

*In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described in this Official Statement, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. See "LEGAL MATTERS — Tax Matters."*

**\$90,630,000**

**ELK GROVE FINANCE AUTHORITY  
SPECIAL TAX REVENUE BONDS  
SERIES 2015**

**Dated:** Date of Delivery

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

The Special Tax Revenue Bonds, Series 2015 (the "Bonds") are being issued by the Elk Grove Finance Authority (the "Authority") to assist the City of Elk Grove, Sacramento County, California (the "City") in the financing and refinancing of certain improvements for its Community Facilities District No. 2003-1 (Poppy Ridge) ("Poppy Ridge CFD") and East Franklin Community Facilities District No. 2002-1 ("East Franklin CFD" and together, the "Districts" as described herein). All of the proceedings of the City to form the Districts and to levy the special taxes (described herein) for the construction and acquisition of the improvements have been undertaken pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being California Government Code Section 53311, et seq. (the "Act").

**Refunding of Prior Bonds.** In 2005 and 2006 the City issued three series of bonds (collectively, the "Prior CFD Bonds") for the Districts to finance and refinance the construction and acquisition of certain public improvements related to new development in the Districts. The Bonds are being issued to refund the Prior CFD Bonds through the issuance of a series of special tax bonds for each District (the "East Franklin CFD Bonds" and "Poppy Ridge CFD Bonds," and together, the "CFD Bonds," as described herein) to be issued by the City concurrently with the Bonds. Proceeds will also be used to pay the premium for the Bond Insurance Policy and Reserve Policy, provided by BAM, for each series of CFD Bonds and to pay costs of issuance, as described below, to pay the costs of issuance and to provide money for certain additional improvements with respect to the Districts. Proceeds of the Bonds will primarily be used by the Authority to purchase the CFD Bonds and refund prior bonds issued by the Authority to purchase the Prior CFD Bonds.

**Security and Sources of Payment for the Bonds and CFD Bonds.** The Bonds are payable solely from "Revenues" pledged by the Authority under the Indenture (described herein), which consist primarily of payments received by the Authority from the City on the CFD Bonds, which payments are secured by liens of unpaid special taxes authorized under the Act, as more fully described herein. Each respective series of CFD Bonds is payable from special taxes (net of administration expenses) levied within the respective District and paid to the Authority as debt service on the respective CFD Bonds. Installments of principal and interest sufficient to meet annual CFD Bonds debt service are included on the regular county tax bills sent to owners of property against which there are unpaid special taxes. Scheduled payments under the CFD Bonds are calculated to be sufficient to permit the Authority to pay the principal of and interest on the Bonds when due. See "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR."

**Bond Terms.** The Bonds will be issued in denominations of \$5,000 or any integral multiple of \$5,000. Interest is payable semiannually on each March 1 and September 1, commencing March 1, 2016. The Bonds will be initially issued only in book-entry form and registered to Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository of the Bonds. Principal and interest (and premium, if any) on the Bonds is payable by the Trustee to DTC, which remits such payments to its Participants for subsequent distribution to the registered owners as shown on the Trustee's books. See "THE BONDS - Bond Terms" and "- Book-Entry Only System."

**Redemption.** The Bonds are subject to optional redemption, sinking fund redemption and mandatory special redemption from the proceeds of early redemption of the East Franklin CFD Bonds or the Poppy Ridge CFD Bonds as a result of special tax prepayments. See "THE BONDS – Redemption."

**Risk Factors.** The Bonds may not be appropriate investments for certain individuals. See "RISK FACTORS" for a discussion of the risk factors that should be considered in evaluating the investment quality of the Bonds.

**Bond Insurance.** The scheduled payment of principal of and interest on the Bonds maturing on September 1 in the years 2030 through 2036, inclusive, and September 1, 2038 (collectively, the "Insured Bonds"), when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Insured Bonds by Build America Mutual Assurance Company ("BAM"). See "INTRODUCTION – Bond Insurance."



THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM AND SECURED SOLELY BY THE REVENUES AND FUNDS PLEDGED THEREFOR IN THE INDENTURE. THE BONDS ARE NOT A DEBT OR LIABILITY OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISIONS THEREOF OTHER THAN THE AUTHORITY TO THE LIMITED EXTENT DESCRIBED HEREIN, AND NEITHER THE FAITH AND CREDIT OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS ARE PLEDGED TO THE PAYMENT OF PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS AND NEITHER THE AUTHORITY (EXCEPT TO THE LIMITED EXTENT DESCRIBED HEREIN), THE CITY, THE STATE NOR ANY OF ITS POLITICAL SUBDIVISIONS IS LIABLE THEREFOR, NOR IN ANY EVENT SHALL THE BONDS OR ANY INTEREST THEREON BE PAYABLE OUT OF ANY FUNDS OR PROPERTIES OTHER THAN THOSE OF THE AUTHORITY AS SET FORTH IN THE INDENTURE. NEITHER THE BONDS NOR THE OBLIGATION TO MAKE PAYMENTS ON THE EAST FRANKLIN CFD BONDS OR THE POPPY RIDGE CFD BONDS CONSTITUTES AN INDEBTEDNESS OF THE AUTHORITY, THE CITY, THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION. THE AUTHORITY HAS NO TAXING POWER.

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**Maturity Schedule  
(see inside cover)**

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The Bonds will be offered when, as and if issued and received by the Underwriter, subject to the approval as to their legality by Jones Hall, A Professional Law Corporation, San Francisco, California, as Bond Counsel. Certain legal matters will be passed upon for the Authority and the City by the City Attorney. Jones Hall is also acting as Disclosure Counsel to the City. Stradling Yocca Carlson & Rauth, a Professional Corporation, is acting as counsel to the Underwriter. It is anticipated that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York on or about July 30, 2015.

**PiperJaffray®**

The date of this Official Statement is: July 14, 2015.

## MATURITY SCHEDULE

**\$90,630,000**

### **ELK GROVE FINANCE AUTHORITY SPECIAL TAX REVENUE BONDS** **Series 2015**

**(Base CUSIP†: 287254)**

**\$79,965,000 Serial Bonds**

<b>Maturity Date (September 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Price</b>	<b>CUSIP†</b>
2016	\$1,135,000	2.000%	0.730%	101.371	CH7
2017	1,350,000	3.000	1.120	103.865	CJ3
2018	2,680,000	3.000	1.410	104.784	CK0
2019	2,755,000	4.000	1.640	109.289	CL8
2020	2,860,000	4.000	1.920	110.031	CM6
2021	2,970,000	5.000	2.210	115.804	CN4
2022	3,110,000	5.000	2.560	115.718	CP9
2023	3,260,000	5.000	2.760	116.132	CQ7
2024	3,415,000	5.000	2.960	116.145	CR5
2025	3,580,000	5.000	3.090	116.440	CS3
2026	3,755,000	5.000	3.250	114.944 <sup>c</sup>	CT1
2027	3,940,000	5.000	3.380	113.745 <sup>c</sup>	CU8
2028	4,125,000	5.000	3.470	112.924 <sup>c</sup>	CV6
2029	4,325,000	5.000	3.550	112.200 <sup>c</sup>	CW4
2030*	4,530,000	5.000	3.590	111.840 <sup>c</sup>	CX2
2031*	4,750,000	5.000	3.680	111.035 <sup>c</sup>	CY0
2032*	4,980,000	5.000	3.730	110.591 <sup>c</sup>	CZ7
2033*	5,220,000	5.000	3.770	110.237 <sup>c</sup>	DA1
2034*	5,470,000	5.000	3.810	109.885 <sup>c</sup>	DB9
2035*	5,735,000	5.000	3.850	109.533 <sup>c</sup>	DC7
2036*	6,020,000	4.000	4.110	98.455	DE3

\$10,665,000\* 5.000% Term Bonds Due September 1, 2038; Price: 108.922<sup>c</sup> to Yield: 3.920%  
CUSIP† DD5

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† CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by S&P Capital IQ. None of the Authority, the City or the Underwriter make any representation as to the occurrence of the CUSIP information.

<sup>c</sup> Yield to call date of September 1, 2025 at par.

\* Insured Bonds.

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**No Offering May Be Made Except by this Official Statement.** No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Underwriter to give any information or to make any representations with respect to the Bonds or the CFD Bonds other than as contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by the Authority, the City or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

**Effective Date.** This Official Statement speaks only as of its date, and the information and expressions of opinion contained in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds will, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the City, the Districts or any other parties described in this Official Statement, or in the condition of property within the Districts since the date of this Official Statement.

**Use of this Official Statement.** This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not a contract with the purchasers of the Bonds.

**Preparation of this Official Statement.** The information contained in this Official Statement has been obtained from sources that are believed to be reliable, but this information is not guaranteed as to accuracy or completeness.

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 completeness of such information.

**Document References and Summaries.** All references to and summaries of the Indenture or other documents contained in this Official Statement are subject to the provisions of those documents and do not purport to be complete statements of those documents.

**Stabilization of and Changes to Offering Prices.** The Underwriter may overallot or take other steps that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. If commenced, the Underwriter may discontinue such market stabilization at any time. The Underwriter may offer and sell the Bonds to certain dealers, dealer banks and banks acting as agent at prices lower than the public offering prices stated on the cover page of this Official Statement, and those public offering prices may be changed from time to time by the Underwriter.

**Bonds are Exempt from Securities Laws Registration.** The issuance and sale of the Bonds have not been registered under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, in reliance upon exemptions for the issuance and sale of municipal securities provided under Section 3(a)(2) of the Securities Act of 1933 and Section 3(a)(12) of the Securities Exchange Act of 1934.

**Estimates and Projections.** Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY AND THE CITY DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

**Internet Site.** The City maintains an Internet website, but the information that it contains is not incorporated in this Official Statement.

**Insurer Disclaimer.** Build America Mutual Assurance Company ("BAM") makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix G – Specimen Municipal Bond Insurance Policy."

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**ELK GROVE FINANCE AUTHORITY  
SACRAMENTO COUNTY, CALIFORNIA**

**BOARD OF DIRECTORS OF THE AUTHORITY  
AND MEMBERS OF THE CITY COUNCIL**

Gary Davis, *President and Mayor*  
Pat Hume, *Vice President and Vice Mayor*  
Steven M. Detrick, *Director and Council Member*  
Darren Suen, *Director and Council Member*  
Steve Ly, *Director and Council Member*

**CITY AND AUTHORITY OFFICERS**

Laura S. Gill, *City Manager and Administrator*  
Brad Koehn, *Director of Finance and Treasurer*  
Jonathon P. Hobbs, *City Attorney*  
Jason Lindgren, *City Clerk*

**FINANCING SERVICES**

**BOND COUNSEL AND DISCLOSURE COUNSEL**

Jones Hall,  
A Professional Law Corporation  
San Francisco, California

**TRUSTEE**

U.S. Bank National Association  
Seattle, Washington

**CASH FLOW VERIFICATION**

Causey, Demgen & Moore, Inc.  
Denver, Colorado

**CFD ADMINISTRATOR**

NBS  
Temecula, California

**FINANCIAL ADVISOR**

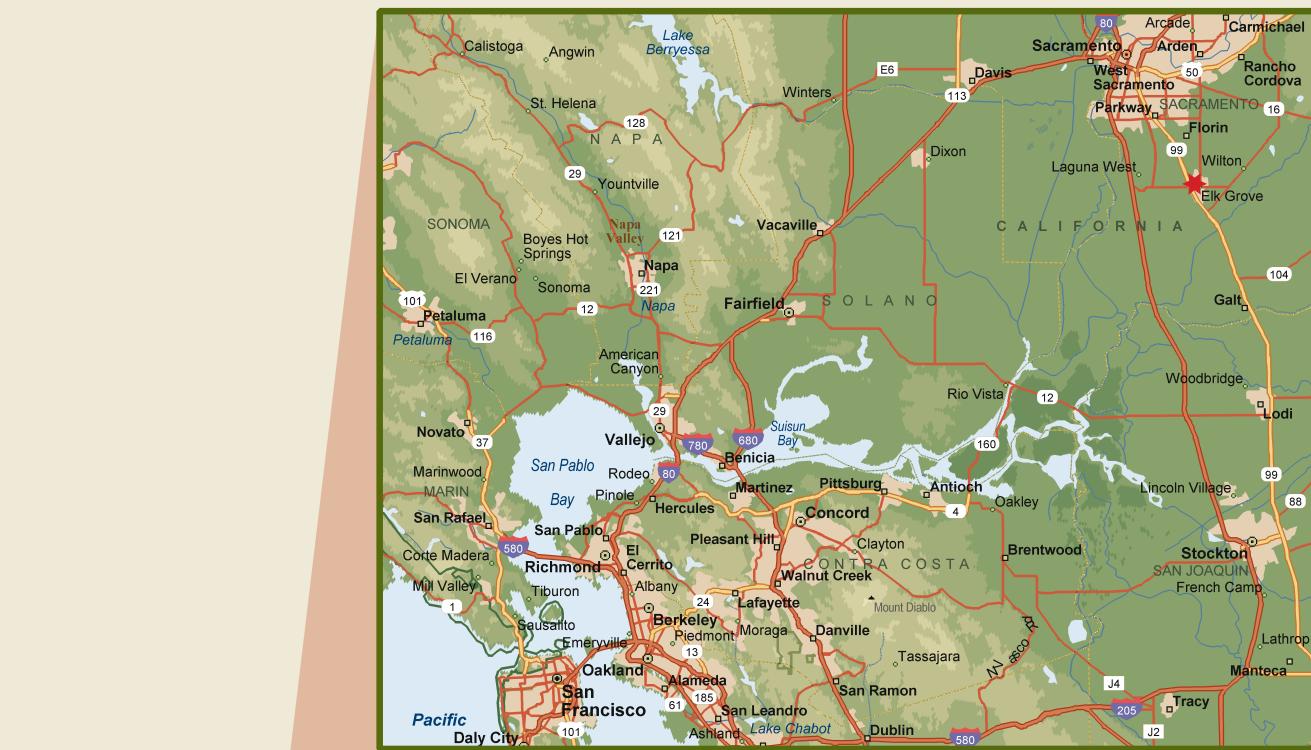
Fieldman Rolapp & Associates  
Irvine, California

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# ELK GROVE • CALIFORNIA



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## OFFICIAL STATEMENT

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**\$90,630,000  
ELK GROVE FINANCE AUTHORITY  
SPECIAL TAX REVENUE BONDS  
Series 2015**

This Official Statement, including the cover page and the appendices hereto, is provided to furnish information regarding the issuance by the Elk Grove Finance Authority (the "**Authority**") of its Special Tax Revenue Bonds, Series 2015 (the "**Bonds**") in the aggregate principal amount set forth above.

*Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Definitions of certain terms used herein and not defined herein have the meaning set forth in the Indenture or the respective Fiscal Agent Agreement described herein.*

### INTRODUCTION

*This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

*Capitalized terms used but not defined in this Official Statement have the meanings set forth in the Indenture (as defined below). See "APPENDIX A – Summary of Certain Provisions of Principal Legal Documents."*

**Purposes of the Bonds.** The Bonds are being issued by the Authority to assist the City of Elk Grove, California (the "**City**") in the financing and refinancing of costs of certain improvements of benefit to property within the City's East Franklin Community Facilities District No. 2002-1 (the "**East Franklin CFD**") and Community Facilities District No. 2003-1 (Poppy Ridge) (the "**Poppy Ridge CFD**") (collectively herein, the "**Districts**"). See "FINANCING PLAN."

**Financing Plan.** The City has previously issued (i) for the East Franklin CFD, the Special Tax Refunding Bonds, Series 2005, (ii) for the Poppy Ridge CFD, the Special Tax Refunding Bonds, Series 2005, and (iii) for the Poppy Ridge CFD, the Special Tax Bonds, Series 2006 (collectively, the “**Prior CFD Bonds**”). Each series of the Prior CFD Bonds will be refunded by the City concurrently with the issuance of the Bonds through the issuance by the City of a series of Special Tax Bonds, Series 2015 for each respective District (collectively, the “**CFD Bonds**”).

The Prior CFD Bonds were issued to refinance bonds issued in 2002 and 2003 and to provide additional money for the construction and acquisition of certain public improvements of benefit to original development in each respective District. The City will refund the CFD Bonds concurrently with the issuance of the Bonds, and use a portion of the proceeds of the CFD Bonds to finance certain improvements of benefit to property in the Districts.

The Prior East Franklin CFD Bonds and the Prior Poppy Ridge CFD Bonds were purchased by the Authority with proceeds of the \$90,875,000 Elk Grove Finance Authority Special Tax Revenue Bonds (the “**2005 Authority Bonds**”); and \$15,900,000 Elk Grove Finance Authority Special Tax Revenue Bonds, Series 2006 (the “**2006 Authority Bonds**”). The outstanding 2005 Authority Bonds and 2006 Authority Bonds (together, the “**Prior Authority Bonds**”) will be redeemed and defeased in connection with the refunding of the Prior East Franklin CFD Bonds and the Prior Poppy Ridge CFD Bonds. Proceeds of the Bonds will be used by the Authority to refund the 2005 Authority Bonds on a current basis and the 2006 Authority Bonds on an advance basis, and to simultaneously refund the Prior CFD Bonds by purchasing the newly issued CFD Bonds. See “FINANCING PLAN.”

**Authority for Issuance.** The Bonds are issued pursuant to the provisions relating to the joint exercise of powers found in Chapter 5 of Division 7 of Title 1 of the California Government Code and the terms of an Indenture dated as of July 1, 2015 (the “**Indenture**”) among the Authority, the City and U.S. Bank National Association (the “**Trustee**”). The CFD Bonds are issued by the City pursuant to a Fiscal Agent Agreement for each respective series of Bonds (each, a “**CFD Bonds Fiscal Agent Agreement**”) between the City and U.S. Bank National Association (the “**Fiscal Agent**”), and the Mello-Roos Community Facilities Act of 1982, as amended, being California Government Code Section 53311, et seq. (the “**Act**”).

**Security for the Bonds.** The Bonds are special obligations of the Authority, payable from and secured by “**Revenues**” (as defined herein) of the Authority consisting primarily of payments received by the Authority from the City in connection with the CFD Bonds. *No series of CFD Bonds or the pledge of special taxes to pay such CFD Bonds is cross-collateralized to any other series.* Scheduled payments under the CFD Bonds collectively are sufficient to provide the Authority with money to pay the principal of and interest on the Bonds when due. See “SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Payment of the CFD Bonds” below.

The Bonds are secured by a lien on and security interest in all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in certain funds established under to the Indenture. See “SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Revenues.”

The CFD Bonds are issued upon and are secured by special taxes (net of certain administrative expenses) levied to pay for facilities (the “**Special Tax**” or “**Special Taxes**”) levied against taxable property in each respective Community Facilities District, and such

unpaid special taxes constitute a trust fund for the redemption and payment of the principal of the respective CFD Bonds and the interest thereon.

The Special Taxes are to be levied by the City on taxable real property within the boundaries of each District. The CFD Bonds are also payable from the proceeds of any foreclosure actions brought following a delinquency in payment of the Special Taxes, and from amounts held in certain funds and accounts related to the CFD Bonds, including a respective separate reserve account for each series of CFD Bonds, all as more fully described herein (which will each initially be funded by a surety policy, as described below). The Special Tax applicable to each taxable parcel in the District will be levied and collected according to the tax liability determined by the City Council through the application of a rate and method of apportionment of Special Tax for each respective District (each, a “**Special Tax Formula**”) which was approved by the City in connection with the original formation of the Districts. The Special Taxes represent liens on the parcels of land subject to a Special Tax and failure to pay the Special Taxes could result in proceedings to foreclose the delinquent property. See “SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR — Special Tax Methodology” and “APPENDIX C-1 AND APPENDIX C-2 — RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

Unpaid special taxes do not constitute a personal indebtedness of the owners of the parcels within the Districts and the owners have made no commitment to pay the principal or interest on the CFD Bonds or the Bonds or to support payment of the Bonds in any manner. In the event of delinquency, proceedings may be conducted only against the particular parcel securing the delinquent special tax.

*No series of CFD Bonds or the pledge of special taxes to pay such CFD Bonds is cross-collateralized to any other series.*

As further security for each respective series of the CFD Bonds, the City will provide a reserve surety (each a “Reserve Policy”), issued by BAM, to be held in a separate debt service reserve account established for each series under the respective CFD Fiscal Agent Agreement, and used if there are insufficient special tax revenues available to pay debt service on the respective CFD Bonds when due. *There is no cross-collateralization of the reserve accounts; the East Franklin CFD reserve account is only available to pay debt service on the East Franklin CFD Bonds and the Poppy Ridge CFD reserve account is only available to pay debt service on the Poppy Ridge CFD Bonds.* See “SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR – Reserve Accounts.”

Additional CFD Bonds and additional Bonds to purchase them may be issued and secured on parity with the respective CFD Bonds and Bonds, provided certain conditions are met. See “SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR – Additional CFD Bonds and Bonds.”

**Bond Insurance Policy.** Concurrently with the issuance of the Bonds, BAM will issue its Bond Insurance Policy. The Bond Insurance Policy guarantees the scheduled payment of principal of and interest on the Bonds maturing on September 1 in the years 2030 through 2036, inclusive, and September 1, 2038 (the “**Insured Bonds**”), when due as set forth in the form of the Bond Insurance Policy included as Appendix G to this Official Statement.

The Bond Insurance Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BAM as issuer of the Bond Insurance Policy and the Reserve Policies, together with its successors and assigns, is referred to in this Official Statement as, the "**Insurer**."

**The Community Facilities Districts and the CFD Bonds.** Each District is comprised of land located within the City and was formed to finance a portion of certain infrastructure improvements of benefit to such respective District (collectively, the respective "**Improvements**") and necessary for development in the Districts to occur. The Improvements financed by the CFD Bonds for each District and significant single family residential home development planned for the Districts have been completed, with most of the completed homes sold to homeowners. See "THE DISTRICTS."

Property in the Districts is security for the respective Special Taxes. In connection with valuing property in the District, the City has obtained the 2014-15 County assessed valuation (the "**Assessed Valuation**") of the property in the District. The aggregate Assessed Valuation of taxable property in the Districts is approximately \$3.01 billion, which is approximately 33.21 times the \$90,630,000 aggregate principal amount of the Bonds (not including overlapping debt). The aggregate Assessed Valuation of taxable property in the East Franklin CFD is approximately \$1.68 billion, which is approximately 34.2 times the \$49,120,000 aggregate principal amount of the East Franklin CFD Bonds (not including overlapping debt). The aggregate Assessed Valuation of taxable property in the Poppy Ridge CFD is approximately \$1.33 billion, which is approximately 32.14 times the \$41,510,000 aggregate principal amount of the Poppy Ridge CFD Bonds (not including overlapping debt). See "OWNERSHIP AND VALUE OF PROPERTY WITHIN THE DISTRICTS."

**Risks of Investment.** See the section of this Official Statement entitled "RISK FACTORS" for a discussion of special factors that should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds. **The general fund of the City is not liable and the full faith and credit of the City is not pledged for the payment of the interest on, or principal of or redemption premiums, if any, on the CFD Bonds or the Bonds. The CFD Bonds and the Bonds are not secured by a legal or equitable pledge of or charge, lien or encumbrance upon any property of the City or any of its income or receipts, except the money in the Special Tax Fund (described herein) established under the respective Fiscal Agent Agreement, and neither the payment of the interest on nor principal of or redemption premiums, if any, on the CFD Bonds or the Bonds is a general debt, liability or obligation of the City or the Authority.**

**Limited Scope of Official Statement.** There follows in this Official Statement descriptions of the Authority, the Bonds, the Indenture, the City, the CFD Bonds, the CFD Bonds Fiscal Agent Agreements, and certain other documents. The descriptions and summaries of documents herein do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all its respective terms and conditions. All statements herein with respect to such documents are qualified in their entirety by reference to each such document for the complete details of all of their respective terms and conditions. All statements herein with respect to certain rights and remedies are qualified by reference to laws and principles of equity relating to or affecting creditors' rights generally. Terms not defined herein shall have the meanings set forth in the Indenture or the Fiscal Agent Agreements, as applicable.

The information and expressions of opinion herein speak only as of the date of this Official Statement and are subject to change without notice. Neither delivery of this Official

Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

All financial and other information presented in this Official Statement has been provided by the Authority and the City from their records, except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information and is not intended to indicate future or continuing trends in the financial or other affairs of the owners, the Districts, the Authority or the City. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

## FINANCING PLAN

The Bonds are being issued for the following purposes: (i) to acquire the East Franklin CFD bonds, which will be issued by the City concurrently with the issuance of the Bonds, and (ii) to acquire the Poppy Ridge CFD bonds, which will be issued by the City concurrently with the issuance of the Bonds. Proceeds of the Bonds and the CFD Bonds will be used primarily to refund the Prior CFD Bonds and Prior Authority Bonds and to finance certain additional public improvements of benefit to the Districts. Proceeds will also be used to pay the premium for the Bond Insurance Policy and Reserve Policy for each series of CFD Bonds and to pay costs of issuance, as described below.

### Refunding of Prior Bonds

**Refunding of Prior CFD Bonds.** The Bonds are being issued primarily to refund the Prior CFD Bonds, which are: (i) for the East Franklin CFD, the Special Tax Refunding Bonds Series 2005 issued in the original principal amount of \$57,960,000, which refunded bonds issued in 2002 in the original principal amount of \$45,000,000 and bonds issued in 2003 in the original principal amount of \$7,460,000 and financed projects with respect to the East Franklin CFD, (ii) for the Poppy Ridge CFD, the Special Tax Bonds Series 2005 issued in the original principal amount of \$32,915,000, which refunded bonds issued in 2003 in the original principal amount of \$29,570,000 and financed projects with respect to the Poppy Ridge CFD, and (iii) for the Poppy Ridge CFD, the Special Tax Bonds Series 2006 issued in the original principal amount of \$15,900,000, which financed improvements for the benefit of the Poppy Ridge CFD. The Prior CFD Bonds were issued to finance and refinance the construction and acquisition of certain public improvements within each respective District necessary for new home and other development to occur in such District. A portion of the proceeds of the CFD Bonds for each District will also be used to finance the construction and acquisition of additional public improvements.

**Refunding of Prior Authority Bonds.** The Prior East Franklin CFD Bonds and the Prior Poppy Ridge CFD Bonds serve as security for the Prior Authority Bonds. The defeasance and refunding of the Prior East Franklin CFD Bonds and Prior Poppy Ridge CFD Bonds, as described above, will cause (i) the outstanding 2005 Authority Bonds to be redeemed in full, on a current basis, on September 1, 2015, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the redemption date, without premium, and (ii) the outstanding 2006 Authority Bonds to be redeemed in full, on an advance basis, on September 1, 2016, at a redemption price equal to 100% of the principal amount thereof, together with accrued interest to the redemption date, without premium.

**Refunding Escrow.** As to each series of Prior CFD Bonds, a portion of the proceeds of the respective CFD Bonds will be transferred to U.S. Bank National Association, acting as escrow agent (the “**Escrow Agent**”) under an Escrow Agreement dated as of July 1, 2015 (the “**Escrow Agreement**”), among the City, the Authority and the Escrow Agent.

The amounts deposited from the proceeds of the CFD Bonds for the purpose of redeeming the Prior Authority Bonds will be held by the Escrow Agent under the Escrow Agreement and, as to the moneys needed to redeem the 2006 Authority Bonds, invested in federal securities, and, as to the moneys needed to redeem the 2005 Authority Bonds, held uninvested. These funds, together with any remaining amounts held in cash by the Escrow Agent, will be sufficient to pay and redeem the Prior CFD Bonds in full on their respective redemption dates, as described below, and to defease the outstanding Prior CFD Bonds as of the date of issuance of the CFD Bonds. See “**VERIFICATION OF MATHEMATICAL COMPUTATIONS**.”

Pursuant to the Escrow Agreement, on the redemption dates of the Prior East Franklin CFD Bonds and the Prior Poppy Ridge CFD Bonds, corresponding amounts of the Prior Authority Bonds will be redeemed. Amounts held by the Escrow Agent will be sufficient to pay and redeem the 2005 Authority Bonds and the 2006 Authority Bonds in full on their respective redemption dates, and to defease the outstanding Prior Authority Bonds as of the date of issuance of the Bonds. See “**VERIFICATION OF MATHEMATICAL COMPUTATIONS**.”

*The moneys held by the Escrow Agent under the Escrow Agreement are pledged to the payment of the Prior East Franklin CFD Bonds, the Prior Poppy Ridge CFD Bonds and the Prior Authority Bonds and will not be available for the payment of the Bonds, the East Franklin CFD Bonds or the Poppy Ridge CFD Bonds.*

## Sources and Uses of Funds

**The Bonds.** The sources and uses of funds relating to the Bonds are as follows:

Sources:

Principal Amount of the Bonds	\$90,630,000.00
<i>Plus:</i> Net Original Issue Premium	<u>9,594,495.90</u>
Total Sources	<b>\$100,224,495.90</b>

Uses:

Deposit to Purchase Fund [1]	\$98,868,084.79
Deposit to Costs of Issuance Fund [2]	867,009.11
Underwriter's Discount	<u>489,402.00</u>
Total Uses	<b>\$100,224,495.90</b>

- [1] To be used to acquire the East Franklin CFD Bonds and the Poppy Ridge CFD Bonds. Amount is net of the share of the Underwriter's discount and costs of issuance allocable to the East Franklin CFD Bonds and the Poppy Ridge CFD Bonds.
- [2] Costs of issuance include Trustee and Fiscal Agent fees, Bond Counsel fees, Disclosure Counsel fees, premium for the Bond Insurance, premium for the Reserve Policies, printing costs, and other related costs of issuing the Bonds and the CFD Bonds.

**CFD Bonds.** The sources and uses of funds relating to the CFD Bonds are as follows:

	East Franklin CFD	Poppy Ridge CFD	Total
<u>Sources:</u>			
Principal Amount of CFD Bonds	\$49,120,000.00	\$41,510,000.00	\$90,630,000.00
<i>Plus:</i> Share of Net Original Issue Premium	5,088,008.20	4,506,487.70	9,594,495.90
<i>Less:</i> Share of Underwriter's Discount and Costs of Issuance	(728,247.31)	(628,163.80)	(1,356,411.11)
<b>Total Purchase Price of CFD Bonds</b>	<b>\$53,479,760.89</b>	<b>\$45,388,323.90</b>	<b>\$98,868,084.79</b>
<i>Plus:</i> Available Funds from Prior CFD Bonds	8,027,386.01	5,235,797.06	13,263,183.07
<b>Total Sources</b>	<b>\$61,507,146.90</b>	<b>\$50,624,120.96</b>	<b>\$112,131,267.86</b>
<u>Uses:</u>			
Deposit to Escrow Fund [1]	\$48,960,784.38	\$42,511,289.68	\$91,472,074.06
Improvement Fund [2]	12,546,362.52	8,112,831.28	20,659,193.80
<b>Total Uses</b>	<b>\$61,507,146.90</b>	<b>\$50,624,120.96</b>	<b>\$112,131,267.86</b>

- [1] To be used to refund the Prior CFD Bonds.  
[2] To be held by the City and used for improvements with respect to the respective District.

## THE BONDS

*This section provides summaries of the Bonds and certain provisions of the Indenture. See “APPENDIX A – Summary of Certain Provisions of Principal Legal Documents” for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.*

### Authority for Issuance

The Bonds are being issued under the Act, the Authority Resolution (which was adopted by the board of directors of the Authority on June 24, 2015) and the Indenture. Under the Authority Resolution, the Bonds may be issued in a principal amount not to exceed \$110,000,000.

### Bond Terms

**General.** The Bonds will be dated their date of delivery, and will be issued in the aggregate principal amounts set forth on the inside cover page hereof. The Bonds will bear interest from their dated date at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing March 1, 2016 (each, an **“Interest Payment Date”**), and will mature in the amounts and on the dates set forth on the inside cover page hereof.

The Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof.

**Payment of Interest and Principal.** Interest calculated on the basis of a 360-day year of twelve 30-day months on the Bonds will be payable on each Interest Payment Date to the person whose name appears on the Bond Register as the Owner of such Bond as of the fifteenth calendar day of the month preceding the month in which such Interest Payment Date occurs, whether or not such day is a Business Day (the “Record Date”) immediately preceding each such Interest Payment Date, such interest to be paid by check of the Trustee mailed on such Interest Payment Date by first class mail, postage prepaid, to the Owner at the address of such Owner as it appears on the Bond Register or by wire transfer to an account in the United States of America made on such Interest Payment Date upon instructions of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds of a Series provided to the Trustee in writing at least 5 Business Days before the Record Date for such Interest Payment Date.

Principal of and premium (if any) on any Bond will be paid upon presentation and surrender of such Bond, at maturity or the prior redemption of such Bond, at the Trust Office of the Trustee.

**Calculation of Interest.** Each 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 Closing Date; provided, however, that if, as of the date of authentication of any Bond, interest on such Bond 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 on such Bond, or from the Closing Date if no interest has been paid or made available for payment.

## **Redemption**

***Optional Redemption.*** The Bonds maturing on or before September 1, 2025, are not subject to optional redemption prior to maturity. The Bonds maturing on and after September 1, 2026, may be redeemed at the option of the Authority, from any source of available funds, prior to maturity on any date on or after September 1, 2025, as a whole, or in part from maturities corresponding proportionately to the maturities of the CFD Bonds simultaneously redeemed, if any redemption of CFD Bonds is being accomplished in conjunction with such optional redemption, and otherwise from such maturities as are selected by the Authority, and by lot within a maturity, at a redemption price equal to principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date of redemption, without premium.

***Special Mandatory Redemption.*** The Bonds are subject to mandatory special redemption on any Interest Payment Date from proceeds of early redemption of CFD Bonds from prepayment of Special Taxes, in whole or in part, from maturities corresponding proportionately to the maturities of the CFD Bonds simultaneously redeemed, at the principal amount thereof, plus a premium expressed below as a percentage of the principal amount so redeemed, plus accrued interest to the date of redemption thereof:

<u>Redemption Date</u>	<u>Redemption Premium</u>
On or after March 1, 2016 through March 1, 2023	3%
September 1, 2023 and March 1, 2024	2
September 1, 2024 and March 1, 2025	1
September 1, 2025 and thereafter	0

***Mandatory Sinking Fund Redemption of Bonds.*** The Bonds maturing on September 1, 2038, are subject to redemption prior to their stated maturity, in part, by lot from amounts deposited into the Principal Account in the following amounts and on the following dates, at the principal amount thereof on the date fixed for redemption, without premium, but which amounts will be proportionately reduced by the principal amount of all Bonds optionally redeemed:

<u>Mandatory Redemption Dates (September 1)</u>	<u>Principal Amount</u>
2037	\$6,250,000
2038 (Maturity)	4,415,000

For a description of the redemption provisions of the CFD Bonds, see "APPENDIX A – Summary of Certain Provisions of Principal Legal Documents."

***Notice of Redemption.*** The Trustee on behalf, and at the expense, of the Authority will mail (by first class mail, postage prepaid) notice of any redemption to the respective Owners of any Bonds designated for redemption at their respective addresses appearing on the Bond Register, and to the Securities Depositories and to the Municipal Securities Rulemaking Board, at least thirty (30) but not more than sixty (60) days prior to the date fixed for redemption. Neither failure to receive any such notice so mailed nor any defect therein will affect the validity of the proceedings for the redemption of such Bonds or the cessation of the accrual of interest thereon. Such notice will state the date of the notice, the redemption date, the redemption place and the redemption price and will designate the CUSIP numbers, the Bond numbers and the maturity or maturities (in the event of redemption of all of the Bonds of such maturity or

maturities in whole) of the Bonds to be redeemed, and will require that such Bonds be then surrendered at the Trust Office of the Trustee for redemption at the redemption price, giving notice also that further interest on such Bonds will not accrue after the redemption date.

In addition to the foregoing notice, further notice will be given by the Trustee in said form by first class mail to any Bondowner whose Bond has been called for redemption but who has failed to submit his Bond for payment by the date which is sixty days after the redemption date, but no defect in said further notice nor any failure to give or receive all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption.

**Rescission of Redemption Notice.** Any such redemption notice may specify that redemption on the specified date will be subject to receipt by the Authority of moneys sufficient to cause such redemption (and will specify the proposed source of such moneys), and neither the Authority nor the Trustee will have any liability to the Owners or any other party as a result of its failure to redeem the Bonds as a result of insufficient moneys. The Authority will have the right to rescind any redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption will be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation will not constitute an Event of Default hereunder. The Trustee will mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

**Selection of Bonds of a Maturity for Redemption.** Unless otherwise provided under the Indenture, whenever provision is made in the Indenture or in the applicable Supplemental Indenture for the redemption of fewer than all of the Bonds of a maturity, the Trustee will select the Bonds to be redeemed from all Bonds of such maturity not previously called for redemption, by lot in any manner which the Trustee in its sole discretion will deem appropriate and fair. For purposes of such selection, all Bonds will be deemed to be comprised of separate \$5,000 authorized denominations, and such separate authorized denominations will be treated as separate Bonds which may be separately redeemed.

**Partial Redemption of Bonds.** In the event only a portion of any Bond is called for redemption, then upon surrender of such Bond the Authority will execute and the Trustee will authenticate and deliver to the Owner thereof, at the expense of the Authority, a new Bond or Bonds of the same maturity date, of authorized denominations in aggregate principal amount equal to the unredeemed portion of the Bond to be redeemed.

**Effect of Redemption.** From and after the date fixed for redemption, if funds available for the payment of the principal of and interest (and premium, if any) on the Bonds so called for redemption will have been duly provided, such Bonds so called will cease to be entitled to any benefit under the Indenture other than the right to receive payment of the redemption price, and no interest will accrue on such Bonds from and after the redemption date specified in such notice.

**Certification of Independent Financial Consultant.** In connection with an optional or special mandatory redemption of Bonds, the Authority will deliver to the Trustee a certificate of an Independent Accountant verifying that, following such optional prepayment of the CFD Bonds and redemption of the Bonds, the principal and interest generated from the remaining CFD Bonds is adequate to make the timely payment of principal and interest due on the Bonds that will remain Outstanding hereunder following such optional redemption.

## **Book-Entry Only System**

**General.** The Bonds will be issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “**Beneficial Owners**”) in the denominations set forth above, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants (as defined in this Official Statement) as described in this Official Statement. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See “APPENDIX F — DTC and the Book-Entry-Only System.”

If the book-entry-only system is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See “—Registration, Transfer and Exchange of Bonds” below.

**Payments Made to DTC.** While the Bonds are subject to the book-entry system, the principal and interest with respect to a Bond will be paid by the Trustee to DTC, which in turn is obligated to remit such payment to its DTC Participants for subsequent disbursement to Beneficial Owners of the Bonds, as described in “APPENDIX F — DTC and the Book-Entry-Only System.”

## **Registration, Transfer and Exchange of Bonds**

**Bond Register.** The Trustee will keep or cause to be kept at its Trust Office sufficient records for the registration and transfer of the Bonds, which will be the Bond Register and will at all times during regular business hours be open to inspection by the Authority upon reasonable notice; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said records, Bonds as provided under the Indenture.

**Transfer of Bonds.** Subject to the book-entry only provisions of the Indenture, any Bond may in accordance with its terms, be transferred, upon the Bond Register, by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer in a form approved by the Trustee, duly executed.

Whenever any Bond is surrendered for transfer, the Authority will execute and the Trustee will thereupon authenticate and deliver to the transferee a new Bond or Bonds of like Series, tenor, maturity and aggregate principal amount. No Bonds selected for redemption will be subject to transfer, nor will any Bond be subject to transfer during the 15 days prior to the selection of Bonds for redemption.

The cost of printing any Bonds and any services rendered or any expenses incurred by the Trustee in connection with any transfer or exchange will be paid by the Authority. However, the Owners of the Bonds will be required to pay any tax or other governmental charge required to be paid for any exchange or registration of transfer and the Owners of the Bonds will be required to pay the reasonable fees and expenses of the Trustee and Authority in connection with the replacement of any mutilated, lost or stolen Bonds.

**Exchange of Bonds.** Bonds may be exchanged at the Trust Office of the Trustee for Bonds of the same Series, tenor and maturity and of other authorized denominations. No

Bonds selected for redemption will be subject to exchange, nor will any Bond be subject to exchange during the 15 days prior to the selection of Bonds for redemption. The Owners of the Bonds will be required to pay any tax or other governmental charge required to be paid for any exchange and the Owners of the Bonds will be required to pay the reasonable fees and expenses of the Trustee and Authority in connection with the exchange of any Bonds.

## Debt Service Schedules

**The Bonds.** The table below presents the debt service schedule for the Bonds, assuming no special redemptions are made. The scheduled aggregate debt service on the Bonds is approximately equal to the aggregate of the scheduled debt service on the East Franklin CFD Bonds and the Poppy Ridge CFD Bonds.

### Annual Debt Service Schedule for the Bonds

Year Ending <b>September 1</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2016	\$1,135,000	\$4,670,820.83	\$5,805,820.83
2017	1,350,000	4,277,800.00	5,627,800.00
2018	2,680,000	4,237,300.00	6,917,300.00
2019	2,755,000	4,156,900.00	6,911,900.00
2020	2,860,000	4,046,700.00	6,906,700.00
2021	2,970,000	3,932,300.00	6,902,300.00
2022	3,110,000	3,783,800.00	6,893,800.00
2023	3,260,000	3,628,300.00	6,888,300.00
2024	3,415,000	3,465,300.00	6,880,300.00
2025	3,580,000	3,294,550.00	6,874,550.00
2026	3,755,000	3,115,550.00	6,870,550.00
2027	3,940,000	2,927,800.00	6,867,800.00
2028	4,125,000	2,730,800.00	6,855,800.00
2029	4,325,000	2,524,550.00	6,849,550.00
2030	4,530,000	2,308,300.00	6,838,300.00
2031	4,750,000	2,081,800.00	6,831,800.00
2032	4,980,000	1,844,300.00	6,824,300.00
2033	5,220,000	1,595,300.00	6,815,300.00
2034	5,470,000	1,334,300.00	6,804,300.00
2035	5,735,000	1,060,800.00	6,795,800.00
2036	6,020,000	774,050.00	6,794,050.00
2037	6,250,000	533,250.00	6,783,250.00
2038	4,415,000	220,750.00	4,635,750.00
<b>Totals</b>	<b>\$90,630,000</b>	<b>\$62,545,320.83</b>	<b>\$153,175,320.83</b>

**The CFD Bonds.** The following table summarizes the debt service payments to be received by the Authority as the result of its ownership of the East Franklin CFD Bonds and the Poppy Ridge CFD Bonds.

The CFD Bonds mature on different dates, and have different debt service profiles. Consequently, the source of security for debt service on the Bonds, and the concentration of the revenues derived from the different Districts, will change over time as the Bonds mature.

#### **Annual Debt Service Schedules for the CFD Bonds**

<b>Year Ending September 1</b>	<b>East Franklin CFD Bonds</b>	<b>Poppy Ridge CFD Bonds</b>	<b>Total CFD Bonds</b>
2016	\$3,640,712.64	\$2,165,108.19	\$5,805,820.83
2017	3,634,350.00	1,993,450.00	5,627,800.00
2018	3,633,850.00	3,283,450.00	6,917,300.00
2019	3,627,150.00	3,284,750.00	6,911,900.00
2020	3,625,150.00	3,281,550.00	6,906,700.00
2021	3,620,950.00	3,281,350.00	6,902,300.00
2022	3,619,200.00	3,274,600.00	6,893,800.00
2023	3,613,700.00	3,274,600.00	6,888,300.00
2024	3,609,450.00	3,270,850.00	6,880,300.00
2025	3,606,200.00	3,268,350.00	6,874,550.00
2026	3,603,700.00	3,266,850.00	6,870,550.00
2027	3,601,700.00	3,266,100.00	6,867,800.00
2028	3,594,950.00	3,260,850.00	6,855,800.00
2029	3,593,450.00	3,256,100.00	6,849,550.00
2030	3,586,700.00	3,251,600.00	6,838,300.00
2031	3,584,700.00	3,247,100.00	6,831,800.00
2032	3,576,950.00	3,247,350.00	6,824,300.00
2033	3,573,450.00	3,241,850.00	6,815,300.00
2034	3,568,700.00	3,235,600.00	6,804,300.00
2035	3,562,450.00	3,233,350.00	6,795,800.00
2036	3,559,450.00	3,234,600.00	6,794,050.00
2037	3,555,250.00	3,228,000.00	6,783,250.00
2038	3,549,000.00	1,086,750.00	4,635,750.00
<b>Totals</b>	<b>\$82,741,162.64</b>	<b>\$70,434,158.19</b>	<b>\$153,175,320.83</b>

## **SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR**

*The Bonds are special obligations of the Authority, payable from and secured by Revenues (as defined herein) of the Authority consisting primarily of payments received by the Authority from the City on the CFD Bonds. Scheduled payments under the CFD Bonds collectively are sufficient to provide the Authority with money to pay the principal of and interest on the Bonds when due. This section provides summaries of the security for the Bonds and certain provisions of the Indenture. See "APPENDIX A – Summary of Certain Provisions of Principal Legal Documents" for a more complete summary of the Indenture. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.*

### **Limited Obligation**

In order to secure the payment of the principal of, premium, if any, and interest on the Bonds in accordance with their terms and the provisions of the Indenture, and subject only to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Authority pledges all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account established pursuant to the Indenture, other than amounts on deposit in the Rebate Fund. This pledge constitutes a first pledge of and charge and lien upon such assets for the payment of the Bonds in accordance with their terms and will be valid and binding from and after issuance of the Bonds, without any physical delivery thereof or further act. The pledge is also irrevocable until all of the bonds issued under the Indenture are no longer Outstanding.

Under the Indenture, the Authority unconditionally transfers, assigns, and sets over to the Trustee for the benefit of the Owners, without recourse, all of the right, title and interest of the Authority in the CFD Bonds. Each series of CFD Bonds are a limited obligation of the City and secured by an irrevocable pledge of certain revenues of the City, consisting primarily of monies received by the City as payment of special taxes levied against property within each respective CFD which secures such CFD Bonds. Scheduled payments under the CFD Bonds are sufficient to provide the Authority with money to pay the principal of, premium, if any, and interest on the Bonds when due.

*No CFD Bonds issued under one CFD Fiscal Agent Agreement or the pledge of special taxes to pay such CFD Bonds is cross-collateralized to the CFD Bonds issued under the other CFD Fiscal Agent Agreement.*

All obligations of the Authority under the Indenture and the Bonds are special obligations of the Authority, payable solely from and secured by Revenues and the amounts in the funds established by the Indenture (except amounts in the Rebate Fund). All obligations of the City under each CFD Fiscal Agent Agreement are not general obligations of the City, but are limited obligations, payable solely from the special taxes and the funds pledged therefor under such CFD Fiscal Agent Agreement. Neither the faith and credit of the City nor of the State of California or any political subdivision thereof is pledged to the payment of the CFD Bonds.

The CFD Bonds are payable solely from and secured solely by the special taxes, net of administrative expenses, and the amounts in the Special Tax Fund created with respect to such CFD Bonds (the "**Special Tax Fund**") under the CFD Fiscal Agent Agreements. The City is not obligated to advance available surplus funds from the City treasury to cure any deficiency in any Special Tax Fund, provided, however, the City is not prevented, in its sole discretion, from so

advancing funds. Moneys in each respective CFD Special Tax Fund are available only for use with respect to the series of CFD Bonds to which such Special Tax Fund relates.

## **Revenues**

The Bonds are secured by a lien on and pledge of Revenues made in the Indenture, which consist primarily of amounts received by the Authority as the result of its ownership of the CFD Bonds.

The Indenture defines "**Revenues**" as follows:

- (a) all amounts received from the CFD Bonds;
- (b) any proceeds of the Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established under the Indenture with respect to the Bonds (other than the Rebate Fund and the Surplus Fund); and
- (c) investment income with respect to any moneys held by the Trustee in the funds and accounts established under the Indenture with respect to the Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund).

## **Revenues; Flow of Funds**

**Revenues.** The Bonds are secured by a first lien on and pledge of all of the Revenues. Under the Indenture, all of the Revenues and the amounts in the funds established by the Indenture are pledged by the Authority first to secure the payment of the principal of and interest on the Bonds, all in accordance with their terms and the provisions of the Indenture. Said pledge constitutes a lien on and security interest in the Revenues upon the physical delivery thereof. In the Indenture, the Authority transfers in trust and assigns to the Trustee, for the benefit of the Owners from time to time of the Bonds, all of the Revenues and all of the right, title and interest of the Authority in the CFD Bonds. The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority as the agent of the Trustee shall be deemed to be held, and to have been collected or received, by the Authority and shall be paid by the Authority to the Trustee. The Trustee also is entitled to and may take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the CFD Bonds.

**Collection by the Trustee.** The Trustee will collect and receive all of the Revenues, and any Revenues collected or received by the Authority will be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and will forthwith be paid by the Authority to the Trustee. Under the Indenture, the Trustee is directed to establish, maintain and hold in trust a special fund designated as the "Revenue Fund" and deposit the Revenues, when and as received by the Trustee, therein; provided that the Trustee shall deposit any Revenues that represent payment of the redemption price of any CFD Bonds into the Redemption Fund. All moneys at any time held in the Revenue Fund shall be held in trust for the benefit of the Owners and shall be disbursed, allocated, and applied solely for payment of the Bonds and for any other uses and purposes set forth in the Indenture. Subject to the provisions of the Indenture regarding the remedies and rights of the Bond Owners, the Trustee is also entitled to and will take all steps, actions and proceedings reasonably necessary in its

judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the City under the CFD Bonds.

***Application of Revenues.*** On each Interest Payment Date and date for redemption of the Bonds, the Trustee will transfer from the Revenue Fund, and deposit into the following respective accounts for the Bonds, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

**Interest Account.** On each Interest Payment Date and redemption date, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds or to be paid on the Bonds being redeemed on such date.

No deposit need be made into the Interest Account if the amount contained in such account is at least equal to the interest becoming due and payable upon all Outstanding Bonds on the next succeeding Interest Payment Date or redemption date, as applicable.

All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it becomes due and payable (including accrued interest on any Bonds redeemed prior to maturity).

If the amounts on deposit in the Interest Account on any Interest Payment Date or redemption date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee will apply such amounts to the payment of interest on each of the Outstanding Bonds on a pro rata basis.

**Principal Account.** On each Interest Payment Date and redemption date on which the principal of the Bonds will be payable, the Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of, and premium (if any) on, the Bonds coming due and payable on such Interest Payment Date, or required to be redeemed on such date; provided, however, that no amount will be deposited to effect a mandatory special redemption unless the Trustee has first received a certificate of an Independent Accountant certifying that such deposit to effect the redemption of the Bonds will not impair the ability of the Authority to make timely payment of the principal of and interest on the Bonds, assuming for such purposes that the City continues to make timely payments on all CFD Bonds not then in default.

All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof or (ii) paying the principal of any Bonds upon the redemption thereof.

***Deficiencies.*** If on any Interest Payment Date or date for redemption the amount on deposit in the Revenue Fund is inadequate to make the transfers described above as a result of a payment default on an issue of CFD Bonds, the Trustee will immediately notify the City of the amount needed to make the required deposits under "Application of Revenues" above. In the event that within 5 Business Days of delivering such notice the Trustee receives additional payments from the City to cure such shortfall, the Trustee will deposit such amounts to the account designated in writing by the City.

**Deposit into Rebate Fund.** On each Interest Payment Date after making the transfers described above, upon receipt of a Request of the Authority to do so, the Trustee will transfer from the Revenue Fund to the Rebate Fund for deposit in the accounts in the Rebate Fund the amounts specified in such Request.

**Surplus Fund.** On September 1 of each year, after making the deposits described above, the Trustee will transfer all amounts remaining on deposit in the Revenue Fund to the Surplus Fund.

### **Reserve Account Only for CFD Bonds**

The Authority has not established a debt service reserve account for the Bonds, but the City has established a debt service reserve account for each of the CFD Bonds. See “Security for the CFD Bonds - Reserve Accounts” below.

### **Surplus Fund**

Any amounts transferred to the Surplus Fund will no longer be considered Revenues and are not pledged to repay the Bonds. So long as CFD Bonds are outstanding, on September 1 of each year, after setting aside any amount specified in a Request of the Authority as necessary to pay Administrative Expenses, any moneys remaining in the Surplus Fund will be transferred to the City and used for any lawful purpose.

### **Additional CFD Bonds and Bonds**

**Additional Authority Bonds.** The Authority may by Supplemental Indenture establish one or more additional Series of Bonds (“**Additional Bonds**”) secured on parity with the Bonds, subject to the conditions set forth in the Indenture, which include the condition that such Additional Bonds are issued for the purpose of facilitating the issuance of additional bonds for the Poppy Ridge CFD or the East Franklin CFD as Parity Bonds under the respective CFD Bonds Fiscal Agent Agreement, and that after the issuance of the Additional CFD Bonds, the Revenues to be received from all bonds of the Districts will be sufficient in time and amount to satisfy the debt service requirements on all Bonds and Additional Bonds until the final maturity date of the Bonds.

**Authority Conditions for Issuance of Additional Series of Bonds.** Before Additional Bonds may be issued and delivered, the Authority will file the following documents with the Trustee (upon which documents the Trustee may conclusively rely in determining whether the conditions precedent to the issuance of such Series of Bonds have been satisfied) (i) an executed copy of the Supplemental Indenture authorizing such Series; (ii) the CFD Bonds to be purchased with the proceeds of the Additional Bonds, registered in the name of the Trustee; (iii) a Certificate of the Authority stating that no Event of Default has occurred and is then continuing and, (iv) a Certificate of an Independent Financial Consultant or the underwriter of the proposed Additional Bonds to the effect the Revenues to be received from all bonds of the Districts will be sufficient in time and amount to satisfy the debt service requirements on all Bonds and Additional Bonds until the final maturity date of the Bonds; (v) an Opinion of Counsel meeting the requirements of the Indenture.

**Additional CFD Bonds.** Under each CFD Bonds Fiscal Agent Agreement and as to each District, the City may by Supplemental Fiscal Agent Agreement establish one or more

additional series of bonds secured under the Fiscal Agent Agreement, equally and ratably with CFD Bonds previously issued. The City may issue, and the Fiscal Agent may authenticate and deliver to the purchasers thereof, bonds of any series so established, in such principal amount as shall be determined by the City, but only upon compliance by the City with the provisions of the CFD Bonds Fiscal Agent Agreement and any additional requirements set forth in the related Supplemental Fiscal Agent Agreement. As a condition to issuing additional CFD Bonds, the City must provide a certificate of an Independent Financial Consultant certifying that issuance of the parity CFD Bonds will not adversely impact the ability of the Authority to pay debt service on the Bonds.

The City is authorized to issue bonds payable from Special Taxes in the Poppy Ridge CFD in the aggregate principal amount of not-to-exceed \$55,000,000 and utilized the remaining bonding capacity as part of the Poppy Ridge CFD Bonds. Poppy Ridge can only issue refunding bonds.

The City is authorized to issue bonds payable from Special Taxes in the East Franklin CFD in the aggregate principal amount of not-to-exceed \$75,000,000. The par amount of the East Franklin CFD Bonds not used for refunding purposes is \$11,955,000, leaving a remaining bonding capacity of \$7,690,000.

Additional bonds may be issued for the Poppy Ridge CFD or the East Franklin CFD for the purpose of refunding outstanding bonds or to finance additional authorized improvements. Additional CFD Bonds issued to finance additional authorized improvements are subject to certain conditions, including the following:

(1) *Value-to-Lien Ratio -- Aggregate*. The aggregate fair market value of all Taxable Property (and the then existing private improvements thereon) on the date of the adoption of the Supplemental Agreement authorizing the issuance of such additional parity CFD Bonds (based on either the assessed valuations thereof as contained in the most recent equalized assessment roll of Sacramento County or an MAI appraisal), will be equal to at least twenty (20) times the sum of (i) the aggregate principal amount of all Bonds to be outstanding after the issuance of such parity CFD Bonds, plus (ii) the aggregate principal amount of all outstanding special assessment bonds that are payable from special assessments levied on the Taxable Property, plus (iii) the proportion of the aggregate principal amount of all outstanding bonds issued under the Act (other than the CFD Bonds) that are payable from special taxes to be levied on the Taxable Property.

(2) *Maximum Annual Debt Service Coverage Ratio*. The amount of Special Taxes that may be levied in each Fiscal Year following issuance of the additional Parity Bonds by application of the Rate and Method of Apportionment on Developed Property will be no less than 110% of the Annual Debt Service for the Bond Year that begins in the corresponding Fiscal Year with respect to the CFD Bonds to be Outstanding.

(3) *Reserve Account*. The Reserve Account shall be increased to an amount equal to the Reserve Requirement; calculated with respect to the respective CFD Bonds and Additional CFD Bonds to be outstanding.

The conditions set forth as item (1) and (2) above are not applicable to bonds issued to refund outstanding CFD Bonds.

See “APPENDIX A – Summary of Certain Provisions of Principal Legal Documents” for additional conditions to issuing additional CFD Bonds.

## **Security for the CFD Bonds**

*The provisions of the East Franklin CFD Fiscal Agent Agreement and the Poppy Ridge CFD Fiscal Agent Agreement (each a “**CFD Fiscal Agent Agreement**”) with respect to security and sources of payment for the East Franklin CFD Bonds and the Poppy Ridge CFD Bonds are substantially identical, and will be described together in this section except as otherwise set forth below.*

*This section contains only a brief description of those provisions of each CFD Fiscal Agent Agreement, which are further described in APPENDIX A. Capitalized terms used but not defined in this section have the meanings given in APPENDIX A.*

The CFD Bonds constitute a limited obligation of the City that is secured by a first lien on and pledge of, and is payable solely from, Net Taxes (defined below) collected in each respective CFD and amounts deposited by the City in each Special Tax Fund. The City’s limited obligation to pay the principal of and interest on the CFD Bonds from Net Taxes collected in each respective CFD and amounts in each Special Tax Fund is absolute and unconditional.

The CFD Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon the respective CFD’s or City’s property, or upon any of its income, receipts or revenues, except the Net Taxes collected in the respective CFD and other amounts in the respective Special Tax Fund.

**Except for the Net Taxes for each CFD, neither the credit nor the taxing power of the City is pledged for the payment of the CFD Bonds or related interest, and no Owner of the Bonds may compel the exercise of taxing power by the City or the forfeiture of any of its property. The principal of and interest on the CFD Bonds are not a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction.**

**Special Taxes; Gross Taxes; Net Taxes.** The “**Special Taxes**” for each CFD are levied and collected according to the special tax formula contained in the rate and method of apportionment established for that respective CFD. See “– Special Tax Methodology,” APPENDIX C-1 and APPENDIX C-2.

The “**Net Taxes**” pledged by the City to the CFD Bonds is defined in each CFD Fiscal Agent Agreement as “**Gross Taxes**” minus amounts set aside to pay the “**Administrative Expenses Cap**” (which, for Fiscal Year 2015-16, is \$177,918 for East Franklin CFD and \$176,000 for Poppy Ridge CFD, in each case the Administrative Expenses Cap may escalate by 2% each Fiscal Year).

“**Gross Taxes**” is defined as the proceeds of the Special Taxes received by the City, including any scheduled payments and any prepayments of, or interest on, such Special Taxes, and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and interest on such amount. “Gross Taxes” do not include any penalties collected in connection with

delinquent Special Taxes or any interest in excess of the interest due on the CFD Bonds. For Poppy Ridge CFD, Gross Taxes excludes the Public Safety Special Tax.

**Allocation of Special Taxes.** Except for the portion of any Prepayment to be deposited to the Redemption Account, the Fiscal Agent will, on each date on which the Net Taxes are received from the City, deposit the Net Taxes in each Special Tax Fund to be held in trust for the Authority, as sole Owner of the CFD Bonds. The Fiscal Agent will transfer the Net Taxes on deposit in each Special Tax Fund on the dates and in the amounts set forth in each CFD Fiscal Agent Agreement, in the following order of priority, to:

- (1) the Interest Account of each Special Tax Fund;
- (2) the Principal Account of each Special Tax Fund;
- (3) the Redemption Account of each Special Tax Fund;
- (4) the Reserve Account of each Special Tax Fund; and
- (5) each Surplus Fund.

*Neither series of CFD Bonds is secured by Special Taxes from the other CFD; the East Franklin CFD Special Taxes are available only to pay debt service on the East Franklin CFD Bonds and the Poppy Ridge CFD Special Taxes are available only to pay debt service on the Poppy Ridge CFD Bonds.*

**Parity CFD Bonds.** Under each CFD Fiscal Agent Agreement, the City covenants that it will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes (except as provided in each CFD Fiscal Agent Agreement), and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the CFD Bonds, except for parity bonds issued in accordance with the CFD Fiscal Agent Agreement. See "- Additional CFD Bond and Bonds" above.

Nothing in each CFD Fiscal Agent Agreement prevents the City from issuing or incurring indebtedness payable from a pledge of Net Taxes that is subordinate in all respects to the pledge of Net Taxes to repay the related CFD Bonds.

**Priority of Lien.** Each installment of the Special Taxes, and any interest and penalties on the Special Taxes, constitutes a lien on the parcel of land on which it was imposed until paid. This lien is co-equal to and independent of the lien for general taxes, the lien of any other community facilities district special taxes and special assessment liens. See "OWNERSHIP AND VALUE OF PROPERTY WITHIN THE DISTRICTS - Direct and Overlapping Governmental Obligations."

**Separate CFD Bonds Reserve Accounts.** A separate reserve account (each, a "**CFD Bonds Reserve Account**" and collectively, the "**CFD Bonds Reserve Accounts**") for each series of CFD Bonds is established by each CFD Bonds Fiscal Agent Agreement to be held by the Fiscal Agent for the benefit of the Authority as the Owner of the CFD Bonds. *Amounts available with respect to each CFD Bonds Reserve Account may only be used for the particular series of CFD Bonds to which the respective CFD Bonds Reserve Account relates.*

*The Authority has not established a debt service reserve account for the Bonds.*

Upon delivery of the CFD Bonds, the amount on deposit in each CFD Bonds Reserve Account will be established by depositing a Reserve Account Credit Instrument (defined below) in the form of a Reserve Policy to be issued by BAM, in the amount of the "**Reserve**

**Requirement**" for the respective CFD Bonds, which is as of any date of calculation, the least of (i) Maximum Annual Debt Service as of such date, (ii) 125% of average Annual Debt Service on all respective CFD Bonds Outstanding as of such date and (iii) 10% of the original principal amount of the respective CFD Bonds, or such lesser amount that, pursuant to the Internal Revenue Code, may be borrowed and invested at an unrestricted yield when all debt service reserve accounts maintained with respect to all CFD Bonds issued in conjunction with the Bonds issued to purchase the CFD Bonds are taken into consideration. "**Maximum Annual Debt Service**" means the maximum sum obtained for any Bond Year by adding the following for each Bond Year: (1) the principal amount of all such Outstanding CFD Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and (2) the interest payable on the aggregate principal amount of all such CFD Bonds Outstanding in such Bond Year if the respective CFD Bonds are retired as scheduled. With respect to each series of CFD Bonds, "**Annual Debt Service**" means the principal amount of any such Outstanding CFD Bonds payable in a Bond Year either at maturity or pursuant to a Sinking Fund Payment and any interest payable on any such Outstanding CFD Bonds in such Bond Year, if such CFD Bonds are retired as scheduled.

Amounts available under the Reserve Policy in each CFD Bonds Reserve Account will be available for paying the principal of and interest on the respective CFD Bonds when due in the event that the moneys in the respective Special Tax Fund are insufficient therefor.

The funding of each Reserve Account is being satisfied with the acquisition of a financial instrument meeting the requirements of a "Reserve Account Credit Instrument" in the form of a Reserve Policy to be issued by BAM. "**Reserve Account Credit Instrument**" is defined to mean an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company, provided that all of the following requirements are met:

- (a) the long-term credit rating of such bank or insurance company from either Moody's Ratings Services "Aa3" or Standard & Poor's is "AA" or better at the time of issuance or delivery of such Reserve Account Credit Instrument;
- (b) such letter of credit or surety bond has a term of at least 12 months;
- (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement with respect to which funds are proposed to be released pursuant to the Fiscal Agent Agreement; and
- (d) the Fiscal Agent is authorized under such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Interest Account or the Principal Account for the purpose of making payments required under the respective Fiscal Agent Agreement.

THE AUTHORITY AND THE CITY HAVE NO OBLIGATION TO REPLENISH THE CFD BONDS RESERVE ACCOUNTS EXCEPT TO THE EXTENT THAT DELINQUENT SPECIAL TAXES ARE PAID OR PROCEEDS FROM FORECLOSURE SALES ARE REALIZED.

**Covenant to Commence Foreclosure Proceedings.** Under the Act, the City will covenant in each CFD Fiscal Agent Agreement with and for the benefit of the Authority, as the owners of the CFD 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 provided in the following two paragraphs.

On or about October 1 of each year, the City will compare the amount of Special Taxes theretofore levied in each CFD for the past fiscal year to the amount of Gross Taxes theretofore received by the City, and:

(i) *Individual Delinquencies.* If the City determines that any single parcel subject to the Special Tax in the CFD is delinquent in the payment of Special Taxes in the aggregate amount of \$3,000 or more, then the City will send or cause to be sent a notice of delinquency (and a demand for immediate payment of the delinquent amounts) to the property owner within 60 days of such determination, and (if the delinquency remains uncured) foreclosure proceedings will be commenced by the City within 120 days of such determination.

(ii) *Aggregate Delinquencies.* If the City determines that the total amount of delinquent Special Tax for the prior Fiscal Year for the entire CFD (including the total of delinquencies under paragraph (i) above), exceeds 5% of the total Special Tax due and payable for the prior Fiscal Year, the City will notify or cause to be notified property owners who are then delinquent in the payment of Special Taxes (and demand immediate payment of the delinquency) within 60 days of such determination, and will commence foreclosure proceedings within 120 days of such determination against each parcel of land in the CFD with a Special Tax delinquency.

Notwithstanding the foregoing, the City may determine not to initiate foreclosure proceedings if (a) the amount in the CFD Bonds Reserve Account for such CFD is equal to the Reserve Requirement and (b) there have been no defaults in the payment of debt service on the related CFD Bonds.

The owners of the Bonds benefit from the CFD Bonds Reserve Account established pursuant to each CFD Bonds Fiscal Agent Agreement; however, if delinquencies in the payment of the Special Taxes with respect to the CFD Bonds are significant enough to completely deplete the applicable CFD Bonds Reserve Account, there could be a default or a delay in payments of principal and interest to the owners of the Bonds pending prosecution of foreclosure proceedings and receipt by the City of the proceeds of foreclosure sales. Provided that it is not levying the Special Tax at the annual Maximum Special Tax rates set forth in the Special Tax Formula, the City may adjust (but not to exceed the annual Maximum Special Tax) the Special Taxes levied on all property within the applicable District subject to the Special Tax to provide an amount required to pay debt service on the respective CFD Bonds and to replenish the respective CFD Bonds Reserve Account.

Under current law, a judgment debtor (property owner) has at least 140 days from the date of service of the notice of levy in which to redeem the property to be sold. If a judgment debtor fails to redeem and the property is sold, his or her only remedy is an action to set aside the sale, which must be brought within 90 days of the date of sale. If, as a result of such an action a foreclosure sale is set aside, the judgment is revived and the judgment creditor is entitled to interest on the revived judgment as if the sale had not been made (California Code of Civil Procedure Section 701.680).

Foreclosure by court action is subject to normal litigation delays, the nature and extent of which are largely dependent upon the nature of the defense, if any, put forth by the debtor and

the condition of the calendar of the superior court of the county. Such foreclosure actions can be stayed by the superior court on generally accepted equitable grounds or as the result of the debtor's filing for relief under the Federal bankruptcy laws. The Act provides that, upon foreclosure, the Special Tax lien will have the same lien priority as is provided for *ad valorem* taxes and special assessments.

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. The Act does not require the District to purchase or otherwise acquire any lot or parcel of property foreclosed upon if there is no other purchaser at such 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 District, as judgment creditor, is entitled to purchase any property sold at foreclosure using a "credit bid," where the District 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 District becomes the purchaser under a credit bid, the District must pay the amount of its credit bid into the redemption fund established for the Bonds, but this payment may be made up to 24 months after the date of the foreclosure sale.

**Other Covenants of the City.** In each CFD Fiscal Agent Agreement, the City will make the following covenants (among others).

*Punctual Payment.* It will duly and punctually pay or cause to be paid the principal of and interest on each respective series of CFD Bonds, to the extent that Net Taxes and other amounts pledged under the respective CFD Fiscal Agent Agreement are available for such payment.

*Against Encumbrance.* It will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the respective CFD Fiscal Agent Agreement, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the CFD Bonds. Nothing in each CFD Fiscal Agent Agreement prevents the City from issuing or incurring indebtedness payable from a pledge of Net Taxes that is subordinate in all respects to the pledge of Net Taxes to repay the related series of CFD Bonds.

*Levy of Special Tax.* The City will comply with all requirements of the Mello-Roos Act so as to assure the timely collection of Gross Taxes, including without limitation, the enforcement of delinquent Special Taxes.

*Processing.* On or within 5 Business Days of each June 1, the CFD Fiscal Agent will provide the City with a notice stating the amount then on deposit in the Special Tax Fund and the other funds and accounts held by the Fiscal Agent under the respective CFD Fiscal Agent Agreement, whether or not amounts need to be deposited into the Reserve Account to increase the amounts on deposit in such account to the Reserve Requirement, and informing the City that the Special Taxes need to be levied under the Ordinance as necessary to provide for the amount set forth in clause (iii) below. The receipt of or failure to receive such notice by the City will in no way affect the obligations of the City under the following two paragraphs and the Fiscal Agent will not be liable for

failure to provide such notice to the City. Upon receipt of such notice, the City will communicate with the Auditor to ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits or combinations during the preceding and then current year.

*Levy.* The City will effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance by each August 10 that the CFD Bonds are outstanding, or otherwise such that the computation of the levy is complete before the final date on which Auditor will accept the transmission of the Special Tax amounts for the parcels within each District for inclusion on the next real property tax roll. Upon the completion of the computation of the amounts of the levy, the City will prepare or cause to be prepared, and will transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the next real property tax roll.

*Computation.* The City will fix and levy the amount of Special Taxes within each District in an amount sufficient, together with other amounts on deposit in the related Special Tax Fund and available for such purpose, to pay (A) the principal of and interest on the related CFD Bonds when due, (B) the Administrative Expenses, including amounts necessary to discharge any rebate obligation, during such year and (C) any amounts required to replenish the related Reserve Account to the Reserve Requirement, taking into account the balances in such funds and in the Special Tax Fund. The Special Taxes so levied may not exceed the authorized amounts as provided in the proceedings under each Resolution of Formation.

*Collection.* The Special Taxes will be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same time and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the ad valorem taxes on real property.

*Maintenance of Special Taxes.* The City will not consent to or conduct proceedings with respect to a reduction in the Special Taxes that may be levied in the District below an amount, for any Fiscal Year, equal to 110% of the aggregate of the debt service due and payable with respect to the Bonds in each corresponding Bond Year, plus 100% of the City's reasonable estimate of Administrative Expenses for such Bond Year; provided, however, that the City may at any time reduce the Special Taxes to the extent that the amount of Special Taxes that would result from levying the Special Taxes at such maximum amounts would result in an amount of Special Taxes in excess of the amount required to comply with such covenant.

## **Special Tax Methodology**

The Special Tax authorized under the Act applicable to land within each District will be levied and collected according to the tax liability determined by the City through the application of the appropriate amount or rate as described in the respective Special Tax Formulas set forth in APPENDIX C-1 and APPENDIX C-2. The following paragraphs in this section summarize certain provisions of the Special Tax Formula for each District. Capitalized terms set forth in this section and not otherwise defined have the meanings set forth in the respective Special Tax Formula.

**East Franklin CFD.** Each Fiscal Year using the definitions set forth in the Special Tax Formula, all Taxable Property within the District shall be classified as Developed Property or Undeveloped Property, and shall be subject to Special Taxes as described below. Developed Property shall be further assigned to a Land Use Class as specified in the below. Undeveloped Property shall be further assigned to a Land Use Class as specified in the next table.

### **Maximum Special Tax for Developed Property**

<u>Land Use Class</u>	<u>Description</u>	<u>Maximum Special Tax Per Unit/Acre</u>
1	Residential Property	\$840 per Unit
2	Multi-Family Property	\$4,200 per Net Acre
3	Non-Residential Property	\$4,200 per Net Acre

### **Maximum Special Tax for Undeveloped Property**

<u>Land Use Class</u>	<u>Description</u>	<u>Maximum Special Tax Per Unit/Acre</u>
4	Final Map Residential Property	\$840 per Lot
5	Large Lot Property	\$4,100 per Gross Acre
6	Tentative Map Property	\$3,200 per Gross Acre
7	Other Taxable Property	\$3,200 per Gross Acre

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

For each Fiscal Year, the City Council shall levy the Special Tax until the amount of the Special Tax levied equals the Special Tax Requirement. "**Special Tax Requirement**" means that amount required in any Fiscal Year for the CFD to: (a) (i) pay debt service on all Outstanding Bonds for the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any Bond Reserve Accounts for all Outstanding Bonds; (v) pay directly for acquisition or construction of authorized facilities to be constructed or acquired by the CFD, except Special Taxes on Undeveloped Property shall not be levied for this purpose; (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; less (b) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property at 100% of the applicable Maximum 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 Final Map Residential Property at up to 100% of the Maximum Special Tax for Final Map Residential Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Large Lot Property at up to 100% of the Maximum Special Tax for Large Lot Property;

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 Tentative Map Property at up to 100% of the Maximum Special Tax for Tentative Map 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 Other Taxable Property at up to 100% of the Maximum Special Tax for Other Taxable Property.

Notwithstanding the above the City Council may, in any Fiscal Year, levy Proportionately less than 100% of the Maximum Special Tax in step one (above), when (i) the City Council is no longer required to levy a Special Tax pursuant to steps two through five above in order to meet the Special Tax Requirement; (ii) all authorized CFD Bonds have already been issued or the City Council has covenanted that it will not issue any additional CFD Bonds (except refunding bonds) to be supported by Special Taxes; and (iii) all authorized facilities have been constructed or acquired and paid for from Bonds and/or Special Taxes.

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 annually up to the Maximum Special Tax as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District.

The Special Tax may not be levied later than the 2037-38 Fiscal Year.

**Poppy Ridge CFD.** Each Fiscal Year using the definitions above, all Taxable Property within the CFD shall be classified as Developed Property or Undeveloped Property, and shall be subject to Facilities Special Taxes (referred to as the Special Taxes throughout this Official Statement) and to Public Safety Special Taxes as described below. Only the Facilities Special Taxes are pledged to the Bonds. (The Facilities Special Taxes and the Public Safety Special Taxes are referred to as the "**Combined Special Tax**" under this caption.) Developed Property shall be further assigned to a Land Use Class as specified in the below. Undeveloped Property shall be further assigned to a Land Use Class as specified in the next table.

#### **Maximum Special Tax for Developed Property**

<u>Land Use Class</u>	<u>Description</u>	<u>Maximum Facilities Special Tax Per Unit/Acre</u>	<u>Maximum Public Safety Special Tax Per Unit/Acre</u>
1	Residential Property	\$965 per Unit	\$191.20 per Unit*
2	Multi-Family Property	\$4,825 per Net Acre	\$146.58 per Unit*
3	Non-Residential Property	\$4,825 per Net Acre	\$318.67 per Net Acre*

\*Fiscal Year 2014-15 maximum, figures subject to increases in each Fiscal Year.

On each July 1 the Maximum Public Safety Special Tax shall be increased by the lesser of Local Consumer Price Index (the “**CPI**”) for the San Francisco-Oakland-San Jose Area for All Urban Consumers or 5% of the amount in effect for the previous Fiscal Year. The CPI used shall be as determined by the Bureau of Labor Statistics from April to April. The Maximum Facilities Special Tax does not increase annually.

The Maximum Special Tax that may be levied on Developed Property is the sum of the Maximum Facilities Special Tax and the Maximum Public Safety Special Tax.

### **Maximum Facilities Special Tax for Undeveloped Property**

<b>Land Use Class</b>	<b>Description</b>	<b>Maximum Facilities Special Tax Per Lot/Acre</b>
4	Final Map Residential Property	\$965 per Lot
5	Large Lot Property	\$4,710 per Gross Acre
6	Tentative Map Property	\$3,675 per Gross Acre
7	Other Taxable Property	\$3,675 per Gross Acre

Undeveloped Property is not subject to the Public Safety Special Tax.

In some instances an Assessor’s Parcel of Developed Property may contain more than one Land Use Class. The Maximum Special Tax levied on an Assessor’s Parcel shall be the sum of the Maximum Special Tax levies that can be imposed on all Land Use Classes located on that Assessor’s Parcel. The CFD Administrator’s allocation to each type of property shall be final.

For each Fiscal Year, the City shall levy the Combined Special Tax until the amount of the Special Tax levied equals the Special Tax Requirement. **“Special Tax Requirement”** means that amount required in any Fiscal Year for the CFD to: (a) (i) pay debt service on all Outstanding Bonds for the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any reserve accounts for all Outstanding Bonds; (v) pay directly for acquisition or construction of authorized facilities to be constructed or acquired by the CFD, except Special Taxes on Undeveloped Property shall not be levied for this purpose; (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; and (vii) pay for Public Safety Costs for Developed Property, less (b) a credit for funds available to reduce the annual Special Tax levy, as determined by the CFD Administrator pursuant to the Indenture.

The Combined Special Tax shall be levied each Fiscal Year as follows:

First: The Combined Special Tax shall be levied on each Assessor’s Parcel of Developed Property at 100% of the applicable Maximum Special Tax;

Second: If additional monies are needed to satisfy the Special Tax Requirement after the first step has been completed, the Facilities Special Tax shall be levied Proportionately on each Assessor’s Parcel of Final Map Residential Property at up to 100% of the Maximum Special Tax for Final Map Residential Property. Under no circumstances shall Public Safety Special Taxes be levied under this second step;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Facilities Special Tax shall be levied Proportionately on each Assessor's Parcel of Large Lot Property at up to 100% of the Maximum Special Tax for Large Lot Property. Under no circumstances shall Public Safety Special Taxes be levied under this third step;

Fourth: If additional monies are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Facilities Special Tax shall be levied Proportionately on each Assessor's Parcel of Tentative Map Property at up to 100% of the Maximum Special Tax for Tentative Map Property. Under no circumstances shall Public Safety Special Taxes be levied under this fourth step; and;

Fifth: If additional monies are needed to satisfy the Special Tax Requirement after the first four steps have been completed, then the Facilities Special Tax shall be levied Proportionately on each Assessor's Parcel of Other Taxable Property at up to 100% of the Maximum Special Tax for Other Taxable Property. Under no circumstances shall Public Safety Special Taxes be levied under this fifth step.

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Maximum Special Tax in step one (above), when (i) the Council is no longer required to levy a Combined Special Tax pursuant to steps two through five above in order to meet the Special Tax Requirement; (ii) all authorized CFD Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD Bonds (except refunding bonds) to be supported by Special Taxes; and (iii) all authorized facilities have been constructed or acquired and paid for from Bonds and/or Special Taxes.

Notwithstanding the above, under no circumstances will the Facilities 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 annually up to the Maximum Special Tax as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

The Facilities Special Tax may not be levied later than the 2045-46 Fiscal Year.

**Priority of Lien.** The principal of and interest on the CFD Bonds are payable from the Special Tax authorized to be collected within each respective District, and payment of the Special Tax is secured by a lien on certain real property within such District. Such lien is co-equal to and independent of the lien for general taxes and any other liens imposed under the Act, regardless of when they are imposed on the property in the District. The imposition of additional special taxes, assessments and general property taxes will increase the amount of independent and co-equal liens which must be satisfied in foreclosure. The City, the County and certain other public agencies are authorized by the Act to form other community facilities districts and improvement areas and, under other provisions of State law, to form special assessment districts, either or both of which could include all or a portion of the land within such District.

Private liens, such as deeds of trust securing loans obtained by owners of property in the District, may be placed upon property in the District at any time. Under California law, the Special Taxes have priority over all existing and future private liens imposed on property subject to the lien of the Special Taxes.

Parcels in the Districts are subject to a bonded special tax lien and non-bonded special taxes and assessments for services. See "OWNERSHIP AND VALUE OF PROPERTY IN THE DISTRICTS – Direct and Overlapping Debt."

***Limited Obligation Upon Delinquency.*** ALL OBLIGATIONS OF THE AUTHORITY UNDER THE TRUST AGREEMENT AND THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY REVENUES. THE CFD BONDS ARE LIMITED OBLIGATION BONDS UNDER THE ACT AND ARE PAYABLE SOLELY FROM AND ARE SECURED SOLELY BY THE SPECIAL TAXES AND THE AMOUNTS IN THE SPECIAL TAX FUND AND THE AMOUNTS IN THE LOCAL OBLIGATION RESERVE FUNDS.

THE AUTHORITY AND THE CITY HAVE NO OBLIGATION TO ADVANCE MONIES TO PAY BOND DEBT SERVICE IN THE EVENT OF DELINQUENT SPECIAL TAXES. BONDOWNERS SHOULD NOT RELY UPON THE CITY TO ADVANCE MONIES TO THE SPECIAL TAX FUND. NOTWITHSTANDING THE FOREGOING, THE CITY MAY, AT ITS SOLE OPTION AND IN ITS SOLE DISCRETION ELECT TO ADVANCE AVAILABLE SURPLUS FUNDS OF THE CITY TO PAY FOR ANY DELINQUENT SPECIAL TAXES PENDING SALE, REINSTATEMENT, OR REDEMPTION OF ANY DELINQUENT PROPERTY.

## THE DISTRICTS

This Official Statement presents certain information describing East Franklin CFD and Poppy Ridge CFD on a combined basis for informational purposes. However, the Bonds are secured by two distinct revenue streams: debt service on the East Franklin CFD Bonds and debt service on the Poppy Ridge CFD Bonds. See "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR."

*There is no cross-collateralization of security or reserve accounts among the Districts.* Neither series of CFD Bonds secures the payment of debt service on the other series, or is available to make up any shortfall in funds to pay debt service on the other series of CFD Bonds: the East Franklin CFD Special Taxes are available only to pay debt service on the East Franklin CFD Bonds and the Poppy Ridge CFD Special Taxes are available only to pay debt service on the Poppy Ridge CFD Bonds. See "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Security for the CFD Bonds."

### General

The City is located approximately 4 miles south of the City of Sacramento along Interstate 5 and State Highway 99. The City was incorporated on July 1, 2000 and has grown from a 2001 population of approximately 75,300 to a current population of approximately 162,000.

The Districts lie within the City in an area in which land uses are designated primarily residential, with recent development proceeding in accordance with approved specific plans.

The City has experienced substantial growth between its incorporation in 2000 and 2015, and the Districts largely comprise a part of the new home developments from that period and are within a primarily residential portion of the City. Land in the Districts is nearly built-out and are part of the transition from previous land use for agricultural or grazing purposes toward

a mixture of urban land uses, which transition has also occurred in other areas of the City since 2000. As the real estate downturn recovers, residential demand appears to be growing and new development appears to be reactivating in the City, with homebuilders planning to offer new homes for sale in several areas, including near to the Districts.

**Flood Zone.** According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM), Community Panel 060262-0315D with an effective date of February 4, 1998, and Community Panel 060262-0320E effective July 6, 1998, a portion of the Districts was in the 100-year flood plain, however subsequent drainage improvements and Letter Of Map Revisions (LOMRs) have removed those areas from the 100-year floodplain to allow development to proceed.

**Seismicity.** According to the State of California Seismic Safety Commission, the Sacramento Metropolitan area in which the Districts are located is designated as Earthquake Zone 3, a moderate damage zone, which is the lowest risk zone in California. The designation represents a projection only; notwithstanding the designation, substantial damage to property in the Districts could occur at any time from one or more earthquakes.

**Utilities and Schools.** Utility services for parcels in the Districts are provided by the City, the Sacramento County Water Agency, County Sanitation District No. 1 and Sacramento Municipal Utilities District. Students in the Districts attend schools that are part of the Elk Grove Unified School District.

#### **East Franklin CFD No. 2002-1**

The East Franklin CFD is generally located east of Interstate 5 and Franklin Boulevard, south of Elk Grove Boulevard, west of Bruceville Road and north of Poppy Ridge Road. The District contains 1,248 gross acres and at the time of its formation was projected to include 4,908 single-family homes, 17 acres of multi-family property and 47 acres of commercial property at full build-out. Home construction began in early 2002. As of the end of January 1, 2015, approximately 4,718 single-family homes had been constructed and no additional single-family building permits had been issued for single-family parcels. The East Franklin CFD also includes one multifamily use parcel, which has been developed, and 21 commercial use parcels, 20 of which have been developed. See the tables under the caption "OWNERSHIP AND VALUE OF PROPERTY IN THE DISTRICTS" below.

The maximum annual special tax in the East Franklin CFD in Fiscal Year 2014-15 was \$840 for single family homes and \$4,200 per net acre for multi-family and commercial properties.

## **Poppy Ridge CFD No. 2003-1**

The Poppy Ridge CFD is generally located east of Interstate 5 and Franklin Boulevard, south of Poppy Ridge Road, west of Bruceville Road and north of Bilby Road, and is entirely within the boundaries of the City.

The Poppy Ridge CFD consists of approximately 910 gross acres. At the time of its formation, Poppy Ridge CFD was projected to contain 3,798 single family homes, 460 multi-family units and 2.9 acres of commercial property at full build-out. Home construction began in 2003. As of the end of January 1, 2015, approximately 3,955 single-family homes had been constructed and an additional 47 single-family building permits had been issued for single-family parcels. The Poppy Ridge CFD also includes one commercial use parcel, which has been developed and 154 multi-family use parcels, which have been developed. See the tables under the caption "OWNERSHIP AND VALUE OF PROPERTY IN THE DISTRICTS – Valuation of Property" below.

The maximum annual facilities special tax in the Poppy Ridge CFD in Fiscal Year 2014-15 was \$965 for single family homes and \$4,825 per net acre for multi-family and commercial properties.

## **OWNERSHIP AND VALUE OF PROPERTY WITHIN THE DISTRICTS**

### **Ownership of Property**

*Unpaid Special Taxes do not constitute a personal indebtedness of the owners of the parcels within the Districts and the owners have made no commitment to pay the principal or interest on the CFD Bonds or the Bonds or to support payment of the CFD Bonds or the Bonds in any manner. There is no assurance that the owners have the ability to pay the special taxes or that, even if they have the ability, they will choose to pay such taxes. An owner may elect to not pay the special taxes when due and cannot be legally compelled to do so. Neither the City nor any Bondholder will have the ability at any time to seek payment from the owners of property within the Districts of any special tax or any principal or interest due on the CFD Bonds or the Bonds, or the ability to control who becomes a subsequent owner of any property within the Districts.*

The property in the Districts is comprised principally of homes occupied by homeowners, and to a lesser extent, finished lots, some with homes under construction by homebuilders, lots under construction, multifamily and commercial parcels, and unsubdivided land available for development. See "-Valuation of Property in the Districts" below.

*[Remainder of page intentionally left blank]*

**Top Taxpayers.** The following tables show the top ten payers of the special taxes of the Districts based on the Fiscal Year 2014-15 Special Tax Levy and parcel classifications.

**CITY OF ELK GROVE  
TOP TEN PROPERTY OWNERS  
CFD No. 2002-1 (East Franklin)  
Fiscal Year 2014-15**

Owner	Parcel Count	Land Value <sup>(1)</sup>	Structure Value <sup>(1)</sup>	Total Value <sup>(1)</sup>	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy
DONAHUE SCRIBER REALTY GROUP L P	15	\$9,563,548	\$46,425,000	\$55,988,548	\$134,232	3.20%
ELK GROVE FRANKLIN RETAIL LLC	6	6,225,675	19,268,884	25,494,559	41,580	0.99
AGAVE ASSOCIATES L P	1	1,861,536	29,467,560	31,329,096	37,674	0.90
CORP PRESIDING BISHOP CHURCH OF JESUS CHRIST LDS	1	827,880	5,246,098	6,073,978	14,784	0.35
BHT ELK GROVE KB LLC	191	1,455,112	847,598	2,302,710	11,760	0.28
LI FAMILY TRUST	7	660,368	1,476,461	2,136,829	5,880	0.14
ANTHONY HAMPTON TRUST	5	420,561	804,839	1,225,400	4,200	0.10
LILI LIAO 2014 REVOCABLE TRUST	5	379,344	755,544	1,134,888	4,200	0.10
CHRISTOPHER AB LIVING TRUST	4	309,497	783,692	1,093,189	3,360	0.08
THR CA LIMITED PARTNERSHIP	4	276,246	775,503	1,051,749	3,360	0.08
All Others	<u>4,708</u>	<u>409,622,839</u>	<u>1,137,790,490</u>	<u>1,547,413,329</u>	<u>3,930,360</u>	<u>93.77</u>
<b>TOTAL</b>	<b>4,947</b>	<b>\$431,602,606</b>	<b>\$1,243,641,669</b>	<b>\$1,675,244,275</b>	<b>\$4,191,390</b>	<b>100.00%</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

**CITY OF ELK GROVE  
TOP TEN PROPERTY OWNERS  
CFD No. 2003-1 (Poppy Ridge)  
Fiscal Year 2014-15**

Owner	Parcel Count	Land Value <sup>(1)</sup>	Structure Value <sup>(1)</sup>	Total Value <sup>(1)</sup>	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy
MOHANNA MOHAMMED H	1	\$717,241	\$1,766,463	\$2,483,704	\$13,655	0.35%
TANG FAMILY TRUST	4	370,551	775,268	1,145,819	3,860	0.10
PHAM FAMILY TRUST	4	335,694	721,371	1,057,065	3,860	0.10
YANG YANFENG & LI HUIJUAN	3	247,549	448,725	696,274	2,895	0.07
WU FAMILY TRUST	3	225,418	473,378	698,796	2,895	0.07
LAWTON FAMILY TRUST	3	339,262	658,770	998,032	2,895	0.07
BIAN FULIANG & TONG YUE	3	250,827	538,237	789,064	2,895	0.07
TAYLOR MORRISON CA LLC	54	643,458	-	643,458	2,895	0.07
BUI LAI T	3	243,777	775,436	1,019,213	2,895	0.07
LIU SHENG TRUST	3	257,140	639,833	896,973	2,895	0.07
ALL OTHERS	<u>4,105</u>	<u>356,973,779</u>	<u>966,961,314</u>	<u>1,323,935,093</u>	<u>3,838,092</u>	<u>98.93</u>
<b>TOTAL</b>	<b>4,186</b>	<b>\$360,604,696</b>	<b>\$973,758,795</b>	<b>\$1,334,363,491</b>	<b>\$3,879,732</b>	<b>100.00%</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

## Tax Collections and Delinquencies

**Historical Collections and Delinquencies.** The following tables summarize the delinquency status of property in the Districts for 2009-10 through 2013-14, as of June 30 in each Fiscal Year. The Districts currently participate in the "Teeter Plan" whereby they receive annually the full amount of their shares of Special Tax levies, including delinquent property taxes. See "- Teeter Plan" below.

### CITY OF ELK GROVE HISTORICAL SPECIAL TAX COLLECTIONS AND DELINQUENCIES The Districts in Aggregate As of June 30<sup>th</sup> Each Fiscal Year

Fiscal Year	Amount Levied	Amount Delinquent	No. of Parcels Levied	No. of Parcels Delinquent	% of Amount Delinquent <sup>(1)</sup>
2009-10	\$7,672,810	\$179,994	8,579	251	2.35%
2010-11	7,612,384	90,195	8,591	134	1.18%
2011-12	7,412,878	55,765	8,595	92	0.75%
2012-13	7,857,952	40,147	8,655	59	0.51%
2013-14	7,857,910	27,045	8,748	43	0.34%
2014-15 <sup>(2)</sup>	8,071,122	108,542	8,849	197	1.34

Source: NBS

(1) As of May 1, 2015, 0.07% or less remained delinquent for each Fiscal Year 2009-10 through 2012-13, and 0.12% remained delinquent for Fiscal Year 2013-14.

(2) As of May 1, 2015.

### CITY OF ELK GROVE HISTORICAL SPECIAL TAX COLLECTIONS AND DELINQUENCIES CFD No. 2002-1 (East Franklin) As of June 30<sup>th</sup> Each Fiscal Year

Fiscal Year	Amount Levied	Amount Delinquent	No. of Parcels Levied	No. of Parcels Delinquent	% of Amount Delinquent <sup>(1)</sup>
2009-10	\$4,082,289	\$85,019	4,709	129	2.08%
2010-11	4,060,123	46,032	4,721	74	1.13%
2011-12	3,994,236	22,644	4,721	41	0.57%
2012-13	4,158,672	15,540	4,732	26	0.37%
2013-14	4,158,658	9,585	4,739	15	0.23%
2014-15 <sup>(2)</sup>	4,191,390	55,629	4,739	104	1.33

Source: NBS

(1) As of May 1, 2015, 0.00% remained delinquent for each Fiscal Year 2009-10 through 2012-13, and 0.04% remained delinquent for Fiscal Year 2013-14.

(2) As of May 1, 2015.

**CITY OF ELK GROVE**  
**HISTORICAL SPECIAL TAX COLLECTIONS AND DELINQUENCIES**  
**CFD No. 2003-1 (Poppy Ridge)**  
**As of June 30<sup>th</sup> Each Fiscal Year**

Fiscal Year	Amount Levied	Amount Delinquent	No. of Parcels Levied	No. of Parcels Delinquent	% of Amount Delinquent <sup>(1)</sup>
2009-10	\$3,590,520	\$94,975	3,870	122	2.65%
2010-11	3,552,261	44,163	3,870	60	1.24%
2011-12	3,418,642	33,122	3,874	51	0.97%
2012-13	3,699,280	24,607	3,923	33	0.67%
2013-14	3,699,252	17,460	4,009	28	0.47%
2014-15 <sup>(2)</sup>	3,879,732	52,913	4,110	93	1.36

Source: NBS

(1) As of May 1, 2015, 0.00% remained delinquent for Fiscal Year 2009-10, 0.07% remained delinquent for Fiscal Years 2010-11 and 2011-12, 0.16% remained delinquent for Fiscal Year 2012-13, and 0.22% remained delinquent for Fiscal Year 2013-14.

(2) As of May 1, 2015.

**Teeter Plan.** In 1949, the California Legislature enacted an alternative method for the distribution of property taxes to local agencies. This method, known as the “**Teeter Plan**,” is found in Sections 4701-4717 of the California Revenue and Taxation Code. Upon adoption and implementation of this method by a county board of supervisors, local agencies for which the county collects property taxes and certain other public agencies and taxing areas located in the county receive annually the full amount of their shares of property taxes and other levies collected on the secured roll, including delinquent property taxes which have yet to be collected. While the county bears the risk of loss on unpaid delinquent taxes, it retains the penalties associated with delinquent taxes when they are paid. In turn, the Teeter Plan provides participating local agencies with stable cash flow and the elimination of collection risk.

Once adopted, a county’s Teeter Plan will remain in effect in perpetuity unless the board of supervisors orders its discontinuance or unless, prior to the commencement of a Fiscal Year, a petition for discontinuance is received and joined in by resolutions of the governing bodies of not less than two-thirds of the participating districts in the county. An electing county may, however, decide to discontinue the Teeter Plan with respect to any levying agency in the county if the board of supervisors, by action taken not later than July 15 of a Fiscal Year, elects to discontinue the procedure with respect to such levying agency and the rate of secured tax delinquencies in that agency in any year exceeds 3% of the total of all taxes levied on the secured roll by that agency.

Under the Teeter Plan, a county must initially provide a participating local agency with 95% of the estimated amount of the then-accumulated tax delinquencies (excluding penalties) for that agency. After the initial distribution, each participating local agency receives annually 100% of the secured property tax levies to which it is otherwise entitled, regardless of whether the county has actually collected the levies.

If any tax or assessment which was distributed to a Teeter Plan participant is subsequently changed by correction, cancellation or refund, a pro rata adjustment for the amount of the change is made on the records of the treasurer and auditor of the county. Such

adjustment for a decrease in the tax or assessment is treated by the county as an interest-free offset against future advances of tax levies under the Teeter Plan.

The Districts participate in the County of Sacramento's Teeter Plan. Under the County's Teeter plan, the County decides whether or not to purchase a district's delinquent direct levies each year. The County's Teeter Plan is subject to certain conditions and limitations. The County has purchased the Districts' Fiscal Year 2013-14 delinquent taxes as shown in the preceding tables. *There can be no assurance that the County will not modify or eliminate its Teeter Plan, or choose to remove Districts from its Teeter Plan, while the Bonds are outstanding.*

### **Valuation of Property**

The value of the land within the Districts is a critical factor in determining the investment quality of the Bonds. If a property owner defaults in the payment of a Special Tax, the City's only remedy is to foreclose on the delinquent property in an attempt to obtain funds with which to pay the delinquent Special Taxes. See "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Security for the CFD Bonds – Covenants of the City" and "RISK FACTORS - Bankruptcy Delays." Reductions in District property values due to a downturn in the economy, natural disasters such as earthquakes or floods, stricter land use regulations or other events could have an adverse impact on the security for payment of the Special Taxes.

The Special Tax is levied on each parcel within the Districts and only the respective individual parcel is responsible for such Special Tax. In comparing the aggregate value of the real property within the Districts and the principal amount of the Bonds, it should be noted that only the Assessor's parcel of real property upon which there is a delinquent Special Tax can be foreclosed upon. All of the real property within the Districts cannot be foreclosed upon as a whole to pay delinquent Special Taxes unless all of the property is subject to delinquent Special Taxes. Individual parcels may be foreclosed upon to pay delinquent Special Taxes levied against such parcels only. See "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Security for the CFD Bonds."

The principal amount of the Bonds will not be allocated pro-rata among the parcels within the Districts; rather, the annual Special Taxes for the Districts will be billed annually for each parcel within the Districts. Upon sale of developed parcels, the buyer typically acquires the property subject to the unpaid portion of any special taxes and special taxes levied against the parcel purchased. Special Taxes and special taxes are not required to be removed from the property and are not required to be, but may be, paid off in full upon transfer of property or upon development of the property.

**Assessed Valuations.** In connection with valuing property in the Districts, the City has obtained the 2014-15 County assessed valuation (the "Assessed Valuation") of the property in the Districts. Due to the recent and ongoing nature of development of homes in the Districts, the County assessed valuations are not in all cases reflective of most current development status, as is the case with certain properties in the Districts. As provided by Article XIII A of the California Constitution, county assessors' assessed values are to reflect market value as of the date the property was last assessed (or 1975, which ever is more recent), increased by a maximum of 2% per year. Properties may be reassessed by the County only upon a change of at least 51% ownership of existing property or upon new construction. The assessed values of parcels in the Districts thus reflect, for undeveloped parcels, the estimate of the County Assessor (the "Assessor") of market value when acquired (or 1975, whichever is later), possibly increased by 2% per year, and for parcels on which construction has occurred since their date of acquisition, the Assessor's estimate of market value as of the time of construction, possibly increased by 2% per year. The actual market value of parcels in the Districts, if sold at foreclosure, may be higher or lower than the Assessor's assessed values, depending upon the date of the Assessor's most recent assessment. The actual fair market value of any parcel can often be more accurately established through an arms-length sale or an appraisal by an independent appraiser.

**Total Value Estimate of All Property.** The aggregate property valuation of the property in the Districts has been compiled using the County Assessed Valuation, as described above. The total estimated valuation of all property in the Districts subject to the Special Taxes for various categories of property in the combined Districts is shown below.

**CITY OF ELK GROVE  
ASSESSED VALUATION BY CATEGORY  
The Districts in Aggregate  
Fiscal Year 2014-15**

Development Status	No. of Parcels	Total Assessed Value <sup>(1)</sup>	Maximum Special Tax	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy
Developed Residential	8,673	\$2,858,723,658	\$7,779,695	\$7,779,695	96.46%
Developed Multi-Family	155	55,797,488	87,176	87,176	1.09
Developed Non-Residential	21	88,277,241	204,251	204,251	2.45
Undeveloped Final Map	279	2,908,908	243,735	-	0.00
Undeveloped Large Lot	5	3,900,471	134,141	-	0.00
<b>Total</b>	<b>9,133</b>	<b>\$3,009,607,766</b>	<b>\$8,448,997</b>	<b>\$8,071,122</b>	<b>100.00%</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

**CITY OF ELK GROVE**  
**ASSESSED VALUATION BY CATEGORY**  
**CFD No. 2002-1 (East Franklin)**  
**Fiscal Year 2014-15**

<b>Development Status</b>	<b>No. of Parcels</b>	<b>Total Assessed Value <sup>(1)</sup></b>	<b>Maximum Special Tax</b>	<b>FY 2014-15 Special Tax Levy</b>	<b>% of FY 2014-15 Special Tax Levy</b>
Developed Residential	4,718	\$1,552,709,274	\$3,963,120	\$3,963,120	94.55%
Developed Multi-Family	1	31,329,096	37,674	37,674	0.90
Developed Non-Residential	20	85,793,537	190,596	190,596	4.55
Undeveloped Final Map	204	2,347,397	171,360	-	0.00
Undeveloped Large Lot	4	3,064,971	75,030	-	0.00
<b>Total</b>	<b>4,947</b>	<b>\$1,675,244,275</b>	<b>\$4,437,780</b>	<b>\$4,191,390</b>	<b>100.00%</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

**CITY OF ELK GROVE**  
**ASSESSED VALUATION BY CATEGORY**  
**CFD No. 2003-1 (Poppy Ridge)**  
**Fiscal Year 2014-15**

<b>Development Status</b>	<b>No. of Parcels</b>	<b>Total Assessed Value <sup>(1)</sup></b>	<b>Maximum Special Tax</b>	<b>FY 2014-15 Special Tax Levy</b>	<b>% of FY 2014-15 Special Tax Levy</b>
Developed Residential	3,955	\$1,306,014,384	\$3,816,575	\$3,816,575	98.37%
Developed Multi-Family	154	24,468,392	49,502	49,502	1.28
Developed Non-Residential	1	2,483,704	13,655	13,655	0.35
Undeveloped Final Map	75	561,511	72,375	-	0.00
Undeveloped Large Lot	1	835,500	59,111	-	0.00
<b>Total</b>	<b>4,186</b>	<b>\$1,334,363,491</b>	<b>\$4,011,217</b>	<b>\$3,879,732</b>	<b>100.00%</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

**Direct Debt Value to Lien Ratios.** The aggregate Assessed Valuation of taxable property in the Districts is approximately \$3.01 billion, which is approximately 33.21 times the \$90,630,000 aggregate principal amount of the Bonds. The aggregate Assessed Valuation of taxable property in the East Franklin CFD is approximately \$1.68 billion, which is approximately 34.20 times the \$49,120,000 aggregate principal amount of the East Franklin CFD Bonds. The aggregate Assessed Valuation of taxable property in the Poppy Ridge CFD is approximately \$1.33 billion, which is approximately 32.14 times the \$41,510,000 aggregate principal amount of the Poppy Ridge CFD Bonds. The following tables set forth the estimated assessed value-to-lien ratios for each District, and in the aggregate, based upon Fiscal Year 2014-15 assessed values and the estimated principal amounts of the CFD Bonds. Parcels in the Districts may have additional overlapping liens not shown below; all of the above value to lien ratios are based on direct CFD debt and do not include overlapping debt. See “- Overlapping Debt Value to Lien Ratios” and “- Direct and Overlapping Governmental Liens.”

**CITY OF ELK GROVE**  
**SUMMARY OF VALUES AND VALUE TO LIEN RATIO**  
**(Direct Debt)**  
**The Districts in Aggregate**  
**Fiscal Year 2014-15**

Assessed Value-to-Lien Ratio	No. of Parcels	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy	Total Assessed Value <sup>(1)</sup>	Direct CFD Debt <sup>(2)</sup>
0.00 to 2.99:1	56	\$52,790	0.65%	\$125,457	\$573,379
3.00 to 4.99:1	6	5,146	0.06	221,192	55,063
5.00 to 9.99:1	6	5,290	0.07	497,588	60,026
10.00 to 14.99:1	12	9,811	0.12	1,536,444	112,686
15.00 to 19.99:1	274	258,869	3.21	53,817,606	2,926,312
20.00 to 24.99:1	1,072	959,656	11.89	246,445,318	10,762,807
25.00 to 29.99:1	2,031	1,861,482	23.06	575,980,364	20,869,215
30.00 to 39.99:1	3,763	3,427,707	42.47	1,324,795,593	38,382,601
Greater than 40:1	1,629	1,490,371	18.47	799,378,825	16,887,910
Undeveloped parcels	284	-	0.00	6,809,379	-
<b>Totals</b>	<b>9,133</b>	<b>\$8,071,122</b>	<b>100.00%</b>	<b>\$3,009,607,766</b>	<b>\$90,630,000</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

(2) The Direct CFD Debt includes a total Local Obligation amount of \$90,630,000 allocated as follows: \$49,120,000 for CFD No. 2002-1 (East Franklin) and \$41,510,000 for CFD No. 2003-1 (Poppy Ridge).

**CITY OF ELK GROVE**  
**SUMMARY OF VALUES AND VALUE TO LIEN RATIO**  
**(Direct Debt)**  
**CFD No. 2002-1 (East Franklin)**  
**Fiscal Year 2014-15**

Assessed Value-to-Lien Ratio	No. of Parcels	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy	Total Assessed Value <sup>(1)</sup>	Direct CFD Debt <sup>(2)</sup>
0.00 to 2.99:1	10	\$8,400	0.20%	\$42,000	\$98,442
3.00 to 4.99:1	0	-	0.00	-	-
5.00 to 9.99:1	4	3,360	0.08	342,845	39,377
10.00 to 14.99:1	9	7,560	0.18	1,185,370	88,598
15.00 to 19.99:1	178	153,539	3.66	33,245,975	1,799,369
20.00 to 24.99:1	578	485,520	11.58	130,149,234	5,689,936
25.00 to 29.99:1	1,066	934,118	22.29	302,556,360	10,947,172
30.00 to 39.99:1	1,911	1,675,279	39.97	678,570,673	19,633,037
Greater than 40:1	983	923,614	22.04	523,739,450	10,824,070
Undeveloped parcels	208	-	0.00	5,412,368	-
<b>Totals</b>	<b>4,947</b>	<b>\$4,191,390</b>	<b>100.00%</b>	<b>\$1,675,244,275</b>	<b>\$49,120,000</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

(2) The Direct CFD Debt includes \$49,120,000 for CFD No. 2002-1 (East Franklin).

**CITY OF ELK GROVE**  
**SUMMARY OF VALUES AND VALUE TO LIEN RATIO**  
**(Direct Debt)**  
**CFD No. 2003-1 (Poppy Ridge)**  
**Fiscal Year 2014-15**

Assessed Value-to-Lien Ratio	No. of Parcels	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy	Total Assessed Value <sup>(1)</sup>	Direct CFD Debt <sup>(2)</sup>
0.00 to 2.99:1	46	\$44,390	1.14%	\$83,457	\$474,937
3.00 to 4.99:1	6	5,146	0.13	221,192	55,063
5.00 to 9.99:1	2	1,930	0.05	154,743	20,649
10.00 to 14.99:1	3	2,251	0.06%	351,074	24,089
15.00 to 19.99:1	96	105,330	2.71%	20,571,631	1,126,943
20.00 to 24.99:1	494	474,136	12.22%	116,296,084	5,072,870
25.00 to 29.99:1	965	927,364	23.90%	273,424,004	9,922,044
30.00 to 39.99:1	1,852	1,752,428	45.17%	646,224,920	18,749,565
Greater than 40:1	646	566,757	14.61%	275,639,375	6,063,840
Undeveloped parcels	76	-	0.00	1,397,011	-
<b>Totals</b>	<b>4,186</b>	<b>\$3,879,732</b>	<b>100.00%</b>	<b>\$1,334,363,491</b>	<b>\$41,510,000</b>

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

(2) The Direct CFD Debt includes \$41,510,000 for CFD No. 2003-1 (Poppy Ridge).

**Overlapping Debt Value to Lien Ratios.** The aggregate Assessed Valuation of taxable property in the Districts is approximately \$3.01 billion, which is approximately 25.43 times the \$118,360,746 total overlapping debt in the Districts. The aggregate Assessed Valuation of taxable property in the East Franklin CFD is approximately \$1.68 billion, which is approximately 26.16 times the \$64,208,060 total overlapping debt in the East Franklin CFD. The aggregate Assessed Valuation of taxable property in the Poppy Ridge CFD is approximately \$1.33 billion, which is approximately 24.64 times the \$54,152,686 total overlapping debt in the Poppy Ridge CFD. The following tables set forth the estimated assessed value-to-lien ratios for each District, and in the aggregate, based upon Fiscal Year 2014-15 assessed values and the outstanding liens in each District. See “- Direct and Overlapping Governmental Liens.”

**CITY OF ELK GROVE**  
**SUMMARY OF VALUES AND VALUE TO LIEN RATIO**  
**(Overlapping Debt)**  
**The Districts in Aggregate**  
**Fiscal Year 2014-15<sup>(3)</sup>**

Assessed Value-to-Lien Ratio	No. of Parcels	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy	Total Assessed Value <sup>(1)</sup>	Total Overlapping Debt <sup>(2) (4)</sup>
0.00 to 2.99:1	56	\$52,790	0.65%	\$125,457	\$705,477
3.00 to 4.99:1	6	5,146	0.06%	221,192	68,994
5.00 to 9.99:1	8	6,451	0.08%	663,195	91,137
10.00 to 14.99:1	189	182,932	2.27%	36,421,021	2,609,050
15.00 to 19.99:1	1,413	1,262,540	15.64%	327,424,634	18,117,337
20.00 to 24.99:1	2,857	2,641,942	32.73%	863,239,977	38,190,552
25.00 to 29.99:1	2,523	2,258,556	27.98%	901,040,650	32,980,216
30.00 to 39.99:1	1,600	1,450,947	17.98%	722,433,306	21,558,528
Greater than 40:1	197	209,816	2.60%	151,228,955	3,374,233
Undeveloped parcels	284	0	0.00	6,809,379	665,222
<b>Totals</b>	<b>9,133</b>	<b>\$8,071,122</b>	<b>100.00%</b>	<b>\$3,009,607,766</b>	<b>\$118,360,746</b>

*Source: NBS*

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

(2) Total overlapping debt per California Municipal Statistics.

(3) Total Overlapping Tax and Assessment Debt as of May 1, 2015, for all taxable parcels within each District.

(4) The Total Overlapping Debt includes Direct CFD Debt. Direct CFD Debt includes a total Local Obligation amount of \$90,630,000 allocated as follows: \$49,120,000 for CFD No. 2002-1 (East Franklin) and \$41,510,000 for CFD No. 2003-1 (Poppy Ridge).

**CITY OF ELK GROVE**  
**SUMMARY OF VALUES AND VALUE TO LIEN RATIO**  
**(Overlapping Debt)**  
**CFD No. 2002-1 (East Franklin)**  
**Fiscal Year 2014-15<sup>(3)</sup>**

Assessed Value-to-Lien Ratio	No. of Parcels	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy	Total Assessed Value <sup>(1)</sup>	Total Overlapping Debt <sup>(2) (4)</sup>
0.00 to 2.99:1	10	\$8,400	0.20%	\$42,000	\$122,504
3.00 to 4.99:1	0	-	0.00%	-	-
5.00 to 9.99:1	5	4,200	0.10%	463,751	60,357
10.00 to 14.99:1	119	103,979	2.48%	21,460,485	1,539,916
15.00 to 19.99:1	772	648,480	15.47%	174,679,133	9,688,758
20.00 to 24.99:1	1,446	1,300,921	31.04%	444,014,035	19,607,727
25.00 to 29.99:1	1,302	1,102,172	26.30%	460,496,113	16,815,386
30.00 to 39.99:1	943	850,408	20.29%	440,521,693	13,063,591
Greater than 40:1	142	172,830	4.12%	128,154,697	2,827,564
Undeveloped parcels	208	-	0.00	5,412,368	482,257
<b>Totals</b>	<b>4,947</b>	<b>\$4,191,390</b>	<b>100.00%</b>	<b>\$1,675,244,275</b>	<b>\$64,208,060</b>

*Source: NBS*

(1) The Total Assessed Value per County of Sacramento as of January 1, 2014.

(2) Total overlapping debt per California Municipal Statistics.

(3) Total Overlapping Tax and Assessment Debt as of May 1, 2015, for all taxable parcels within each District.

(4) The Total Overlapping Debt includes Direct CFD Debt. Direct CFD Debt includes \$49,120,000 for CFD No. 2002-1 (East Franklin), a portion of the total Local Obligation amount of \$90,630,000.

**CITY OF ELK GROVE**  
**SUMMARY OF VALUES AND VALUE TO LIEN RATIO**  
**(Overlapping Debt)**  
**CFD No. 2003-1 (Poppy Ridge)**  
**Fiscal Year 2014-15<sup>(3)</sup>**

Assessed Value-to-Lien Ratio	No. of Parcels	FY 2014-15 Special Tax Levy	% of FY 2014-15 Special Tax Levy	Total Assessed Value <sup>(1)</sup>	Total Overlapping Debt <sup>(2)(4)</sup>
0.00 to 2.99:1	46	\$44,390	1.14%	\$83,457	\$582,973
3.00 to 4.99:1	6	5,146	0.13%	221,192	68,994
5.00 to 9.99:1	3	2,251	0.06%	199,444	30,780
10.00 to 14.99:1	70	78,953	2.04%	14,960,536	1,069,134
15.00 to 19.99:1	641	614,060	15.83%	152,745,501	8,428,578
20.00 to 24.99:1	1,411	1,341,021	34.56%	419,225,942	18,582,825
25.00 to 29.99:1	1,221	1,156,384	29.81%	440,544,537	16,164,830
30.00 to 39.99:1	657	600,540	15.48%	281,911,613	8,494,937
Greater than 40:1	55	36,986	0.95%	23,074,258	546,669
Undeveloped parcels	76	-	0.00	1,397,011	182,965
<b>Totals</b>	<b>4,186</b>	<b>\$3,879,732</b>	<b>100.00%</b>	<b>\$1,334,363,491</b>	<b>\$54,152,686</b>

*Source: NBS*

- (1) The Total Assessed Value per County of Sacramento as of January 1, 2014.
- (2) Total overlapping debt per California Municipal Statistics.
- (3) Total Overlapping Tax and Assessment Debt as of May 1, 2015, for all taxable parcels within each District.
- (4) The Total Overlapping Debt includes Direct CFD Debt. Direct CFD Debt includes \$41,510,000 for CFD No. 2003-1 (Poppy Ridge),, a portion of the total Local Obligation amount of \$90,630,000.

**Historical Assessed Values.** The tables below show a five-year history of assessed valuations of the property that was levied a Special Tax in each Fiscal Year in the Districts.

**CITY OF ELK GROVE  
SUMMARY OF HISTORICAL ASSESSED VALUES  
The Districts in Aggregate**

Fiscal Year	Land Value <sup>(1)(2)</sup>	Structure Value <sup>(1)(2)</sup>	Total Assessed Value <sup>(1)(2)</sup>	% Change in Total Assessed Value
2010-11	\$675,323,318	\$1,888,656,648	\$2,563,979,966	-
2011-12	670,616,306	1,814,618,721	2,485,235,027	(3.07)%
2012-13	640,612,981	1,692,358,595	2,332,971,576	(6.13)
2013-14	697,973,059	1,905,364,512	2,603,337,571	11.59
2014-15 <sup>(3)</sup>	785,964,443	2,216,833,944	3,002,798,387	15.34

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1 of each Fiscal Year.

(2) The Assessed Values are provided for each parcel that was levied a special tax in each Fiscal Year.

(3) The aggregated Assessed Value for all taxable parcels within the boundaries of the Districts equals \$3,009,607,766.

**CITY OF ELK GROVE  
SUMMARY OF HISTORICAL ASSESSED VALUES  
CFD No. 2002-1 (East Franklin)**

Fiscal Year	Land Value <sup>(1)(2)</sup>	Structure Value <sup>(1)(2)</sup>	Total Assessed Value <sup>(1)(2)</sup>	% Change in Total Assessed Value
2010-11	\$367,066,061	\$1,078,485,156	\$1,445,551,217	-
2011-12	369,655,309	1,031,863,461	1,401,518,770	(3.05)%
2012-13	354,415,984	964,488,739	1,318,904,723	(5.89)
2013-14	380,812,513	1,076,769,008	1,457,581,521	10.51
2014-15 <sup>(3)</sup>	426,526,758	1,243,305,149	1,669,831,907	14.56

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1 of each Fiscal Year.

(2) The Assessed Values are provided for each parcel that was levied a special tax in each Fiscal Year.

(3) The Assessed Value for all taxable parcels within CFD No. 2002-1 equals \$1,675,244,275.

**CITY OF ELK GROVE  
SUMMARY OF HISTORICAL ASSESSED VALUES  
CFD No. 2003-1 (Poppy Ridge)**

Fiscal Year	Land Value <sup>(1)(2)</sup>	Structure Value <sup>(1)(2)</sup>	Total Assessed Value <sup>(1)(2)</sup>	% change in Total Assessed Value
2010-11	\$308,257,257	\$810,171,492	\$1,118,428,749	-
2011-12	300,960,997	782,755,260	1,083,716,257	(3.10)%
2012-13	286,196,997	727,869,856	1,014,066,853	(6.43)
2013-14	317,160,546	828,595,504	1,145,756,050	12.99
2014-15 <sup>(3)</sup>	359,437,685	973,528,795	1,332,966,480	16.34

Source: NBS

(1) The Total Assessed Value per County of Sacramento as of January 1 of each Fiscal Year.

(2) The Assessed Values are provided for each parcel that was levied a special tax in each Fiscal Year.

(3) The Assessed Value for all taxable parcels within CFD No. 2003-1 equals \$1,334,363,491.

## **Direct and Overlapping Governmental Liens**

**Effective Tax Rates.** Property in the Districts is subject to annual charges and assessments (which are billed to property owners on a semi-annual basis). The following tables set forth the total effective tax rate for a typical parcel of Developed Property in each District based on Fiscal Year 2014-15 tax rates.

### **CITY OF ELK GROVE SAMPLE PROPERTY TAX BILL AND EFFECTIVE PROPERTY TAX RATE ON TYPICAL PARCEL CFD No. 2002-1 (East Franklin)**

#### **Estimated Property Characteristics**

Average Assessed Value <sup>(1)</sup>	\$329,797.00
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<b><u>Ad Valorem</u></b>	<b><u>Tax Rate</u></b>	
General Purpose Ad Valorem Tax (Proposition 13)	1.0000%	\$3,297.97
Los Rios College General Obligation Bonds	<u>0.0113</u>	<u>37.27</u>
Total Ad Valorem Taxes	1.0113%	3,335.24

#### **Special/Direct Assessments and Taxes**

Consumnes CSD - District Wide Landscape & Lighting	\$339.00
Sacramento County Water Agency Water & Drainage Studies - Zone 13	6.94
State of California Maintenance District No. 9	18.66
City of Elk Grove East Franklin CFD No. 2002-1	840.00
City of Elk Grove Street Lighting Maintenance District No. 1 (Zone 1)	17.88
City of Elk Grove Street Maintenance District No. 1 (Zone 1)	174.22
City of Elk Grove CFD No. 2003-2 (Police Services)	414.27
City of Elk Grove Maintenance Services CFD No. 2006-1	610.80
Elk Grove Unified School District MR - CFD No. 1	200.00
Total Special/Direct Assessments and Taxes	\$2,621.77

<b>Total Estimated Annual Property Taxes</b>	<b>\$5,957.01</b>
<b>Effective Tax Rate</b>	<b>1.8063%</b>

*Source: Alliant Tax Research.*

(1) Based upon average of total land and structure assessed value for all single family residential parcels within the East Franklin CFD.

**CITY OF ELK GROVE  
SAMPLE PROPERTY TAX BILL AND  
EFFECTIVE PROPERTY TAX RATE ON TYPICAL PARCEL  
CFD No. 2003-1 (Poppy Ridge)**

**Estimated Property Characteristics**

Average Assessed Value (1)	\$330,219.00
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**Ad Valorem**

General Purpose Ad Valorem Tax (Proposition 13)	1.0000%	\$3,302.19
Los Rios College General Obligation Bonds	<u>0.0113</u>	<u>37.31</u>
Total Ad Valorem Taxes	1.0113%	\$3,339.50

**Special/Direct Assessments and Taxes**

Consumnes CSD - District Wide Landscape & Lighting	\$339.00
Sacramento County Water Agency Water & Drainage Studies - Zone 13	6.94
State of California Maintenance District No. 9	18.66
City of Elk Grove Poppy Ridge CFD No. 2003-1	965.00
City of Elk Grove Poppy Ridge CFD No. 2003-1 Services	191.20
City of Elk Grove Street Lighting Maintenance District No. 1 (Zone 1)	17.88
City of Elk Grove Street Maintenance District No. 1 (Zone 1)	174.22
City of Elk Grove Maintenance Services CFD No. 2006-1	610.80
Elk Grove Unified School District MR - CFD No. 1	<u>200.00</u>
Total Special/Direct Assessments and Taxes	\$2,523.70

<b>Total Estimated Annual Property Taxes</b>	<b>\$5,863.20</b>
<b>Effective Tax Rate</b>	<b>1.7756%</b>

*Source: Alliant Tax Research.*

(1) Based upon average of total land and structure assessed value for all single family residential parcels within the Poppy Ridge CFD.

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

The current and estimated direct and overlapping obligations affecting the property in the Districts are shown in the following tables. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the District divided by the district's total taxable assessed value. The tables were prepared by California Municipal Statistics, Inc., and are included for general information purposes only. The City has not reviewed this report for completeness or accuracy and makes no representation in connection therewith.

**CITY OF ELK GROVE**  
**DIRECT AND OVERLAPPING BONDED DEBT**  
**As of May 1, 2015**  
**CFD No. 2002-1 (East Franklin)**

2014-15 Local Secured Assessed Valuation: \$1,675,244,275

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/15</u>
Los Rios Community College District General Obligation Bonds	1.046%	\$ 3,778,871
Elk Grove Unified School District Community Facilities District No. 1	6.325	11,309,189
<b>City of Elk Grove Community Facilities District No. 2002-1</b>	<b>100.000</b>	<b>47,850,000<sup>(1)</sup></b>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$62,938,060
 <u>OVERLAPPING GENERAL FUND DEBT:</u>		
Sacramento County General Fund Obligations	1.270%	\$ 3,522,288
Sacramento County Pension Obligation Bonds	1.270	12,372,878
Sacramento County Board of Education Certificates of Participation	1.270	92,231
Los Rios Community College District Certificates of Participation	1.046	59,306
City of Elk Grove Lease Revenue Bonds	10.103	<u>2,093,286</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$18,139,989
Less: Sacramento County supported obligations		79,209
City of Elk Grove Lease Revenue Bonds supported by enterprise revenues		<u>997,140</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$17,063,640
GROSS COMBINED TOTAL DEBT		\$81,078,049 <sup>(2)</sup>
NET COMBINED TOTAL DEBT		\$80,001,700

(1) Excludes East Franklin CFD Bonds that were sold, but includes Prior East Franklin CFD Bonds being refunded as described herein.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2014-15 Assessed Valuation:

<b>Direct Debt (\$47,850,000)</b> .....	<b>2.86%</b>
Total Direct and Overlapping Tax and Assessment Debt .....	3.76%
Gross Combined Total Debt .....	4.84%
Net Combined Total Debt .....	4.78%

Source: California Municipal Statistics Inc.

**CITY OF ELK GROVE**  
**DIRECT AND OVERLAPPING BONDED DEBT**  
**As of May 1, 2015**  
**CFD No. 2003-1 (Poppy Ridge)**

2014-15 Local Secured Assessed Valuation: \$1,334,363,491

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 5/1/15</u>
Los Rios Community College District General Obligation Bonds	0.851%	\$ 3,075,687
Elk Grove Unified School District Community Facilities District No. 1	5.351	9,566,999
<b>City of Elk Grove Community Facilities District No. 2003-1</b>	<b>100.000</b>	<b><u>40,945,000</u> <sup>(1)</sup></b>
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$53,587,686
<u>OVERLAPPING GENERAL FUND DEBT:</u>		
Sacramento County General Fund Obligations	1.034%	\$ 2,866,849
Sacramento County Pension Obligation Bonds	1.034	10,070,493
Sacramento County Board of Education Certificates of Participation	1.034	75,069
Los Rios Community College District Certificates of Participation	0.851	48,270
City of Elk Grove Lease Revenue Bonds	8.223	<u>1,703,761</u>
TOTAL GROSS OVERLAPPING GENERAL FUND DEBT		\$14,764,442
Less: Sacramento County supported obligations		64,470
City of Elk Grove Lease Revenue Bonds supported by enterprise revenues		<u>811,589</u>
TOTAL NET OVERLAPPING GENERAL FUND DEBT		\$13,888,383
GROSS COMBINED TOTAL DEBT		\$68,352,128 <sup>(2)</sup>
NET COMBINED TOTAL DEBT		\$67,476,069

(1) Excludes Poppy Ridge CFD Bonds that were sold, but includes Prior Poppy Ridge CFD Bonds being refunded as described herein.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and non-bonded capital lease obligations.

Ratios to 2014-15 Assessed Valuation:

<b>Direct Debt (\$40,945,000)</b> .....	<b>3.07%</b>
Total Direct and Overlapping Tax and Assessment Debt.....	4.02%
Gross Combined Total Debt.....	5.12%
Net Combined Total Debt.....	5.06%

Source: California Municipal Statistics Inc.

Property in the Districts is currently subject to the overlapping tax and assessment liens shown in the overlapping debt statements above, including the lien of special taxes for the Elk Grove Unified School District Community Facilities District No. 1 ("CFD No. 1"). As of June 30, 2014, CFD No. 1 had total debt outstanding of \$182,043,915. In 2014-15, the total special tax levied with respect to CFD No. 1 was \$14,921,063. Property in the District is also subject to the *ad valorem* tax lien for the Los Rios Community College District General Obligation Bonds (the "CCD Bonds"). As of June 30, 2014, the CCD Bonds were outstanding in the principal amount of \$370,270,000. Property in the District is also subject to certain special taxes and assessments to fund services, as shown above under "- Effective Tax Rates."

## MUNICIPAL BOND INSURANCE

*Concurrently with the issuance of the Bonds, BAM will issue its Bond Insurance Policy. The Bond Insurance Policy guarantees the scheduled payment of principal of and interest only on the Bonds maturing on September 1 in the years 2030 through 2036, inclusive, and September 1, 2038 (the "Insured Bonds"),*

*The following information has been furnished by BAM for use in this Official Statement. No representation is made by the Authority, the City or the Underwriter as to the accuracy or completeness of this information, or the absence of material adverse changes therein at any time subsequent to the date of this Official Statement. See Appendix G for a specimen of the Bond Insurance Policy.*

BAM is a New York domiciled mutual insurance corporation. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by Standard and Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at [www.standardandpoors.com](http://www.standardandpoors.com). The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Insured Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Insured Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Insured Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Bond Insurance Policy), and BAM does not guarantee the market price or liquidity of the Insured Bonds, nor does it guarantee that the rating on the Insured Bonds will not be revised or withdrawn.

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2015 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$466.5 million, \$22.2 million and \$444.3 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "INTRODUCTION – Bond Insurance Policy" and "MUNICIPAL BOND INSURANCE."

*Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [buildamerica.com/creditinsights/](http://buildamerica.com/creditinsights/).

**Obligor Disclosure Briefs.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Obligor Disclosure Brief for those bonds. These pre-sale Obligor Disclosure Briefs provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Obligor Disclosure Briefs will be updated and superseded by a final Obligor Disclosure Brief to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Obligor Disclosure Briefs are easily accessible on BAM's website at [buildamerica.com/obligor/](http://buildamerica.com/obligor/). BAM will produce an Obligor Disclosure Brief for all bonds insured by BAM, whether or not a pre-sale Obligor Disclosure Brief has been prepared for such bonds.

**Disclaimers.** The Obligor Disclosure Briefs and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Obligor Disclosure Briefs and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Obligor Disclosure Briefs and Credit Insight videos are prepared by BAM and have not been reviewed or approved by the issuer of or the underwriter for the Insured Bonds, and they assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Insured Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Insured Bonds, whether at the initial offering or otherwise.

## RISK FACTORS

*The purchase of the Bonds described in this Official Statement involves a degree of risk that may not be appropriate for some investors. The following includes a discussion of some of the risks that should be considered before making an investment decision.*

### Limited Obligation to Pay Debt Service

**The Bonds.** The Bonds are special obligations of the Authority payable solely from and secured solely by the Revenues and funds pledged therefor in the Indenture, consisting primarily of debt service on the CFD Bonds. See "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR."

**The CFD Bonds.** The City has no obligation to pay principal of or interest on the CFD Bonds if Special Tax collections are delinquent or insufficient, other than from amounts, if any, on deposit in the Reserve Account established for the CFD Bonds or funds derived from the foreclosure and sale of parcels for Special Tax delinquencies. The City is not obligated to advance funds to pay debt service on the CFD Bonds.

### Levy and Collection of the Special Taxes

**General.** The principal source of payment of principal of and interest on the CFD Bonds is the proceeds of the annual levy and collection of the Special Tax against property within the applicable District.

**Limitation on Special Tax Rate.** The annual levy of the Special Tax on any parcel is limited to the maximum Special Tax rate authorized in the applicable Special Tax Formula. The levy cannot be made at a higher rate even if the failure to do so means that the estimated proceeds of the levy and collection of the Special Tax, together with other available funds, will not be sufficient to pay debt service on the CFD Bonds.

**No Relationship Between Property Value and Special Tax Levy.** Because the Special Tax Formula is not based on property value, the levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular parcels of Taxable Property and the amount of the levy of the Special Tax against those parcels. Thus, there will rarely, if ever, be a uniform relationship between the value of the parcels of Taxable Property and their proportionate share of debt service on the CFD Bonds, and certainly not a direct relationship.

**Factors that Could Lead to Special Tax Deficiencies.** The following are some of the factors that might cause the levy of the Special Tax on any particular parcel of Taxable Property to vary from the Special Tax that might otherwise be expected:

**Transfers to Governmental Entities.** The number of parcels of Taxable Property could be reduced through the acquisition of Taxable Property by a governmental entity (by exercise of its rights as mortgage guarantor, or for other reasons) and failure of the government to pay the Special Tax based upon a claim of exemption or, in the case of the federal government or an agency thereof, immunity from taxation, thereby resulting in an increased tax burden on the remaining taxed parcels.

**Property Tax Delinquencies.** Failure of the owners of Taxable Property to pay property taxes (and, consequently, the Special Tax), or delays in the collection of or inability to collect the Special Tax by tax sale or foreclosure and sale of the delinquent parcels, could result in a deficiency in the collection of Special Taxes. For a summary of Special Tax collections in the Districts, see “OWNERSHIP AND VALUE OF PROPERTY WITHIN THE DISTRICTS – Tax Collections and Delinquencies.”

**Delays Following Delinquencies and Foreclosure Sales.** The CFD Bonds Fiscal Agent Agreement provides that the Special Tax is to be collected in the same manner as ordinary *ad valorem* property taxes are collected and, except as provided in the special covenant for foreclosure described in “SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Security for the CFD Bonds” and in the Mello-Roos Act, is subject to the same penalties and the same procedure, sale and lien priority in case of delinquency as is provided for ordinary *ad valorem* property taxes. Under these procedures, if taxes are unpaid for a period of five years or more, the property is subject to sale by the County.

If sales or foreclosures of property are necessary, there could be a delay in payments to the Authority, as owner of the CFD Bonds, pending such sales or the prosecution of foreclosure proceedings and receipt by the City of the proceeds of sale if the Reserve Account for the applicable CFD Bonds is depleted. See “SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Security for the CFD Bonds.”

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

Property Owners are not personally obligated to pay their respective Special Taxes. Rather, the Special Taxes are obligations only against the respective parcels against which they are levied. If, after a default in the payment of the Special Tax and a foreclosure sale, the resulting proceeds are insufficient, taking into account other obligations also constituting a lien against the parcel, the City has no personal recourse against the parcel owner.

### **Assessed Valuations**

The City has not commissioned an appraisal of the parcels in either CFD in connection with the issuance of the Bonds. Therefore, the estimated valuation of the Taxable Property in the Districts set forth in this Official Statement are based on the County Assessor's values. The assessed value is not an indication of what a willing buyer might pay for a property. The assessed value is not evidence of future value because future facts and circumstances may differ significantly from the present.

No assurance can be given that any of the Taxable Property in the Districts could be sold for the assessed value if that property should become delinquent and subject to foreclosure proceedings.

### **Property Values**

The value of Taxable Property within the Districts is a critical factor in determining the investment quality of the Bonds. If a parcel owner defaults in the payment of the Special Taxes, the City's only remedy is to foreclose on the delinquent property.

The following is a discussion of specific risk factors that could affect the value of property in the Districts.

**Prolonged Economic Downturn.** Land values in and around the City have been adversely affected by current economic conditions. To the extent that the economic downturn is prolonged, property values could remain flat for an indefinite period.

Declines in home values in the Districts could also result in property owner unwillingness or inability to pay mortgage payments, as well as *ad valorem* property taxes and Special Taxes, when due. Under such circumstances, bankruptcies are likely to increase. Bankruptcy by homeowners with delinquent Special Taxes would delay the commencement and completion of foreclosure proceedings.

**Risks Related to Mortgage Loans.** Although residential projects that have their homes built and occupied by homeowners are typically viewed as providing bondholders with strong credits, some of the recent home purchasers, especially those during 2004 to 2007, may face challenges in making their mortgage and tax payments on a timely basis, due to their initial high loan to value ratios, creative mortgage loan structures, and current negative equity levels.

Recent events in the United States and world-wide capital markets have adversely affected the availability of mortgage loans to homeowners, including potential buyers of homes within the Districts. Any such unavailability could hinder the ability of the current homeowners to resell their homes, and adversely affect the market prices available to current homeowners.

**Natural Disasters.** The value of the parcels in the Districts 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 parcels in the Districts and the continued habitability and enjoyment of such private improvements. For example, the areas in and surrounding the Districts, like those in much of California, may be subject to earthquakes or other unpredictable seismic activity, however, the Districts are not located in a seismic special studies zone.

Other natural disasters could include, without limitation, landslides, floods, droughts or tornadoes. One or more 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 there could be significant delinquencies in the payment of Special Taxes, and the value of the parcels may well depreciate.

**Hazardous Substances.** One of the most serious risks in terms of the potential reduction in the property values is a claim with regard to a hazardous substance. In general, the owners and operators of property 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 Taxable Property in the Districts 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.

Although the City is not aware that the owner or operator of any of the Taxable Property in the Districts has such a current liability, it is possible that such liabilities do currently exist. Further, it is possible that liabilities may arise in the future resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but that has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but that may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the property values that would otherwise be realized upon a delinquency.

*No information is available as to the existence of any hazardous substances within the Districts.*

**Other Factors.** Other factors that could adversely affect property values in the Districts include, among others, relocation of employers out of the area, shortages of water, electricity, natural gas or other utilities, and destruction of property caused by man-made disasters.

### **California Drought; State of Emergency Proclamation**

On January 17, 2014, with California facing water shortfalls in the then-driest year in recorded state history, Governor Edmund G. Brown Jr. proclaimed a State of Emergency and directed state officials to take all necessary actions to prepare for these drought conditions. In the State of Emergency declaration, Governor Brown directed state officials to assist farmers and communities that are economically impacted by dry conditions and to ensure the State can respond if Californians face drinking water shortages. The Governor also directed state agencies to use less water and hire more firefighters and initiated a greatly expanded water conservation public awareness. In addition, the proclamation gave state water officials more flexibility to manage supply throughout California under drought conditions.

The Governor's drought State of Emergency follows a series of actions the administration has taken to ensure that California is prepared for record dry conditions. In May 2013, Governor Brown issued an Executive Order to direct state water officials to expedite the review and processing of voluntary transfers of water and water rights. In December 2014, the Governor formed a Drought Task Force to review expected water allocations, California's preparedness for water scarcity and whether conditions merit a drought declaration.

On April 1, 2015, for the first time in state history, the Governor directed the State Water Resources Control Board to implement mandatory water reductions in cities and towns across California to reduce water usage by 25%. This savings amounts to approximately 1.5 million acre-feet of water over the following nine months.

California set a new "low water" mark on April 1, 2015, with its early-April snowpack measurement. The statewide electronic reading of the snowpack's water content stood at 5 percent of the April 1st average. April 1, 2015's content was only 1.4 inches, or 5%, of the 28-inch average. The lowest previous reading since 1950 was 25% of average, so water year 2015 is the driest winter in California's written record.

The implementation of mandatory water reductions is ongoing. The Authority cannot predict how long the drought conditions will last, what effect drought conditions may have on property values or whether or to what extent water reduction requirements may affect the Districts.

### **Other Possible Claims Upon the Property Values**

While the Special Taxes are secured by the Taxable Property in the Districts, the security only extends to the value of such property that is not subject to priority and parity liens and similar claims.

Tables listing of the outstanding governmental obligations affecting each District are set forth above under "OWNERSHIP AND VALUE OF PROPERTY WITHIN THE DISTRICTS – Direct and Overlapping Governmental Liens."

In addition, other governmental obligations may be authorized and undertaken or issued in the future, the tax, assessment or charge for which may become an obligation of one or more of the parcels within the Districts, and may be secured by a lien on a parity with the lien of the Special Taxes securing the CFD Bonds.

In general, the Special Taxes, and all other taxes, assessments and charges also collected on the tax roll, are on a parity, that is, are of equal priority. Questions of priority become significant when collection of one or more of the taxes, assessments or charges is sought by some other procedure, such as foreclosure and sale. If proceedings are brought to foreclose a delinquency, the Special Taxes will generally be on parity with the other taxes, assessments and charges, and will share the proceeds of such foreclosure proceedings on a pro-rata basis.

## **Enforcement of Special Taxes on Governmentally Owned Properties**

**General.** The ability of the City 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 Districts, 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 City 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.

Neither the City nor the Authority has 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 Districts. No assurance can be given as to the likelihood that the risks described above will materialize while the CFD Bonds are outstanding.

**FDIC.** If any financial institution making any loan secured by real property within the Districts is taken over by the FDIC, and prior thereto or thereafter the loan (or loans) goes into default, resulting in ownership of the property by the FDIC, then the ability of the City 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 taxes and 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 issued a ruling on August 28, 2001, in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes.

The Authority and the City are 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 Districts, 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 either the Reserve Accounts established for the CFD Bonds and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the CFD Bonds.

***Exemptions Under Special Tax Formula and the Mello-Roos Act.*** Certain properties are exempt from the Special Tax in accordance with the Special Tax Formula and the Mello-Roos Act, which provides that properties or entities of the state, federal or local government are exempt from the Special Tax; provided, however, that property within the Districts acquired by a public entity through a negotiated transaction or by gift or devise, which is not otherwise exempt from the Special Tax, will continue to be subject to the Special Tax.

In addition, although the Mello-Roos Act provides that if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment, the constitutionality and operation of these provisions of the Act have not been tested, meaning that such property could become exempt from the Special Tax. The Mello-Roos Act further provides that no other properties or entities are exempt from the Special Tax unless the properties or entities are expressly exempted in a resolution of consideration to levy a new special tax or to alter the rate or method of apportionment of an existing special tax.

## **Depletion of Reserve Accounts**

The City will establish and maintain a Reserve Account for each series of CFD Bonds that may be used to pay principal of and interest on the related CFD Bonds if insufficient funds are available from the proceeds of the levy and collection of the Special Taxes against property within the applicable District. See "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR - Security for the CFD Bonds – Reserve Accounts."

If funds in a Reserve Account for a series of CFD Bonds are depleted, the funds can be replenished from the proceeds of the levy and collection of the Special Tax that are in excess of the amount required to pay all amounts to be paid to the Authority under the applicable CFD Fiscal Agent Agreement. However, no replenishment from the proceeds of a Special Tax levy can occur so long as the proceeds that are collected from the levy of the Special Tax against property within a District at the maximum Special Tax rates, together with other available funds, remain insufficient to pay all such amounts. Thus, it is possible that a Reserve Account for a series of CFD Bonds will be depleted and not be replenished by the levy of the Special Tax.

*Each Reserve Account for the CFD Bonds is available only for the series of CFD Bonds to which it relates and no series of CFD Bonds or the pledge of Special Taxes to pay such CFD Bonds is cross-collateralized to any other series.*

## **Bankruptcy Delays**

The payment of the Special Taxes, and the ability of the City to foreclose the lien of a delinquent unpaid Special Tax, may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by State laws relating to judicial foreclosure.

The various legal opinions to be delivered concurrently with the delivery of the 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 CFD Bonds, as applicable.

## **Disclosure to Future Purchasers**

The City has recorded, in the Office of the County Recorder, a notice of the Special Tax lien with respect to the Districts. While 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 the obligations represented by the Special Taxes in the purchase of a parcel of land or a home in the Districts, or the lending of money secured by property in the Districts.

## **No Acceleration; Right to Pursue Remedies**

Neither the Bonds nor the CFD Bonds contain a provision allowing for acceleration if a payment default or other default occurs under the Indenture or the CFD Bonds Fiscal Agent Agreements. See “APPENDIX A – Summary of Certain Provisions of Principal Legal Documents.”

So long as the Bonds are in book-entry form, DTC will be the sole Bond Owner and will be entitled to exercise all rights and remedies of Bond Owners under the Bonds and the Indenture.

## **Loss of Tax Exemption**

As discussed under the caption “LEGAL MATTERS – Tax Matters,” interest on the Bonds might become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the Authority in violation of its covenants in the Indenture, or of the City in violation of its covenants in the CFD Bonds Fiscal Agent Agreements.

The Indenture does not contain a special redemption feature triggered by the occurrence of an event of taxability. As a result, if interest on the Bonds were to be includable in gross income for purposes of federal income taxation, the Bonds would continue to remain outstanding until maturity unless earlier redeemed pursuant to mandatory redemption. See “THE BONDS – Redemption.”

In addition, 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 Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation.

## **Voter Initiatives**

Under the California Constitution, the power of initiative is reserved to the voters for the purpose of enacting statutes and constitutional amendments. Since 1978, the voters have exercised this power through the adoption of Proposition 13 and similar measures, including Proposition 218, which was approved in the general election held on November 5, 1996, and Proposition 26, which was approved on November 2, 2010.

Any such initiative may affect the collection of fees, taxes and other types of revenue by local agencies such as the City. Subject to overriding federal constitutional principles, such collection may be materially and adversely affected by voter-approved initiatives, possibly to the extent of creating cash-flow problems in the payment of outstanding obligations such as the CFD Bonds.

Proposition 218—Voter Approval for Local Government Taxes—Limitation on Fees, Assessments, and Charges—Initiative Constitutional Amendment, added Articles XIIIC and XIIID to the California Constitution, imposing certain vote requirements and other limitations on the imposition of new or increased taxes, assessments and property-related fees and charges.

On November 2, 2010, California voters approved Proposition 26, entitled the "Supermajority Vote to Pass New Taxes and Fees Act". Section 1 of Proposition 26 declares that Proposition 26 is intended to limit the ability of the State Legislature and local government to circumvent existing restrictions on increasing taxes by defining the new or expanded taxes as "fees." Proposition 26 amended Articles XIII A and XIII C of the State Constitution. The amendments to Article XIII A limit the ability of the State Legislature to impose higher taxes (as defined in Proposition 26) without a two-thirds vote of the Legislature. Article XIII C requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general governmental purposes require a majority vote and taxes for specific purposes ("special taxes") require a two-thirds vote.

The Special Taxes and the CFD Bonds were each authorized by not less than a two-thirds vote of the landowners within the CFD who constituted the qualified electors at the time of such voted authorization. The City believes, therefore, that issuance of the CFD Bonds does not require the conduct of further proceedings under the Act, Proposition 218 or Proposition 26.

Like their antecedents, Proposition 218 and Proposition 26 are likely to undergo both judicial and legislative scrutiny before the impact on the Districts can be determined. Certain provisions of Proposition 218 and Proposition 26 may be examined by the courts for their constitutionality under both State and federal constitutional law, the outcome of which cannot be predicted.

### **Secondary Market for Bonds**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

### **THE AUTHORITY**

The Authority is a joint exercise of powers authority duly organized and operating pursuant to Article 1 (commencing with Section 6500) of Chapter 5, Division 7, Title 1 of the California Government Code, and pursuant to a Joint Exercise of Powers Agreement entered into in 2005 by and among the City and the Elk Grove Parking Authority, and is qualified to assist in financing projects and certain public improvements and to issue the Bonds under the Marks-Roos Local Bond Pooling Act of 1985, being Article 4 of Chapter 5, Division 7, Title 1 of the California Government Code. The Authority has no taxing power. The Authority and the City are each separate and distinct legal entities, and the debts and obligations of one such entity are not debts or obligations of the other entity.

The Authority was established for the purpose of financing the acquisition, construction, improvement and equipping of public capital improvements. The governing board of the Authority is the City Council of the City.

## LEGAL MATTERS

### Tax Matters

In the opinion of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings.

The opinions set forth in the preceding paragraph are subject to the condition that the Authority and the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "**Tax Code**"), that must be satisfied subsequent to the issuance of the Bonds. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.

If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is less than the amount payable at maturity thereof, then such difference constitutes "original issue discount" for purposes of federal income taxes and State of California personal income taxes. If the initial offering price to the public (excluding bond houses and brokers) at which a Bond is sold is greater than the amount payable at maturity thereof, then such difference constitutes "original issue premium" for purposes of federal income taxes and State of California personal income taxes. *De minimis* original issue discount and original issue premium is disregarded.

Under the Tax Code, original issue discount is treated as interest excluded from federal gross income and exempt from State of California personal income taxes to the extent properly allocable to each owner thereof subject to the limitations described in the first paragraph of this section. The original issue discount accrues over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). The amount of original issue discount accruing during each period is added to the adjusted basis of such Bonds to determine taxable gain upon disposition (including sale, redemption, or payment on maturity) of such Bond. The Tax Code contains certain provisions relating to the accrual of original issue discount in the case of purchasers of the Bonds who purchase the Bonds after the initial offering of a substantial amount of such maturity. Owners of such Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase in the original offering, the allowance of a deduction for any loss on a sale or other disposition, and the treatment of accrued original issue discount on such Bonds under federal individual and corporate alternative minimum taxes.

Under the Tax Code, original issue premium is amortized on an annual basis over the term of the Bond (said term being the shorter of the Bond's maturity date or its call date). The amount of original issue premium amortized each year reduces the adjusted basis of the owner of the Bond for purposes of determining taxable gain or loss upon disposition. The amount of original issue premium on a Bond is amortized each year over the term to maturity of the Bond on the basis of a constant interest rate compounded on each interest or principal payment date (with straight-line interpolations between compounding dates). Amortized Bond premium is not deductible for federal income tax purposes. Owners of premium Bonds, including purchasers who do not purchase in the original offering, should consult their own tax advisors with respect to State of California personal income tax and federal income tax consequences of owning such Bonds.

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

Owners of the Bonds should also be aware that the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may have federal or state tax consequences other than as described above. Bond Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Bonds other than as expressly described above.

### **Absence of Litigation**

The Authority and the City will certify at the time the Bonds are issued that no litigation is pending or threatened concerning the validity of the Bonds or the CFD Bonds and that no action, suit or proceeding is known by the Authority or the City to be pending that would restrain or enjoin the delivery of the Bonds or the CFD Bonds, or contest or affect the validity of the Bonds or the CFD Bonds, or any proceedings of the Authority or the City taken with respect to the Bonds or the CFD Bonds.

### **Legal Opinion**

All proceedings in connection with the issuance of the Bonds are subject to the approval as to their legality of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. The unqualified opinion of Bond Counsel approving the validity of the Bonds is attached as APPENDIX D.

### **RATING**

Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. ("S&P") has assigned the rating of "AA" to the Insured Bonds with the understanding that upon delivery of the Bonds the Bond Insurance Policy will be issued by BAM. S&P has also assigned an underlying rating of "A-" to the Bonds, without regard to the issuance of the Bond Insurance Policy, as shown on the cover page hereof. Such ratings reflect only the view of S&P and an explanation of the significance of such ratings may be obtained from S&P at: Standard & Poor's Rating Services, 55 Water Street, New York, New York 10041. There is no assurance that such ratings will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. The City and the Authority assume no obligation to attempt to maintain any rating on the Bonds.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey, Demgen & Moore, Inc., Certified Public Accountants, Denver, Colorado, independent accountants, upon delivery of the Bonds, will deliver one or more reports on the mathematical accuracy of certain computations contained in schedules provided to them which were prepared by the City relating to the sufficiency of moneys and securities deposited into the Escrow Fund to pay, when due, the principal, whether at maturity or upon prior prepayment, interest and prepayment premium requirements of the Prior East Franklin CFD Bonds, the Prior Poppy Ridge CFD Bonds and the Prior Authority Bonds.

## **UNDERWRITING**

Piper Jaffray & Co., Incorporated (the "**Underwriter**"), has agreed to purchase the Bonds at a purchase price of \$99,735,093.90 (being the principal amount of the Bonds (\$90,630,000) plus net original issue premium of \$9,594,495.90 and *less* an underwriter's discount of \$489,402.00).

The Underwriter has entered into a distribution agreement (the "'Distribution Agreement") with Charles Schwab & Co., Inc. ("**CS&Co.**") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from the Underwriter at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

The Underwriter may change the initial public offering prices of the Bonds from time to time. The agreement under which the Underwriter has agreed to purchase the Bonds provides that the Underwriter will purchase all the Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth therein, including, among others, the approval of certain legal matters by counsel.

## **CONTINUING DISCLOSURE**

The City, on behalf of itself and the Authority, will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Districts (the "**Annual Report**") by not later than nine months following the end of the City's Fiscal Year (currently March 31 based on the City's Fiscal Year ending June 30), commencing March 31, 2016, with the report for the Fiscal Year ending June 30, 2015, and to provide notices of the occurrence of certain listed events.

These covenants have been made in order to assist the Underwriter in complying with Securities Exchange Commission Rule 15c2-12(b)(5), as amended (the "**Rule**"). The specific nature of the information to be contained in the Annual Report or the notices of listed events is set forth in APPENDIX E."

In the past five years, the City and the Authority have had certain instances where filings pursuant previous continuing disclosure obligation under the Rule were late.

The City's \$67,670,000 Community Facilities District No. 2005-1 (Laguna Ridge) Special Tax Bonds, Series 2007, dated July 12, 2007, require continuing disclosure operating reports to be filed by January 15th of each calendar year and the operating reports were all timely filed.

However the annual financial reports were filed between 29 and 44 days after the due date for fiscal years 2009-10, 2010-11 and 2011-12.

For the Authority's \$90,875,000 Special Tax Revenue Bonds, dated September 8, 2005, and the Authority's \$15,900,000 Special Tax Revenue Bonds, Series 2006, dated May 25, 2006, the operating report was filed 350 days late for fiscal year 2011-12.

Regarding the Authority's \$18,585,000 Lease Revenue Bonds (2007 Capital Projects), Series 2007, dated June 20, 2007, the rating was upgraded from A to an A+ on October 22, 2010. The Authority was over four years late in filing the material event notice regarding the upgrade but has remedied this issue.

The City and the Authority have had no other instances in the previous five years in which they failed to comply in all material respects with any previous continuing disclosure obligation. The City and the Authority have engaged NBS to serve as dissemination agent for its undertakings pursuant to the Rule with respect to the Bonds.

#### **PROFESSIONALS INVOLVED IN THE OFFERING**

All proceedings in connection with the issuance of the Bonds are subject to the approval of Jones Hall, A Professional Law Corporation, San Francisco, California, Bond Counsel. Jones Hall, A Professional Law Corporation, is also acting as Disclosure Counsel to the Authority. U.S. Bank National Association, San Francisco, California, will act as the Trustee. Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, is acting as counsel to the Underwriter.

The City has retained Fieldman Rolapp & Associates, Irvine, California, as financial advisor (the "**Financial Advisor**") in connection with the issuance of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement. The Financial Advisor is an independent financial advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities.

The compensation of Bond Counsel, Disclosure Counsel, the Trustee, the Financial Advisor and Underwriter's counsel is contingent upon issuance of the Bonds.

## **EXECUTION**

The execution and delivery of this Official Statement have been duly authorized by the Authority and the City.

ELK GROVE FINANCE AUTHORITY

By: \_\_\_\_\_ /s/ Brad Koehn  
Treasurer

CITY OF ELK GROVE

By: \_\_\_\_\_ /s/ Brad Koehn  
Director of Finance and  
Administrative Services

## APPENDIX A

### SUMMARY OF CERTAIN PROVISIONS OF PRINCIPAL LEGAL DOCUMENTS

*The following is a summary of selected provisions of the CFD Bonds Fiscal Agent Agreements and the Indenture that are not described elsewhere in this Official Statement. This summary does not purport to be comprehensive and reference should be made to the Fiscal Agent Agreements and the Indenture for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement have the meanings set forth in the Fiscal Agent Agreements or the Indenture.*

#### THE FISCAL AGENT AGREEMENTS

##### General

The CFD Bonds Fiscal Agent Agreements set forth the terms of the CFD Bonds, the application of the proceeds of the sale of the CFD Bonds, the nature and extent of the security for the CFD Bonds, various rights of the Bondholder (which is the Trustee for the Authority Bonds), and the rights, duties, and immunities of the Fiscal Agent. The two CFD Bonds Fiscal Agent Agreements (each a “**Fiscal Agent Agreement**”) pursuant to which the CFD Bonds are issued are substantially the same.

The following is a summary of selected provisions that are common to each Fiscal Agent Agreement. This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Fiscal Agent Agreements.

##### Definitions

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

**Authority Bonds** means any bonds outstanding under the Authority Indenture, which are secured in part by payments made on the Bonds.

**Authorized Investments** means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein, but only to the extent that the same are acquired at Fair Market Value:

- (a) Federal Securities;
- (b) any of the following direct or indirect obligations of the following agencies of the United States of America: (i) direct obligations of the Export-Import Bank; (ii) certificates of beneficial ownership issued by the Farmers Home Administration; (iii) participation certificates issued by the General Services Administration; (iv) mortgage-backed bonds or pass-through obligations issued and guaranteed by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal Housing Administration; (v) project notes issued by the United States Department of Housing and Urban Development; and (vi) public housing notes and bonds guaranteed by the United States of America;

(c) interest-bearing demand or time deposits (including certificates of deposit) or deposit accounts in federal or state chartered savings and loan associations or in federal or State of California banks (including the Fiscal Agent and its affiliates), provided that (i) the unsecured short-term obligations of such commercial bank or savings and loan association will be rated in the highest short-term rating category by any Rating Agency or (ii) such demand or time deposits will be fully insured by the Federal Deposit Insurance Corporation;

(d) commercial paper rated at the time of purchase in the highest short-term rating category by any Rating Agency, issued by corporations which are organized and operating within the United States of America, and which matures not more than 180 days following the date of investment therein;

(e) bankers acceptances, consisting of bills of exchange or time drafts drawn on and accepted by a commercial bank whose short-term obligations are rated in the highest short-term rating category by any Rating Agency or whose long-term obligations are rated A or better by each such Rating Agency, which mature not more than 270 days following the date of investment therein;

(f) obligations the interest on which is excludable from gross income pursuant to Section 103 of the Tax Code and which are either (a) rated A or better by any Rating Agency or (b) fully secured as to the payment of principal and interest by Federal Securities;

(g) obligations issued by any corporation organized and operating within the United States of America having assets in excess of Five Hundred Million Dollars (\$500,000,000), which obligations are rated A or better by any Rating Agency;

(h) money market funds (including money market funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services) which invest in Federal Securities or which are rated in the highest rating category by any Rating Agency;

(i) any investment agreement, repurchase agreement or other investment instrument which represents the general unsecured obligations of a bank, investment banking firm or other financial institution whose long-term obligations are rated at the time of the delivery of the investment agreement, repurchase agreement or other investment instrument A or better by any Rating Agency; and

(j) shares in a California common law trust established pursuant to Title 1, Division 7, Chapter 5 of the Government Code of the State of California that invests exclusively in investments permitted by Section 53601 of Title 5, Division 2, Chapter 4 of the California Government Code, as it may be amended (California Asset Management Program); and

(k) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code.

**Bond Insurance Policy** means the policy of municipal bond insurance policy issued by the Insurer which insures the payment when due of principal of and interest on the Insured Bonds.

**Bond Year** means the twelve month period commencing on September 2 of each year and ending on September 1 of the following year, except that, for purposes of compliance with the provisions of the Code, the first Bond Year will begin on the Delivery Date for such Bonds and end on the first September 1 which is not more than 12 months after the Delivery Date, and, for all other purposes, the first Bond Year will begin on the Delivery Date for such Bonds and end on September 1, 2016.

**Bonds** refers to the CFD Bonds issued under the Fiscal Agent Agreement.

**CFD** refers to the District with respect to which the CFD Bonds are issued under the Fiscal Agent Agreement.

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

**Federal Securities** means any of the following:

- (a) Cash (insured at all times by the Federal Deposit Insurance Corporation).
- (b) Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

U.S. treasury obligations  
All direct or fully guaranteed obligations  
Farmers Home Administration  
General Services Administration  
Guaranteed Title XI financing  
Government National Mortgage Association (GNMA)  
State and Local Government Series

**Fiscal Year** means the period beginning on July 1 of each year and ending on the next succeeding June 30.

**Insured Bonds** means the Bonds maturing in the years 2030 through 2036, inclusive, and September 1, 2038.

**Insurer** means Build America Mutual Assurance Company, its successors and assigns, as issuer of the Bond Insurance Policy.

**Maximum Annual Debt Service** means the maximum sum obtained for any Bond Year prior to the final maturity of the Bonds by adding the following for each Bond Year:

- (1) the principal amount of all Outstanding Bonds payable in such Bond Year either at maturity or pursuant to a Sinking Fund Payment; and

(2) the interest payable on the aggregate principal amount of all Bonds Outstanding in such Bond Year if the Bonds are retired as scheduled.

**Parity Bonds** means additional bonds issued pursuant to the Fiscal Agent Agreement that are payable from Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Bonds.

**Rate and Method of Apportionment** means the rate, method of apportionment, and manner of collection of the Special Taxes (which is referred to in the Official Statement as the "Special Tax Formula") included as Exhibit B to the Resolution of Formation for the CFD.

**Reserve Policy** means the Municipal Bond Debt Service Reserve Insurance Policy issued by BAM on the Closing Date, in an amount equal to the Reserve Requirement, which Reserve Policy constitutes a Reserve Account Credit Instrument.

**Standard & Poor's** means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, its successors and assigns.

**Supplemental Agreement** means any Supplemental Agreement amending or supplementing the Fiscal Agent Agreement.

Investment of Funds.

Moneys held in any of the Funds, Accounts and Subaccounts under the Fiscal Agent Agreement will be invested at the written direction of the City in accordance with the limitations set forth below only in Authorized Investments which will be deemed at all times to be a part of such Funds, Accounts and Subaccounts. Any loss resulting from such Authorized Investments will be credited or charged to the Fund, Account or Subaccount from which such investment was made, and any investment earnings on amounts deposited in the Special Tax Fund and the Surplus Fund, and each Account therein, will be deposited in those respective Funds and Accounts.

Moneys in the Funds, Accounts and Subaccounts held under the Fiscal Agent Agreement may be invested by the Fiscal Agent as directed in writing by the City, from time to time, in Authorized Investments subject to the following restrictions:

(a) Moneys in the Interest Account, the Principal Account, and the Redemption Account of the Special Tax Fund will be invested only in Authorized Investments which will by their terms mature, or in the case of an Investment Agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due.

(b) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Authorized Investments which are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds as the same become due.

(c) In the absence of written investment directions from the City, the Fiscal Agent will invest solely in Authorized Investments specified in clause (h) of the definition thereof. The Fiscal Agent will be entitled to rely upon any investment directions from the

Authority as conclusive certification to the Fiscal Agent that the investments described therein are so authorized under the laws of the State of California and qualify as Authorized Investments.

Supplemental Agreements or Orders Not Requiring Bondowner Consent

The City may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Agreements for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions which may be inconsistent with any other provision in the Fiscal Agent Agreement, or to make any other provision with respect to matters or questions arising under the Fiscal Agent Agreement or in any additional resolution or order, provided that such action is not materially adverse to the interests of the Bondowners;

(b) to add to the covenants and agreements of and the limitations and the restrictions upon the City contained in the Fiscal Agent Agreement, other covenants, agreements, limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Fiscal Agent Agreement as theretofore in effect or which further secure Bond payments;

(c) to provide for the issuance of any Parity Bonds, and to provide the terms and conditions under which such Parity Bonds may be issued, subject to and in accordance with the provisions of the Fiscal Agent Agreement;

(d) to modify, amend or supplement the Fiscal Agent Agreement in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which will not materially adversely affect the interests of the Owners of the Bonds then Outstanding; or

(e) to modify, alter or amend the rate and method of apportionment of the Special Taxes in any manner so long as such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the CFD to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year plus Administrative Expenses with respect to the Bonds Outstanding as of the date of such amendment; or

(f) to modify, alter, amend or supplement the Fiscal Agent Agreement in any other respect which is not materially adverse to the Bondowners; or

(g) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Authority Bonds.

Supplemental Agreements or Orders Requiring Bondowner Consent

Exclusive of the Supplemental Agreements described above, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding will have the right to consent to and approve the adoption by the City of such Supplemental Agreements as will be

deemed necessary or desirable by the City for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Fiscal Agent Agreement; provided, however, that nothing in the Fiscal Agent Agreement will permit, or be construed as permitting, (a) an extension of the maturity date of the principal, or the payment date of interest on, any Bond, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a preference or priority of any Bond over any other Bond, or (d) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such Supplemental Agreement, without the consent of the Owners of all Bonds then Outstanding.

If at any time the City will desire to adopt a Supplemental Agreement, which pursuant to the terms of the Fiscal Agent Agreement will require the consent of the Bondholders, the City will so notify the Fiscal Agent and will deliver to the Fiscal Agent a copy of the proposed Supplemental Agreement. The Fiscal Agent will, at the expense of the City, cause notice of the proposed Supplemental Agreement to be mailed, by first class mail, postage prepaid, to all Bondholders at their addresses as they appear in the Bond Register. Such notice will briefly set forth the nature of the proposed Supplemental Agreement and will state that a copy thereof is on file at the office of the Fiscal Agent for inspection by all Bondholders. The failure of any Bondholders to receive such notice will not affect the validity of such Supplemental Agreement when consented to and approved by the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding as required by the Fiscal Agent Agreement. Whenever at any time within one year after the date of the first mailing of such notice, the Fiscal Agent will receive an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding, which instrument or instruments will refer to the proposed Supplemental Agreement described in such notice, and will specifically consent to and approve the adoption thereof by the City substantially in the form of the copy referred to in such notice as on file with the Fiscal Agent, such proposed Supplemental Agreement, when duly adopted by the City, will thereafter become a part of the proceedings for the issuance of the Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds have consented to the adoption of any Supplemental Agreement, Bonds which are owned by the City or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the City, will be disregarded and will be treated as though they were not Outstanding for the purpose of any such determination.

Upon the adoption of any Supplemental Agreement and the receipt of consent to any such Supplemental Agreement from the Owners of not less than a majority in aggregate principal amount of the Outstanding Bonds in instances where such consent is required pursuant to the provisions of the Fiscal Agent Agreement, the Fiscal Agent Agreement will be, and will be deemed to be, modified and amended in accordance therewith, and the respective rights, duties and obligations under the Fiscal Agent Agreement of the City and all Owners of Outstanding Bonds will thereafter be determined, exercised and enforced hereunder, subject in all respects to such modifications and amendments.

#### Defeasance

If the City will pay or cause to be paid, or there will otherwise be paid, to the Owner of an Outstanding Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Fiscal Agent Agreement or any Supplemental Agreement, then the Owner of such Bond will cease to be entitled to the pledge of Net Taxes, and, other than as set forth below, all covenants, agreements and other obligations of the City to the Owner of such

Bond under the Fiscal Agent Agreement and any Supplemental Agreement relating to such Parity Bond will thereupon cease, terminate and become void and be discharged and satisfied. In the event of a defeasance of all Outstanding Bonds pursuant to the Fiscal Agent Agreement, the Fiscal Agent will execute and deliver to the City all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiscal Agent will pay over or deliver to the City's general fund all money or securities held by it pursuant to the Fiscal Agent Agreement which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds.

Any Outstanding Bond will be deemed to have been paid within the meaning expressed in the first paragraph of the Fiscal Agent Agreement if such Bond is paid in any one or more of the following ways:

- (a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond, 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 Special Tax Fund and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond, as and when the same will become due and payable; or
- (c) by depositing with the Fiscal Agent or another escrow bank appointed by the City, in trust, Federal Securities, in which the City may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond, as and when the same will become due and payable;

then, at the election of the City, and notwithstanding that any Outstanding Bonds will not have been surrendered for payment, all obligations of the City under the Fiscal Agent Agreement and any Supplemental Agreement with respect to such Bond will cease and terminate, except for the obligation of the Fiscal Agent to pay or cause to be paid to the Owners of any such Bond not so surrendered and paid, all sums due thereon. Notice of such election will be filed with the Fiscal Agent not fewer than ten days prior to the proposed defeasance date, or such shorter period of time as may be acceptable to the Fiscal Agent. In connection with a defeasance under (b) or (c) above, there will be provided to the City a verification report from an independent nationally recognized certified public accountant stating its opinion as to the sufficiency of the moneys or securities deposited with the Fiscal Agent or the escrow bank to pay and discharge the principal of, premium, if any, and interest on all Outstanding Bonds to be defeased in accordance with the Fiscal Agent Agreement, as and when the same will become due and payable, and an opinion of Bond Counsel (which may rely upon the opinion of the certified public accountant) to the effect that the Bonds being defeased have been legally defeased in accordance with the Fiscal Agent Agreement and any applicable Supplemental Agreement.

Upon a defeasance, the Fiscal Agent, upon request of the City, will release the rights of the Owners of such Bonds which have been defeased under the Fiscal Agent Agreement and any Supplemental Agreement and execute and deliver to the City all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance hereunder of all Outstanding Bonds, the Fiscal Agent will pay over or deliver to the City any funds held by the Fiscal Agent at the time of a defeasance, which are not required for the

purpose of paying and discharging the principal of or interest on the Bonds when due. The Fiscal Agent will, at the written direction of the City, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds have been defeased, in the form directed by the City, stating that the defeasance has occurred.

Defeasance will be accomplished only with an irrevocable deposit in escrow of certain investments referred to above. Further substitutions of securities in the escrow are not permitted. The deposit in the escrow must be sufficient, without reinvestment, to pay all principal and interest as scheduled on the Bonds to and including the date of redemption. Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness.

The City may at any time after the issuance and delivery of the Bonds hereunder issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Agreement; provided, however, that Parity Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or any Parity Bonds then Outstanding or for financing additional costs of the Project (with respect to the East Franklin CFD). Parity Bonds may be issued subject to the following specific conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

(a) The City will be in compliance with all covenants set forth in the Fiscal Agent Agreement and any Supplemental Agreement then in effect and a certificate of the City to that effect will have been filed with the Fiscal Agent; provided, however, that Parity Bonds may be issued notwithstanding that the City is not in compliance with all such covenants so long as immediately following the issuance of such Parity Bonds the City will be in compliance with all such covenants.

(b) The issuance of such Parity Bonds will have been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds will have been provided for by a Supplemental Agreement duly adopted by the City, which will specify the following:

(1) The purpose for which such Parity Bonds are to be issued and the fund or funds into which the proceeds thereof are to be deposited;

(2) The authorized principal amount of such Parity Bonds;

(3) The date and the maturity date or dates of such Parity Bonds; provided that (i) each maturity date will fall on a September 1, (ii) all such Parity Bonds of like maturity will be identical in all respects, except as to number, and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, will be established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

(4) The description of the Parity Bonds, the place of payment thereof and the procedure for execution and authentication;

(5) The denominations and method of numbering of such Parity Bonds;

(6) The amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;

(7) The amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account to increase the amount therein to the Reserve Requirement;

(8) The form of such Parity Bonds; and

(9) Such other provisions as are necessary or appropriate and not inconsistent with the Fiscal Agent Agreement.

(c) The City will have provided the following documents, all of such documents dated or certified, as the case may be, as of the date of delivery of such Parity Bonds by the Fiscal Agent (unless the Fiscal Agent will accept any of such documents bearing a prior date):

(1) A certified copy of the Supplemental Agreement authorizing the issuance of such Parity Bonds;

(2) A written request of the City as to the delivery of such Parity Bonds;

(3) An opinion of Bond Counsel and/or general counsel to the City to the effect that (a) the City has the right and power under the Act to adopt the Fiscal Agent Agreement and the Supplemental Agreements relating to such Parity Bonds, and the Fiscal Agent Agreement and all such Supplemental Agreements have been duly and lawfully adopted by the City, are in full force and effect and are valid and binding upon the City and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (b) the Fiscal Agent Agreement creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Fiscal Agent Agreement, subject to the application thereof to the purposes and on the conditions permitted by the Fiscal Agent Agreement; and (c) such Parity Bonds are valid and binding limited obligations of the City, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Fiscal Agent Agreement and all Supplemental Agreements thereto and entitled to the benefits of the Fiscal Agent Agreement and all such Supplemental Agreements, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Fiscal Agent Agreement and all such Supplemental Agreements;

(4) A certificate of the City containing such statements as may be reasonably necessary to show compliance with the requirements of the Fiscal Agent Agreement;

(5) A certificate of an Independent Financial Consultant certifying that (i) issuance of the Parity Bonds will not adversely impact the ability of the Authority to pay debt service on the Authority Bonds and, for refunding bonds, that (ii) issuance of the Parity Bonds results in debt service savings in each Bond Year for the Bonds to be refunded, and (iii) the maturity date of the Parity Bonds will not exceed the latest maturity date of the Bonds being refunded; and

(6) Such further documents, money and securities as are required by the provisions of the Fiscal Agent Agreement and the Supplemental Agreement providing for the issuance of such Parity Bonds.

(d) With respect to the Elk Grove CFD only, Parity Bonds issued to finance additional costs of the Project are subject to the following additional conditions, which are hereby made conditions precedent to the issuance of any such Parity Bonds:

(1) *Value-to-Lien Ratio -- Aggregate.* The aggregate fair market value of all Taxable Property (and the then existing private improvements thereon) on the date of the adoption of the Supplemental Agreement authorizing the issuance of such additional Parity Bonds (based on either the assessed valuations thereof as contained in the most recent equalized assessment roll of Sacramento County or an MAI appraisal), will be equal to at least twenty (20) times the sum of (i) the aggregate principal amount of all Bonds to be outstanding after the issuance of such Parity Bonds, plus (ii) the aggregate principal amount of all outstanding special assessment bonds that are payable from special assessments levied on the Taxable Property, plus (iii) the proportion of the aggregate principal amount of all outstanding bonds issued under the Act (other than the Bonds) that are payable from special taxes to be levied on the Taxable Property.

(2) *Maximum Annual Debt Service Coverage Ratio.* The amount of Special Taxes that may be levied in each Fiscal Year following issuance of the additional Parity Bonds by application of the Rate and Method of Apportionment on Developed Property will be no less than 110% of Maximum Annual Debt Service with respect to the Bonds to be Outstanding.

(3) *Reserve Account.* The balance in the Reserve Account, upon the receipt of the proceeds of the sale of such Parity Bonds, will be increased, if necessary, to an amount at least equal to the Reserve Requirement with respect to all Bonds to be considered Outstanding upon the issuance of such Parity Bonds.

## **THE INDENTURE**

### **General**

The Indenture sets forth the terms of the Bonds, the application of the proceeds of the sale of the Bonds, the nature and extent of the security for the Bonds, various rights of the Owners, and the rights, duties, and immunities of the Trustee. Certain provisions of the Indenture are summarized below. Other provisions are summarized in this Official Statement under the captions "THE BONDS" and "SECURITY FOR THE BONDS AND SOURCES OF PAYMENT THEREFOR." This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

### **Definitions**

**Annual Debt Service** means, for each Bond Year, the sum of (a) the interest payable on the Outstanding Bonds of a Series in such Bond Year, and (b) the principal amount of the Outstanding Bonds of a Series scheduled to be paid in such Bond Year.

**Federal Securities** has the same meaning as the term "Federal Securities" under the Fiscal Agent Agreements.

**Independent Accountant** means any accountant or firm of such accountants appointed and paid by the Authority, and who, or each of whom –

- (a) is in fact independent and not under domination of the Authority or the City;
- (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and
- (c) is not an officer or employee of the Authority, or the City, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

**Independent Financial Consultant** means any financial consultant or firm of such consultants appointed and paid by the Authority, and who, or each of whom –

- (a) is in fact independent and not under domination of the Authority or the City;
- (b) does not have any substantial interest, direct or indirect, in the Authority or the City; and
- (c) is not an officer or employee of the Authority or the City, but who may be regularly retained to make annual or other audits of the books of or reports to the Authority or the City.

**Maximum Annual Debt Service** means, as of the date of any calculation, the largest Annual Debt Service on a Series during the current or any future Bond Year.

**Outstanding**, when used as of any particular time with reference to Bonds, means (subject to the certain provisions of the Indenture) all Bonds theretofore executed and issued by the Authority and authenticated and delivered by the Trustee under the Indenture except –

- (a) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- (b) Bonds paid or deemed to have been paid within the meaning of the Indenture or Bonds called for redemption for which funds have been provided as described in the Indenture; and
- (c) Bonds in lieu of or in substitution for which other Bonds will have been executed, issued and delivered pursuant to the Indenture or any Supplemental Indenture.

**Owner**, or **Bond Owner**, when used with respect to any Bond, means the person in whose name the ownership of such Bond will be registered on the Bond Register.

**Permitted Investments** has the same meaning as the term “Permitted Investments” under the Fiscal Agent Agreements (substituting “Trustee” for “Fiscal Agent” throughout).

**Rating Agency** means Standard & Poor’s or, in the event that Standard & Poor’s no longer maintains a rating on the Bonds, any other nationally recognized bond rating agency then maintaining a rating on the Bonds, but, in each instance, only so long as Standard & Poor’s or other nationally recognized rating agency then maintains a rating on the Bonds.

**Revenues** means: (a) all amounts received from the CFD Bonds; (b) any proceeds of the Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds and accounts established hereunder with respect to the Bonds (other than the Rebate Fund and the Surplus Fund); and (c) investment income with respect to any moneys held by the Trustee in the funds and accounts established hereunder with respect to the Bonds (other than investment income on moneys held in the Rebate Fund and the Surplus Fund).

**Special Taxes** means the taxes authorized to be levied by each CFD on parcels within the CFD, which have been pledged to repay the applicable CFD Bonds pursuant to the CFD Act.

**Trust Office** means the office of the Trustee at which at any particular time its corporate trust business with respect to the Indenture will be principally administered, which office at the date hereof is located in Seattle, Washington, or such other place as designated by the Trustee except that with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term will mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business will be conducted

### Establishment and Application of Funds

The Indenture establishes the Proceeds Fund, the Revenue Fund, the Interest Fund, the Principal Fund, the Redemption Fund, and the Rebate Fund, all of which are to be held by the Trustee.

*Purchase Fund.* The Trustee will transfer to the Fiscal Agent all of the proceeds received from the sale of the Bonds and deposited in the Purchase Fund in payment of the purchase price of the CFD Bonds.

*Revenue Fund.* The Trustee will deposit all Revenues, as and when received, into the Revenue Fund. The Trustee will transfer from the Revenue Fund and deposit in the following respective funds the following amounts on the dates described.

(a) On each Interest Payment Date and date for redemption of the Bonds, the Trustee will transfer from the Revenue Fund, and deposit into the following respective accounts for the Bonds, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(i) Interest Account. On each Interest Payment Date and redemption date, the Trustee will deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on such Interest Payment Date on all Outstanding Bonds or to be paid on the Bonds being redeemed on such date. No deposit need be made into the Interest Account if the amount contained therein is at least equal to the interest becoming due and payable upon all Outstanding Bonds on the next succeeding Interest Payment Date or redemption date, as applicable. All moneys in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying interest on the Bonds as it will become due and payable (including accrued interest on any Bonds redeemed prior to maturity). In the event that the amounts on deposit in the Interest Account on any Interest Payment Date or redemption date are insufficient for any reason to pay the aggregate amount of interest then coming due and payable on the Outstanding Bonds, the Trustee will apply such amounts to the payment of interest on each of the Outstanding Bonds on a pro rata basis.

(ii) Principal Account. On each Interest Payment Date and redemption date on which the principal of the Bonds will be payable, the Trustee will deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of, and premium (if any) on, the Bonds coming due and payable on such Interest Payment Date, or required to be redeemed on such date pursuant to the Indenture; provided, however, that no amount will be deposited to effect an optional redemption unless the Trustee has first received a certificate of an Independent Accountant certifying that such deposit to effect an optional redemption of the Bonds will not impair the ability of the Authority to make timely payment of the principal of and interest on the Bonds, assuming for such purposes that the City continues to make timely payments on all CFD Bonds not then in default. All moneys in the Principal Account will be used and withdrawn by the Trustee solely for the

purpose of (i) paying the principal of the Bonds at the maturity thereof or (ii) paying the principal of and premium (if any) on any Bonds upon the redemption thereof.

(b) If on any Interest Payment Date or date for redemption the amount on deposit in the Revenue Fund is inadequate to make the transfers described in subsection (a) above as a result of a payment default on an issue of CFD Bonds, the Trustee will notify the City of the amount needed to make the required deposits under subsection (a) above. In the event that within 5 Business Days of delivering such notice the Trustee receives additional payments from the City to cure such shortfall, the Trustee will deposit such amounts to the account designated in writing by the City.

(c) On each Interest Payment Date after making the transfers required under subsections (a) and (b) above, upon receipt of a Request of the Authority to do so, the Trustee will transfer from the Revenue Fund to the Rebate Fund for deposit therein the amounts specified in such Request.

(d) On September 2 of each year, after making the deposits described under subsections (a), (b) and (c) above, the Trustee will transfer all amounts remaining on deposit in the Revenue Fund to the Surplus Fund.

*Rebate Fund.* The Trustee will establish a Rebate Fund. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the Authority will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Fiscal Agent Agreement, the Indenture and the Code. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury in accordance with written instructions given by the Authority to the Trustee, upon which the Trustee may conclusively rely. Any funds remaining in the Rebate Fund after redemption and payment of the Bonds and after payment of all the amounts payable to the United States Treasury from the Rebate Fund, including accrued interest and payment of all applicable fees to the Trustee, may be withdrawn by the Trustee and remitted to the Authority and utilized in any manner by the Authority.

#### Payment Procedure Under the Bond Insurance Policy.

In the event that principal and/or interest due on the Insured Bonds will be paid by the Insurer pursuant to the Bond Insurance Policy, the Insured Bonds will remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, the assignment and pledge of the trust estate and all covenants, agreements and other obligations of the Authority to the registered owners will continue to exist and will run to the benefit of the Insurer, and the Insurer will be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Insured Bonds.

In the event that on the second Business Day prior to any payment date on the Insured Bonds, the Trustee has not received sufficient moneys to pay all principal of and interest on the Insured Bonds due on such payment date, the Trustee will immediately notify the Insurer or its designee on the same Business Day by telephone or electronic mail, of the amount of the deficiency. If any deficiency is made up in whole or in part prior to or on the payment date, the Trustee will so notify the Insurer or its designee. In addition, if the Trustee has notice that any

holder of the Insured Bonds has been required to disgorge payments of principal or interest on the Insured Bonds pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Trustee will notify the Insurer or its designee of such fact by telephone or electronic mail, or by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of the Insurer.

The Trustee will irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Insured Bonds as follows:

- (a) If there is a deficiency in amounts required to pay interest and/or principal on the Insured Bonds, the Trustee will (i) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent and attorney-in-fact for such holders of the Insured Bonds in any legal proceeding related to the payment and assignment to the Insurer of the claims for interest on the Insured Bonds, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy payment from the Insurer with respect to the claims for interest so assigned, and (iii) disburse the same to such respective holders; and
- (b) If there is a deficiency in amounts required to pay principal of the Insured Bonds, the Trustee will (i) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent and attorney-in-fact for such holder of the Insured Bonds in any legal proceeding related to the payment of such principal and an assignment to the Insurer of the Insured Bonds surrendered to the Insurer, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Bond Insurance Policy payment therefore from the Insurer, and (iii) disburse the same to such holders. The Trustee will designate any portion of payment of principal on Bonds paid by the Insurer, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current holder, whether DTC or its nominee or otherwise, and will issue a replacement Bond to the Insurer, registered in the name directed by the Insurer, in a principal amount equal to the amount of principal so paid (without regard to authorized denominations); provided that the Trustee's failure to so designate any payment or issue any replacement Bond will have no effect on the amount of principal or interest payable by the Authority on any Bond or the subrogation or assignment rights of the Insurer.

Payments with respect to claims for interest on and principal of Bonds disbursed by the Trustee from proceeds of the Bond Insurance Policy will not be considered to discharge the obligation of the Authority with respect to such Bonds, and the Insurer will become the owner of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise.

Irrespective of whether any such assignment is executed and delivered, the Authority and the Trustee agree for the benefit of the Insurer that:

- (a) They recognize that to the extent the Insurer makes payments directly or indirectly (e.g., by paying through the Trustee), on account of principal of or interest on the Insured Bonds, the Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Authority, with interest thereon, as provided and solely from the sources stated in the transaction documents and the Insured Bonds; and
- (b) They will accordingly pay to the Insurer the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Insured Bonds, but only from the sources and in the manner provided therein for the payment of principal of and interest on the Insured Bonds to holders, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

#### Investment of Funds

All moneys in any of the funds or accounts established with the Trustee pursuant to the Indenture will be invested by the Trustee solely in Permitted Investments, as directed pursuant to the Request of the Authority filed with the Trustee at least two (2) Business Days in advance of the making of such investments.

#### Mutilated, Destroyed, Lost, or Stolen Bonds.

If any Bond will become mutilated, the Authority, at the expense of the Owner of said Bond, will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like Series, tenor and authorized denomination in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Trustee will be cancelled by it and destroyed in accordance with the retention policy of the Trustee then in effect. If any Bond issued hereunder will be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to it and indemnity satisfactory to it will be given, at the expense of the Bond Owner, the Authority will execute, and the Trustee will thereupon authenticate and deliver, a new Bond of like series and tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond will have matured or will have been called for redemption, instead of issuing a substitute Bond the Trustee may pay the same without surrender thereof upon receipt of indemnity satisfactory to the Trustee). The Trustee may require payment of a reasonable fee for each new Bond issued as described in this paragraph and of the expenses which may be incurred by the Authority and the Trustee. Any Bond issued as described in this paragraph in lieu of any Bond alleged to be lost, destroyed or stolen will constitute an original contractual obligation on the part of the Authority whether or not the Bond alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and will be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

## Events of Default; Remedies of Owners

*Events of Default.* The following events will be Events of Default:

- (a) Default in the due and punctual payment of the principal of any Bond when and as the same will become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise.
- (b) Default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment will become due and payable.
- (c) Default by the Authority in the observance of any of the other covenants, agreements or conditions on its part in the Indenture or in the Bonds contained, if such default will have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, will have been given to the Authority by the Trustee, or to the Authority and the Trustee by the Owners of not less than twenty five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding; provided that such default (other than a default arising from nonpayment of the Trustee's fees and expenses, which must be cured within such 60 day period unless waived by the Trustee) will not constitute an Event of Default hereunder if the Authority will commence to cure such default within said sixty (60) day period and thereafter diligently and in good faith will cure such default within a reasonable period of time; or
- (d) Default under the CFD 2002-1 Fiscal Agent Agreement or the CFD 2003-1 Fiscal Agent Agreement.

*Remedies.* Upon the occurrence of an Event of Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture. In the event of an Event of Default arising out of a nonpayment of Trustee's fees and expenses, the Trustee may sue the Authority to seek recovery of its fees and expenses; provided, however, that such recovery may be made only from Revenues.

If an Event of Default will have occurred and be continuing and if requested to do so by the Owners of at least twenty five percent (25%) in aggregate principal amount of Outstanding Bonds, and, in each case, if indemnified as provided in the Indenture, the Trustee will be obligated to exercise such one or more of the rights and powers conferred by the Indenture and, as applicable, under the CFD Bonds, as the Trustee, being advised by counsel, will deem most expedient in the interests of the Bond Owners.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to the Bond Owners) is intended to be exclusive of any other remedy, but each and every such remedy will be cumulative and will be in addition to any other remedy given to the Trustee or to the Bond Owners hereunder or now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or acquiescence therein; such right or power may be exercised from time to time as often as may be deemed expedient.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, the Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Insured Bonds or the Trustee for the benefit of the holders of the Insured Bonds under the Indenture. The Trustee may not waive any default or event of default without the Insurer's written consent.

Application of Revenues and Other Funds After Event of Default. All amounts received by the Trustee with respect to the Bonds pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds will be applied by the Trustee in the following order upon presentation of the several Bonds, and the stamping thereon of the amount of the payment if only partially paid, or upon the surrender thereof if fully paid –

First, to the payment of the fees, costs and expenses of the Trustee in declaring such Event of Default and in carrying out the provisions of the Indenture relating to Events of Default, including reasonable compensation to its agents, attorneys and counsel (including outside counsel and the allocated costs of internal attorneys), and to the payment of all other outstanding fees and expenses of the Trustee; and

Second, to the payment of the whole amount of interest on and principal of the Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds; provided, however, that in the event such amounts will be insufficient to pay in full the full amount of such interest and principal, then such amounts will be applied in the following order of priority:

- (a) first to the payment of all installments of interest on the Bonds then due and unpaid,
- (b) second, to the payment of all installments of principal of the Bonds then due and unpaid, and
- (c) third, to the payment of interest on overdue installments of principal and interest on Bonds.

#### Modification or Amendment of the Indenture

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may, with prior written notice to Standard & Poor's, be modified or amended at any time by a Supplemental Indenture which will become binding when the prior written consent of the Insurer and the Owners of a majority in aggregate principal amount of the Bonds then Outstanding are filed with the Trustee. No such modification or amendment will (a) extend the maturity of or reduce the interest rate on any Bond or otherwise alter or impair the obligation of the Authority to pay the principal, interest or redemption premiums at the time and place and at the rate and in the currency provided therein of any Bond without the express written consent of the Owner of such Bond, (b) reduce the percentage of Bonds required for the written consent to any such amendment or modification, or (c) without written consent of the Trustee, modify any of the rights or obligations of the Trustee.

The Indenture and the rights and obligations of the Authority and of the Owners of the Bonds may, with prior written notice to Standard & Poor's, also be modified or amended at any time by a Supplemental Indenture which will become binding upon adoption, without consent of

any Bond Owners, to the extent permitted by law but only for any one or more of the following purposes:

- (a) to add to the covenants and agreements of the Authority contained in the Indenture, other covenants and agreements thereafter to be observed, or to limit or surrender any rights or powers reserved to or conferred upon the Authority so long as such addition, limitation or surrender of such rights or powers will not materially adversely affect the Owners of the Bonds; or
- (b) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in any other respect whatsoever as the Authority may deem necessary or desirable, provided under any circumstances that such modifications or amendments will not materially adversely affect the interests of the Owners of the Bonds; or
- (c) to amend any provision relating to the Code as may be necessary or appropriate to assure compliance with the Code and the exclusion from gross income of interest on the Bonds; or
- (d) to amend any provision to place any Additional Bonds on a parity with the Bonds for all purposes of the Indenture, including, but not limited to, for the purpose of exercising all rights and remedies hereunder; or
- (e) to amend the provisions relating to the Surplus Fund.

At least 15 days in advance of the execution of any amendment to the Indenture, the Trustee will mail notice of such amendment and a copy of the proposed text of such amendment to Standard & Poor's.

The Trustee will be furnished with an opinion of Bond Counsel that any such Supplemental Indenture entered into by the Authority and the Trustee complies with the provisions described above and the Trustee may conclusively rely upon such opinion and will be fully protected in relying thereon.

#### Defeasance

*Discharge of Indenture.* If the Authority will pay and discharge any or all of the Outstanding Bonds 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 premium (if any) on such Bonds, as and when the same become due and payable;
- (b) by irrevocably depositing with the Trustee, in trust, at or before maturity, money which, together with the available amounts then on deposit in the funds and accounts established with the Trustee pursuant to the Indenture and available for such purpose, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums; or
- (c) by irrevocably depositing with the Trustee or any other fiduciary, in trust, Federal Securities in such amount as an Independent Accountant determines will, together with the interest to accrue thereon and available moneys then on deposit in the

funds and accounts established with the Trustee pursuant to the Indenture and available for such purpose, 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;

then any such Outstanding Bond or Bonds will be deemed to have been paid and discharged; provided, however, that any such Outstanding Bond or Bonds will be deemed to have been paid under paragraph (c) above only if (i) in the case of Bonds to be redeemed prior to the maturity thereof, notice of such redemption will have been mailed pursuant to the Indenture or provision satisfactory to the Trustee will have been made for the mailing of such notice, (ii) a verification report of an Independent Accountant will be delivered to the Trustee, and (iii) an opinion of Bond Counsel will be delivered to the Trustee in the case of a defeasance of Bonds, to the effect that the requirements of the Indenture have been satisfied with respect to such discharge of such Bonds. Upon a discharge of one or more Bonds as described above, and notwithstanding that any of such Bonds will not have been surrendered for payment, the pledge of the Revenues, and other funds provided for in the Indenture with respect to such Bonds, and all other pecuniary obligations of the Authority under the Indenture with respect to such Bonds, as applicable, will cease and terminate, except only the obligation of the Authority to comply with the covenants contained in the Indenture, to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon from amounts set aside for such purpose, to pay all expenses and costs of the Trustee and to comply with the covenants contained in the Indenture. Any funds thereafter held by the Trustee, which are not required for said purposes, will be paid over to the Authority or upon a Request of the Authority to the City.

Defeasance will be accomplished only with an irrevocable deposit in escrow of certain investments referred to above. Further substitutions of securities in the escrow are not permitted. The deposit in the escrow must be sufficient, without reinvestment, to pay all principal and interest as scheduled on the Bonds to and including the date of redemption. Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

Notwithstanding the foregoing, in the event that the principal, interest and premium (if any) on by the Bonds are paid by the Insurer under the Bond Insurance Policy, the obligations of the Trustee and the Authority will continue in full force and effect and the Insurer will be fully subrogated to the rights of all Owners of the Bonds so paid. In addition, the obligations of the Trustee and the Authority hereunder shall continue in full force and effect, and shall not be terminated, until such time as the Authority shall have paid all amounts (if any) as shall be due and owing to the Insurer under the Bond Insurance Policy; and the Trustee will not distribute any funds to the Authority under the preceding paragraph unless the Authority certifies to the Trustee that there are no obligations then due and owing to the Insurer under the Bond Insurance Policy.

#### Third Party Beneficiary

The Insurer is recognized as and will be deemed to be a third party beneficiary of the Indenture and may enforce the provisions of the Indenture as if it were a party thereto.

## APPENDIX B

### GENERAL INFORMATION REGARDING THE CITY OF ELK GROVE

*The following information concerning the City of Elk Grove ("Elk Grove"), the County of Sacramento (the "County") and the State of California (the "State") are presented as general background information. The Series Bonds are a limited obligation of the Authority and are not an obligation of the City, the County or the State nor are the taxing power of the County and the State are pledged to the payment of the Bonds.*

#### **General**

Elk Grove is located in south Sacramento County 4 miles south of Sacramento and 92 miles east of San Francisco along State Route 99. Elk Grove is a general law city and was incorporated on July 1, 2000. Elk Grove has a Council-Manager form of municipal government. The City Council appoints the City Manager who is responsible for the day-to-day administration of city business and the coordination of all city departments. The City Council is composed of five members elected bi-annually at large to four-year alternating terms. The Mayor is selected by the City Council from among its members. Elk Grove provides the following services to the community: public safety community services, planning services, public works, general administrative services and capital improvements

#### **Population**

Population in Sacramento County reflects continued growth as shown in the following table. Population rose 62.7% in the 1940s and 81.4% in the 1950s. During the 1970s, 1980s, and 1990s population growth totaled 23.5%, 32.9%, and 16.2 respectively. Since 1980, population growth has totaled 60.7%.

The following table lists population figures for the City, the County and the State as of January 1 for the last five years.

#### **CITY OF ELK GROVE, COUNTY OF SACRAMENTO, STATE OF CALIFORNIA POPULATION ESTIMATES**

Calendar Year	City of Elk Grove	County of Sacramento	State of California
2010	153,015	1,418,788	37,253,956
2011	154,440	1,427,961	37,427,946
2012	155,937	1,435,153	37,678,563
2013	158,734	1,442,752	37,984,138
2014	160,688	1,454,406	38,340,074

*Source: State Department of Finance estimates (as of January 1).*

#### **Employment and Industry**

The unemployment rate in the Sacramento-Roseville-Arden Arcade MSA was 6.0 percent in March 2015, down from a revised 6.3 percent in February 2015, and below the year-ago estimate of 8.1 percent. This compares with an unadjusted unemployment rate of 6.5 percent for California and 5.6 percent for the nation during the same period. The unemployment

rate was 5.8 percent in El Dorado County, 5.1 percent in Placer County, 6.0 percent in Sacramento County, and 7.0 percent in Yolo County.

The table below provides information about employment rates and employment by industry type for the Sacramento Metropolitan Statistical Area (which includes Sacramento, Placer, Yolo and El Dorado Counties) for calendar years 2010 through 2014.

**SACRAMENTO-ARDEN ARCADE-ROSEVILLE MSA**  
**El Dorado, Placer, Sacramento, Yolo Counties**  
**Employment by Industry**  
**Annual Averages**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b>Civilian Labor Force <sup>(1)</sup></b>	1,048,500	1,044,400	1,049,500	1,046,800	1,049,200
Employment	918,700	920,900	941,100	956,100	974,100
Unemployment	129,700	123,600	108,300	90,800	75,100
Unemployment Rate	12.4%	11.8%	10.3%	8.7%	7.2%
<b>Wage and Salary Employment<sup>(2)</sup></b>					
Agriculture	8,100	8,200	8,600	8,900	9,200
Mining and Logging	400	500	400	500	500
Construction	38,400	36,900	38,400	43,300	45,500
Manufacturing	32,800	33,200	33,900	34,000	34,800
Wholesale Trade	22,800	23,700	25,200	25,000	24,700
Retail Trade	88,000	89,400	91,800	93,800	95,600
Transportation, Warehousing and Utilities	21,800	21,100	22,000	22,900	23,400
Information	17,200	16,300	15,600	14,800	13,700
Finance and Insurance	36,200	34,700	35,700	36,300	35,300
Real Estate and Rental and Leasing	12,200	12,000	12,500	13,100	13,400
Professional and Business Services	102,300	104,400	111,100	114,600	119,100
Educational and Health Services	115,100	116,900	121,300	128,400	134,900
Leisure and Hospitality	80,200	81,700	84,500	88,700	91,900
Other Services	28,100	28,000	28,600	29,000	30,400
Federal Government	14,700	14,000	13,700	13,500	13,500
State Government	110,900	109,700	108,200	109,900	113,500
Local Government	104,700	100,900	99,600	99,200	100,400
Total, All Industries <sup>(3)</sup>	833,800	831,500	851,100	875,700	899,600

<sup>(1)</sup> Labor force data is by place of residence; includes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

<sup>(2)</sup> Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, household domestic workers, and workers on strike.

<sup>(3)</sup> Totals may not add due to rounding.

Source: State of California Employment Development Department.

## **Major Employers**

The major employers in the County are shown below.

### **COUNTY OF SACRAMENTO MAJOR EMPLOYERS- LISTED ALPHABETICALLY (As of July 1, 2015)**

<b>Employer Name</b>	<b>Location</b>	<b>Industry</b>
Aerojet Rocketdyne Inc	Rancho Cordova	Aerospace Industries (Mfrs)
Air Resources Board Tstg Off	Sacramento	Engineers-Environmental
Ampac Fine Chemicals Llc	Rancho Cordova	Chemicals-Manufacturers
California Prison Ind Auth	Folsom	State Govt-Correctional Institutions
California State University	Sacramento	Schools-Universities & Colleges Academic
Corrections Dept	Sacramento	State Govt-Correctional Institutions
Delta Dental Plan of Missouri	Rancho Cordova	Insurance
Dept of Transportation In Ca	Sacramento	Government Offices-State
Disabled American Veterans	Sacramento	Veterans' & Military Organizations
Employment Development Dept	Sacramento	Government-Job Training/Voc Rehab Svcs
Environmental Protection Agcy	Sacramento	State Government-Environmental Programs
Exposition & Fair	Sacramento	Government Offices-State
Gen Corp Inc	Rancho Cordova	Aerospace Industries (Mfrs)
Intel Corp	Sacramento	Semiconductor Devices (Mfrs)
Intel Corp	Folsom	Semiconductor Devices (Mfrs)
Mercy General Hospital	Sacramento	Hospitals
Mercy San Juan Medical Ctr	Carmichael	Hospitals
Municipal Services Agency	Sacramento	Government Offices-County
Sacramento Bee	Sacramento	Newspapers (Publishers/Mfrs)
Sacramento Regional Transit	Sacramento	Bus Lines
Sacramento State	Sacramento	Schools-Universities & Colleges Academic
Smud Customer Svc Ctr	Sacramento	Electric Companies
Sutter Memorial Hospital	Sacramento	Hospitals
Uc Davis Medical Ctr	Sacramento	Hospitals
Water Resource Dept	Sacramento	State Government-Environmental Programs

*Source: State of California Employment Development Department, extracted from The America's Labor Market Information System (ALMIS) Employer Database, 2015 2nd Edition.*

## **Effective Buying Income**

"Effective Buying Income" is defined as personal income less personal tax and nontax payments, a number often referred to as "disposable" or "after-tax" income. Personal income is the aggregate of wages and salaries, other labor-related income (such as employer contributions to private pension funds), proprietor's income, rental income (which includes imputed rental income of owner-occupants of non-farm dwellings), dividends paid by corporations, interest income from all sources, and transfer payments (such as pensions and welfare assistance). Deducted from this total are personal taxes (federal, state and local), nontax payments (fines, fees, penalties, etc.) and personal contributions to social insurance. According to U.S. government definitions, the resultant figure is commonly known as "disposable personal income."

The following table summarizes the total effective buying income for the City, the County, the State and the United States for the period 2010 through 2014.

**CITY OF ELK GROVE AND COUNTY OF SACRAMENTO  
Effective Buying Income  
2010 through 2014**

Year	Area	Total Effective Buying Income (000s' Omitted)	Median Household Effective Buying Income
2010	City of Elk Grove	\$ 1,467,530	\$58,340
	Sacramento County	28,891,811	44,449
	California	801,393,028	47,177
	United States	6,365,020,076	41,368
2011	City of Elk Grove	\$ 1,448,003	\$57,646
	Sacramento County	28,869,888	44,185
	California	814,578,458	41,062
	United States	6,438,704,664	41,253
2012	City of Elk Grove	\$ 3,484,185	\$59,391
	Sacramento County	28,956,570	43,682
	California	864,088,828	47,307
	United States	6,737,867,730	41,358
2013	City of Elk Grove	\$ 3,630,230	\$60,163
	Sacramento County	29,591,998	44,536
	California	858,676,636	48,340
	United States	6,982,757,379	43,715
2014	City of Elk Grove	\$ 3,807,333	\$63,483
	Sacramento County	30,629,048	45,938
	California	901,189,699	50,072
	United States	7,357,153,421	45,448

*Source: The Neilson Company Inc.*

## **Commercial Activity**

Summaries of historic taxable sales within the City and the County during the past five years in which data is available are shown in the following tables. Annual figures are not yet available for calendar years 2014 or 2015.

Total taxable sales during the calendar year 2013 in the City were reported to be \$1,766,626,000 a 9.54% increase over the total taxable sales of \$1,612,796,000 reported during calendar year 2012.

### **CITY OF ELK GROVE Taxable Transactions (Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	1,676	1,143,753	2,275	1,296,072
2010	1,736	1,182,881	2,363	1,336,535
2011	1,669	1,316,732	2,278	1,495,590
2012	1,649	1,432,329	2,236	1,612,796
2013	1,723	1,567,749	2,299	1,766,626

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

Total taxable sales during calendar year 2013 in the County were reported to be \$20,097,095,000 a 5.28% increase over the total taxable sales of \$19,089,848,000 reported during calendar year 2012.

### **COUNTY OF SACRAMENTO Taxable Transactions (Dollars in Thousands)**

	Retail Stores		Total All Outlets	
	Number of Permits	Taxable Transactions	Number of Permits	Taxable Transactions
2009	22,197	11,252,319	31,644	16,563,853
2010	23,158	11,615,687	32,789	16,904,528
2011	22,198	12,502,808	31,682	18,003,765
2012	22,211	13,366,459	31,507	19,089,848
2013	22,629	14,171,006	31,709	20,097,095

*Source: California State Board of Equalization, Taxable Sales in California.*

## **Construction Activity**

The following tables show a five-year summary of the valuation of building permits issued in the City and the County. Annual figures are not yet available for calendar year 2014.

### **CITY OF ELK GROVE** **Total Building Permit Valuations** **(Dollars in Thousands)** **2009 through 2013**

<u>Permit Valuation</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Single-family	\$43,383.5	\$60,351.9	\$58,744.6	\$68,297.2	\$84,221.3
New Multi-family	0.0	9,120.0	22,133.0	0.0	0.0
Res. Alterations/Additions	<u>3,171.7</u>	<u>4,585.2</u>	<u>7,581.0</u>	<u>4,989.5</u>	<u>5,801.4</u>
Total Residential	\$46,555.2	\$74,057.1	\$88,458.6	\$73,286.7	\$90,022.6
New Commercial	\$6,650.0	\$24,512.0	\$16,554.1	\$44,215.0	\$12,257.5
New Industrial	0.0	0.0	0.0	248.0	589.0
New Other	5,862.8	4,551.8	1,453.8	571.0	6,927.9
Com. Alterations/Additions	<u>9,156.7</u>	<u>8,938.4</u>	<u>9,472.0</u>	<u>24,498.7</u>	<u>8,811.9</u>
Total Nonresidential	\$21,669.5	\$38,002.2	\$27,479.9	\$69,532.7	\$28,586.3
<u>New Dwelling Units</u>					
Single Family	201	296	252	406	379
Multiple Family	0	<u>115</u>	<u>273</u>	0	0
TOTAL	201	411	525	406	379

*Source: Construction Industry Research Board, Building Permit Summary.*

### **COUNTY OF SACRAMENTO** **Total Building Permit Valuations** **(Dollars in Thousands)** **2009 through 2013**

<u>Permit Valuation</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
New Single-family	\$199,795.8	\$199,008.8	\$189,634.5	\$248,826.3	\$388,935.7
New Multi-family	8,310.0	32,680.9	64,390.8	48,632.8	13,637.4
Res. Alterations/Additions	<u>173,522.6</u>	<u>181,074.7</u>	<u>202,757.1</u>	<u>143,291.7</u>	<u>201,418.7</u>
Total Residential	\$381,628.4	\$412,764.5	\$456,782.4	\$440,750.8	\$603,991.8
New Commercial	\$76,831.2	\$52,031.6	\$77,164.9	\$155,651.6	\$146,191.2
New Industrial	3,892.4	2,481.3	3,232.4	648.1	1,360.7
New Other	57,847.7	56,735.4	3,290.1	3,788.0	22,007.6
Com. Alterations/Additions	<u>369,332.1</u>	<u>242,724.5</u>	<u>287,939.6</u>	<u>248,426.0</u>	<u>279,324.0</u>
Total Nonresidential	\$507,903.4	\$353,972.8	\$371,627.0	\$408,513.7	\$448,883.5
<u>New Dwelling Units</u>					
Single Family	881	843	727	1,290	1,764
Multiple Family	92	<u>338</u>	<u>606</u>	<u>343</u>	<u>145</u>
TOTAL	973	1,181	1,333	1,633	1,909

*Source: Construction Industry Research Board, Building Permit Summary.*

**APPENDIX C-1**

**RATE AND METHOD OF APPORTIONMENT OF  
SPECIAL TAXES**

**East Franklin CFD (East Franklin)**

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## RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAXES

A Special Tax of East Franklin Community Facilities District No. 2002-1 of the City of Elk Grove ("CFD") shall be levied on all Assessor's Parcels in the CFD and collected each Fiscal Year commencing in Fiscal Year 2003-04 in an amount determined by the City through the application of the rate and method of apportionment of the Special Tax set forth below. All of the real property in the CFD, 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. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2 of Title 5 of the Government Code of the State of California.

"Administrative Expenses" means the actual or estimated costs incurred by the City as administrator of the CFD to determine, levy and collect the Special Taxes, including salaries of City employees and the fees of consultants, legal counsel, paying agents, fiscal agents, and trustees; the costs of collecting installments of the Special Taxes upon the general tax rolls; the cost of arbitrage calculation and arbitrage rebates, preparation of required reports; and any other costs required to administer the CFD as determined by the City.

"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 Assessor of the County designating parcels by assessor's parcel number.

"Bonds" means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued or incurred by the CFD and secured by the levy of Special Taxes 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" means East Franklin Community Facilities District No. 2002-1 of the City of Elk Grove.

"City" means the City of Elk Grove.

"Council" means the City Council of the City of Elk Grove, acting as the legislative body of the CFD.

"County" means the County of Sacramento, California.

"Developed Property" means all Taxable Property, exclusive of Property Owner Association Property, or Public Property, for which a building permit was issued after July 1, 2001, but prior to the May 1st preceding the Fiscal Year in which the Special Tax is being levied.

"Development-Restricted Property" means Assessor's Parcel 132-0020-034 prior to approval of a Tentative Map on any portion of this Assessor's Parcel or any Successor Parcels. Prior to the approval of a Tentative Map, this Assessor's Parcel may only be taxed after the City has received written authorization from the property owner allowing it to be taxed. This Assessor's Parcel will no longer be classified as Development-Restricted Property once a Tentative Map has been approved on any portion of this Assessor's Parcel or any Successor Parcels.

"Final Map Residential Property" means a Residential lot created by a Final Subdivision Map, but for which no building permit has been issued pursuant to the definition of Developed Property.

"Final Subdivision Map" means a subdivision of property creating buildable lots by recordation of a final subdivision map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.), or recordation of a condominium plan pursuant to California Civil Code 1352, that creates individual lots for which building permits may be issued without further subdivision and is recorded prior to June 1 of any Fiscal Year.

"Fiscal Year" means the period starting July 1 and ending on the following June 30.

"Gross Acre(age)" means the acreage of an Assessor's Parcel as shown on an Assessor's Parcel Map prior to dedication of right-of-way or easement for streets, roads, landscaping, and other public purposes.

"Indenture" means the indenture, trust agreement, fiscal agent agreement, resolution or other instrument pursuant to which Bonds are issued, as modified, amended and/or supplemented from time to time, and any instrument replacing or supplementing the same.

"Land Use Class" means any of the classes listed in Table 1 or Table 2.

"Large Lot Property" means any Taxable Property created by the recordation of a final large lot subdivision map, parcel map or lot line adjustment, i.e. subdivision, parcel or other map that does not create Final Map Residential Property.

"Lot" means any Assessor's Parcel created by the recordation of a Final Subdivision Map.

"Maximum Special Tax" means the maximum Special Tax, determined in accordance with Section C below, that can be levied in the CFD in any Fiscal Year on any Assessor's Parcel prior to the full prepayment or partial prepayment of Special Tax.

"Multi-Family Property" means all Assessor's Parcels of Developed Property for which a building permit has been issued for a residential structure consisting of two or more residential units that share common walls, including, but not limited to, duplexes, triplexes, townhomes, condominiums, and apartment units.

"Net Acre(age)" means the acreage of an Assessor's Parcel as shown on the Final Subdivision Map excluding right-of-way for streets, roads, and other public purposes. Net Acreage includes acreage subject to a public utility easement.

"Non-Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) has been issued for a non-residential use.

"Other Taxable Property" means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Final Map Residential Property, Large Lot Property, or Tentative Map Property.

"Outstanding Bonds" means, as of any date, all Bonds previously issued that are outstanding under the applicable Indenture.

"Property Owner Association Property" means any property within the boundaries of the CFD that is owned by, or irrevocably dedicated as indicated in an instrument recorded with the County Recorder to, a property owner association, including any master or sub-association.

"Proportionately" means in a manner such that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor's Parcels within each Land Use Class.

"Public Property" means any property within the boundaries of the CFD that is, at the time of the CFD formation, expected to be used for rights-of-way, parks, schools or any other public purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County, the City or any other public agency. Once an Assessor's Parcel has been designated as Public Property, it shall retain such status permanently, unless transferred in accordance with the transfer provisions provided in Section G below.

"Residential Property" means all Assessor's Parcels of Developed Property for which a building permit(s) has been issued for purposes of constructing one residential dwelling unit.

"Special Tax" means the Special Tax to be levied in each Fiscal Year prior to full prepayment or termination of Special Tax on each Assessor's Parcel of Developed Property and Undeveloped Property to fund the Special Tax Requirement, and shall include Special Taxes levied or to be levied under Sections C and D, below.

"Special Tax Requirement" means that amount required in any Fiscal Year for the CFD to: (a) (i) pay debt service on all Outstanding Bonds for the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable Administrative Expenses; (iv) pay any amounts required to establish or replenish any Bond Reserve Funds for all Outstanding Bonds; (v) pay directly for acquisition or construction of authorized facilities to be constructed or acquired by the CFD, except Special Taxes on Undeveloped Property shall not be levied for this purpose; (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year, less (b) 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.

"Successor Parcel" means an Assessor's Parcel(s) created by subdivision, lot line adjustment, or parcel map from Assessor's Parcel 132-0020-034.

"Taxable Property" means all of the Assessor's Parcels within the boundaries of the CFD that are not exempt from the Special Tax pursuant to law or as defined below.

"Tax-Exempt Property" means an Assessor's Parcel not subject to the Special Tax. Tax-Exempt Property include: (i) Public Property, or (ii) Development-Restricted Property, or (iii) any Assessor's Parcel that has prepaid its Special Taxes pursuant to Section H, or (iv) Property Owner Association Property.

"Tentative Map" means the tentative subdivision map filed pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) and approved for the East Franklin Specific Plan project by the City.

"Tentative Map Property" means any Taxable Property for which a Tentative Map has been approved by the City prior to June 1 of any Fiscal Year that is not Residential Property. Once classified as Tentative Map Property, it shall not be reclassified as Other Taxable Property notwithstanding any subsequent abandonment or expiration of the applicable Tentative Map.

"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.

"Unit" means any single family residence in which a person or persons may live, and is not considered to be for commercial, industrial use or Multi-Family Property.

#### B. ASSIGNMENT TO LAND USE CATEGORIES

Each Fiscal Year using the definitions above, all Taxable Property within the CFD shall be classified as Developed Property or Undeveloped Property, and shall be subject to Special Taxes pursuant to Sections C and D below. Developed Property shall be further assigned to a Land Use Class as specified in Table 1. Undeveloped Property shall be further assigned to a Land Use Class as specified in Table 2.

#### C. MAXIMUM SPECIAL TAX RATE

##### 1. Developed Property

TABLE 1  
Maximum Special Tax for Developed Property  
Community Facilities District No. 2002-1

Land Use Class	Description	Maximum Special Tax Per Unit/Acre
1	Residential Property	\$840 per Unit
2	Multi-Family Property	\$4,200 per Net Acre
3	Non-Residential Property	\$4,200 per Net Acre

##### 2. Undeveloped Property

TABLE 2  
Maximum Special Tax for Undeveloped Property  
Community Facilities District No. 2002-1

Land Use Class	Description	Maximum Special Tax Per Unit/Acre
4	Final Map Residential Property	\$840 per Lot
5	Large Lot Property	\$4,100 per Gross Acre
6	Tentative Map Property	\$3,200 per Gross Acre
7	Other Taxable Property	\$3,200 per Gross Acre

##### Multiple Land Use Classes

In some instances, an Assessor's Parcel of Developed Property may contain more than one Land Use Class. The Maximum Special Tax levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax levies that can be imposed on all Land Use Classes located on that Assessor's Parcel. The CFD Administrator's allocation to each type of property shall be final.

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

Commencing with Fiscal Year 2002-03(1), and for each following Fiscal Year, the Council shall levy the Special Tax until the amount of the Special Tax levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property at 100% of the applicable Maximum 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 Final Map Residential Property at up to 100% of the Maximum Special Tax for Final Map Residential Property;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Large Lot Property at up to 100% of the Maximum Special Tax for Large Lot Property;

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 Tentative Map Property at up to 100% of the Maximum Special Tax for Tentative Map 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 Other Taxable Property at up to 100% of the Maximum Special Tax for Other Taxable Property.

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Maximum Special Tax in step one of Section D (above), when (i) the Council is no longer required to levy a Special Tax pursuant to steps two through five above in order to meet the Special Tax Requirement; (ii) all authorized CFD Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD Bonds (except refunding bonds) to be supported by Special Taxes; and (iii) all authorized facilities have been constructed or acquired and paid for from Bonds and/or Special Taxes.

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 annually up to the Maximum Special Tax as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

#### E. APPEALS

Any taxpayer that believes that the amount of the Special Tax assigned to a Parcel is in error may file a written notice with the City appealing the levy of the Special Tax. This notice is required to be filed with the City during the Fiscal Year the error is believed to have occurred. The City will then promptly review the appeal and, if necessary, meet with the taxpayer. If the City verifies that the tax should be changed, a recommendation at that time will be made to the City Council and, if directed by the Council, the Special Tax levy shall be corrected and, if applicable in any case, a refund shall be granted.

Interpretations of this Rate and Method of Apportionment may be made by Resolution of the Council for purposes of clarifying any vagueness or ambiguity as it relates to the Special Tax rate, the method of apportionment, the classification of properties, or any definition applicable to the CFD.

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(1) The City has elected to commence the Special Tax levy in Fiscal Year 2003-04.

Special Tax as levied pursuant to Section D above shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that the CFD Administrator may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet the financial obligations of the CFD or as otherwise determined appropriate by the CFD Administrator.

#### G. TRANSFER OF SPECIAL TAX OBLIGATION

Taxable Property acquired by a public agency after the CFD is formed will remain subject to the applicable Special Tax unless the Special Tax obligation is satisfied pursuant to Section 53317.5 of the Government Code. An exception to this may be made if an Assessor's Parcel of Public Property, such as a school site, is relocated to an Assessor's Parcel(s) of Taxable Property, the previously Tax-Exempt Property of comparable acreage becomes Taxable Property and the Maximum Special Tax from the previously Taxable Property is transferred to the new Taxable Property. This trading of Special Taxes will be permitted to the extent that there is no net loss in Maximum Special Tax revenue.

#### H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to Section H.

"Outstanding Prepayment Bonds" means, as of any date, all Bonds previously issued that are anticipated by the CFD Administrator to be outstanding under the applicable Indenture immediately after the first principal payment date for such Bonds following the then current Fiscal Year as reduced by scheduled debt service payment and any previous prepayments.

"Update Property" means an Assessor's Parcel of Taxable Property for which a building permit has been issued, but which has not yet been classified as Developed Property.

##### Prepayment in Full:

The Special Tax obligation described in Section D above with respect to any Assessor's Parcel of Developed Property or Update Property may be fully prepaid. A prepayment may be made on an Assessor's Parcel only if there are no delinquent Special Tax levies 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 the Assessor's Parcel's owner a reasonable fee for providing these figures, which must be paid by the owner of the Assessor's Parcel prior to the calculation of the prepayment amount. Prepayment must be made not less than 15 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) for any Assessor's Parcel of Public Property that is Taxable Property shall be determined by the CFD Administrator as authorized under Sections 53317.3 and 53317.5 of the Act. However, no Special Tax prepayment for any Assessor's Parcel of Taxable Public Property shall be allowed unless the amount of Maximum Special Tax levies that may be imposed on Taxable Property within the CFD after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Prepayment Bonds after the redemption of Bonds resulting from the proposed prepayment.

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

P	= PVT + Premium + F , where
P	= Prepayment Amount
PVT	= Present Value of Special Taxes
F	= Fees

Present Value of Special Taxes (PVT) shall mean the present value of the Maximum Annual Special Tax applicable to the subject lot or parcel in each year remaining until the year ending thirty-five (35) years after the 2002/03 Fiscal Year, using seven percent (7%) as the discount rate.

The Maximum Annual Special Tax used in such calculation shall be determined by the classification of parcels shown in Table 1 above.

Premium shall mean, if Bonds have been issued, the bond call costs (not to exceed three percent (3%) of PVT) associated with the redemption of Bonds. If no Bonds have been issued, no premium shall be applied.

Fees shall mean the administrative fees and expenses of the CFD, 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.

In addition, any property owner prepaying its Special Taxes must pay current and any delinquent Special Taxes and penalties prior to prepayment.

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.

With respect to any Assessor's Parcel that is prepaid, the City shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Tax 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 Maximum Special Taxes that may be levied on Taxable Property within the CFD after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Prepayment Bonds.

#### I. TERM OF SPECIAL TAX

For each year that any Bonds are outstanding or in which there is a Special Tax Requirement the Special Tax shall be levied on all Assessor's Parcels subject to the Special Tax. The Special Tax will not be levied later than the 2037-38 Fiscal Year.

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**APPENDIX C-2**

**RATE AND METHOD OF APPORTIONMENT OF  
SPECIAL TAXES  
Poppy Ridge CFD (Poppy Ridge)**

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## **RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX**

A Special Tax of Community Facilities District No. 2003-1 (Poppy Ridge) of the City of Elk Grove ("CFD") shall be levied on all Assessor's Parcels in the CFD and collected each Fiscal Year commencing in Fiscal Year 2003-04 in an amount determined by the City through the application of the rate and method of apportionment of the Special Tax set forth below. All of the real property in the CFD, 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. The square footage of an Assessor's Parcel is equal to the Acreage multiplied by 43,560.

**"Act"** means the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5, Part 1, Division 2 of Title 5 of the Government Code of the State of California.

**"Administrative Expenses"** means the actual or estimated costs incurred by the City as administrator of the CFD to determine, levy and collect the Special Taxes, including salaries of City employees and the fees of consultants, legal counsel, paying agents, fiscal agents, and trustees; the costs of collecting installments of the Special Taxes upon the general tax rolls; the cost of arbitrage calculation and arbitrage rebates, preparation of required reports; and any other costs required to administer the CFD as determined by the City.

**"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 Assessor of the County designating parcels by assessor's parcel number.

**"Bonds"** means any bonds or other debt (as defined in Section 53317(d) of the Act), whether in one or more series, issued or incurred by the CFD and secured by the levy of Special Taxes 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"** means Community Facilities District No. 2003-1 (Poppy Ridge) of the City of Elk Grove.

**"City"** means the City of Elk Grove.

**"Council"** means the City Council of the City of Elk Grove, acting as the legislative body of the CFD.

**"County"** means the County of Sacramento, California.

**"Developed Property"** means all Taxable Property, exclusive of Property Owner Association Property, or Public Property, for which a building permit was issued after July 1, 2001, but prior to the May 1st preceding the Fiscal Year in which the Special Tax is being levied.

**“Development-Restricted Property”** means property that prior to the approval of a Tentative Map may only be taxed after the City has received written authorization from the property owner allowing it to be taxed. Three properties (including four Assessor’s Parcels) are classified as Development-Restricted Property: 1) Assessor’s Parcel 132-0050-004, 2) 132-0050-041 and 132-0050-046 treated as a single property, and 3) 132-0050-047. Each of these properties will be treated independently. These Assessor’s Parcels will no longer be classified as Development-Restricted Property once a Tentative Map has been approved on any portion of the Assessor’s Parcel or any Successor Parcels.

**“Facilities Special Tax”** means the Special Tax to be levied in each Fiscal Year on each Assessor’s Parcel of Developed Property and Undeveloped Property pursuant to Sections C and D, below.

**“Final Map Residential Property”** means a Residential lot created by a Final Subdivision Map, but for which no building permit has been issued pursuant to the definition of Developed Property.

**“Final Subdivision Map”** means a subdivision of property creating buildable lots by recordation of a final subdivision map, parcel map, or lot line adjustment, pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.), or recordation of a condominium plan pursuant to California Civil Code 1352, that creates individual lots for which building permits may be issued without further subdivision and is recorded prior to June 1 of any Fiscal Year.

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

**“Gross Acre(age)”** means the acreage of an Assessor’s Parcel as shown on an Assessor’s Parcel Map prior to dedication of right-of-way or easement for streets, roads, landscaping, and other public purposes.

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

**“Land Use Class”** means any of the classes listed in Table 1 or Table 2.

**“Large Lot Property”** means any Taxable Property created by the recordation of a final large lot subdivision map, parcel map or lot line adjustment, i.e. subdivision, parcel or other map that does not create Final Map Residential Property.

**“Lot”** means any Assessor’s Parcel created by the recordation of a Final Subdivision Map.

**“Maximum Special Tax”** means the maximum Special Tax, determined in accordance with Section C below, that can be levied in the CFD in any Fiscal Year on any Assessor’s Parcel prior to the full prepayment or partial prepayment of Special Tax.

**“Multi-Family Property”** means all Assessor’s Parcels of Developed Property for which a building permit has been issued for a residential structure consisting of two or more residential units that share common walls, including, but not limited to, duplexes, triplexes, townhomes, condominiums, and apartment units.

**“Net Acre(age)”** means the acreage of an Assessor’s Parcel as shown on the Final Subdivision Map excluding right-of-way for streets, roads, and other public purposes. Net Acreage includes acreage subject to a public utility easement.

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

**“Other Taxable Property”** means, for each Fiscal Year, all Taxable Property not classified as Developed Property, Final Map Residential Property, Large Lot Property, or Tentative Map Property.

**“Outstanding Bonds”** means, as of any date, all Bonds previously issued that are outstanding under the applicable Indenture.

**“Property Owner Association Property”** means any property within the boundaries of the CFD that is owned by, or irrevocably dedicated as indicated in an instrument recorded with the County Recorder to, a property owner association, including any master or sub-association.

**“Proportionately”** means in a manner such that the ratio of the actual Special Tax levy to the Maximum Special Tax is equal for all Assessor’s Parcels within each Land Use Class.

**“Public Property”** means any property within the boundaries of the CFD that is, at the time of the CFD formation, expected to be used for rights-of-way, parks, schools or any other public purpose and is owned by or irrevocably offered for dedication to the federal government, the State, the County, the City or any other public agency. Once an Assessor’s Parcel has been designated as Public Property, it shall retain such status permanently, unless transferred in accordance with the transfer provisions provided in Section G below.

**“Public Safety Costs”** means the estimated and reasonable costs of providing police protection services, including but not limited to the costs of contracting services, the salaries and benefits of City staff if the City directly provides police protection services and City overhead costs, associated with providing such services within the CFD. The Public Safety Special Tax provides only partial funding for police protection services.

**“Public Safety Special Tax”** means the Special Tax assigned to Developed Property to cover its proportionate share of Public Safety Costs pursuant to Section C.

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

**“Special Tax”** means the Special Tax to be levied in each Fiscal Year prior to full prepayment or termination of Special Tax on each Assessor’s Parcel of Developed Property and Undeveloped Property to fund the Special Tax Requirement, and shall include Special Taxes levied or to be levied under Sections C and D, below.

**“Special Tax Requirement”** means that amount required in any Fiscal Year for the CFD to: (a) (i) pay debt service on all Outstanding Bonds for the calendar year that commences in such Fiscal Year; (ii) pay periodic costs on the Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds; (iii) pay reasonable 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 authorized facilities to be constructed or acquired by the CFD, except Special Taxes on Undeveloped Property shall not be levied for this purpose; (vi) pay for reasonably anticipated delinquent Special Taxes based on the delinquency rate for Special Taxes levied in the previous Fiscal Year; and (vii) pay for Public Safety Costs for Developed Property, less (b) 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 the CFD that are not exempt from the Special Tax pursuant to law or as defined below.

**"Tax-Exempt Property"** means an Assessor's Parcel not subject to the Special Tax. Tax-Exempt Property include: (i) Public Property, or (ii) Development-Restricted Property, or (iii) any Assessor's Parcel that has prepaid its Special Taxes pursuant to Section H, or (iv) Property Owner Association Property.

**"Tentative Map"** means the tentative subdivision map filed pursuant to the Subdivision Map Act (California Government Code Section 66410 et seq.) and approved for the East Franklin Specific Plan project by the City.

**"Tentative Map Property"** means any Taxable Property for which a Tentative Map has been approved by the City prior to June 1 of any Fiscal Year that is not Residential Property. Once classified as Tentative Map Property, it shall not be reclassified as Other Taxable Property notwithstanding any subsequent abandonment or expiration of the applicable Tentative Map.

**"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.

**"Unit"** means any residence in which a person or persons may live, and is not considered to be for commercial or industrial use.

## **B. ASSIGNMENT TO LAND USE CATEGORIES**

Each Fiscal Year using the definitions above, all Taxable Property within the CFD shall be classified as Developed Property or Undeveloped Property, and shall be subject to Special Taxes pursuant to Sections C and D below. Developed Property shall be further assigned to a Land Use Class as specified in Table 1. Undeveloped Property shall be further assigned to a Land Use Class as specified in Table 2.

## **C. MAXIMUM SPECIAL TAX RATE**

### **1. Developed Property**

**TABLE 1**  
**Maximum Special Tax for Developed Property**  
**Community Facilities District No. 2003-1**

<b>Land Use Class</b>	<b>Description</b>	<b>Maximum Facilities Special Tax Per Unit/Acre</b>	<b>Maximum Public Safety Special Tax Per Unit/Acre</b>
1	Residential Property	\$965 per Unit	\$150 per Unit
2	Multi-Family Property	\$4,825 per Net Acre	\$115 per Unit
3	Non-Residential Property	\$4,825 per Net Acre	\$250 per Net Acre

On each July 1, commencing on July 1, 2004, the Maximum Public Safety Special Tax shall be increased by the lesser of Local Consumer Price Index (the "CPI") for the San Francisco-Oakland-San Jose Area for All Urban Consumers or 5% of the amount in effect for the previous Fiscal Year. The CPI used shall be as determined by the Bureau of Labor Statistics from April to April beginning with the period from April 2003 through April 2004.

The Maximum Special Tax that may be levied on Developed Property is the sum of the Maximum Facilities Special Tax and the Maximum Public Safety Special Tax.

## 2. Undeveloped Property

**TABLE 2**  
**Maximum Facilities Special Tax for Undeveloped Property**  
**Community Facilities District No. 2003-1**

<i>Land Use Class</i>	<i>Description</i>	<i>Maximum Facilities Special Tax Per Lot/Acre</i>
4	Final Map Residential Property	\$965 per Lot
5	Large Lot Property	\$4,710 per Gross Acre
6	Tentative Map Property	\$3,675 per Gross Acre
7	Other Taxable Property	\$3,675 per Gross Acre

Undeveloped Property is not subject to the Public Safety Special Tax.

### Multiple Land Use Classes

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

## D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2003-04, and for each following Fiscal Year, the Council shall levy the Special Tax until the amount of the Special Tax levied equals the Special Tax Requirement. The Special Tax shall be levied each Fiscal Year as follows:

First: The Special Tax shall be levied on each Assessor's Parcel of Developed Property at 100% of the applicable Maximum 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 Final Map Residential Property at up to 100% of the Maximum Special Tax for Final Map Residential Property. However, under no circumstances shall Special Taxes be levied under this second step to pay for Public Safety Costs;

Third: If additional monies are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Large Lot Property at up to 100% of the Maximum Special Tax for Large Lot Property. However, under no circumstances shall Special Taxes be levied under this third step to pay for Public Safety Costs;

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 Tentative Map Property at up to 100% of the Maximum Special Tax for Tentative Map Property. However, under no circumstances shall Special Taxes be levied under this fourth step to pay for Public Safety Costs; 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 Other Taxable Property at up to 100% of the Maximum Special Tax for Other Taxable Property. However, under no circumstances shall Special Taxes be levied under this fifth step to pay for Public Safety Costs.

Notwithstanding the above the Council may, in any Fiscal Year, levy Proportionately less than 100% of the Maximum Special Tax in step one of Section D (above), when (i) the Council is no longer required to levy a Special Tax pursuant to steps two through five above in order to meet the Special Tax Requirement; (ii) all authorized CFD Bonds have already been issued or the Council has covenanted that it will not issue any additional CFD Bonds (except refunding bonds) to be supported by Special Taxes; and (iii) all authorized facilities have been constructed or acquired and paid for from Bonds and/or Special Taxes.

Notwithstanding the above, under no circumstances will the Facilities 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 annually up to the Maximum Special Tax as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the CFD.

#### E. APPEALS

Any taxpayer that believes that the amount of the Special Tax assigned to a Parcel is in error may file a written notice with the CFD Administrator appealing the levy of the Special Tax. This notice is required to be filed with the CFD Administrator during the Fiscal Year the error is believed to have occurred. The CFD Administrator or designee will then promptly review the appeal and, if necessary, meet with the taxpayer. If the CFD Administrator verifies that the tax should be changed the Special Tax levy shall be corrected and, if applicable in any case, a refund shall be granted.

#### F. MANNER OF COLLECTION

Special Tax as levied pursuant to Section D above shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that the CFD Administrator may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet the financial obligations of the CFD or as otherwise determined appropriate by the CFD Administrator.

#### G. TRANSFER OF SPECIAL TAX OBLIGATION

Taxable Property acquired by a public agency after the CFD is formed will remain subject to the applicable Facilities Special Tax unless the Facilities Special Tax obligation is satisfied pursuant to Section 53317.5 of the Government Code. An exception to this may be made if an Assessor's Parcel of Public Property, such as a school site, is relocated to an Assessor's Parcel(s) of Taxable Property, the previously Tax-Exempt Property of comparable acreage becomes Taxable Property and the Maximum Special Tax from the previously Taxable Property is transferred to the new Taxable Property. This trading of Special Taxes will be permitted to the extent that there is no net loss in Maximum Special Tax revenue.

#### H. PREPAYMENT OF FACILITIES SPECIAL TAX

The following definitions apply to Section H.

**"CFD Public Facilities Costs"** means either \$42,000,000 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 acquire or construct the bond financed authorized facilities to be financed by the CFD under the authorized Mello-Roos financing program for the CFD, or (ii) shall be determined by the Council concurrently with a covenant that it

will not issue any more CFD Bonds (except refunding bonds) to be supported by the CFD Special Taxes.

**"Construction Fund"** means the fund (regardless of its name) established pursuant to 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 Construction Cost Index measured as of the calendar year, which ends in the previous Fiscal Year. In the event this index ceases to be published, the Inflation Index shall be another index as determined by the CFD Administrator that is reasonably comparable to the Engineering News-Record Construction Cost Index.

**"Future Facilities Costs"** means the CFD Public Facilities Costs minus (i) costs previously paid from the Construction Fund to acquire or construct the Authorized Facilities, (ii) monies currently on deposit in the Construction Fund, and (iii) monies currently on deposit in an escrow or other earmarked fund that are expected to be available to finance Public Facilities Costs.

**"Outstanding Prepayment Bonds"** means, as of any date, all Bonds previously issued that are anticipated by the CFD Administrator to be outstanding under the applicable Indenture immediately after the first principal payment date for such Bonds following the then current Fiscal Year as reduced by scheduled debt service payment and any previous prepayments.

**"Update Property"** means an Assessor's Parcel of Taxable Property for which a building permit has been issued, but which has not yet been classified as Developed Property.

#### **1. Prepayment of Facilities Special Tax in Full**

The Facilities Special Tax obligation described in Section D above with respect to any Assessor's Parcel of Developed Property or Update Property may be fully prepaid. A prepayment may be made on an Assessor's Parcel only if there are no delinquent Special Tax levies with respect to such Assessor's Parcel at the time of prepayment. An owner of an Assessor's Parcel intending to prepay the Facilities 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 the Assessor's Parcel's owner a reasonable fee for providing these figures, which must be paid by the owner of the Assessor's Parcel prior to the calculation of the prepayment amount. Prepayment must be made not less than 15 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) for any Assessor's Parcel of Public Property that is Taxable Property shall be determined by the CFD Administrator as authorized under Sections 53317.3 and 53317.5 of the Act. However, no Facilities Special Tax prepayment for any Assessor's Parcel of Taxable Public Property shall be allowed unless the amount of Maximum Facilities Special Tax levies that may be imposed on Taxable Property within the CFD after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Prepayment Bonds after the redemption of Bonds resulting from the proposed prepayment.

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  
 Total: equals Prepayment Amount

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

**Paragraph No.:**

1. For Assessor Parcels of Developed Property, compute the Facilities Special Tax for the Assessor's Parcel to be prepaid. For Assessor Parcels of Update Property to be prepaid, compute the Facilities 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. For Assessor Parcels of Taxable Public Property and/or Taxable Association Property to be prepaid, compute the Facilities Special Tax for that Assessor's Parcel.
2. Divide the Facilities Special Tax computed pursuant to paragraph 1 by the total estimated Facilities Special Taxes as set forth in Attachment 1 for the CFD which could be charged, less any Assessor Parcels which have been prepaid.
3. Multiply the quotient computed pursuant to paragraph 2 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the '*Bond Redemption Amount*').
4. Multiply the Bond Redemption Amount computed pursuant to paragraph 3 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the "*Redemption Premium*").
5. Compute the current Future Facilities Costs.
6. Multiply the quotient computed pursuant to paragraph 2 by the amount determined pursuant to paragraph 5 to compute the amount of Future Facilities Costs to be prepaid (the "*Future Facilities Amount*").
7. 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.
8. Compute the amount the CFD Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
9. Add the amounts computed pursuant to paragraph 7 and subtract the amount computed pursuant to paragraph 8 (the "*Defeasance Amount*").
10. Add the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming the Outstanding Bonds, and the costs of recording

any notices to evidence the prepayment and the redemption less the amount of the refundable deposit.(the "Administrative Fees and Expenses").

11. The reserve fund credit (the "*Reserve Fund Credit*") shall equal the lesser of, (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
12. The Facilities Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 3, 4, 6, 9 and 10, less the amount computed pursuant to paragraph 11 (the "*Prepayment Amount*").
13. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 9 and 11 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 6 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 10 shall be retained by the CFD.

In addition, any property owner prepaying its Facilities Special Taxes must pay current and any delinquent Special Taxes and penalties prior to prepayment.

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.

With respect to any Assessor's Parcel that is prepaid, once the CFD Administrator has confirmed that all levied Special Taxes have been paid, the City shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Facilities Special Tax and the release of the Facilities Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay the Facilities Special Tax shall cease.

Notwithstanding the foregoing, no Facilities Special Tax prepayment shall be allowed unless the amount of Facilities Special Taxes that may be levied on Taxable Property within the CFD after the proposed prepayment is at least 1.1 times the maximum annual debt service on all Outstanding Prepayment Bonds. In addition, prepayment of the Facilities Special Tax shall not relieve any property owner of Developed Property from paying the Public Safety Special Tax.

## 2. Prepayment in Part

The Maximum Facilities Special Tax on an Assessor's Parcel of Residential Property or an Assessor's Parcel of Update Property may be partially prepaid at or prior to the close of escrow to the first private residential user such that the resulting Maximum Facilities Special Tax for the Assessor's Parcel is equal to \$840.00. 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:

$$PP = PE \times F$$

These terms have the following meaning:

PP = the partial prepayment

PE = the Prepayment Amount calculated according to Section H.1

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

The owner of an Assessor's Parcel who desires to partially prepay the Maximum Facilities Special Tax shall notify the CFD Administrator of (i) such owner's intent to partially prepay the Maximum Facilities Special Tax, and (ii) the company or agency that will be acting as the escrow agent, if applicable. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Maximum Facilities Special Tax for an Assessor's Parcel within 30 days of the request and may charge a reasonable fee for providing this service. Administrative Fees and Expenses calculated pursuant to Section H.1 Paragraph 10 shall be added after the partial prepayment has been calculated.

With respect to any Assessor's Parcel that is partially prepaid, the CFD Administrator shall (i) distribute the funds remitted to it according to Paragraph 13 of Section H.1, and ii) indicate in the records of the CFD that there has been a partial prepayment of the Maximum Facilities Special Tax and that the Maximum Facilities Special Tax equal to \$840.00 shall continue to be authorized to be levied on such Assessor's Parcel pursuant to Section D.

### 3. Mandatory Prepayment

Upon notification by the City of the approval or the recordation of a Final Subdivision Map, the CFD Administrator will assign Units/Acres to each of the newly created parcels. If the number of Units/Acres assigned to the Final Subdivision Map is less than the number of Units/Acres assigned in Attachment 1, the City shall (i) calculate the loss of Facilities Special Taxes by multiplying the number of reduced Units/Acres by the Facilities Special Tax per Unit/Acres from Table 1; and (ii) require the Prepayment of this difference pursuant to Section H.1. Prepayment shall be made prior to, or concurrent with, recordation of the Final Subdivision Map.

Prepayment of the Facilities Special Tax shall not be required to the extent the City has allowed a transfer of Units/Acres and associated Facilities Special Taxes to other Taxable Property pursuant to Section G or the City determines that the Facilities Special Tax base for the CFD is sufficient to meet debt service on outstanding and future bonds without the Facilities Special Tax from these Units.

### I. TERM OF SPECIAL TAX

For each year that any Bonds are outstanding or in which there is a Facilities Special Tax Requirement the Facilities Special Tax shall be levied on all Assessor's Parcels subject to the Facilities Special Tax. The Facilities Special Tax will not be levied later than the 2045-46 Fiscal Year. The Public Safety Special Tax shall be levied in perpetuity.

**Attachment 1  
City of Elk Grove  
Community Facilities District 2003-1  
(Poppy Ridge)**

Area	Estimated Residential Units (\$965 per Unit)	Multi-Family/Non- Residential Acreage (\$4,825 per Acre)	Maximum Facilities Special Tax
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<b>Elk Grove Meadows Phase III</b>	<b>434</b>		<b>\$418,810</b>
Gilliam Meadows Units 1 & 2	692	2.90	681,773
Quail Ridge South	798		770,070
East Meadow Units 1 & 2	243		234,495
Machado Dairy	602		580,930
Southmeadow Unit 1	229		220,985
Bilby Ranch	232		223,880
Bilby Meadows	299		288,535
Kuhn Property	41	11.90	96,983
<b>Totals</b>	<b>3,570</b>	<b>14.80</b>	<b>\$3,516,461</b>

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**APPENDIX D**  
**FORM OF BOND COUNSEL OPINIONS**

July 30, 2015

Elk Grove Finance Authority  
8401 Laguna Palms Way  
Elk Grove, California 95758

**OPINION:** \$90,630,000 Elk Grove Finance Authority Special Tax  
Revenue Bonds, Series 2015

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Members of the Authority:

We have acted as bond counsel to the Elk Grove Finance Authority (the "Authority") in connection with the delivery by the Authority of the above-referenced bonds (the "Bonds"), issued pursuant to the provisions of the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4 (commencing with Section 6584) of Chapter 5, Division 7, Title 1 of the Government Code of the State of California (the "Bond Law"), and pursuant to an Indenture of Trust dated as of July 1, 2015 (the "Indenture"), between the Authority and U.S. Bank National Association, as trustee. We have examined the Bond Law, an executed copy of the Indenture and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The Authority is a public agency duly organized and existing under the laws of the State of California, with power to enter into the Indenture, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Bonds have been duly authorized, executed and delivered by the Authority and are legal, valid and binding obligations of the Authority, payable solely from the sources provided therefor in the Indenture.
3. The Indenture has been duly approved by the Authority and constitutes a legal, valid and binding obligation of the Authority enforceable against the Authority in accordance with its terms.

4. Pursuant to the Bond Law, the Indenture establishes a valid lien on and pledge of the Revenues (as such term is defined in the Indenture) for the security of the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentence are subject to the condition that the Authority and the City of Elk Grove (the "City") comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the City have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the ownership, sale or disposition of the Bonds, or the amount, accrual or receipt of interest on the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Indenture are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

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. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

July 30, 2015

The Honorable City Council  
City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, California 95758

**OPINION:** \$49,120,000 City of Elk Grove Community Facilities District No. 2002-1  
(East Franklin) Special Tax Bonds, Series 2015

Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Elk Grove (the "City") of the captioned bonds, dated July 30, 2015 (the "Bonds") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 et seq. of the California Government Code (the "Act"), Resolution No. 2015-136 of the City adopted June 24, 2015 (the "Resolution") and a Fiscal Agent Agreement dated as of July 1, 2015, by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent Agreement"). We have examined the law and such certified proceedings and other papers 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 Fiscal Agent Agreement and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The City is duly created and validly existing as a municipal corporation and general law city with the power to enter into the Fiscal Agent Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Fiscal Agent Agreement has been duly approved by the City pursuant to the Resolution and constitutes a valid and binding obligation of the City enforceable upon the City.

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 other bonds (if any) issued or to be issued under the Fiscal Agent Agreement, subject to no prior lien granted under the Act.

4. The Bonds have been duly authorized, executed and delivered by the City and are valid and binding special obligations of the City, payable solely from the sources provided therefor in the Fiscal Agent Agreement.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Fiscal Agent Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

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. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

July 30, 2015

The Honorable City Council  
City of Elk Grove  
8401 Laguna Palms Way  
Elk Grove, California 95758

**OPINION: \$41,510,000 City of Elk Grove Community Facilities District No. 2003-1  
(Poppy Ridge) Special Tax Bonds, Series 2015**

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Members of the City Council:

We have acted as bond counsel in connection with the issuance by the City of Elk Grove (the "City") of the captioned bonds, dated July 30, 2015 (the "Bonds") pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being sections 53311 et seq. of the California Government Code (the "Act"), Resolution No. 2015-136 of the City adopted June 24, 2015 (the "Resolution") and a Fiscal Agent Agreement dated as of July 1, 2015, by and between the City and U.S. Bank National Association, as fiscal agent (the "Fiscal Agent Agreement"). We have examined the law and such certified proceedings and other papers 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 Fiscal Agent Agreement and in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based upon our examination we are of the opinion, under existing law, that:

1. The City is duly created and validly existing as a municipal corporation and general law city with the power to enter into the Fiscal Agent Agreement, to perform the agreements on its part contained therein and to issue the Bonds.

2. The Fiscal Agent Agreement has been duly approved by the City pursuant to the Resolution and constitutes a valid and binding obligation of the City enforceable upon the City.

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 other bonds (if any) issued or to be issued under the Fiscal Agent Agreement, subject to no prior lien granted under the Act.

4. The Bonds have been duly authorized, executed and delivered by the City and are valid and binding special obligations of the City, payable solely from the sources provided therefor in the Fiscal Agent Agreement.

The rights of the owners of the Bonds and the enforceability of the Bonds and the Fiscal Agent Agreement are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally, and by equitable principles, whether considered at law or in equity.

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. Our engagement with respect to this matter has terminated as of the date hereof.

Respectfully submitted,

A Professional Law Corporation

**APPENDIX E**  
**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

**\$90,630,000  
ELK GROVE FINANCE AUTHORITY  
SPECIAL TAX REVENUE BONDS  
SERIES 2015**

This Continuing Disclosure Certificate (this "Disclosure Certificate") is executed and delivered by the City of Elk Grove (the "City"), for and on behalf of itself and the Elk Grove Finance Authority (the "Authority"), in connection with the issuance by the Authority of the Special Tax Revenue Bonds captioned above (the "Bonds").

The Bonds are generally secured by revenues derived from debt service payments made on two series of bonds to be issued by the City concurrently with the Bonds: (i) the City of Elk Grove East Franklin Community Facilities District No. 2002-1 Special Tax Bonds, Series 2015 and (ii) the City of Elk Grove Community Facilities District No. 2003-1 (Poppy Ridge) Special Tax Bonds, Series 2015 (together, the "CFD Bonds"). The CFD Bonds are generally secured by special taxes levied against taxable property in each respective Community Facilities District.

The Bonds are being issued under an Indenture of Trust, dated as of July 1, 2015 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee").

The City, on behalf of itself, City of Elk Grove East Franklin Community Facilities District No. 2002-1 and the City of Elk Grove Community Facilities District No. 2003-1 (Poppy Ridge) (the "Districts"), and the Authority, hereby covenants and agrees as follows:

**Section 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the holders and beneficial owners of the Bonds and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c-12(b)(5).

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

**"Annual Report"** means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

**"Annual Report Date"** means the date that is 9 months after the end of the City's Fiscal Year (currently March 31 based on the City's Fiscal Year end of June 30).

**"Dissemination Agent"** means NBS or any successor Dissemination Agent designated in writing by the City and which has filed with the City a written acceptance of such designation.

**"Listed Events"** means any of the events listed in Section 5(a) of this Disclosure Certificate.

**"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 that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

**"Official Statement"** means the final official statement executed by the City in connection with the issuance of the Bonds.

**"Participating Underwriter"** means Piper Jaffray & Co., Incorporated, 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 it may be amended from time to time.

**Section 3. Provision of Annual Reports.**

(a) The City shall, or shall cause the Dissemination Agent to, not later than the Annual Report Date, commencing March 31, 2016, with the report for the 2014-15 Fiscal Year, provide to the MSRB, in an electronic format as prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. Not later than 15 Business Days prior to the Annual Report Date, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If by 15 Business Days prior to the Annual Report Date the Dissemination Agent (if other than the City) has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with the previous sentence. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Annual Report Date, if not available by that date. 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). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by the City hereunder.

(b) If the City does not provide (or cause the Dissemination Agent to provide) an Annual Report by the Annual Report Date, the City shall provide (or cause the Dissemination Agent to provide) to the MSRB, in an electronic format as prescribed by the MSRB, a notice in substantially the form attached as Exhibit A.

(c) With respect to each Annual Report, the Dissemination Agent shall:

(i) determine each year prior to the Annual Report Date the then-applicable rules and electronic format prescribed by the MSRB for the filing of annual continuing disclosure reports; and

(ii) if the Dissemination Agent is other than the City, file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, and stating the date it was provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the City, together with the following statement:

THE CITY'S ANNUAL FINANCIAL STATEMENTS ARE PROVIDED SOLELY TO COMPLY WITH THE SECURITIES EXCHANGE COMMISSION STAFF'S INTERPRETATION OF RULE 15C2-12. NO FUNDS OR ASSETS OF THE CITY OR THE AUTHORITY OTHER THAN THOSE PLEDGED UNDER THE INDENTURE ARE REQUIRED TO BE USED TO PAY DEBT SERVICE ON THE BONDS, AND NEITHER THE CITY NOR THE AUTHORITY ARE OBLIGATED TO ADVANCE AVAILABLE FUNDS FROM ANY SOURCE TO COVER ANY DELINQUENCIES. INVESTORS SHOULD NOT RELY ON THE FINANCIAL CONDITION OF THE CITY OR THE AUTHORITY IN EVALUATING WHETHER TO BUY, HOLD OR SELL THE BONDS.

The audited financial statements shall be 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 such audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Outstanding principal amount of the Bonds as of the end of the most recent Fiscal Year.

(C) The assessed values and levy amount of Special Taxes for the Districts on a combined basis.

(d) The following additional items relating to each District:

(i) Outstanding principal amount of the CFD Bonds as of the end of the most recent Fiscal Year.

(ii) Balance of the Reserve Account for the CFD Bonds (or amount available under the Reserve Policy, if applicable), and a statement of the applicable Reserve Requirement for the Reserve Account, as of September 1 of the current Fiscal Year.

(iii) A table showing the summary of values and value to lien ratios (direct debt) for Taxable Property (per the County Assessor's records) for the current Fiscal Year substantially in the form contained in the Official Statement.

(iv) A table showing a history of special tax collections and delinquencies (per the County Assessor's records) for the current Fiscal Year substantially in the form contained in the Official Statement.

(v) With respect to delinquent Special Taxes as of June 30 of the preceding Fiscal Year, (i) a statement of whether or not the District continues to participate in the Alternative Method of Distribution of Tax Levies and Collections described in Revenue and Taxation Code Section 4701 et seq., or an equivalent procedure, (ii) a list of all

parcels delinquent in the payment of Special Taxes in the aggregate of \$3,000 or more (and information relating to the length of delinquency and status of any foreclosure, including results of foreclosure sales), (iii) the total dollar amount of delinquencies and (iv) in the event (A) that the total delinquencies within the District as of June 30 of the preceding Fiscal Year exceed 5% of the Special Tax for the preceding Fiscal Year or (B) there are 10 or fewer owners of real property within the District, determined by reference to the latest available secured property tax roll of the County, delinquency information for each parcel delinquent in the payment of Special Tax, amounts of delinquencies, length of delinquency and status of any foreclosure of each such parcel (including results of foreclosure sale).

(vi) The amount of prepayments of the Special Taxes for the most recently completed Fiscal Year.

(vii) Any changes to the Rate and Method of Apportionment of Special Tax for the District as of June 30 of the preceding Fiscal Year.

(viii) Annual information required to be filed by the City with the California Debt and Investment Advisory Commission pursuant to the CFD Act and relating generally to outstanding District bond amounts, fund balances, assessed values, special tax delinquencies and foreclosure information.

(d) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the City shall provide such further material 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.

(e) 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 the MSRB's Internet web site or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

## Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to the Bonds:

- (1) Principal and interest payment delinquencies.
- (2) Non-payment related defaults, if material.
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (5) Substitution of credit or liquidity providers, or their failure to perform.
- (6) 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.
- (7) Modifications to rights of security holders, if material.

- (8) Bond calls, if material, and tender offers.
- (9) Defeasances.
- (10) Release, substitution, or sale of property securing repayment of the securities, if material.
- (11) Rating changes.
- (12) Bankruptcy, insolvency, receivership or similar event of the City or other obligated person.
- (13) The consummation of a merger, consolidation, or acquisition involving the City or an obligated person, or the sale of all or substantially all of the assets of the City or an 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, if material.
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall, or shall cause the Dissemination Agent (if not the City) to, file a notice of such occurrence with the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of 10 business days after the occurrence of the Listed Event. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (9) above need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds under the Indenture.

(c) The City acknowledges that the events described in subparagraphs (a)(2), (a)(7), (a)(8) (if the event is a bond call), (a)(10), (a)(13), and (a)(14) of this Section 5 contain the qualifier "if material." The City shall cause a notice to be filed as set forth in paragraph (b) above with respect to any such event only to the extent that the City determines the event's occurrence is material for purposes of U.S. federal securities law.

(d) For purposes of this Disclosure Certificate, any event described in paragraph (a)(12) above is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States 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 City, or if such jurisdiction has been assumed by leaving the existing governing 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 City.

**Section 6. Identifying Information for Filings with the MSRB.** All documents provided to the MSRB under the Disclosure Certificate shall be accompanied by identifying information as prescribed by the MSRB.

**Section 7. Termination of Reporting Obligation.** The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

Section 8. 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 Certificate, and may discharge any Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be NBS. Any Dissemination Agent may resign by providing 30 days' written notice to the City.

Section 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), 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 type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first Annual Report filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to this Disclosure Certificate modifying the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative.

A notice of any amendment made pursuant to this Section 9 shall be filed in the same manner as for a Listed Event under Section 5(c).

Section 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the 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 Certificate, the City shall have no obligation

under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 11. Default. If the City fails to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance.

Section 12. Duties, Immunities and Liabilities of Dissemination Agent. (a) The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the City hereunder, and shall not be deemed to be acting in any fiduciary capacity for the City, the Bond holders or any other party. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

(b) The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with its schedule of fees as amended from time to time, and shall be reimbursed for all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and the holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Section 14. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be regarded as an original, and all of which shall constitute one and the same instrument.

Date: July 30, 2015

CITY OF ELK GROVE

By: \_\_\_\_\_  
Director of Finance and Administrative  
Services

AGREED AND ACCEPTED:

NBS,  
as Dissemination Agent

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Elk Grove Finance Authority

Name of Issue: Elk Grove Finance Authority Special Tax Revenue Bonds Series 2015

Date of Issuance: July 30, 2015

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Bonds as required by the Indenture, dated as of July 1, 2015, by and between the City and U.S. Bank National Association, as trustee. The City anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

DISSEMINATION AGENT:

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

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## APPENDIX F

### DTC AND THE BOOK-ENTRY-ONLY SYSTEM

*The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.*

*Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the 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 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 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 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 maturity of the Securities in the aggregate principal amount of such maturity, 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"). DTC is rated "AA+" by Standard & Poor's. 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).

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

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 the Authority 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. Principal, redemption price and interest 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 the Authority or the Paying 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, the Agent, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the 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. If applicable, a Beneficial Owner will give notice to elect to have its Securities purchased or tendered, through its Participant, to tender/remarketing agent, and will effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to tender/remarketing agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to tender/remarketing agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the Issuer or the Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. 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.

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**APPENDIX G**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal amount of [NAME OF TRANSACTION]  
[and maturing on]

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

Risk Premium: \$ \_\_\_\_\_

Member Surplus Contribution: \$ \_\_\_\_\_

Total Insurance Payment: \$ \_\_\_\_\_

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

Authorized Officer

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

1 World Financial Center, 27<sup>th</sup> floor  
200 Liberty Street  
New York, New York 10281

Telecopy:

212-235-5214 (attention: Claims)

SPECIMEN



**CALIFORNIA  
ENDORSEMENT TO  
MUNICIPAL BOND  
INSURANCE POLICY**

**NO.**

This Policy is not covered by the California Insurance Guaranty Association established pursuant to Article 15.2 of Chapter 1 of Part 2 of Division 1 of the California Law.

Nothing herein shall be construed to waive, alter, reduce or amend coverage in any other section of the Policy. If found contrary to the Policy language, the terms of this Endorsement supersede the Policy language.

IN WITNESS WHEREOF, BUILDAMERICA MUTUAL ASSURANCE COMPANY has caused this policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By

\_\_\_\_\_  
Authorized Officer





FOR ADDITIONAL BOOKS: ELABRA.COM OR (888) 935-2272