement.

(iv) 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 of 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.

(v) 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.

(vi) The most recent annual information required to be provided to the California Debt and Investment Advisory Commission pursuant to Section 5.19(A) 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 City or related public entities, which are available to the public on EMMA. The City 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 City 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 City shall, or shall cause the Dissemination Agent (if not the City) 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 City 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 trustee, or the change of name of a trustee.

(c) *Time to Disclose.* The City shall, or shall cause the Dissemination Agent (if not the City) 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 City'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 City 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 City 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 Willdan Financial Services.

If the Dissemination Agent is not the City, the Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City 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 City. 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 City 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 City.

(b) *Compensation of Dissemination Agent.* The Dissemination Agent shall be paid compensation by the City for its services provided hereunder as agreed to between the Dissemination Agent and the City 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 City, 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 City 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 City. 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 City 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 City under Section 3.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City may amend this Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the City 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 City 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 City. 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 City 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 City 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 City 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 City 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 City to comply with its obligations under this Disclosure Agreement. The sole remedy under this Disclosure Agreement in the event of any failure of the City 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 City, 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.

CITY OF SEAL BEACH, CALIFORNIA

By: \_\_\_\_\_  
City Manager

WILLDAN FINANCIAL SERVICES, as  
Dissemination Agent

By: \_\_\_\_\_  
Its: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Obligor: City of Seal Beach, California

Name of Bond Issue: \$\_\_\_\_\_ City of Seal Beach Community Facilities District No. 2002-01 (Heron Pointe), 2015 Special Tax Bonds

Date of Issuance: July \_\_, 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 5.17 of the Fiscal Agent Agreement, dated as of July 1, 2015, between the Obligor and The Bank of New York Mellon Trust Company, N.A., as fiscal agent. The Obligor anticipates that the Annual Report will be filed by \_\_\_\_\_.

Date: \_\_\_\_\_

By: Willdan Financial Services, as  
Dissemination Agent

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## APPENDIX F

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix F has been provided by The Depository Trust Company (“DTC”), New York, NY, for use in securities offering documents, and the City does not take responsibility for the accuracy or completeness thereof. The City 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 Official Statement.*

*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 City as the issuer of the 2015 Bonds (the “Issuer”) nor the 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.

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.

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