

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER \_\_, 2020

NEW ISSUE - BOOK-ENTRY ONLY

UNRATED

*In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption "TAX EXEMPTION."*

County of Monterey

State of California

\$2,800,000\*

COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE  
CITY OF SALINAS  
2020 SPECIAL TAX BONDS  
(IMPROVEMENT AREA NO. 3)

Dated: Date of Delivery

Due: September 1, as shown on the inside front cover page

The Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) are being issued: (i) to finance the acquisition of certain public facilities and improvements authorized to be financed by Improvement Area No. 3 of the District; (ii) to fund a deposit to the Reserve Account; (iii) to capitalize interest on the Bonds through September 1, 2021; and (iv) to pay the costs of issuance of the Bonds. Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas has been formed by and is located in the City of Salinas, California.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California), and pursuant to a Bond Indenture, dated as of December 1, 2020, by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee. The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes to be levied on and collected from the owners of certain taxable land within Improvement Area No. 3 of the District and from certain other funds pledged under the Indenture, all as further described in this Official Statement. The Special Taxes are to be levied according to the rate and method of apportionment approved by the City Council of the City and the qualified electors within Improvement Area No. 3 of the District. See the caption "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes." The City Council of the City is the legislative body of the District.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Individual purchases may be made in integral multiples of \$5,000 and will be in book-entry form only. Purchasers of the Bonds will not receive certificates representing their beneficial ownership in the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described in this Official Statement. Interest on the Bonds will be payable on March 1 and September 1 of each year, commencing March 1, 2021. Principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants, who are obligated to remit such payments to the Beneficial Owners of the Bonds. See the captions "THE BONDS—General Provisions" and "THE BONDS—Book-Entry Only System."

*Neither the faith and credit nor the taxing power of the City of Salinas, the County of Monterey, the State of California or any political subdivision of the State other than the District is pledged to the payment of the Bonds. Except for the Net Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are limited obligations of the District payable solely from Net Taxes and certain other amounts held under the Indenture, as more fully described in this Official Statement.*

The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption from Special Tax Prepayments prior to maturity. See the caption "THE BONDS—Redemption."

**CERTAIN EVENTS COULD AFFECT THE ABILITY OF THE DISTRICT TO PAY THE PRINCIPAL OF AND INTEREST ON THE BONDS WHEN DUE. THE PURCHASE OF THE BONDS INVOLVES SIGNIFICANT INVESTMENT RISKS, AND THE BONDS ARE NOT SUITABLE INVESTMENTS FOR MANY INVESTORS. SEE THE CAPTION "SPECIAL RISK FACTORS" FOR A DISCUSSION OF CERTAIN RISK FACTORS THAT SHOULD BE CONSIDERED, IN ADDITION TO THE OTHER MATTERS SET FORTH IN THIS OFFICIAL STATEMENT, IN EVALUATING THE INVESTMENT QUALITY OF THE BONDS.**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE  
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Stradling Yocca Carlson & Rauth, a Professional Corporation, is serving as Disclosure Counsel with respect to the Bonds. Certain legal matters will be passed on for the City and the District by the City Attorney, for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California, and for the Trustee by its counsel. It is anticipated that the Bonds in book-entry form will be available for delivery in book-entry form through the facilities of DTC on or about December 23, 2020.

STIFEL

Dated: December \_\_, 2020

\* Preliminary; subject to change.

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

**\$2,800,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE**  
**CITY OF SALINAS**  
**2020 SPECIAL TAX BONDS**  
**(IMPROVEMENT AREA NO. 3)**

**MATURITY SCHEDULE**

**Base CUSIP<sup>†</sup> 794895**

<i><b>Maturity Date (September 1)</b></i>	<i><b>Principal Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP<sup>†</sup></b></i>
20__	\$	%	%		

\$\_\_\_\_\_ % Term Bonds Due September 1, 20\_\_, Yield: \_\_\_\_\_%, Price: \_\_\_\_\_, CUSIP<sup>†</sup> \_\_\_\_\_

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\* Preliminary; subject to change.

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**CITY OF SALINAS, CALIFORNIA**

**CITY COUNCIL**

Kimbley Craig, *Mayor*  
\_\_\_\_, *Council Member, District 1*  
Tony Barrera, *Council Member, District 2*  
Steve McShane, *Council Member, District 3*  
Orlando R. Osornio, *Council Member, District 4*  
Christie Cromeenes, *Council Member, District 5*  
Anthony Rocha, *Council Member, District 6*

**STAFF**

Jim Pia, *Interim City Manager*  
Matt N. Pressey, CPA, *Finance Director*  
David Jacobs, P.E., L.S., *Public Works Director*  
Patricia M. Barajas, *City Clerk*  
Christopher A. Callihan, *City Attorney*

**SPECIAL SERVICES**

**Bond Counsel and Disclosure Counsel**

Stradling Yocca Carlson & Rauth, a Professional Corporation  
Newport Beach, California

**Special Tax Consultant**

Harris & Associates  
Irvine, California

**Appraiser**

BBG Inc.  
Sacramento, California

**Trustee**

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

Except where otherwise indicated, all information contained in this Official Statement has been provided by the District and the City. No dealer, broker, salesperson or other person has been authorized by the District or the City to give any information or to make any representations in connection with the offer or sale of the Bonds other than those contained in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by a person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

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 this information.

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,” “project,” “budget,” “believe,” “anticipate” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the caption “IMPROVEMENT AREA NO. 3.”

**The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described in this Official Statement to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to the forward-looking statements set forth in this Official Statement. In evaluating such statements, potential investors should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements.**

In connection with the offering of the Bonds, the Underwriter may overallocate or effect transactions that stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time. The Underwriter may offer and sell the Bonds to certain dealers and dealer banks and banks acting as agent and others at prices lower than the public offering prices stated on the inside cover page of this Official Statement, and the Underwriter may change those public offering prices from time to time.

**The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon an exemption contained in such act, and have not been registered or qualified under the securities laws of any state.**

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

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[MAP, FOLLOWED BY AERIAL PHOTO]

**\$2,800,000\***  
**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE**  
**CITY OF SALINAS**  
**2020 SPECIAL TAX BONDS**  
**(IMPROVEMENT AREA NO. 3)**

**INTRODUCTION**

**General**

The purpose of this Official Statement, which includes the front cover page, the inside front cover page, the table of contents and the attached appendices (collectively, the “**Official Statement**”), is to provide certain information concerning the issuance of the \$2,800,000\* Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) (the “**Bonds**”). The proceeds of the Bonds will be used: (i) to finance the acquisition of certain public facilities and improvements authorized to be financed by Improvement Area No. 3 of the District (the “**Project**”); (ii) to fund a deposit to the Reserve Account; (iii) to capitalize interest on the Bonds through September 1, 2021; and (iv) to pay the costs of issuance of the Bonds. See the captions “THE PROJECT,” “ESTIMATED SOURCES AND USES OF FUNDS” and “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund.”

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 appendices, and the documents summarized or described in this Official Statement. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms which are used in this Official Statement and not defined have the meanings set forth in Appendix C.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the “**Act**”), and a Bond Indenture dated as of December 1, 2020 (the “**Indenture**”) by and between Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas (the “**District**”) and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”).

The Bonds are secured under the Indenture by a pledge of and lien upon certain Net Taxes (as such term is defined in this Official Statement) and all moneys in the Special Tax Fund (other than the Administrative Expenses Account) as described under the Indenture.

**The District**

**Formation Proceedings.** The District was formed by the City of Salinas (the “**City**”) pursuant to the Act.

The Act was enacted by the State of California (the “**State**”) Legislature to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as such term is defined in the Act) may establish a district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency that forms a district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a district and may levy and collect a special tax within such district to repay such indebtedness.

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\* Preliminary; subject to change.

Pursuant to the Act, the City Council adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes (as such term is defined in this Official Statement) on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness. Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and calling special elections to submit the authorization of the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District, including: (i) Resolution No. 21082 adopted by the City Council of the City on November 29, 2016, pursuant to which the City formed the District and designated Improvement Area No. 3 (the “**Resolution of Formation**”); and (ii) Ordinance No. 2582 adopted by the legislative body of the District on November 29, 2016, providing for the levying of the Special Taxes (the “**Ordinance**”).

On November 29, 2016, at an election held pursuant to the Act, the landowners who comprised the qualified voters of Improvement Area No. 3 of the District authorized the District to incur bonded indebtedness in an aggregate principal amount not to exceed \$4,400,000 and approved the rate and method of apportionment of the Special Taxes (the “**Rate and Method**”) for Improvement Area No. 3 of the District to pay the principal of and interest on the bonds of the District. See the caption “THE BONDS—Authority for Issuance.” The City Council of the City acts as the legislative body of the District.

**Description of the City, the District and Improvement Area No. 3.** The City serves as the county seat of the County of Monterey (the “**County**”) in the Central Coast region of California, 17 miles inland from Monterey Bay, 325 miles north of Los Angeles and 105 miles south of San Francisco. The City was incorporated as a charter city in 1874 and has an area of approximately 24 square miles. The population of the City is estimated to be approximately 162,222. See Appendix B for general information relating to the City. No funds of the City are available for payment of the Bonds.

The District, which is located entirely within the City, consists of Improvement Area Nos. 1, 2 and 3. *Special taxes or other moneys derived from Improvement Area Nos. 1 and 2 are not available for payment of debt service on the Bonds.*

Improvement Area No. 3 of the District consists of approximately 22.34 gross acres. Excluding public streets, open space and other public improvements, the 78 lots within Improvement Area No. 3 that will be subject to the Special Tax comprise approximately 12.71 acres. As of October 13, 2020 (the “**Date of Value**”), the date of value of the Appraisal (as described under the caption “—Appraisal”), the developer of Improvement Area No. 3, KB HOME South Bay Inc., a California corporation (the “**Developer**”), had completed approximately 17 single family residences, all of which were in escrow for sale to individual homeowners. As of November 9, 2020: (i) a total of 8 single family residences were constructed, sold and closed; (ii) 44 single family residences were under construction with building permits received (all of which were under contract); and (iii) 26 parcels (none of which were under contract) were in a finished lot condition with construction yet to begin. The property owners within Improvement Area No. 3, including the Developer, are referred to in this Official Statement as the “**Property Owners**.” See the caption “IMPROVEMENT AREA NO. 3—General Description.” Improvement Area No. 3 is located in the southeastern portion of the City near the City limits on the east side of Monte Bella Boulevard near Palermo Drive and Venice Way.

## **Appraisal**

An Appraisal of the parcels within Improvement Area No. 3 dated \_\_\_\_ \_\_, 2020 was prepared by BBG Inc. in connection with issuance of the Bonds. The purpose of the Appraisal was to estimate the fee simple market value of the parcels in Improvement Area No. 3 by ownership and the aggregate value of all taxable property as of the Date of Value, October 13, 2020, which represents the date of inspection. The values are subject to a hypothetical condition that the Bonds have sold and such values represent not-less-than estimates. According to the Appraisal, the value of the parcels within Improvement Area No. 3 is as follows:

<i>Owner</i>	<i>Description</i>	<i>Appraised Value</i>
Developer	17 Completed Homes, 23 Partially Completed Homes, 9 Finished Lots with Foundations and 29 Vacant Finished Lots	\$26,400,000

See the caption “IMPROVEMENT AREA NO. 3—Appraised Property Value” and Appendix G. *None of the City, the District or the Underwriter makes any representation as to the accuracy or completeness of the Appraisal.*

### **Sources of Payment for the Bonds**

**Special Taxes.** As used in this Official Statement, the term “**Special Taxes**” means the taxes authorized to be levied by the District on property within Improvement Area No. 3 in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the November 29, 2016 election in Improvement Area No. 3, including any scheduled payments and any Prepayments (as such term is defined in the Indenture) of Special Taxes, and the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and penalties and interest on such Special Taxes. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes” and Appendix A.

Under the Indenture, the District has pledged to repay the Bonds from: (i) the “**Net Taxes**,” which consist of the Special Taxes less amounts set aside to pay Administrative Expenses not to exceed \$15,000 (the “**Administrative Expenses Cap**”); and (ii) amounts in the Special Tax Fund (other than the Administrative Expenses Account) established under the Indenture.

The Net Taxes are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Reserve Account of the Special Tax Fund.”

**Foreclosure Proceedings.** The District has covenanted for the benefit of the Owners of the Bonds that it will: (i) commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each fiscal year of the District ending June 30 (each, a “**Fiscal Year**”) in which such Special Taxes were due; (ii) commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Proceeds of Foreclosure Sales.” There is no assurance that the taxable property within Improvement Area No. 3 can be sold for the appraised values described in this Official Statement, or for a price sufficient to pay the delinquent Special Taxes (plus related penalties and interest) in the event of a default in payment of Special Taxes by the current or future landowners within Improvement Area No. 3. See the caption “SPECIAL RISK FACTORS—Land Values.”

**Neither the faith and credit nor the taxing power of the City, the State or any political subdivision of the State other than the District is pledged to the payment of the Bonds or any Parity Bonds (as such term is defined in this Official Statement). Except for the Net Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are neither general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expenses Account), as more fully described in this Official Statement.**

**Issuance of Parity Bonds Solely for Refunding Purposes.** The District may, without the consent of the Owners of the Bonds, issue additional indebtedness secured by the Net Taxes on a parity with the Bonds (“**Parity Bonds**”), provided that: (i) such Parity Bonds may be issued solely to refund the Bonds or other Parity Bonds for debt service savings; and (ii) the total aggregate principal amount of the Bonds and all Parity Bonds shall not exceed \$4,400,000 (the amount authorized by the Property Owners under the Rate and Method) at any time. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Issuance of Parity Bonds Solely for Refunding Purposes.”

Other taxes and/or special assessments with liens that are equal in priority to the continuing lien of the Special Taxes have been levied as described under the captions “IMPROVEMENT AREA NO. 3—Estimated Direct and Overlapping Indebtedness” and “IMPROVEMENT AREA NO. 3—Expected Tax Burden.” Additional other taxes and/or special assessments may also be levied in the future on the property within Improvement Area No. 3, which could adversely affect the willingness of the Property Owners to pay the Special Taxes when due. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

**No Teeter Plan.** To date, the Special Taxes have not been levied in Improvement Area No. 3, so there are no current or prior delinquencies in Special Tax payments. Special Taxes were levied for the first time in Fiscal Year 2020-21. Because the County’s “Teeter Plan” (which is the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds, as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State of California) is not available for community facilities districts such as the District, collections of Special Taxes will reflect actual delinquencies. Neither the City, the Underwriter nor the District can predict the willingness or ability of the Property Owners to pay the Special Taxes.

### **Description of the Bonds**

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“**DTC**”), and will be available to actual purchasers of the Bonds (the “**Beneficial Owners**”) in the integral multiples of \$5,000, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described in this Official Statement. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry only system described in this Official Statement is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See Appendix C.

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Trustee, all as described in this Official Statement. See Appendix F.

The Bonds are subject to optional redemption, mandatory sinking fund redemption and extraordinary redemption from Special Tax Prepayments as described under the caption “THE BONDS—Redemption.” For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see the caption “THE BONDS” and Appendix C.

### **Tax Matters**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“**Bond Counsel**”), under existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants and requirements described in this Official Statement, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item

of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. It is the further opinion of Bond Counsel that interest (and original issue discount) on the Bonds is exempt from State personal income tax. See the caption “TAX EXEMPTION.”

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

The Bank of New York Mellon Trust Company, N.A. will act as Trustee under the Indenture. Harris & Associates (the “**Special Tax Consultant**”) has acted as Special Tax consultant to the District. BBG Inc. (the “**Appraiser**”), has undertaken an appraisal of the parcels within Improvement Area No. 3 (the “**Appraisal**”). See Appendix G. Stifel, Nicolaus & Company, Incorporated is the Underwriter of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Bond Counsel and Disclosure Counsel to the District. Certain legal matters will be passed on for the City and the District by the City Attorney, for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California, and for the Trustee by its counsel.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see the caption “FINANCIAL INTERESTS.”

### **Continuing Disclosure**

The District has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board certain annual financial information and operating data and notice of certain enumerated events. The District’s covenants have been made in order to assist the Underwriter in complying with the Securities and Exchange Commission’s Rule 15c2-12 (“**Rule 15c2-12**”). In addition, although not an obligated party under Rule 15c2-12, the Developer has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board certain annual information and notice of certain enumerated events. See the caption “CONTINUING DISCLOSURE” and Appendices D-1 and D-2 for a description of the specific nature of the annual reports and notices of enumerated events to be filed by the District and the Developer.

### **Bond Owners’ Risks**

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the caption “SPECIAL RISK FACTORS” for a discussion of certain factors that should be considered, in addition to other matters set forth in this Official Statement, in evaluating an investment in the Bonds. *The purchase of the Bonds involves significant investment risks, and the Bonds are not suitable investments for many investors.*

### **Other Information**

This Official Statement speaks only as of its date, and the information contained in this Official Statement is subject to change.

Brief descriptions of the Bonds and the Indenture are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references to the Indenture, the Bonds and the Constitution and laws of the State as well as the proceedings of the City Council, acting as the legislative body of the District, are qualified in their entirety by references to such documents, laws and proceedings, and with respect to the Bonds, by reference to the Indenture.

Copies of the Indenture, the District Disclosure Certificate, the Developer Disclosure Certificate and other documents and information that are referred to in this Official Statement are available for inspection and

(upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at the Office of the City Clerk at 200 Lincoln Avenue, Salinas, California 93901, Attention: City Clerk.

## THE PROJECT

### General

A portion of the Bond proceeds will be used by the District to design, construct and/or acquire certain authorized City facilities (collectively, the “**Project**”). The Project components authorized to be financed from Bond proceeds consist of water and sewer improvements, storm drain improvements, joint trench utility improvements, street facilities, the paving of streets, curb, gutter and sidewalk improvements, including streetlights and traffic signals, as well as incidental expenses related to the planning, design and completion of such facilities. With the exception of the completion of two streets that will encircle the homes in the District, such backbone infrastructure has been completed by the Developer and its predecessors and a portion of the proceeds of the Bonds will be used to reimburse the Developer for a portion of the costs thereof.

### Estimated Sources and Uses of Funds

The following table sets forth the expected sources and uses of Bond proceeds:

#### *Sources of Funds*<sup>(1)</sup>

Principal Amount of Bonds	\$
Plus Net Original Issue Premium	
Other Moneys <sup>(2)</sup>	
TOTAL SOURCES	\$

#### *Uses of Funds*<sup>(1)</sup>

Deposit in Project Fund	\$
Deposit in Capitalized Interest Account <sup>(3)</sup>	
Deposit in Administrative Expenses Account	
Deposit in Reserve Account	
Costs of Issuance <sup>(4)</sup>	
TOTAL USES	\$

<sup>(1)</sup> Amounts rounded to the nearest dollar. Totals may not add.

<sup>(2)</sup> Reflects Special Taxes collected in Fiscal Year 2020-21. See the caption “THE BONDS—Authority for Issuance—Ordinance Levying Special Taxes.”

<sup>(3)</sup> To be applied to pay interest on the Bonds through September 1, 2021.

<sup>(4)</sup> Includes fees of the Trustee, the Special Tax Consultant, the Appraiser, legal fees, printing costs, Underwriter’s discount and other costs of issuance.

## THE BONDS

### General Provisions

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside front cover page of this Official Statement, payable semiannually on March 1 and September 1 of each year, commencing March 1, 2021 (each, an “**Interest Payment Date**”), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form in integral multiples of \$5,000.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of such

Bond, unless: (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after a Record Date but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the dated date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on such Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment or, if no interest has been paid or made available for payment on such Bond, interest on such Bond will be payable from its dated date. The term “**Record Date**” is defined to mean the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day.

Interest on any Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Owner at its address on the registration books. Pursuant to a written request prior to the Record Date of an Owner of at least \$1,000,000 in aggregate principal amount of Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States.

Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Los Angeles, California.

### **Book-Entry Only System**

The Bonds are issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in integral multiples of \$5,000. The Trustee will make payments due with respect to the Bonds to DTC but assumes no responsibility for DTC’s disbursement of funds to its principals. See Appendix F.

### **Authority for Issuance**

The Bonds are issued pursuant to the Act and the Indenture. As required by the Act, the City Council of the City has taken the following actions with respect to establishing the District (including Improvement Area No. 3) and the Bonds:

**Resolutions of Intention.** On October 18, 2016 the City Council adopted Resolution No. 595 stating its intention to establish the District, including Improvement Area No. 3, and to authorize the levy of a special tax in the District, including Improvement Area No. 3. On October 18, 2016, the City Council adopted Resolution No. 596 stating its intention to incur bonded indebtedness in the District, including an amount not to exceed \$4,400,000 in Improvement Area No. 3.

**Resolution of Formation.** Following a noticed public hearing on November 29, 2016, the City Council, acting as legislative body of the District, adopted the Resolution of Formation, which established the District, including Improvement Area No. 3, and authorized the levy of a special tax within the District.

**Resolution of Necessity.** On November 29, 2016, the City Council adopted Resolution No. 21083, declaring the necessity to incur bonded indebtedness in an aggregate amount not to exceed \$4,400,000 within Improvement Area No. 3.

**Landowner Election and Declaration of Results.** On November 29, 2016, an election was held within each improvement area of the District in which the then-qualified electors within Improvement Area No. 3 approved a ballot proposition: (i) authorizing Improvement Area No. 3 to incur bonded indebtedness in an amount not to exceed \$4,400,000 to finance the acquisition and construction of various public capital

improvements; (ii) approving the levy of a special tax; and (iii) establishing an appropriations limit for Improvement Area No. 3. On November 29, 2016, the City Council adopted Resolution No. 21084 pursuant to which the City Council, acting as the legislative body of the District, approved the canvass of the votes and declared Improvement Area No. 3 to be fully formed with the authority to levy Special Taxes, to incur bonded indebtedness and to maintain an appropriations limit.

**Ordinance Levying Special Taxes.** On November 29, 2016, the City Council, acting as legislative body of the District, adopted the Ordinance levying the Special Tax within Improvement Area No. 3 in accordance with the Rate and Method. To date, the District has not levied Special Taxes within Improvement Area No. 3. The District first levied Special Taxes within Improvement Area No. 3 in Fiscal Year 2020-21. Such Special Taxes were levied in the amount of \$15,276 on six parcels on which building permits had been obtained as of May 1, 2020.

**Special Tax Lien and Levy.** A Notice of Special Tax Lien encumbering the property within Improvement Area No. 3 was filed with the County Recorder on December 12, 2016 as Document No. 2016075815.

**No Prior Bond Issuances.** The City has not previously issued bonds secured by Special Taxes levied within Improvement Area No. 3.

**Resolution of Issuance.** On December [1], 2020, the City Council of the City, acting as legislative body of the District, adopted a resolution authorizing the issuance of the Bonds for the purpose of financing the Project.

**Redemption**

**Optional Redemption.** The Bonds are subject to redemption prior to their stated maturity dates at the option of the District on September 1, 20\_\_ or any Interest Payment Date thereafter, from such maturities as selected by the District (and by lot within any one maturity), in integral multiples of \$5,000, from moneys derived by the District from any source, at a redemption price (expressed as a percentage of the principal amount of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<i>Redemption Date</i>	<i>Redemption Price</i>
September 1, 20__ and March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

**Mandatory Sinking Fund Redemption.** The Term Bonds maturing on September 1, 20\_\_ (the “**20\_\_ Term Bonds**”) will be called before maturity and redeemed, from the Sinking Fund Payments that have been deposited into the Redemption Account, on September 1, 20\_\_, and on each September 1 thereafter prior to maturity, in accordance with the schedule of Sinking Fund Payments set forth below. The 20\_\_ Term Bonds so called for redemption will be selected by the Trustee by lot and will be redeemed at a redemption price for each redeemed 20\_\_ Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

TERM BONDS MATURING SEPTEMBER 1, 20\_\_

<i>Redemption Date (September 1)</i>	<i>Principal Amount</i>
20__	\$
20__	
20__	
20__	
20__*	

\* Maturity.

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

In the event of a partial optional redemption or extraordinary redemption of the Bonds, each of the remaining Sinking Fund Payments for such Bonds, as described above, will be reduced, as nearly as practicable, on a pro rata basis, in integral multiples of \$5,000, as directed by the District.

**Extraordinary Redemption.** The Bonds are subject to extraordinary redemption as a whole, or in part by lot, on any Interest Payment Date, and will be redeemed by the Trustee, from amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in Improvement Area No. 3 made in accordance with the Rate and Method (“**Prepayments**”) deposited to the Redemption Account, plus amounts transferred from the Reserve Account, among maturities as directed in writing by the District, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the redemption date:

<i>Redemption Date</i>	<i>Redemption Price</i>
Any Interest Payment Date from (and including) September 1, 20__ through (and including) March 1, 20__	103%
September 1, 20__ and March 1, 20__	102
September 1, 20__ and March 1, 20__	101
September 1, 20__ and any Interest Payment Date thereafter	100

Such Special Tax Prepayments could be made by any of the owners of any of the property within Improvement Area No. 3, including the Developer or any individual owner, and they could also be made from the proceeds of bonds issued by or on behalf of an overlapping special assessment district or community facilities district. The resulting extraordinary redemption of Bonds that were purchased at a price greater than the applicable redemption price could reduce the otherwise expected yield on such Bonds. See the caption “SPECIAL RISK FACTORS— Potential Early Redemption of Bonds from Prepayments or Other Sources.”

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

The Trustee shall give notice, in the name of the District, of the redemption of Bonds; provided, however, that a notice of a redemption to be made from other than from Sinking Fund Payments will be conditioned on there being on deposit on the redemption date sufficient money to pay the redemption price of

the Bonds to be redeemed. Such notice of redemption will: (a) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all of the Bonds of one maturity, are to be redeemed, the bond numbers of such issue need not be specified; (b) state the date fixed for redemption and surrender of the Bonds to be redeemed; (c) state the redemption price; (d) state the place or places where the Bonds are to be redeemed; (e) in the case of Bonds to be redeemed only in part, state the portion of such Bond that is to be redeemed; (f) state the date of issue of the Bonds as originally issued; (g) state the rate of interest borne by each Bond being redeemed; and (h) state any other descriptive information needed to identify accurately the Bonds being redeemed as specified by the Trustee. Such notice will further state that on the date fixed for redemption, there will become due and payable on each Bond or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable. At least 20 days but no more than 60 days prior to the redemption date, the Trustee will mail a copy of such notice, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register. The actual receipt by the Owner of any Bond or the original purchaser of any Bond of notice of such redemption is not a condition precedent to redemption, and neither the failure to receive nor any defect in such notice will affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as provided in the Indenture will be conclusive as against all parties, and the Owner will not be entitled to show that he or she failed to receive notice of such redemption.

In addition to the foregoing notice, further notice will be given by the Trustee as set out below, but no defect in said further notice nor any failure to give all or any portion of such further notice will in any manner defeat the effectiveness of a call for redemption if notice thereof is given as above prescribed. In addition to providing any notice of redemption to the Owners, if the Bonds are held in book-entry form, each further notice of redemption will be sent not later than the date that notice of redemption is mailed to the Owners by registered or certified mail or overnight delivery service to the Depository and by electronic notice to the Municipal Securities Rulemaking Board.

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

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

### **Registration, Transfer and Exchange**

**Registration.** The Trustee will keep sufficient books for the registration and transfer of the Bonds. The ownership of the Bonds will be established by the Bond registration books held by the Trustee.

**Transfer or Exchange.** The registration of any Bond may, in accordance with its terms, be transferred upon the Bond registration books by the person in whose name it is registered, in person or by his or her duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee and duly executed by the Owner or his or her duly authorized attorney. Prior to any transfer of the Bonds outside the book-entry system (including, but not limited to, the initial transfer outside the book-entry system) the

transferor will provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045, as amended. The Trustee will conclusively rely on the information provided to it and has no responsibility to verify or ensure the accuracy of such information.

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

**Debt Service Schedule**

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

<i>Date (September 1)</i>	<i>Principal</i>	<i>Interest</i>	<i>Total</i>
2021 <sup>(1)</sup>	\$	\$	\$
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
<b>TOTAL</b>	\$	\$	\$

<sup>(1)</sup> The amount payable in this period will be paid from moneys held in the Capitalized Interest Account. See the caption “THE PROJECT—Estimated Sources and Uses of Funds.”  
Source: Stifel, Nicolaus & Company, Incorporated.

**SOURCES OF PAYMENT FOR THE BONDS**

**Limited Obligations**

The Bonds are special, limited obligations of the District payable only from amounts pledged under the Indenture and from no other sources.

The Net Taxes are the primary security for the repayment of the Bonds. Under the Indenture, the District has pledged to repay the Bonds and any Parity Bonds from the Net Taxes (which are Special Taxes less amounts set aside to pay Administrative Expenses not to exceed the \$15,000 Administrative Expenses Cap (as such term is defined in Appendix C)). Special Tax revenues include the proceeds of the taxes authorized to

be levied by the District on property within Improvement Area No. 3 in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the November 29, 2016 election in Improvement Area No. 3, including any scheduled payments and any Prepayments of Special Taxes, and the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and penalties and interest on such Special Taxes.

In the event that the Special Tax revenues are not received when due, the only sources of funds available to pay the debt service on the Bonds and any Parity Bonds are amounts held by the Trustee in the Special Tax Fund (other than the Administrative Expenses Account), including amounts held in the Reserve Account, for the exclusive benefit of the Owners of the Bonds and any Parity Bonds.

**Neither the faith and credit nor the taxing power of the City, the State or any political subdivision of the State other than the District is pledged to the payment of the Bonds or any Parity Bonds. Except for the Net Taxes, no other taxes are pledged to the payment of the Bonds or any Parity Bonds. The Bonds and any Parity Bonds are neither general or special obligations of the City nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the Special Tax Fund (exclusive of the Administrative Expenses Account), as more fully described in this Official Statement.**

### **Special Taxes**

*Authorization and Pledge.* In accordance with the provisions of the Act, the City Council established the District on November 29, 2016 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the District. At a special election held on November 29, 2016, the owners of the property within Improvement Area No. 3 authorized the District to incur indebtedness in an amount not to exceed \$4,400,000 for Improvement Area No. 3, and approved the Rate and Method, which authorized the Special Tax to be levied to repay District indebtedness, including the Bonds.

The District has covenanted in the Indenture that, beginning in Fiscal Year 2020-21 and continuing so long as any Bonds or Parity Bonds issued under the Indenture are Outstanding, the legislative body of the District will levy the Special Tax in an amount sufficient, together with other amounts on deposit in the Special Tax Fund and available for such purpose, to pay: (i) the principal of and interest on the Bonds and any Parity Bonds when due; (ii) the Administrative Expenses; and (iii) any amounts required to replenish the Reserve Account of the Special Tax Fund to the Reserve Requirement. The District has further covenanted in the Indenture that it will take no actions that would discontinue or cause the discontinuance of the Special Tax levy or the District's authority to levy the Special Tax for so long as the Bonds and any Parity Bonds are Outstanding. See the caption "—Special Taxes—Collection and Application of Special Taxes."

The Special Taxes levied in any fiscal year may not exceed the maximum rates authorized pursuant to the Rate and Method. See Appendix A. There is no assurance that the Net Taxes will, in all circumstances, be sufficient to pay the principal of and interest on the Bonds and any Parity Bonds when due. See the caption "SPECIAL RISK FACTORS—Insufficiency of Special Taxes."

*Rate and Method of Apportionment of Special Taxes.* The Special Taxes will be levied in accordance with the terms of the Rate and Method, the text of which is set forth in Appendix A. All capitalized terms used in this section shall have the meaning set forth in Appendix A. This section provides only a summary of the Rate and Method, and is qualified by more complete and detailed information contained in the entire Rate and Method.

*Classification of Assessor's Parcels.* Each Fiscal Year, each Assessor's Parcel within Improvement Area No. 3 shall be classified as Taxable Property or Exempt Property. In addition, each Assessor's Parcel of Taxable Property shall be further classified as Developed Property, Approved Property,

Undeveloped Property or Provisional Undeveloped Property. In addition, each Assessor’s Parcel of Developed Property shall further be classified as Residential Property or Non-Residential Property. Lastly, each Assessor’s Parcel of Residential Property shall further be classified as a Single Family Property, and each Assessor’s Parcel of Single Family Property shall be assigned to its appropriate Assigned Special Tax rate based on its Building Square Footage.

“**Approved Property**” means all Assessor’s Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied; and (ii) that have not been issued a building permit on or before May 1st preceding the Fiscal Year in which the Special Tax is being levied.

“**Developed Property**” means all Assessor’s Parcels of Taxable Property for which a building permit for new construction was issued on or before May 1st preceding the Fiscal Year in which the Special Tax is being levied.

“**Exempt Property**” means all Assessor’s Parcels designated as being exempt from Special Taxes as provided for in Section J of the Rate and Method. See Appendix A.

“**Taxable Property**” means all Assessor’s Parcels within Improvement Area No. 3 which are not Exempt Property.

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

*Maximum Special Tax.* As described in Section C of the Rate and Method, the Maximum Special Tax for each Assessor’s Parcel of Single Family Property in any Fiscal Year is the greater of: (i) the Assigned Special Tax; or (ii) the Backup Special Tax. See Appendix A, Section E, for a description of the Backup Special Tax.

The anticipated Maximum Special Tax for Fiscal Year 2020-21 for all Taxable Property is set forth below.

<i>Land Use Type</i>	<i>Building Square Footage</i>	<i>Rate</i>
Single Family Property	Up to 2,250 SF	\$2,492 per Single Family Unit
Single Family Property	2,251 SF to 2,500 SF	\$2,654 per Single Family Unit
Single Family Property	2,501 SF to 2,750 SF	\$2,785 per Single Family Unit
Single Family Property	Greater than 2,750 SF	\$2,882 per Single Family Unit
Non-Residential Property	N/A	\$17,452 per Acre

“**Single Family Unit**” means a residential dwelling unit.

*Method of Apportionment of the Special Tax.* For each Fiscal Year, the City Council will levy Special Taxes on all Taxable Property in accordance with the following steps:

**Step One:** The Special Tax will be levied Proportionately on each Assessor’s Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax rates in the table above to satisfy the Special Tax Requirement.

**Step Two:** If additional moneys are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax will be levied Proportionately on each Assessor’s Parcel of Approved Property at up to 100% of the Maximum Special Tax applicable to each such Assessor’s Parcel as needed to satisfy the Special Tax Requirement.

**Step Three:** If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax will be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.

**Step Four:** If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is the Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to 100% of the Backup Special Tax as needed to satisfy the Special Tax Requirement. See Appendix A, Section E, for a description of the Backup Special Tax.

**Step Five:** If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax will be levied Proportionately on each Assessor's Parcel of Provisional Undeveloped Property up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special 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 10% as a consequence of delinquency or default by the owner of any other Assessor's Parcel within Improvement Area No. 3.

*Exemptions.* The City will classify as Exempt Property, in order of priority: (i) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by the State of California, federal or other local governments, including school districts; (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization; (iii) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by a homeowners' association; (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement; (v) Assessor's Parcels which are privately owned and are encumbered by or restricted solely for public uses; (vi) Assessor's Parcels restricted to other types of public uses determined by the City Council, provided that no such classification would reduce the sum of all Taxable Property to less than 12.08 Acres.

Notwithstanding the above, the City Council may not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than 12.08 Acres. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 12.08 Acres will be classified as Provisional Undeveloped Property, and will be subject to Special Taxes pursuant to Step Five under the subcaption "—Method of Apportionment of the Special Tax."

*Prepayment of Special Taxes.* The Special Tax obligation of an Assessor's Parcel of Developed Property, or an Assessor's Parcel of Approved Property or Undeveloped Property for which a building permit has been issued or is expected to be issued, or an Assessor's Parcel of Provisional Undeveloped Property, may be prepaid in full or in part, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Special Tax obligation would be prepaid. The Prepayment Amount for an Assessor's Parcel eligible for prepayment will be determined as described in Sections G and H of Appendix A.

*Collection and Application of Special Taxes.* The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes. The District may, however, collect the Special Taxes at a different time or in a different manner if necessary to meet its financial obligations.

The District has made certain covenants in the Indenture for the purpose of ensuring that the current Maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds, any Parity Bonds and Administrative Expenses when due. In particular, the District has covenanted that it will not initiate proceedings to reduce the maximum Special Tax rates for Improvement Area No. 3.

See the captions "SPECIAL RISK FACTORS—Proposition 218" and "SPECIAL RISK FACTORS—Non-Cash Payments of Special Taxes."

Although the Special Taxes constitute liens on taxable parcels within Improvement Area No. 3, they do not constitute a personal indebtedness of the owners of property within Improvement Area No. 3. Moreover, other liens for taxes and assessments already exist on the property located within Improvement Area No. 3 and others could come into existence in the future in certain situations without the consent or knowledge of the City, the District or the Property Owners. See the captions "SPECIAL RISK FACTORS—Parity Taxes and Special Assessments."

Under the terms of the Indenture, all Special Tax revenues received by the District on behalf of Improvement Area No. 3 are to be deposited in the Special Tax Fund. Special Tax revenues deposited in the Special Tax Fund each Fiscal Year are to be applied by the Trustee under the Indenture in the following order of priority: (i) to deposit an amount up to the Administrative Expenses Cap in the Administrative Expense Fund to pay Administrative Expenses (although a greater amount may be deposited in the Administrative Expense Fund if necessary to collect Delinquent Special Taxes); (ii) to pay the interest on, the principal of and redemption premium on the Bonds and any Parity Bonds when due; (iii) to replenish the Reserve Account to the Reserve Requirement; (iv) to make any required transfers to the Rebate Fund; (v) to pay Administrative Expenses of the District above the Administrative Expenses Cap referenced in clause (i) above; and (vi) for any other lawful purpose of the District, including the acquisition and construction of authorized facilities. See Appendix C.

**Pursuant to Section 53321(d) of the Act, the Special Tax levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within Improvement Area No. 3 by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults. Consequently, although the maximum Special Tax prescribed by the Rate and Method could be materially higher than the expected Special Tax levy in a given year, the Special Tax levy cannot be increased for residential property by more than 10% in such year.**

*Debt Service Coverage from Net Special Taxes.* The table below shows the estimated debt service coverage on the Bonds for the Bond Year ending September 1, 2022. Debt service coverage is expected to be at least 110% through the scheduled maturity of the Bonds. See the caption "THE BONDS—Debt Service Schedule" for scheduled debt service on the Bonds.

**ESTIMATED DEBT SERVICE COVERAGE<sup>(1)</sup>  
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE  
CITY OF SALINAS**

<i>Bond Year Ending September 1</i>	<i>Assigned Special Tax Revenues<sup>(2)</sup></i>	<i>Annual Administrative Expenses<sup>(3)</sup></i>	<i>Assigned Net Special Tax Revenues</i>	<i>Bond Debt Service*</i>	<i>Debt Service Coverage*</i>
2022	\$197,616	\$15,000	\$182,616	\$[ ]	[ ]%

<sup>(1)</sup> Dollar amounts rounded to the nearest dollar.

<sup>(2)</sup> Represents Assigned Special Tax on all property within Improvement Area No. 3 that is classified as Taxable Property, as such term is defined in the Rate and Method. As described in Section C of the Rate and Method, the Maximum Special Tax could be higher than the Assigned Special Tax shown if the Backup Special Tax is applied for each Assessor's Parcel of Single Family Property. See Appendix A, Section E, for a description of the Backup Special Tax.

<sup>(3)</sup> Based on the Administrative Expenses Cap of \$15,000.

Sources: Harris & Associates (Special Tax information); Stifel, Nicolaus & Company, Incorporated (debt service information).

***Covenant to Foreclose; Proceeds of Foreclosure Sales.*** The net proceeds received following a judicial foreclosure sale of land within the District resulting from a Property Owner's failure to pay the Special Taxes when due are included within the Net Taxes pledged to the payment of principal of and interest on the Bonds under the Indenture.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the Owners of the Bonds and any Parity Bonds that it will: (i) commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$10,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; (ii) commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied and the amount on deposit in the Reserve Account is at less than the Reserve Requirement; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid.

The District covenants that it will deposit the net proceeds of any foreclosure to the Special Tax Fund and will apply such proceeds remaining after the payment of Administrative Expenses to make current payments of principal of and interest on the Bonds and any Parity Bonds, to bring the amount on deposit in the Reserve Account up to the Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds and any Parity Bonds.

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See the captions "SPECIAL RISK FACTORS—Bankruptcy and Foreclosure" and "SPECIAL RISK FACTORS—FDIC/Federal Government Interests in Properties."

Moreover, no assurances can be given that the real property that is subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See the caption "SPECIAL RISK FACTORS—Land Values." Although

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\* Preliminary; subject to change.

the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. Moreover, if the District chooses to purchase the property sold at foreclosure using a “credit bid” (where the District submits a bid crediting all or part of the amount required to satisfy the judgment for the delinquent amount of the Special Tax), as permitted under Section 53356.5 of the Act, 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. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes. See the caption “SPECIAL RISK FACTORS—Parity Taxes and Special Assessments.”

Because the County’s “Teeter Plan” (which is the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds, as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State of California), is not available for community facilities districts such as the District, collections of Special Taxes will reflect actual delinquencies. To date, the Special Taxes have not been levied in Improvement Area No. 3, so there are no current or historical delinquencies.

### **Reserve Account of the Special Tax Fund**

In order to secure further the payment of principal of and interest on the Bonds and any Parity Bonds, the District will maintain in the Reserve Account an amount equal to the least of: (a) Maximum Annual Debt Service (as such term is defined in Appendix C) on the Bonds and any Parity Bonds; (b) 125% of average Annual Debt Service (as such term is defined in Appendix C) on the then-Outstanding Bonds and any Parity Bonds; or (c) 10% of the initial outstanding principal amount of the Bonds and any Parity Bonds (the “**Reserve Requirement**”). The initial Reserve Requirement is \$\_\_\_\_\_.

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

Whenever moneys are withdrawn from the Reserve Account, after making the required transfers to the Administrative Expenses Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund, the Trustee will transfer to the Reserve Account from available moneys in the Special Tax Fund, or from any other legally available funds that the District elects to apply to such purpose, the amount needed to restore the amount of such Reserve Account to the Reserve Requirement. Moneys in the Special Tax Fund will be deemed available for transfer to the Reserve Account only if the Trustee determines that such amounts will not be needed to make the deposits required to be made to the Administrative Expenses Account, the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund on or before the next September 1. If amounts in the Special Tax Fund, together with any other amounts transferred to replenish the Reserve Account, are inadequate to restore the Reserve Account to the Reserve Requirement, then the District will include the amount necessary fully to restore the Reserve Account to the Reserve Requirement in the next annual Special Tax levy to the extent of the maximum permitted Special Tax rates.

In connection with an optional redemption of Bonds or Parity Bonds, an extraordinary redemption of Bonds or Parity Bonds from Prepayments or a partial defeasance of Bonds or Parity Bonds, amounts in the Reserve Account may be applied to such redemption or partial defeasance so long as the amount on deposit in the Reserve Account following such redemption or partial defeasance equals the Reserve Requirement. The District will set forth in a Certificate of an Authorized Representative the amount in the Reserve Account to be transferred to the Redemption Account on a redemption date or to be transferred to partially defease Bonds, and the Trustee will make such transfer on the applicable redemption or defeasance date, subject to the limitation in the preceding sentence.

To the extent that the Reserve Account is at the Reserve Requirement as of the first day of the final Bond Year for the Bonds or an issue of Parity Bonds, amounts in the Reserve Account may be applied to pay the principal of and interest due on the Bonds and Parity Bonds, as applicable, in the final Bond Year for such issue. Moneys in the Reserve Account in excess of the Reserve Requirement that are not transferred in accordance with the preceding provisions will be withdrawn from the Reserve Account on the Business Day before each March 1 and September 1 and transferred to the Interest Account of the Special Tax Fund.

The Reserve Requirement may be initially satisfied in whole or part by the deposit of a reserve fund surety policy or similar instrument therein. The District will have no obligation to replace such a policy or similar instrument or to fund the Reserve Account with cash if, at any time that the Bonds are Outstanding, any rating assigned to the provider of the policy or similar instrument is downgraded, suspended or withdrawn, or amounts are not available under such policy or similar instrument other than as a result of a draw thereon.

#### **Issuance of Parity Bonds Solely for Refunding Purposes**

The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expenses Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued hereunder or under any Supplemental Indenture solely for the purpose of refunding Bonds or other Parity Bonds. Parity Bonds may be issued subject to the following additional specific conditions, which are conditions precedent to the issuance of any such Parity Bonds:

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

(b) The issuance of such Parity Bonds has been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds has been provided for by a Supplemental Indenture duly adopted by the District which specifies the following:

(1) the authorized principal amount of such Parity Bonds;

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

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

- (4) the denominations and method of numbering of such Parity Bonds;
- (5) the amount and due date of each mandatory Sinking Fund Payment, if any, for such Parity Bonds;
- (6) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;
- (7) the form of such Parity Bonds; and
- (8) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

In addition, the District must provide a certificate of an Independent Financial Consultant or Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate related to such Parity Bonds, or, if none, in the Continuing Disclosure Certificate related to the Bonds) certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds.

The maximum amount of bonded indebtedness that has been approved by the Property Owners within Improvement Area No. 3 is \$4,400,000.

#### **No Acceleration**

The principal of and interest on the Bonds are not subject to acceleration under the Indenture in the event of a default relating to the Bonds. See Appendix C under the caption “EVENTS OF DEFAULT—Remedies of Owners” for a description of remedies that are available to the Bond Owner if the District defaults under the Indenture.

### **IMPROVEMENT AREA NO. 3**

#### **General Description**

The District, which is located entirely within the City, consists of Improvement Area Nos. 1, 2 and 3. *Special taxes or other moneys derived from the City or Improvement Area Nos. 1 and 2 are not available for payment of debt service on the Bonds.*

Improvement Area No. 3 of the District is located in the southeastern portion of the City near the City limits on the east side of Monte Bella Boulevard near Palermo Drive on land that was previously used for agricultural purposes. Improvement Area No. 3 consists of approximately 22.34 gross acres. Improvement Area No. 3 is included within Tract Map No. 1541 (Monte Bella Phase 6) and is planned for 78 residential units at buildout, all of which will subject to the Special Taxes under the Rate and Method. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Rate and Method of Apportionment of Special Taxes” and Appendix A. The backbone infrastructure necessary to undertake residential development within the District, including streets, curbs, gutters, sidewalks, streetlights and storm drains, is complete.

Excluding public streets, open space and other public improvements, the 78 lots within Improvement Area No. 3 that will be subject to the Special Tax comprise approximately 12.71 acres. As of October 13, 2020, the Date of Value of the Appraisal, the Developer had completed 17 single family residences, all of which were in escrow for sale to individual homeowners. Model homes for the 78 lots are located within Improvement Area No. 2 of the District, which contains substantially similar homes at a later stage of development and sales to homeowners.

Improvement Area No. 3 is part of an approximately 200-acre development known as Monte Bella, which was approved by the City in 2003 for, among other uses, approximately 751 single-family homes, 30 acres for a community park site and elementary school site (Monte Bella Community Park and Monte Bella Elementary School, respectively), 2 acres for the expansion of a previously existing elementary school (Bardin Elementary School), 3 well sites, a detention basin for flood protection purposes and associated infrastructure. Monte Bella is generally bounded by Williams Road on the north, Freedom Parkway and its extension on the east, Sconberg Parkway and its extension on the south, and Monte Bella Boulevard, Piazza Drive and Verona Court on the west. With the exception of certain infrastructure improvements, including streets, the development of Monte Bella is complete.

### **Status of Development**

As of the Date of Value, the Developer owned: (i) 17 completed homes, (ii) 23 homes under construction; (b) 9 finished lots with foundations; and (iv) 29 vacant finished lots. Of the homes that are completed or under construction, 46 were under contract for sale to individual homeowners as of the Date of Value.

The Developer acquired the property in Improvement Area No. 3 in July 2019. As of November 9, 2020: (i) a total of 8 single family residences were constructed, sold and closed; (ii) 44 single family residences were under construction with building permits received (all of which were under contract); and (iii) 26 parcels (none of which were under contract) were in a finished lot condition with construction yet to begin. The Developer has received building permits for all 78 lots and anticipates that the final home closing will occur in or about November 2021. Model homes for the 78 lots are located within Improvement Area No. 2 of the District, which contains substantially similar homes at a later stage of development and sales to homeowners.

Notwithstanding the Developer's current expectations with respect to home construction and sales to individual homeowners, the COVID-19 pandemic could adversely impact the timing of the development described above. See the caption "SPECIAL RISK FACTORS—COVID-19 Outbreak." With housing construction considered an essential function, the Developer has largely continued, with certain modifications, its home construction and sales activities in Improvement Area No. 3. However, certain Northern California counties (not including the County) had previously ordered a shutdown of most construction activities during the early days of the pandemic, and there can be no assurance that such a shutdown will not be imposed in the County in the future should a surge in COVID-19 infections and deaths occur.

As of the date of this Official Statement, the Developer has not experienced any material increases in costs, delays in home construction resulting from decisions to reduce financing for Improvement Area No. 3, work stoppages, reduced attendance of workers, delays in the delivery of building materials, delays in obtaining inspections and approvals as a result of the COVID-19 pandemic or reductions in operating revenues that would require the Developer to draw upon credit or liquidity facilities that are available to it. See the caption "SPECIAL RISK FACTORS—COVID-19 Outbreak."

After being closed at the onset of the pandemic in spring 2020, the Developer's on-site sales office for Improvement Area No. 3 is now open with a maximum of two sales associates wearing personal protective equipment working at any time. Prospective homebuyers have the option of: (i) an in-person tour in a group of three or fewer adults with a prior appointment and a wellness certification, with only one group touring a model home at any time; or (ii) a virtual tour. In addition, both the sales office and model homes are cleaned daily and professionally cleaned at least twice per week. However, there can be no assurance that a surge in COVID-19 infections and deaths will not compel the Developer to change its sales operating procedures. The Developer currently reports robust interest from prospective homebuyers, but any changes in the Developer's sales operations could make it more difficult to sell completed homes.

The development within Improvement Area No. 3 consists of a single product line of detached single family homes being marketed by the Developer as “Monte Bella” on lots ranging in size from 6,227 square feet to 9,021 square feet. A summary of the product line is set forth below.

**TABLE 1  
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE CITY OF SALINAS  
IMPROVEMENT AREA NO. 3  
SUMMARY OF PRODUCT LINES**

<i>Plan</i>	<i>Living Area (square feet)</i>	<i>Stories</i>	<i>Bedrooms/ Bathrooms</i>	<i>Garage Size (Cars)</i>	<i>Expected Number of Units<sup>(1)</sup></i>	<i>Estimated Base Home Sale Price<sup>(2)</sup></i>
1	1,529	1	3/2	2	20	\$582,000
2	2,076	2	4+/3	2	19	644,000
3	2,418	2	4+/3	2	20	668,000
6	1,923	1	3+/3	2	<u>19</u>	621,000
<b>TOTAL</b>					<b>78</b>	

<sup>(1)</sup> As November 9, 2020. Subject to change based upon market conditions.

<sup>(2)</sup> As of November 9, 2020. Subject to change based upon market conditions. Excludes any lot premiums, options, upgrades, incentives and any selling concessions or price reductions which may be offered.

Source: KB HOME South Bay Inc.

A final map for 78 residential lots was recorded at the office of the County Recorder on November 12, 2019. The Developer has obtained building permits for all 78 lots as of the Date of Value. Accordingly, all 78 lots will be classified as Developed Property by the May 1 deadline set forth in the Rate and Method for purposes of the Fiscal Year 2021-22 Special Tax levy. See Appendix A.

**TABLE 2  
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE CITY OF SALINAS  
IMPROVEMENT AREA NO. 3  
ASSIGNED SPECIAL TAXES**

<i>Land Use Type</i>	<i>Residential Floor Area (square feet)</i>	<i>Assigned Special Tax Rates</i>	<i>Estimated Fiscal Year 2020-21 Special Tax Rates*</i>	<i>Number of Units</i>	<i>Aggregate Estimated Fiscal Year 2021-22 Special Levy<sup>(1)(2)</sup></i>	<i>Percent of Total<sup>(2)</sup></i>	<i>Assigned Special Tax</i>
Single Family Residential <sup>(3)</sup>	up to 2,250	\$ 2,492	\$ 2,492	58	\$144,536	73.1%	\$144,536
Single Family Residential <sup>(3)</sup>	2,251 – 2,500	2,654	2,654	20	53,080	26.9	53,080
Single Family Residential <sup>(3)(4)</sup>	2,501 – 2,750	2,785	2,785	0	0	0.0	0
Single Family Residential <sup>(3)(4)</sup>	2,751 or greater	2,882	2,882	0	0	0.0	0
Non-Residential <sup>(5)</sup>	N/A	17,452	24,911	0	0	0.0	0
<b>Total</b>				<b>78</b>	<b>\$197,616</b>	<b>100.0%</b>	<b>\$197,616</b>

(1) Excludes Administrative Expenses.

(2) May not total due to rounding.

(3) Reflects Special Tax rate per single family residence.

(4) The Developer does not anticipate constructing homes in this size range.

(5) Reflects Special Tax rate per acre.

Source: Harris & Associates.

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\* Assumes that all units will be designated as Developed Property under the Rate and Method at the time that the Special Tax is levied.

## Summary of Development

The following table presents a summary of the status of development within Improvement Area No. 3 as of the Date of Value.

**TABLE 3**  
**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE CITY OF SALINAS**  
**IMPROVEMENT AREA NO. 3**  
**SUMMARY OF DEVELOPMENT AS OF DATE OF VALUE<sup>(1)</sup>**

<i>Plan<sup>(2)</sup></i>	<i>Expected Number of Homes at Buildout</i>	<i>Estimated Square Footage<sup>(3)</sup></i>	<i>Closed to Individual Homeowners</i>	<i>Completed Homes Owned by the Developer</i>	<i>Homes Under Construction Owned by the Developer<sup>(4)</sup></i>	<i>Finished Lots Owned by the Developer<sup>(5)</sup></i>	<i>Estimated Base Home Sale Price<sup>(6)</sup></i>
1	20	1,529	0	4	6	10	\$577,000
2	19	2,076	0	4	6	9	633,000
3	20	2,418	0	5	7	8	660,000
6	<u>19</u>	1,923	<u>0</u>	<u>4</u>	<u>4</u>	<u>11</u>	618,000
<b>TOTAL</b>	<b>78</b>		<b>0</b>	<b>17</b>	<b>23</b>	<b>38</b>	

(1) Although not shown in the table, as of November 9, 2020: (i) a total of 8 single family residences were constructed, sold and closed; (ii) 44 single family residences were under construction with building permits received (all of which were under contract); and (iii) 26 parcels (none of which were under contract) were in a finished lot condition with construction yet to begin.

(2) See Table 1 under the caption “—General Description” for a description of the features of each plan.

(3) Actual square footage may vary based on options selected.

(4) Includes 11 homes which were 75% completed as of the Date of Value and 12 homes which were 50% completed as of the Date of Value.

(5) Includes 9 homes with completed foundations and 29 homes without foundations.

(6) Excludes any lot premiums, options, upgrades, incentives and any selling concessions or price reductions which may be offered. See Table 1 under the caption “—Status of Development” for estimated base prices as of November 9, 2020.

Sources: Developer; Harris & Associates.

## Description of Authorized Facilities

The facilities authorized to be financed from Bond proceeds consist of water and sewer improvements, storm drain improvements, joint trench utility improvements, street facilities, the paving of streets, curb, gutter and sidewalk improvements, including streetlights, as well as incidental expenses related to the planning, design and completion of such facilities. With the exception of the completion of two streets (Freedom Parkway and Sconberg Parkway) that will encircle the homes in the District, such backbone infrastructure has been completed by the Developer and its predecessors and proceeds of the Bonds will be used to reimburse the Developer for a portion of the costs thereof.

## The Developer

*The information about the Developer contained in this Official Statement has been provided by representatives of the Developer and has not been independently confirmed or verified by the Underwriter, the City or the District. None of the Underwriter, the City or the District makes any representation as to the accuracy or adequacy of the information contained in this section. There may be material adverse changes to this information after the date of this Official Statement.*

*No assurance can be given that the proposed development within Improvement Area No. 3 will occur as described below. As the proposed development progresses and homes are sold, it is expected that the ownership of the land within Improvement Area No. 3 will become more diversified. No assurance can be given that development within Improvement Area No. 3 will occur in a timely manner or in the configuration*

*described herein, or that any Property Owner described herein will obtain or retain ownership of any of the land within Improvement Area No. 3. The Bonds and the Special Taxes are not personal obligations of any Property Owners, including the Developer and, in the event that a Property Owner defaults in the payment of the Special Taxes, the City may proceed with judicial foreclosure against the delinquent property but has no direct recourse to the assets of any Property Owner. As a result, other than as provided herein, no financial statements or information is, or will be, provided about the Developer or any other Property Owner. The Bonds are secured solely by the Net Taxes and other amounts pledged under the Indenture. See the caption "SOURCES OF PAYMENT FOR THE BONDS."*

*The information under this caption includes forward-looking statements. See the cautionary information regarding forward-looking statements in this Official Statement on the page immediately preceding the Table of Contents. As previously discussed, such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by such statements. Readers are cautioned not to place undue reliance on such forward-looking statements, which only speak as of the date of this Official Statement.*

**General.** The Developer, KB HOME South Bay Inc., a California corporation, is engaged in the design, construction and sale of single-family homes throughout northern California.

The Developer is a wholly owned subsidiary of KB Home, a Delaware corporation that is headquartered in Los Angeles, California (the "**Parent**"). The Parent is engaged in the design, construction and sale of master planned communities throughout the United States.

The Parent is a publicly traded company listed on the New York Stock Exchange under the ticker symbol "KBH." The Parent is subject to the informational requirements of the Securities Exchange Act of 1934, and in accordance therewith is obligated to file reports, proxy statements, and other information, including financial statements, with the Securities and Exchange Commission (the "**SEC**"). Such filings set forth, among other things: (i) certain data relative to the consolidated results of operations and financial position of the Parent and its subsidiaries, including partial 2020 data relating to the Parent which reflect negative effects on financial results as a result of the COVID-19 pandemic; and (ii) the Parent's expectations of continued negative effects on financial results through the end of 2020. The SEC maintains an Internet website that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including the Parent. The address of such Internet web site is [www.sec.gov](http://www.sec.gov). All documents subsequently filed by the Parent pursuant to the requirements of the Securities Exchange Act of 1934 after the date of this Official Statement will be available for inspection in such manner as the SEC prescribes.

*The foregoing Internet addresses and references to filings with the SEC are included for reference only, and the information on these Internet sites and on file with the SEC are not a part of this Official Statement and are not incorporated by reference into this Official Statement. No representation is made in this Official Statement as to the accuracy or adequacy of the information contained on these Internet sites.*

**Representations.** In connection with the issuance of the Bonds, an authorized representative or officer of the Developer will execute a certificate (the "**Developer Letter of Representations**") containing the following representations (among others) as of its date:

(1) Except as set forth in this Official Statement, no action, suit, proceeding, inquiry or investigation at law or in equity, before or by any court, regulatory agency, or public board or body is pending against the Developer (with proper service of process to the Developer having been accomplished) or, to the Actual Knowledge of the Developer,\* is pending against any current Affiliate\* (with proper service of process

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\* "**Actual Knowledge of the Developer**" means, as of the date of signing the Developer Letter of Representations, the knowledge that the individual signing on behalf of the Developer currently has or has obtained through: (i) interviews with such current officers and responsible employees of the Developer and its Affiliates as such individual has determined are reasonably likely, in the ordinary course of their respective

to such Affiliate having been accomplished) or to the Actual Knowledge of the Developer is threatened in writing against the Developer or any such Affiliate: (a) to restrain or enjoin the collection of Special Taxes levied on the property within the Improvement Area that is held in the name of the Developer (the “**Property**”) by the District or other sums pledged or to be pledged to pay the principal of and interest on the Bonds (e.g., the Reserve Account of the Special Tax Fund established under the Indenture); (b) to restrain or enjoin the development of the Property as described in this Official Statement; (c) in any way contesting or affecting the validity of the Special Taxes; or (d) which, if successful, is reasonably likely to materially and adversely affect the Developer’s ability to develop and sell the Property as described in this Official Statement or to pay the Special Taxes levied against the portion of the Property then-owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency.

(2) Except as described in this Official Statement, there are no material loans outstanding and unpaid and no material lines of credit of the Developer or its Affiliates, that are secured by an interest in the Property. Neither the Developer nor, to the Actual Knowledge of the Developer, any of its Affiliates is currently in material default on any loans, lines of credit or other obligation related to the development of the Property or any other project which default is reasonably likely to materially and adversely affect the Developer’s ability to develop the Property as described in this Official Statement or to pay the Special Taxes due with respect to the Property prior to delinquency or to perform its obligations under the Developer Disclosure Certificate (as such term is defined under the caption “CONTINUING DISCLOSURE—Developer”).

(3) To the Actual Knowledge of the Developer, the Developer is able to pay its bills as they become due and no legal proceedings are pending against the Developer (with proper service of process having been accomplished) or, to the Actual Knowledge of the Developer, threatened in writing in which the Developer may be adjudicated as bankrupt or discharged from any and all of its debts or obligations, or granted an extension of time to pay its debts or obligations, or be allowed to reorganize or readjust its debts, or be subject to control or supervision of the Federal Deposit Insurance Corporation.

(4) To the Actual Knowledge of the Developer, during the last five years, neither the Developer nor any current Affiliate has, during the period of its ownership, been delinquent to any material extent in the payment of any *ad valorem* property tax, special assessment or special tax on property in California owned by the Developer or any such Affiliate (during the period of their ownership) included within the boundaries of a community facilities district or an assessment district in California that: (a) caused a draw on a reserve fund relating to such assessment district or community facilities district financing; or (b) resulted in a foreclosure action being commenced against the delinquent Developer or Affiliate by a court filing.

(5) To the Actual Knowledge of the Developer, there are no claims, disputes, suits, actions or contingent liabilities by and among the Developer, its Affiliates or any contractors working on the

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*duties, to have knowledge of the matters set forth in the Developer Letter of Representations; and/or (ii) review of documents that were reasonably available to such individual and which such individual has reasonably deemed necessary for such individual to sign the Developer Letter of Representations. Such individual has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of the Developer’s current business and operations. The individual signing the Developer Letter of Representations has not contacted any individuals who are no longer employed by or associated with the Developer or its Affiliates.*

\* “**Affiliate**” means, with respect to the Developer, any other Person: (i) who directly, or indirectly through one or more intermediaries, is currently controlling, controlled by or under common control with the Developer; and (ii) for whom information, including financial information or operating data, concerning such Person is material to potential investors in their evaluation of the Improvement Area and investment decision regarding the Bonds (i.e., information regarding such Person’s assets or funds that would materially affect the Developer’s ability to develop the Property as described in this Official Statement or to pay its Special Taxes on the portion of the property then-owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency). “**Person**” means an individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, a trust, any unincorporated organization or a government or political subdivision thereof. For purposes hereof, the term “**control**” (including the terms “**controlling**,” “**controlled by**” or “**under common control with**”) means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

development of the Property which are reasonably likely to materially and adversely affect the Developer's ability to develop the Property as described in this Official Statement or to pay the Special Taxes levied against the portion of the Property then-owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency.

(6) Based upon the current development plans, including, without limitation, the current budget and subject to economic conditions and risks generally inherent in the development of real property, including, but not limited to, the risks described under the caption "SPECIAL RISK FACTORS," the Developer presently anticipates that it will have sufficient funds to develop the Property as described in this Official Statement and to pay the Special Taxes levied against the portion of the Property then-owned by the Developer (to the extent the responsibility of the Developer) prior to delinquency and does not anticipate that the City or the District will be required to resort to a draw on the Reserve Account of the Special Tax Fund for payment of principal of or interest on the Bonds due to the Developer's nonpayment of Special Taxes. However, neither the Developer nor any of its Affiliates are obligated to make any additional capital contribution or loan to the Developer at any time, and the Developer reserves the right to change its respective development plan and financing plan for the Property at any time without notice, and there is no recourse against the Developer for the failure to pay the Special Taxes other than the filing of a foreclosure action.

**Financing Plan.** As of October 31, 2020, the Developer has expended approximately \$23 million in land acquisition, infrastructure work, site development costs, home construction costs and other development, marketing and sales costs (exclusive of internal financing payment, corporate overhead allocation and other carrying costs) related to its property in Improvement Area No. 3. The Developer estimates that it will require approximately an additional \$12 million to complete the development, sale and conveyance to individual homebuyers of the remaining residences that the Developer plans to construct on its remaining property in Improvement Area No. 3.

The Developer plans to finance its development activities within the District with a combination of internal sources and home sales proceeds. The Developer has used, or intends to use, some or all of these sources of funds to finance the acquisition of the property within the District, the development costs required as a condition of development and the construction, marketing and carrying costs of residential home construction, including property taxes and the Special Taxes while it owns property in Improvement Area No. 3. The Developer has not drawn upon and does not intend to draw upon any third party financing in order to complete the development of Improvement Area No. 3.

*Notwithstanding the Developer's belief that it will have sufficient funds to complete its planned development in Improvement Area No. 3, no assurance can be given that sources of financing available to the Developer will be sufficient to complete the property development and home construction as currently anticipated. While the Developer has made such internal financing available in the past, there can be no assurance whatsoever of its willingness or ability to do so in the future. Neither the Developer nor any of its affiliates has any legal obligation of any kind to make any such funds available or to obtain loans. Other than pointing out the willingness of the Developer to provide internal financing in the past, the Developer has not represented in any way that it will do so in the future. If and to the extent that internal financing, Bond proceeds and home sales revenues are inadequate to pay the costs that are required to complete the Developer's planned development in Improvement Area No. 3 and other financing by the Developer is not put into place, there could be a shortfall in the funds required to complete the proposed development by the Developer and portions of the project may not be developed.*

*The development and financing plans that are discussed above are solely projections as of the dates indicated in this Official Statement. Such plans are subject to change. No assurance can be given that such plans will remain in their current state or that the plans will ultimately be carried out according to the discussions set forth above.*

**Estimated Direct and Overlapping Indebtedness**

Within the boundaries of Improvement Area No. 3 are other overlapping local agencies providing public services. The approximate amount of the direct and overlapping debt on the parcels within Improvement Area No. 3 as of November 1, 2020 is shown in the table below.

**TABLE 4  
COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE CITY OF SALINAS  
IMPROVEMENT AREA NO. 3  
DIRECT AND OVERLAPPING DEBT**

<u>Fiscal Year 2021-22 Assessed Valuation:</u>		\$8,659,449 <sup>(1)</sup>
<b>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</b>	<b>% Applicable</b>	<b>Debt as of 11/1/20</b>
Hartnell Joint Community College District General Obligation Bonds	0.028%	\$ 34,128
Salinas Union High School District General Obligation Bonds	0.047	26,633
Salinas Union High School District School Facilities Improvement District General Obligation Bonds	0.077	1,601
Alisal Union School District General Obligation Bonds	0.254	64,599
Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas	100.000	<u>2,800,000<sup>(2)*</sup></u>
<b>TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$2,926,961</b>
 <u>Ratios to Fiscal Year 2021-22 Assessed Valuation:</u>		
<b>Direct Debt (\$2,800,000*)</b>	<b>32.33%</b>	
Total Direct and Overlapping Tax and Assessment Debt	33.80	

<sup>(1)</sup> Fiscal Year 2021-22 Assessed Valuation equals: (i) the total Fiscal Year 2020-21 Assessed Valuation, increased by the statutory annual rate of 2%, for 70 parcels owned by Developer as of November 9, 2020; plus (ii) the sum of base home sales prices less homeowner’s exemptions for 8 parcels that were sold to individual property owners after January 1, 2020 and prior to November 9, 2020.

<sup>(2)</sup> Reflects the Bonds to be sold.

Source: California Municipal Statistics, Inc.

**Expected Tax Burden**

Based on the appraised values within Improvement Area No. 3 set forth in the Appraisal and the projected debt service on the Bonds, the City expects that, in Fiscal Year 2021-22, the projected effective tax rates levied on taxable property in Improvement Area No. 3 will range from approximately 1.781% to 1.819% of the average appraised value of homes within each Land Use Type (as such term is defined in the Rate and Method). Subject to the limitations established by the Rate and Method and the provisions of the Act, the District will covenant in the Indenture to levy Special Taxes on parcels of taxable property in Improvement Area No. 3 in each Fiscal Year in an amount sufficient to pay debt service on the outstanding Bonds.

The table below describes the estimated Fiscal Year 2021-22 effective tax burden for sample units of Developed Property within Improvement Area No. 3, assuming that Special Taxes levied in Fiscal Year 2021-22 are levied at the Assigned Special Tax (as such term is defined in the Rate and Method) rate and Fiscal Year 2020-21 actual levies for all other overlapping taxing jurisdictions.

The estimated tax rates and amounts presented in this Official Statement are based on currently available information. The actual amounts charged may vary and may increase in future years depending on the amount of Bonds and Parity Bonds outstanding, and the number of delinquencies in Improvement Area No. 3, among other factors.

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\* Preliminary; subject to change.

**TABLE 5**  
**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE CITY OF SALINAS IMPROVEMENT AREA NO. 3**  
**PROJECTED FISCAL YEAR 2021-22 EFFECTIVE TAX RATES**  
**FOR SAMPLE DEVELOPED UNITS**

Plan Type		1	2	3	6
Land Use Category (Square Feet)		Up to 2,250 (1,529)	Up to 2,250 (2,076)	2,251 to 2,500 (2,418)	Up to 2,250 (1,923)
Home Size (Square Feet)					
Estimated Base Home Sale Price		\$577,000	\$633,000	\$660,000	\$618,000
<b>Ad Valorem Property Taxes<sup>(1)</sup></b>		<b>Tax Rate</b>			
General Purpose	1.000000%	\$5,770.00	\$6,330.00	\$6,600.00	\$6,180.00
Alisal Union School District Bonds, Series 1990C, 1999A, 1999D, 2006B, 2016A and 2017	0.189538	1,094.00	1,200.00	1,251.00	1,171.00
Salinas Union High School District Bonds, Series 2014A, 2014B and 2017	0.010043	58.00	64.00	66.00	62.00
Hartnell Community College District Bonds, Series 2014A, 2014B, 2015A, 2015B, 2016A and 2016B	0.042886	<u>247.00</u>	<u>271.00</u>	<u>283.00</u>	<u>265.00</u>
<b>Total Ad Valorem Property Taxes:</b>	<b>1.242467%</b>	<b>\$7,169.00</b>	<b>\$7,865.00</b>	<b>\$8,200.00</b>	<b>\$7,678.00</b>
<b>Assessments, Special Taxes and Parcel Charges<sup>(2)</sup></b>					
Monterey County Water Resources Agency Zone 2Y		\$ 0.38	\$ 0.38	\$ 0.38	\$ 0.38
Monterey County Water Resources Agency Zone 2Z		1.16	1.16	1.16	1.16
Monterey County Water Resources Agency Zone 9		8.44	8.44	8.44	8.44
Monterey County Water Resources Agency Zone 2C Operations		0.24	0.24	0.24	0.24
Monterey County Water Resources Agency Zone 2C Spillway		0.02	0.02	0.02	0.02
Monterey County Water Resources Agency Zone 2C Diversion		0.08	0.08	0.08	0.08
Monterey County Water Resources Agency Zone 2C Administration		0.02	0.02	0.02	0.02
North Salinas Valley Mosquito Abatement		8.42	8.42	8.42	8.42
Salinas Valley Basin Groundwater Sustainability Agency Fee		2.26	2.26	2.26	2.26
County Service Area 74 Emergency Medical Services Ambulance Fee		12.00	12.00	12.00	12.00
City of Salinas Monte Bella Maintenance District <sup>(3)</sup>		802.20	802.20	802.20	802.20
City of Salinas CFD 2016-1 (Monte Bella) Special Taxes <sup>(4)</sup>		<u>2,492.00</u>	<u>2,492.00</u>	<u>2,654.00</u>	<u>2,492.00</u>
<b>Total Assessments, Special Taxes and Parcel Charges:</b>		<b>\$ 3,327.22</b>	<b>\$ 3,327.22</b>	<b>\$3,489.22</b>	<b>\$ 3,327.22</b>
<b>Projected Total Property Taxes:</b>		<b>\$10,496.22</b>	<b>\$11,192.22</b>	<b>\$11,689.22</b>	<b>\$11,005.22</b>
<b>Total Assessments, Special Taxes and Parcel Charges:</b>		<b>1.819%</b>	<b>1.768%</b>	<b>1.771%</b>	<b>1.781%</b>

(1) Source: Monterey County Auditor-Controller Tax Rate Book for Fiscal Year 2020-21.

(2) Source: Harris & Associates.

(3) Fiscal Year 2020-21 applied and maximum assessment are \$802.20 and \$1,249.05 per parcel, respectively. Reflects Fiscal Year 2020-21 applied assessment escalated at 2%.

(4) Assumes Special Tax levy at maximum rates.

### **Estimated Value-to-Lien Ratio**

The appraised value of the property within Improvement Area No. 3 as of the Date of Value is \$26,400,000. Dividing the appraised value by the principal amount of the Bonds (\$2,800,000\*) results in a value-to-lien ratio of 9.43-to-1\* for Improvement Area No. 3. Dividing the appraised value by the principal amount of the Bonds plus all overlapping general obligation debt (\$2,926,961) results in an estimated appraised value-to-lien ratio of 9.02-to-1\* for Improvement Area No. 3. As of the date of issuance of the Bonds, the District expects that the only land-secured debt applicable to parcels within Improvement Area No. 3 will be the debt that is described in Table 4 above. However, additional land-secured special tax or assessment debt could be applicable to the parcels within Improvement Area No. 3 in the future. See the captions “—Description of Authorized Facilities” and “—Estimated Direct and Overlapping Indebtedness.”

The table below shows the estimated appraised value-to-lien ratios within Improvement Area No. 3 allocated by property ownership and based on the estimated Fiscal Year 2021-22 tax levy.

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\* Preliminary; subject to change.

**TABLE 6**  
**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE CITY OF SALINAS**  
**IMPROVEMENT AREA NO. 3**  
**ESTIMATED VALUE-TO-LIEN RATIOS ALLOCATED BY DEVELOPMENT STATUS**

<i>Development Status</i> <sup>(1)</sup>	<i>Number of Parcels</i>	<i>Appraised Property Value</i> <sup>(2)</sup>	<i>Percentage of Appraised Property Value</i>	<i>Maximum Special Tax</i>	<i>Percentage of Assigned Special Tax</i>	<i>Estimated Fiscal Year 2021-22 Special Tax Levy</i> <sup>(3)</sup>	<i>Percentage of Estimated Fiscal Year 2020-21 Levy</i>	<i>Allocable Principal Amount of Bonds</i> <sup>(4)*</sup>	<i>Direct Debt Value-to-Lien Ratio</i> <sup>(5)*</sup>
Completed Home	17	\$9,000,000	34.1%	\$43,174	21.8%	\$43,174	21.8%	\$611,728	14.71:1
75% Completed Home	11	4,600,000	17.4	27,898	14.1	27,898	14.1	395,284	11.64:1
50% Completed Home	12	4,500,000	17.0	30,552	15.5	30,552	15.5	432,888	10.40:1
Finished Lots (Vacant/Foundation)	<u>38</u>	<u>8,300,000</u>	<u>31.4</u>	<u>95,992</u>	<u>48.6</u>	<u>95,992</u>	<u>48.6</u>	<u>1,360,100</u>	6.10:1
<b>Total</b> <sup>(6)</sup>	<b>78</b>	<b>\$26,400,000</b>	<b>100.0%</b>	<b>\$197,616</b>	<b>100.0%</b>	<b>\$197,616</b>	<b>100.0%</b>	<b>\$2,800,000</b>	<b>9.43:1</b>

(1) As of the Date of Value.

(2) Based on Appraisal as of the Date of Value.

(3) Excludes Administrative Expenses.

(4) Allocated based on the projected Fiscal Year 2021-22 Special Tax levy.

(5) Appraised Property Value divided by Allocable Debt Service on Bonds.

(6) Totals may not add due to rounding.

Source: Harris & Associates.

Because the Developer has obtained building permits for all 78 lots in Improvement Area No. 3 as of the Date of Value, all 78 lots will be classified as Developed Property by the May 1 deadline set forth in the Rate and Method for purposes of the Fiscal Year 2021-22 Special Tax levy. As of the Date of Value, the 17 completed homes within Improvement Area No. 3 had an aggregate value-to-lien ratio of approximately 14.71:1\* based on an estimated Fiscal Year 2021-22 Special Tax levy of approximately \$197,616 and aggregate debt service on the Bonds of approximately \$611,728.\*

\* Preliminary; subject to change.

## Appraised Property Values

*The following is a summary of certain provisions of the Appraisal, which should be read in conjunction with the full text of the Appraisal set forth in Appendix G. None of the City, the District or the Underwriter makes any representation as to the accuracy or completeness of the Appraisal.*

**Appraisal.** An Appraisal of all parcels within Improvement Area No. 3 that will be subject to the Special Taxes dated \_\_\_\_ \_\_, 2020 was prepared by the Appraiser in connection with issuance of the Bonds. The purpose of the Appraisal was to estimate the fee simple market value of the parcels in Improvement Area No. 3 by ownership and the aggregate value of all taxable property as of the Date of Value, October 13, 2020, which represents the date of inspection. The values are subject to a hypothetical condition that the Bonds have sold and such values represent not less-than estimates.

The Appraisal was based on certain assumptions and limiting conditions as described in detail in the Appraisal under the caption “Standard Assumptions and Limiting Conditions.” See Appendix G. The Appraisal does not cover certain land within Improvement Area No. 3 (such as public or quasi-public land) that will not be subject to the Special Taxes.

**Valuation Methods.** The Appraisal determined the market value of the parcels within Improvement Area No. 3 using the Sales Comparison Approach (for the completed homes and the undeveloped lots) and the Income Capitalization Approach (for the undeveloped lots only), each of which are discussed below.

Under the Sales Comparison Approach, market value is estimated by comparing properties that are similar to the subject which have recently been sold, are listed for sale or are under contract for sale. Adjustments are made to account for differences between the subject and comparable properties. Sales are compared on a per-square foot basis.

Under the Income Capitalization Approach, a discounted cash flow analysis which reflects anticipated home prices and costs over an absorption period is used, leading to an estimate of residual land value. This approach reflects the income-producing potential of a property, converting the anticipated net income from ownership of the property into a value indication through capitalization. The projected income stream is calculated through the expected date upon which the owner sells the property. For Improvement Area No. 3, the Appraiser employed a bifurcated discounted cash flow model in which the overall discount rate imputed was 33.75%.

**Value Estimate.** Subject to the various conditions and assumptions set forth in the Appraisal, the Appraiser estimated that, as of the October 13, 2020 Date of Value, the fee simple interest in the parcels within Improvement Area No. 3 had the following value:

<i>Owner</i>	<i>Description</i>	<i>Appraised Value</i>
Developer	17 Completed Homes, 23 Partially Completed Homes, 9 Finished Lots with Foundations and 29 Vacant Finished Lots	\$26,400,000

The Appraisal is set forth in full in Appendix G.

## Delinquency History

Under the provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, will be billed to the Property Owners on their regular property tax bills. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. Special Tax installment payments cannot generally be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness

or inability to make regular property tax payments and Special Tax installment payments in the future. See the caption “SPECIAL RISK FACTORS—Special Tax Delinquencies.”

To date, there are no current or prior delinquencies in Special Taxes. Special Taxes were levied for the first time in Fiscal Year 2021-22. Because the County’s “Teeter Plan” (which is the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds, as provided for in Section 4701 *et seq.* of the Revenue and Taxation Code of the State of California) is not available for community facilities districts such as the District, collections of Special Taxes will reflect actual delinquencies. None of the City, the Underwriter or the District can predict the willingness or ability of the Property Owners to pay the Special Taxes.

See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales” for a discussion of the provisions that apply, and procedures that the District is obligated to follow, in the event of delinquency in the payment of Special Tax installments.

On May 6, 2020, in an effort to mitigate the effects of the COVID-19 pandemic on State property taxpayers, the State Governor signed Executive Order N-61-20 (“**Order N-61-20**”). Under Order N-61-20, certain provisions of the State Revenue and Taxation Code are suspended until May 6, 2021 to the extent that they require a tax collector to impose penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, before the date that such taxes become delinquent. Such penalties, costs and interest will be cancelled under the conditions provided for in Order N-61-20, including if the property is residential real property occupied by the taxpayer or the real property qualifies as a small business under certain State laws, the taxes were not delinquent prior to March 4, 2020, the taxpayer files a claim for relief with the tax collector and the taxpayer demonstrates economic hardship or other circumstances that have arisen due to the COVID-19 pandemic or due to a local, state, or federal governmental response thereto. Order N-61-20 may have an effect on the collection of penalties and interest on delinquent Special Taxes and may otherwise affect a property owner’s willingness to pay Special Taxes when due. See the caption “SPECIAL RISK FACTORS — COVID-19 Outbreak.”

### **SPECIAL RISK FACTORS**

*The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth in this Official Statement, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks. The occurrence of one or more events discussed below could adversely affect the value of the property in Improvement Area No. 3. Moreover, the occurrence of one or more of the events discussed below could adversely affect the ability or willingness of property owners in Improvement Area No. 3 to pay their Special Taxes when due. Such a failure to pay Special Taxes could result in the inability of the District to make full and punctual payments on the Bonds.*

#### **Concentration of Ownership**

Improvement Area No. 3 has a significant concentration of ownership. As of November 9, 2020, 70 of the 78 parcels in Improvement Area No. 3 are owned by the Developer, although this number is expected to be reduced as the Developer sells completed homes to individual homeowners. Forty-four of the 70 parcels that were owned by the Developer as of November 9, 2020 were under contract, with sales expected to close at the end of an escrow period or, if applicable, upon completion of construction. See the caption “IMPROVEMENT AREA NO. 3.” Failure of the Property Owners, or any successor, to pay the annual Special Taxes when due could result in a default in payments of the principal of, and interest on, the Bonds, when due.

None of the Property Owners is obligated in any manner to continue to own, or (in the case of the Developer) to develop, any of such property. The Special Taxes are not a personal obligation of the owners of

the property on which such Special Taxes are levied, and no assurances can be given that the current Property Owners within Improvement Area No. 3 will be financially able to pay the Special Taxes levied on such property or that they will choose to pay even if financially able to do so. See the caption “—Payment of the Special Tax is Not a Personal Obligation of the Owners.” Such risk is greater and its consequence more severe when ownership is concentrated and may be expected to decrease when ownership is diversified.

### **Limited Obligations**

The Bonds are revenue bonds, payable exclusively from Net Taxes and other funds provided in the Indenture. The Bonds are not payable from the general fund or other moneys of the City or moneys derived from Improvement Area No. 3 of the District. Except with respect to the Net Taxes from Improvement Area No. 3, neither the credit nor the taxing power of the District or the City is pledged for the payment of the Bonds or the interest on the Bonds, and, except as provided in the Indenture, no Owner of the Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City’s or the District’s property or upon any of the City’s or the District’s income, receipts or revenues, except the Net Taxes and other amounts pledged under the Indenture. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Limited Obligations.”

### **Insufficiency of Special Taxes**

Based on current projections, the maximum Special Taxes that may be levied within Improvement Area No. 3 exceed Maximum Annual Debt Service on the Bonds plus the Administrative Expenses Cap. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Debt Service Coverage from Net Special Taxes.” Notwithstanding the fact that the maximum Special Taxes that may be levied in Improvement Area No. 3 exceed debt service on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or, as described under the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Rate and Method of Apportionment of Special Taxes,” because property becomes exempt from taxation.

The Special Taxes will be billed to the properties within the District on the *ad valorem* property tax bills sent to owners of such properties. The Act provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments. Significant delinquencies in the payment of Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in depletion of the Reserve Account and a default in the payment of the Bonds. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales” for a discussion of the provisions that apply, and the procedures that the District has covenanted to follow, in the event of delinquencies in the payment of Special Taxes. See the captions “—FDIC/Federal Government Interests in Properties” and “—Bankruptcy and Foreclosure” for a discussion of the policy of the Federal Deposit Insurance Corporation (the “**FDIC**”) regarding the payment of special taxes and assessments and limitations on the District’s ability to foreclose on the lien of the Special Taxes in certain circumstances.

In addition, the continuation of the Statewide moratorium on collecting penalties, interest and other costs on delinquent property tax payments beyond May 6, 2021 may affect the willingness of property owners to pay the Special Taxes. See the caption “IMPROVEMENT AREA NO. 3—Delinquency History.”

The annual levy of the Special Tax is subject to the maximum tax rates authorized. 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 Bonds. Other funds that might be available include moneys and reserve fund surety policies or similar instruments deposited in the Reserve Account, funds derived from the payment of penalties on delinquent

Special Taxes and funds derived from the tax sale or foreclosure and sale of parcels on which levies of the Special Tax are delinquent.

In addition, the District may not be able to levy the Special Tax up to the maximum authorized rates. Pursuant to Section 53321(d) of the Act, the Special Tax levied against any parcel for which an occupancy permit for private residential use has been issued may not be increased as a consequence of delinquency or default by the owner of any other parcel within Improvement Area No. 3 by more than 10% above the amount that would have been levied in such Fiscal Year had there never been any such delinquencies or defaults. Consequently, although the maximum Special Tax prescribed by the Rate and Method could be materially higher than the expected Special Tax levy in a given year, the Special Tax levy cannot be increased for residential property by more than 10% in such year.

The levy of the Special Tax will rarely, if ever, result in a uniform relationship between the value of particular property and the amount of the levy of the Special Tax against such property. Thus, there will rarely, if ever, be a uniform relationship between the value of such property and the proportionate share of debt service on the Bonds, and certainly not a direct relationship.

Certain parcels, including those that are owned by public entities, religious organizations and homeowners' associations, are currently exempt from Special Taxes.

The Act provides that if any property within Improvement Area No. 3 that is not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Taxes will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that if property that is 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 such property is to be treated as if it were a special assessment and paid from the eminent domain award. The constitutionality and operative effect of these provisions has not been tested in the courts. If for any reason property subject to the Special Tax becomes exempt from taxation by reason of ownership by a nontaxable entity such as the federal government, or another public agency that asserts immunity from the Special Tax, subject to the limitation of the maximum Special Tax rates, the Special Taxes will be reallocated to the remaining properties within Improvement Area No. 3. This would result in the owners of such properties paying a greater amount of the Special Tax and could have an adverse effect on the timely payment of the Special Tax. Due to the problems associated with collecting taxes from public agencies, if a substantial portion of land within Improvement Area No. 3 were to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due, and a default could occur with respect to the payment of such principal and interest.

### **Split Roll Initiative**

An initiative measure (the “**Split Roll Initiative**”) to amend Article XIII A of the State Constitution qualified for the State’s November 2020 ballot, but was not adopted by State voters. The Split Roll Initiative would have based property taxes for commercial and industrial properties on periodic analyses of market values beginning in tax year 2020-21. Although the Split Roll Initiative was not adopted, there can be no assurance that the initiative, or similar initiatives which seek to change the property tax formula for residential properties such as those within Improvement Area No. 3, will not be placed on the ballot in the future. The District is unable to predict how amendments to Article XIII A of the State Constitution would affect the purchase of homes within Improvement Area No. 3, the local economy or the City’s financial condition.

### **Risks of Real Estate Secured Investments Generally**

The Special Taxes, which are the source of repayment for the Bonds, are ultimately secured by real property in Improvement Area No. 3. Bondowners are therefore subject to the risks generally incident to an

investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area and the market value of comparable residential property in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to threatened and endangered species and hazardous materials) and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes, tsunamis, fires, high winds, landslides and floods), which may result in uninsured losses.

Because assessed values do not necessarily indicate fair market values, decreases in fair market values may be even greater than decreases in assessed valuations. No assurance can be given that individual homeowners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See the caption “—Bankruptcy and Foreclosure Delays” for a discussion of certain limitations on the District’s ability to pursue judicial proceedings with respect to delinquent parcels.

### **Failure to Develop Properties**

As of November 9, 2020, 8 of the 78 parcels within Improvement Area No. 3 had completed structures on them, with an additional 44 parcels under construction. The remaining 26 parcels are in a finished lot condition awaiting the commencement of construction.

Unimproved or partially improved land is inherently less valuable than land with improvements on it, especially if there are restrictions on development, and provides less security to the Owners should it be necessary for the District to foreclose on the property due to the nonpayment of Special Taxes. Any delays in developing unimproved property, or the decision not to construct improvements on such property, may affect the willingness and ability of the owners of property within Improvement Area No. 3 to pay the Special Taxes when due.

Land development is subject to comprehensive federal, State and local regulations. Approval is required from various agencies in connection with the layout and design of developments, the nature and extent of improvements, construction activity, land use, zoning, school and health requirements, as well as numerous other matters. There is always the possibility that such approvals will not be obtained or, if obtained, will not be obtained on a timely basis. Failure to obtain any such agency approval or to satisfy such governmental requirements could adversely affect planned land development. In addition, there is a risk that future governmental restrictions, including, but not limited to, governmental policies restricting or controlling development within Improvement Area No. 3, will be enacted, and a risk that future voter approved land use initiatives could add more restrictions and requirements on development within Improvement Area No. 3.

Moreover, at the onset of the COVID-19 pandemic, certain Northern California counties (not including the County) ordered a shutdown of most construction activities, and there can be no assurance that such a shutdown will not be imposed in the County in the future should a surge in COVID-19 infections and deaths occur. See the caption “—COVID-19 Outbreak.”

There can also be no assurance that the means and incentive to conduct land development operations within Improvement Area No. 3 will not be adversely affected by a deterioration of the real estate market and economic conditions or future local, State and federal governmental policies relating to real estate development, the income tax treatment of real property ownership or the national economy.

The Developer may need continued financing to complete the development of the property within Improvement Area No. 3. No assurance can be given that the required funding will be secured or that the proposed development will be partially or fully completed, and it is possible that cost overruns will be incurred that will require additional funding beyond what the Developer has projected, which may or may not be available. See the caption “IMPROVEMENT AREA NO. 3—The Developer—Financing Plan” for a discussion of the Developer’s available cash and access to additional capital.

Owners of the Bonds should assume that any event that significantly impacts the ability to complete the development of the land in Improvement Area No. 3 would cause the property values within Improvement Area No. 3 to decrease substantially and could affect the willingness and ability of the Property Owners to pay the Special Taxes when due.

### **Endangered Species**

In recent years, there has been an increase in activity at the State and federal level related to the possible listing of certain plant and animal species found in the State as endangered or threatened species. An increase in the number of endangered or threatened species is expected to curtail development in a number of areas. At present, none of the unimproved property within Improvement Area No. 3 is known to be inhabited by any plant or animal species that any State or federal agency has listed or has proposed for listing on the endangered or threatened species lists. The City is not aware of the current existence of any endangered species within Improvement Area No. 3. Notwithstanding this fact, new species are proposed to be added to the State and federal protected lists on a regular basis. Any action by the State or federal government to protect species located on or adjacent to the property within Improvement Area No. 3 could have an adverse effect on the ability of the owners of unimproved property to construct improvements on such property. Any such action could reduce the likelihood of timely payment of the Special Taxes which might be levied upon such property and would likely reduce the market value of such property and, therefore, the potential revenues available at foreclosure sales for delinquent Special Tax installments. See the caption “—Land Values.”

### **Natural Disasters**

The District, like all California communities, may be subject to unpredictable seismic activity, drought, wildfires, high winds, landslides, floods or other natural disasters. According to the Safety Element of the City’s General Plan, the City lies in a seismically active area, and the District is approximately 6 miles northeast of the Rinconada Fault and approximately 11 miles southwest of the San Andreas Fault (Pajaro segment), although Improvement Area No. 3 is not within an Alquist-Priolo Earthquake Fault Special Studies Zone, as determined by the State of California. In addition, there are likely to be unmapped faults in or near the City. Seismically induced ground shaking has affected the City in the past and is expected to affect the City in the future. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within Improvement Area No. 3. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event.

Portions of the City are located within floodways as defined by the Federal Emergency Management Agency, although, according to the Appraisal, Improvement Area No. 3 has been determined to be outside the 100-year and 500-year floodplains. See Appendix G.

The State is periodically subject to wildfires, particularly in areas of wildland-urban interface (zones of transition between unoccupied land and human development) and mountainous or hilly terrain. Improvement Area No. 3 is not in a wildland-urban interface zone and is located on level terrain; accordingly, it is not believed that Improvement Area No. 3 is in an area of elevated wildfire risk in comparison to surrounding areas.

In the event of a natural disaster, there may be significant damage to both property and infrastructure in Improvement Area No. 3. As a result, a substantial portion of the Property Owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in Improvement Area No. 3 could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

## **Hazardous Substances**

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but State 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 had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The District is within one mile of the former site of the Salinas Army Airfield, a World War Two-era military base, and was formerly used for agricultural purposes, including the application of pesticides. In 2019, a consultant that was retained by the Developer analyzed the potential risks to Improvement Area No. 3 residents of direct exposure to contaminants in soil and concluded that such risks are on the very low range, with only one compound (dieldrin, an insecticide that was formerly used in agricultural operations) above California Department of Toxic Substances Control screening levels. The analysis further concluded that the residual dieldrin concentrations in Improvement Area No. 3 do not pose a health risk the residential development.

It is possible that liabilities may arise in the future with respect to any of the parcels within Improvement Area No. 3 resulting from the existence, currently, on the parcel of a substance that is presently classified as hazardous but which 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 that is not presently classified as hazardous but which 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. Any of these possibilities could significantly affect the willingness or ability of the owner of any parcel to pay the Special Taxes or the value of a parcel that is realizable upon a delinquency.

As described under the caption “IMPROVEMENT AREA NO. 3—Appraised Property Values,” the Appraisal assumes that no hazardous materials exist on the property. Accordingly, the Appraisal does not take into account the possible reduction in marketability and value of any of the parcels within Improvement Area No. 3 by reason of the possible liability of the owner or operator for hazardous materials on such parcels.

## **Shapiro Decision**

On August 1, 2014, the California Court of Appeal, Fourth Appellate District, Division One (the “**Court**”), issued its opinion in *City of San Diego v. Melvin Shapiro, et al.* (D063997). The case involved a Convention Center Facilities District (the “**CCFD**”) established by the City of San Diego. The CCFD was a financing district established under the City of San Diego’s charter (the “**Charter**”) and was intended to function much like a community facilities district established under the provisions of the Act. The CCFD was comprised of all of the real property in the entire City of San Diego. However, the special tax to be levied within the CCFD was to be levied only on properties improved with a hotel located within the CCFD.

At the election to authorize such special tax, the Charter proceeding limited the electorate to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was an election limited to owners and lessees of properties on which the special tax would be levied, and not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was based on Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote

will be by the landowners of the proposed district whose property would be subject to the special tax. The Court held that the CCFD special tax election did not comply with applicable requirements of Article XIII A, Section 4, and Article XIII C, Section 2, of the State Constitution, or with applicable provisions of the Charter, because the electors in such an election were not the registered voters residing within the district.

In the case of the CCFD, at the time of the election there were several hundred thousand registered voters within the CCFD (*viz.*, all of the registered voters in the City of San Diego). In the case of Improvement Area No. 3, there were no registered voters within Improvement Area No. 3 at the time of the elections to authorize the special tax levy for Improvement Area No. 3. In *City of San Diego*, the Court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court's holding does not apply to the special tax election in Improvement Area No. 3. Moreover, Section 53341 of the Act provides that any "action or proceeding to attack, review, set aside, void or annul the levy of a special tax ... shall be commenced within 30 days after the special tax is approved by the voters." Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act or the levy of special taxes authorized pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds or the special tax. Voters approved the Special Tax and the issuance of bonds for Improvement Area No. 3 in compliance with all applicable requirements of the Act at the time of formation of the District in 2016. Therefore, under the provisions of Sections 53341 and 53359 of the Act, the statute of limitations period to challenge the validity of the Special Tax for Improvement Area No. 3 has expired.

### **Parity Taxes and Special Assessments**

Property within Improvement Area No. 3 is subject to taxes and assessments imposed by other public agencies that have jurisdiction over the land within Improvement Area No. 3. See the caption "IMPROVEMENT AREA NO. 3—Estimated Direct and Overlapping Indebtedness."

The Special Taxes and any penalties thereon constitute a lien against the lots and parcels of land on which they have been levied. Such lien is on a parity with all special taxes and special assessments levied by the City and other agencies and is co-equal to and independent of the lien for general property taxes, regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation and other federal government entities. See the captions "—Bankruptcy and Foreclosure" and "—FDIC/Federal Government Interests in Properties" below.

**Neither the City nor the District has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments that are payable from all or a portion of the property within Improvement Area No. 3. In addition, the Property Owners within the District may, without the consent or knowledge of the District, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within Improvement Area No. 3 or the willingness of Property Owners to pay the Special Tax.**

### **Disclosures to Future Purchasers**

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization when the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The District has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. 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 such Special Tax obligation in the purchase of a property within Improvement Area No. 3 or lending of money secured by such property.

The Act requires the subdivider (or its agent or representative) of a subdivision to notify a prospective purchaser or long-term lessor of any lot, parcel, or unit that is subject to a Mello-Roos special tax of the existence and maximum amount of such special tax using a statutorily prescribed form. California Civil Code § 1102.6b requires that in the case of transfers other than those covered by the above requirement, the seller must at least make a good faith effort to notify the prospective purchaser of the special tax lien in a format prescribed by statute. Failure by an owner of the property to comply with the above requirements, or failure by a purchaser or lessor to consider or understand the nature and existence of the Special Tax, could adversely affect the willingness and ability of the purchaser or lessor to pay the Special Tax when due.

### **Special Tax Delinquencies**

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of and interest on the Bonds and any Parity Bonds are derived, are customarily billed to the properties within Improvement Area No. 3 on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

Significant delinquencies in the payment of annual Special Tax installments, or delays in the prosecution of foreclosure proceedings to collect such Special Taxes, could result in depletion of the Reserve Account and default in payment of debt service on the Bonds. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales” for a discussion of the provisions that apply, and the procedures that the District is obligated to follow under the Indenture, in the event of delinquencies in the payment of Special Taxes. See the captions “—FDIC/Federal Government Interests in Properties” and “—Bankruptcy and Foreclosure” for a discussion of the policy of the FDIC and the rights of federal government entities regarding the payment of special taxes and assessment and limitations on the District’s ability to foreclosure on the lien of the Special Taxes in certain circumstances.

The Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (known as the Teeter Plan), as provided for in Section 4701 *et seq.* of the State Revenue and Taxation Code, is not available for community facilities districts such as the District. The collection of Special Taxes is therefore subject to the risk of delinquency, while the District is also generally entitled to collect penalties and interest on delinquent Special Taxes; provided that the ability to collect penalties and interest on delinquent Special Taxes is currently subject to a moratorium through May 6, 2021 in the wake of the COVID-19 pandemic. See the caption “IMPROVEMENT AREA NO. 3—Delinquency History.”

### **Non-Cash Payments of Special Taxes**

Under the Act, the City Council, as the legislative body of the District, may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond or Parity Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond or Parity Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds or Parity Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond or Parity Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds or Parity Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds or Parity Bonds.

In order to provide some protection against the potential adverse impact on cash flows that might be caused by the tender of Bonds or Parity Bonds in payment of Special Taxes, the Indenture includes a covenant pursuant to which the District will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District has first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

### **Payment of the Special Tax is Not a Personal Obligation of the Owners**

The obligation to pay Special Taxes levied within Improvement Area No. 3 does not constitute a personal obligation of the current or subsequent owners of the property in Improvement Area No. 3. Enforcement of Special Tax payment obligations by the District is limited to judicial foreclosure in the County Superior Court. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales.” There is no assurance that any current or subsequent owner of a parcel that is subject to Special Taxes will be able to pay the Special Taxes, or that such owner will choose to pay such installments even though it is financially able to do so.

### **Land Values**

*General.* The value of the property within Improvement Area No. 3 is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District’s only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, natural disasters, stricter land use regulations, delays in development or other events could adversely impact the security underlying the Special Taxes. See the caption “IMPROVEMENT AREA NO. 3—Estimated Value-to-Lien Ratio.”

*Appraised Values.* The Appraisal set forth in Appendix G estimates the aggregate value overall and the market value by ownership of the parcels within Improvement Area No. 3. This market value is merely the present opinion of the Appraiser and is subject to the assumptions and limiting conditions (and hypothetical conditions) that are stated in the Appraisal. The District has not sought the present opinion of any other appraiser of the value of the taxed parcels. A different present opinion of value might be rendered by a different appraiser.

The opinion of value that is set forth in the Appraisal relates to sale by a willing seller to a willing buyer, each having similar information and neither being forced by other circumstances to sell or to buy. Consequently, the opinion is of limited use in predicting the selling price at a foreclosure sale, because the sale is forced and the buyer may not have the benefit of full information. In addition, the opinion is a present opinion, based upon present facts and circumstances. Differing facts and circumstances may lead to differing opinions of value. The appraised value is not evidence of future value because future facts and circumstances may differ significantly from those that are in existence as of the date of the Appraisal.

No assurance can be given that any of the parcels in Improvement Area No. 3 could be sold for the estimated market value that is contained in the Appraisal if such parcels should become delinquent in the payment of Special Taxes and be foreclosed upon.

### **Billing of Special Taxes**

A special tax formula can result in a substantially heavier property tax burden being imposed upon properties within a community facilities district than elsewhere in a city or county, and this in turn can lead to problems in the collection of the special tax. In some community facilities districts (although not in the

District), taxpayers have refused to pay the special tax and have commenced litigation challenging the special tax, the community facilities district and bonds issued by the community facilities district.

Under provisions of the Act, the Special Taxes are to be billed to the properties within Improvement Area No. 3 that were entered on the Assessment Roll of the County Assessor by January 1 of the previous Fiscal Year. Such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do regular property tax installments. These Special Tax installment payments cannot be made separately from property tax payments. Therefore, the unwillingness or inability of a property owner to pay regular property tax bills may also indicate an unwillingness or inability to make regular property tax payments and installment payments of Special Taxes in the future. See the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales” for a discussion of the provisions that apply, and that procedures that the District is obligated to follow, in the event of delinquency in the payment of installments of Special Taxes.

### **Value-to-Lien Ratios**

The estimated value-to-lien ratios that are set forth under the caption “IMPROVEMENT AREA NO. 3—Estimated Value-to-Lien Ratio” are based on the appraised values of property in Improvement Area No. 3 as of the Date of Value and the direct and overlapping debt that is currently allocable to such property as of December 1, 2020. No assurance can be given that such value-to-lien ratios will be maintained over time. As discussed herein, many factors that are beyond the control of the City and the District could adversely affect the property values within Improvement Area No. 3. Neither the City nor the District has any control over the amount of additional indebtedness that may be issued by other public agencies, the payment of which, through the levy of a tax or an assessment, is on a parity with the Special Taxes. See the captions “—Parity Taxes and Special Assessments” and “IMPROVEMENT AREA NO. 3—Estimated Direct and Overlapping Indebtedness.” A decrease in the property values in Improvement Area No. 3 or an increase in the parity liens on property in Improvement Area No. 3, or both, could result in a lowering of the value-to-lien ratios of the property in Improvement Area No. 3.

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

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

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

*General.* The ability of the District to collect the Special Taxes and interest and penalties specified by State law, and to foreclose the lien of delinquent Special Taxes, may be limited in certain respects with regard to properties in which the FDIC, the Federal National Mortgage Association (“FNMA”), the IRS, the Drug Enforcement Administration or other similar federal governmental agencies 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’s interest. This means that, unless the United States Congress has otherwise provided, if a federal government entity owns a parcel of taxable property but does not pay taxes (including Special Taxes) and assessments levied on the parcel, the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless the United States Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount that is

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*, 597 F.2d 174 (9th Cir. 1979), the United States Court of Appeal, Ninth Circuit (the "**Ninth Circuit**"), held that 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. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see the caption "**—Insufficiency of Special Taxes.**"

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

**FDIC.** In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. On June 4, 1991, the FDIC issued a Statement of Policy Regarding the Payment of State and Local Property Taxes (the "**1991 Policy Statement**"). The 1991 Policy Statement was revised and superseded by a new Policy Statement effective January 9, 1997 (the "**Policy Statement**"). The Policy Statement provides that real property that is 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 that 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 neither pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC's consent. In addition, the FDIC will not permit a lien or security interest held by the FDIC to be eliminated by foreclosure without the FDIC's consent.

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent that such lien purports to secure the payment of any such amounts. Special taxes imposed under the Act and a special tax formula that 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 special taxes under the Act. With respect to property in the State owned by the FDIC on January 9, 1997 and that was owned by the Resolution Trust Company (the "**RTC**") on December 31, 1995, or that became the property of the FDIC through foreclosure of a security interest held by the RTC on that date, the FDIC will continue the RTC's prior practice of paying special taxes imposed pursuant to the Act if the taxes were imposed prior to the RTC's acquisition of an interest in the property. All other special taxes may be challenged by the FDIC.

The City and the District are unable to predict what effect the FDIC's application of the Policy Statement would have in the event of a delinquency on a parcel within the District in which the FDIC has an interest, although prohibiting the lien of the FDIC to be foreclosed at a judicial foreclosure sale would reduce

or eliminate the persons willing to purchase a parcel at a foreclosure sale. Owners of the Bonds should assume that the District will be unable to foreclose on any parcel owned by the FDIC. Such an outcome could cause a draw on the Reserve Account and perhaps, ultimately, a default in payment on the Bonds.

### **Bankruptcy and 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, reorganization, insolvency, or other similar laws affecting the rights of creditors generally.

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

Bankruptcy, insolvency and other laws generally affecting creditors' rights could adversely impact the interests of owners of the Bonds in at least two ways. First, the payment of property owners' taxes and the ability of the District to foreclose the lien of delinquent unpaid Special Taxes pursuant to its covenant to pursue judicial foreclosure proceedings may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights (such as the Soldiers' and Sailors' Relief Act of 1940 discussed below) or by the laws of the State relating to judicial foreclosure. See the caption "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—Covenant to Foreclose; Proceeds of Foreclosure Sales." In addition, the prosecution of a foreclosure could be delayed for many reasons, including crowded local court calendars or lengthy procedural delays.

Second, the United States Bankruptcy Code might prevent moneys on deposit in the Special Tax Fund from being applied to pay interest on the Bonds and/or to redeem Bonds if bankruptcy proceedings were brought by or against a landowner in the District and if the court found that any of such landowners had an interest in such moneys within the meaning of Section 541(a)(1) of the United States Bankruptcy Code.

Although bankruptcy proceedings would not cause the Special Taxes to become extinguished, the amount and priority of any lien on property securing the payment of delinquent Special Taxes could be reduced or modified if the value of the property were determined by the bankruptcy court to have become less than the amount of the lien, and the amount of the delinquent Special Taxes in excess of the reduced lien would then be treated as an unsecured claim by the court. Further, bankruptcy of a property owner could result in an unwillingness to pay Special Taxes, a stay or other delay in prosecuting Superior Court foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of, and interest on, the Bonds and the possibility of delinquent Special Tax installments not being paid in full.

On July 30, 1992, the Ninth Circuit issued its opinion in a bankruptcy case entitled *In re Glasply Marine Industries* ("Glasply"). In that case, the court held that *ad valorem* property taxes levied by Snohomish County in the State of Washington after the date that the property owner filed a petition for bankruptcy were not entitled to priority over a secured creditor with a prior lien on the property. Although the court upheld the priority of unpaid taxes imposed before the bankruptcy petition, unpaid taxes imposed after the filing of the bankruptcy petition were declared to be "administrative expenses" of the bankruptcy estate, payable after all secured creditors. As a result, the secured creditor was able to foreclose on the property and retain all the proceeds of the sale except the amount of the pre-petition taxes.

The Bankruptcy Reform Act of 1994 included a provision which excepts from the United States Bankruptcy Code's automatic stay provisions, "the creation of a statutory lien for an *ad valorem* property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court]." This amendment effectively makes the *Glasply* holding inoperative as it relates to *ad valorem* real property taxes. However, it is possible that the original rationale of the *Glasply* ruling could

still result in the treatment of post-petition special taxes as “administrative expenses,” rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

According to the court’s ruling, as administrative expenses, post-petition taxes would be paid, assuming that the debtor had sufficient assets to do so. In certain circumstances, payment of such administrative expenses may be allowed to be deferred. Once the property is transferred out of the bankruptcy estate (through foreclosure or otherwise), it would at that time become subject to current *ad valorem* taxes.

The Act provides that the Special Taxes are secured by a continuing lien which is subject to the same lien priority in the case of delinquency as *ad valorem* taxes. No case law exists with respect to how a bankruptcy court would treat the lien for Special Taxes levied after the filing of a petition in bankruptcy. *Glasply* is controlling precedent on bankruptcy courts in the State. If the *Glasply* precedent was applied to the levy of the Special Taxes, the amount of Special Taxes received from parcels whose owners declare bankruptcy could be reduced.

Other laws generally affecting creditors’ rights or relating to judicial foreclosure may affect the ability to enforce payment of Special Taxes or the timing of enforcement of Special Taxes. For example, the Soldiers and Sailors Civil Relief Act of 1940 affords protections such as a stay in enforcement of the foreclosure covenant, a six-month period after termination of military service to redeem property sold to enforce the collection of a tax or assessment and a limitation on the interest rate on the delinquent tax or assessment to persons in military service if a court concludes that the ability to pay such taxes or assessments is materially affected by reason of such service.

#### **No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the Bonds or the Indenture. See Appendix C under the caption “EVENTS OF DEFAULT—Remedies of Owners” for a description of remedies that are available to the Bond Owner if the District defaults under the Indenture.

#### **Loss of Tax Exemption**

As discussed under the caption “TAX EXEMPTION,” the interest on the Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended, or certain legislative changes that occur subsequent to the issuance of the Bonds. The introduction or enactment of any such future legislative proposals or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion. Should an event of taxability occur, the Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Indenture.

#### **Limitations on Remedies**

Remedies available to the owners of the Bonds may be limited by a variety of factors and may be inadequate to assure the timely payment of principal of and interest on the Bonds or to preserve the tax-exempt status of the Bonds.

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance or transfer, moratorium, or other similar laws affecting generally the enforcement of creditors’ rights, by equitable principles and by the exercise of judicial discretion. The lack of availability of certain remedies or

the limitation of remedies may entail risks of delay, limitation or modification of the rights of the owners of the Bonds.

### **Limited Secondary Market**

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. Although the District has committed to provide certain financial and operating information on an annual basis, there can be no assurance that such information will be available to Owners of the Bonds on a timely basis. See the caption “CONTINUING DISCLOSURE.” The failure to provide the required annual financial information does not give rise to monetary damages but merely an action for specific performance. Occasionally, because of general market conditions, lack of current information, or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Proposition 218**

An initiative measure, Proposition 218, which is commonly referred to as the “Right to Vote on Taxes Act” (the “**Initiative**”), was approved by the voters of the State at the November 5, 1996 general election. The Initiative added Articles XIIC and XIID to the State Constitution. According to the “Title and Summary” of the Initiative prepared by the State Attorney General, the Initiative limits “the authority of local governments to impose taxes and property-related assessments, fees and charges.” The provisions of the Initiative have not yet been interpreted by the courts, although several lawsuits have been filed requesting that the courts interpret various aspects of the Initiative. The Initiative could potentially impact the Special Taxes available to the District to pay the principal of and interest on the Bonds as described below.

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

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds. The provisions of the Initiative relating to the exercise of the initiative power have not been fully interpreted by the courts, and no assurance can be given as to the outcome of any such litigation.

It may be possible, however, for voters or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner that does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in

amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses.

Nevertheless, to the maximum extent that the law permits it to do so, the District has covenanted that it will not initiate proceedings to reduce the maximum Special Tax rates for the District. However, no assurance can be given as to the enforceability of the foregoing covenants.

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

### **Ballot Initiatives**

Article XIII C was adopted pursuant to a measure that qualified for the ballot pursuant to the State’s Constitutional initiative process, and the State Legislature has in the past enacted legislation that has altered the spending limitation or established minimum funding provisions for particular activities. On March 6, 1995, in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiative. From time to time, other initiative measures could be adopted by State voters or legislation enacted by the State Legislature. The adoption of any such initiative or enactment of legislation might place limitations on the ability of the State, the County or local districts to increase revenues or appropriations or on the ability of a property owner to complete the development of property within the District.

### **Tax Cuts and Jobs Act**

H.R. 1 of the 115th U.S. Congress, known as the “Tax Cuts and Jobs Act,” was enacted into law on December 22, 2017 (the “**Tax Act**”). The Tax Act makes significant changes to many aspects of the Internal Revenue Code of 1986, as amended. For example, the Tax Act reduces the amount of mortgage interest expense and state and local income tax and property tax expense that individuals may deduct from their gross income for federal income tax purposes. These changes could increase the cost of home ownership within Improvement Area No. 3 and could slow the pace of home sales by the Developer or result in reductions of sales price below the currently expected levels. However, the City cannot predict the effect that the Tax Act may have on the cost of home ownership or the price of homes in Improvement Area No. 3, the pace at which homes in Improvement Area No. 3 are sold to individual homeowners, or the ability or willingness of homeowners to pay Special Taxes or property taxes.

### **Potential Early Redemption of Bonds from Prepayments or Other Sources**

Property owners within Improvement Area No. 3, including the Developer and any individual property owner, are permitted to prepay their Special Taxes at any time. Such Prepayments could also be made from the proceeds of bonds issued by or on behalf of an overlapping special assessment district or community facilities district. Such Prepayments will result in an extraordinary redemption of the Bonds on the Interest Payment Date for which timely notice may be given under the Indenture following the receipt of the Prepayment. The resulting extraordinary redemption of Bonds that were purchased at a price greater than par could reduce the otherwise expected yield on such Bonds. See the caption “THE BONDS—Redemption—Extraordinary Redemption.”

### **COVID-19 Outbreak**

The spread of the novel strain of coronavirus called SARS-CoV-2, which causes the disease known as COVID-19 (“**COVID-19**”), and local, State and federal actions in response to COVID-19, have impacted the

City and the County and their operations and finances. In response to the increasing number of cases of COVID-19 infections and fatalities, health officials and experts have recommended, and some governments have mandated, a variety of responses ranging from travel bans and social distancing practices to complete shut-downs of certain services and facilities. The World Health Organization has declared the COVID-19 outbreak to be a pandemic and on March 4, 2020, as part of the State's response to address the outbreak, the Governor declared a state of emergency. On March 13, 2020, the President declared a national emergency, freeing up funding for federal assistance to state and local governments. Many school districts across the State have temporarily closed some or all school campuses (including schools within the City) in response to local and State directives or guidance. On March 19, 2020, the Governor issued Executive Order N-33-20, a mandatory Statewide shelter-in-place order applicable to all non-essential services. Certain aspects of the shelter-in-place directives have been extended indefinitely until certain indicators have been met. The County has also declared a state of emergency in response to the COVID-19 outbreak.

On March 27, 2020, the President signed the \$2.2 trillion Coronavirus Aid, Relief, and Economic Stabilization Act (the "CARES Act") which provides, among other measures, \$150 billion in financial assistance to states, tribal governments and local governments to provide emergency assistance to those most significantly impacted by COVID-19. Under the CARES Act, local governments are eligible for reimbursement of certain costs which are expended to address the impacts of the pandemic, although the City and the District cannot predict what State and/or federal funding or other relief they may ultimately receive. Any funds received by the City or the District under the CARES Act are not available for payment of the Bonds and cannot be used to backfill any District revenue losses related to COVID-19.

The effects of the COVID-19 outbreak and governmental actions responsive to it are altering the behavior of businesses and people in a manner that is having significant negative impacts on global and local economies. In addition, financial markets in the United States and globally have experienced significant volatility attributed to COVID-19 concerns. The outbreak has resulted in increased pressure on State finances, as budgetary resources are directed towards containing the pandemic and tax revenues sharply decline. Identified cases of COVID-19 and deaths attributable to the COVID-19 outbreak are continuing to increase throughout the United States, including the City, many residents of which live in close quarters with others and work in crowded conditions in the agricultural and agricultural packing industries.

In addition, the District's ability to collect penalties, costs or interest for the failure to pay secured or unsecured property taxes, or to pay a supplemental bill, has been suspended through May 6, 2021 by order of the Governor. See the caption "IMPROVEMENT AREA NO. 3—Delinquency History."

As a result of the COVID-19 outbreak, the sales office for Improvement Area No. 3 was closed between March and May 2020 and viewings of model homes by prospective homebuyers took place via Internet. The sales office reopened in June 2020, with viewings of model homes available in person by appointment in order to ensure proper social distancing among different groups. The Developer reports robust interest from prospective homebuyers. The COVID-19 outbreak did not result in a slowdown in any development or home construction activity in Improvement Area No. 3, although the Developer did alter certain of its procedures and operations in order to safeguard staff and contractors and to comply with State and County social distancing mandates. See the caption "IMPROVEMENT AREA NO. 3—Status of Development."

The COVID-19 outbreak is ongoing, and the duration and severity of the outbreak, as well as the economic and other actions that may be taken by governmental authorities to contain the outbreak or to treat its impact, are uncertain. The ultimate impact of COVID-19 on the operations and finances of the District is unknown at this time. However, the pandemic could impact the District in one or more of the following ways: (i) potential supply chain slowdowns or shutdowns resulting from the unavailability of workers in locations producing construction materials; (ii) slowdowns or shutdowns by local governmental agencies in providing governmental permits, inspections, title and document recordation and other services and activities associated with real estate development, or mandatory shutdowns in construction work pursuant to State or County order;

(iii) delays in construction where one or more members of the workforce becomes infected with COVID-19; (iv) continued extreme fluctuations in financial markets and contraction in available liquidity; (v) extensive job losses and declines in business activity across important sectors of the economy, which could affect the Developer's ability to complete construction of the development or the ability or willingness of homeowners to purchase constructed homes; (vi) declines in business and consumer confidence that negatively impact economic conditions, cause an economic recession or prospective homebuyers' willingness to purchase constructed homes; (vii) the failure of governmental measures to stabilize the financial sector and introduce fiscal stimulus to counteract the economic impact of the pandemic; (viii) delays in sales or fewer sales due to lower traffic at model homes and real estate sales offices; (ix) delays in sales, or cancellations, due to mortgage lending issues; (x) increasing costs and challenges to the public health system in and around the City; (xi) cancellations of public events; and (xii) disruption of the regional and local economy and potential declines in property values. See the caption "IMPROVEMENT AREA NO. 3—Status of Development" for more information regarding the impact of COVID-19 on the Developer's proposed development within Improvement Area No. 3.

## CONTINUING DISCLOSURE

### District

Pursuant to a Continuing Disclosure Certificate, dated the date of issuance of the Bonds (the "**District Disclosure Certificate**"), the District has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access ("**EMMA**") system: (a) certain annual financial information and operating data concerning the District (the "**District Annual Report**"); and (b) notice of certain enumerated events within ten business days after they occur. The District Annual Report is to be filed not later than April 1 of each year, beginning April 1, 2021 (provided that the first District Annual Report will consist solely of this Official Statement). The District Disclosure Certificate has been entered into in order to assist the Underwriter in complying with Section (b)(5) of Rule 15c2-12.

It should be noted that the District is required to file certain financial statements with the District Annual Report. This requirement has been included in the District Disclosure Certificate solely to satisfy the provisions of Rule 15c2-12. The inclusion of this information does not mean that the Bonds are secured by any resources or property of the District or the City other than as described in this Official Statement. See the caption "SPECIAL RISK FACTORS—Limited Obligations."

In the past five years, the City filed notice of a rating change with respect to the City of Salinas Variable Rate Taxable Refunding Certificates of Participation (Fairways Golf Project) Series 2008 after the time by which such notice was required to be filed. In addition, the City filed its audited financial statements for Fiscal Years 2015 and 2016 with respect to three of the City's bond issuances after the time by which such financial statements were required to be filed, and the City neither filed unaudited financial statements prior to the filing of the audited financial statements nor notified investors that the audited financial statements would be filed late. Except as disclosed in this paragraph, the City has not failed to comply in all material respects with its continuing disclosure obligations in the past five years.

In order to ensure compliance with its continuing disclosure obligations in the future, the City has engaged Willdan Financial Services to assist the City and the District with their respective continuing disclosure filings. In addition, in June 2019, the City adopted a comprehensive continuing disclosure policy, including provisions addressing the amendments to Rule 15c2-12 that went into effect in February 2019.

The proposed form of the District Disclosure Certificate is set forth in Appendix D-1.

## **Developer**

The Developer is not an obligated party under Rule 15c2-12. However, pursuant to a Continuing Disclosure Certificate, dated the date of issuance of the Bonds (the “**Developer Disclosure Certificate**”), the Developer has voluntarily agreed to provide, or cause to be provided, to the EMMA system: (a) certain information concerning the Developer and the parcels that it owns within Improvement Area No. 3 (the “**Developer Annual Report**”); (b) and notice of certain enumerated events. Each Developer Annual Report is to be filed not later than October 31 of each year, beginning October 31, 2021.

The obligations of the Developer under the Developer Disclosure Certificate will terminate upon the earlier of: (i) legal defeasance, prior redemption or payment in full of all of the Bonds; (ii) the date on which the Developer owns fewer than 16 parcels of Taxable Property in Improvement Area No. 3; (iii) the date on which the Developer has no obligations under the Developer Disclosure Certificate with respect to any property because such obligations have been assumed by one or more Major Property Owners or Affiliates thereof pursuant to an Assumption Agreement (as such terms are defined in the Developer Disclosure Certificate); (iv) the date on which the Developer prepays in full all of the Special Taxes that are attributable to its property in Improvement Area No. 3.

In connection with the phased acquisition of lots from the master developer of property within California Statewide Communities Development Authority Community Facilities District No. 2015-01, Improvement Area No. 3 (University District) (“**CSCDA CFD No. 2015-01, IA No. 3**”), the Developer executed a Continuing Disclosure Certificate – Developer, dated December 18, 2017, with respect to the initial acquisition of 30 lots, a Continuing Disclosure Certificate – Developer, dated June 14, 2018, with respect to a second acquisition of 30 additional lots, a Continuing Disclosure Certificate – Developer, dated October 16, 2018, with respect to a third acquisition of 47 additional lots and a Continuing Disclosure Certificate – Developer, dated December 21, 2018, with respect to a fourth acquisition of 57 additional lots (each, a “**CDC**” and, collectively, the “**CDCs**”). Each CDC required the filing of an Annual Report by December 15 of each year with respect to the property referenced in the applicable CDC unless the obligation had previously terminated. The Developer believes that its reporting obligation pursuant to each of the first three CDCs terminated prior to the December 15, 2018 Annual Report date because the property referenced in each such CDC was not responsible for 20% or more of the special taxes within CSCDA CFD No. 2015-01, IA No. 3. Consequently, the Developer did not file such Annual Report. In addition, the property referenced in the fourth CDC is not responsible for 20% or more of the special taxes within CSCDA CFD No. 2015-01, IA No. 3. The Developer filed a Notice of Termination of its obligations under all of the CDCs on EMMA on November 13, 2019.

The proposed form of the Developer Disclosure Certificate is set forth in Appendix D-2.

## **LEGAL MATTERS**

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel. The form of Bond Counsel’s opinion with respect to the Bonds is set forth in Appendix E. In addition to serving as Bond Counsel in connection with the issuance and sale of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, has served as Disclosure Counsel to the District. Certain legal matters will be passed on for the City and the District by the City Attorney, for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, and for the Trustee by its counsel.

## **TAX EXEMPTION**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein,

interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the District, the Underwriter and others and is subject to the condition that the District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements.

In the opinion of Bond Counsel, the difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity of such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Beneficial Owner will increase the Beneficial Owner basis in the applicable Bond. The amount of original issue discount that accrues to the Beneficial Owner of a Bond is excluded from the gross income of such Beneficial Owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals, and is exempt from State of California personal income tax.

The amount by which an Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium, which must be amortized under Section 171 of the Code; such amortizable bond premium reduces the Owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of bond premium may result in an Owner realizing a taxable gain when a Bond is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the Owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar municipal obligations). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest (and original issue discount) on the Bonds or their market value.

**SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE OR LOCAL TAX TREATMENT OF THE BONDS, INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE**

BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinion may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income for federal income tax purposes of interest (and original issue discount) with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

Although Bond Counsel will render an opinion that interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, ownership of the Bonds and the accrual or receipt of interest (and original issue discount) on the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

Should interest (and original issue discount) on the Bonds become includable in gross income for federal income tax purposes, the Bonds are not subject to early redemption and will remain outstanding until maturity or until redeemed in accordance with the Indenture.

A copy of the proposed form of opinion of Bond Counsel for the Bonds is set forth in Appendix E.

#### **NO LITIGATION**

At the time of delivery of and payment for the Bonds, the District will certify substantially to the effect that there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to the knowledge of the District, threatened against the District affecting the existence of the District or the titles of its directors or officers to their respective offices or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof in accordance with the Indenture, or in any way contesting or affecting the validity or enforceability of the Bonds, the Indenture, or any action of the District contemplated by any of said documents, or in any way contesting the completeness or accuracy of this Official Statement or any amendment or supplement thereto, or contesting the powers of the District or its authority with respect to the Bonds or any action of the District contemplated by any of said documents, nor to the knowledge of the District, is there any basis therefor.

#### **NO RATING**

The Bonds have not been rated by any credit rating agency.

#### **UNDERWRITING**

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "**Underwriter**"). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_ (being \$\_\_\_\_ aggregate principal amount of the Bonds, less Underwriter's discount of \$\_\_\_\_ and plus/less a net original issue premium/discount of \$\_\_\_\_). The purchase agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and

conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The initial offering prices stated on the inside front cover page of this Official Statement may be changed from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts), dealer banks, banks acting as agent and others at prices lower than said public offering prices.

#### **FINANCIAL INTERESTS**

The fees being paid to the Underwriter, Underwriter's Counsel and Bond Counsel/Disclosure Counsel are contingent upon the issuance and delivery of the Bonds. From time to time, Bond Counsel represents the Underwriter on matters unrelated to the Bonds.

#### **PENDING LEGISLATION**

The District is not aware of any significant pending legislation that would have material adverse consequences on the Bonds or the ability of the District to pay the principal of and interest on the Bonds when due.

#### **ADDITIONAL INFORMATION**

The purpose of this Official Statement is to supply information to prospective buyers of the Bonds. Quotations and summaries and explanations of the Bonds and documents contained in this Official Statement do not purport to be complete, and reference is made to such documents for full and complete statements and their provisions.

This Official Statement is submitted only in connection with the sale of the Bonds by the District. This Official Statement does not constitute a contract with the purchasers of the Bonds.

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

COMMUNITY FACILITIES DISTRICT NO. 2016-1  
(MONTE BELLA) OF THE CITY OF SALINAS

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

## APPENDIX A

### RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX

#### COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE CITY OF SALINAS (IMPROVEMENT AREA NO. 3)

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes in the City of Salinas (“City”) Community Facilities District No. 2016-1 (“CFD No. 2016-1”), Improvement Area No. 3 (“IA No. 3”). The Special Tax shall be levied on and collected in CFD No. 2016-1 IA No. 3 each Fiscal Year, in an amount determined through the application of the Rate and Method of Apportionment described below. All of the real property within CFD No. 2016-1 IA No. 3, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent, and in the manner herein provided.

#### SECTION A DEFINITIONS

The terms hereinafter set forth have the following meanings:

“**Acre or Acreage**” means the land area of an Assessor’s Parcel as shown on an Assessor’s Parcel Map, or if the land area is not shown on an Assessor’s Parcel Map, the land area shown on the applicable final map, parcel map, condominium plan, or other recorded County parcel map or instrument. The square footage of an Assessor’s Parcel is equal to the Acreage multiplied by 43,560.

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

“**Administrative Expenses**” means the following actual or reasonably estimated costs directly related to the administration of CFD No. 2016-1 IA No. 3: the costs of computing the Special Taxes and preparing the Special Tax collection schedules (whether by the City or designee thereof or both); the costs of collecting the Special Taxes (whether by the City or otherwise); the costs of remitting the Special Taxes to the Trustee; the costs of the Trustee (including legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, CFD No. 2016-1 IA No. 3 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2016-1 IA No. 3 or any designee thereof of complying with disclosure requirements of the City, CFD No. 2016-1 IA No. 3 or obligated persons associated with applicable federal and state securities laws and the Act; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, CFD No. 2016-1 IA No. 3 or any designee thereof related to an appeal of the Special Tax; the costs associated with the release of funds from an escrow account; and the City’s annual administration fees and third party expenses. Administration Expenses shall also include amounts estimated by the CFD Administrator or advanced by the City or CFD No. 2016-1 IA No. 3 for any other administrative purposes of CFD No. 2016-1 IA No. 3, including attorney’s fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

“**Approved Property**” means all Assessor’s Parcels of Taxable Property: (i) that are included in a Final Map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and (ii) that have not been issued a building permit on or before May 1st preceding the Fiscal Year in which the Special Tax is being levied.

“**Assessor’s Parcel**” means a lot or parcel of land designated on an Assessor’s Parcel Map with an assigned Assessor’s Parcel Number.

**“Assessor’s Parcel Map”** means an official map of the Assessor of the County designating parcels by Assessor’s Parcel Number.

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

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

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

**“Bonds”** means any obligation to repay a sum of money, including obligations in the form of bonds, notes, certificates of participation, long-term leases, loans from government agencies, or loans from banks, other financial institutions, private businesses, or individuals, or long-term contracts, or any refunding thereof, to which Special Taxes within CFD No. 2016-1 IA No. 3 have been pledged.

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

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

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

**“CFD No. 2016-1”** means Community Facilities District No. 2016-1 established by the City under the Act.

**“City”** means the City of Salinas.

**“City Council”** means the City Council of the City of Salinas, acting as the Legislative Body of CFD No. 2016-1, or its designee.

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

**“Developed Property”** means all Assessor’s Parcels of Taxable for which a building permit for new construction was issued on or before May 1st preceding the Fiscal Year in which the Special Tax is being levied.

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

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

**“Fiscal Year”** means the period commencing on July 1 of any year and ending the following June 30.

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

**“Improvement Area No. 3”** means Improvement Area No. 3 of CFD No. 2016-1, as identified on the most recent boundary map for CFD No. 2016-1 on file with the County of Monterey Recorder’s Office.

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

**“Maximum Special Tax”** means the Maximum Special Tax, determined in accordance with Section C, that can be levied within CFD No. 2016-1 IA No. 3 in any Fiscal Year on any Assessor’s Parcel.

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

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

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

**“Proportionately”** means that the ratio of the actual Special Tax levy to the applicable Assigned Special Tax is equal for all applicable Assessor’s Parcels. In case of Developed Property subject to the apportionment of the Special Tax under step four of Section F, “Proportionately” in step four means that the quotient of (a) actual Special Tax less the Assigned Special Tax divided by (b) the Backup Special Tax less the Assigned Special Tax, is equal for all applicable Assessor’s Parcels.

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

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

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

**“Single Family Unit”** means a residential dwelling unit.

**“Special Tax”** means any of the special taxes authorized to be levied within CFD No. 2016-1 IA No. 3 pursuant to the Act.

**“Special Tax Requirement”** means the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds due in the Calendar Year that commences in such Fiscal Year, (ii) Administrative Expenses, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount required to establish or replenish any reserve funds established in association with the Bonds, (v) an amount equal to any anticipated shortfall due to Special Tax delinquencies in the prior Fiscal Year, and (vi) the collection or accumulation of funds for the acquisition or construction of facilities authorized by CFD No. 2016-1 provided that the inclusion of such amount does not cause an increase in the levy of Special Tax on Approved Property or Undeveloped Property as set forth in Step Two and Step Three of Section F., less (vii) any amounts available to pay debt service or other periodic costs on the Bonds pursuant to the Indenture.

**“Taxable Property”** means all Assessor’s Parcels within CFD No. 2016-1 IA No. 3, which are not Exempt Property.

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

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

**SECTION B  
CLASSIFICATION OF ASSESSOR’S PARCELS**

Each Fiscal Year, beginning with Fiscal Year 2016-17, each Assessor’s Parcel within Improvement Area No. 3 shall be classified as Taxable Property or Exempt Property. In addition, each Assessor’s Parcel of Taxable Property shall be further classified as Developed Property, Approved Property, Undeveloped Property or Provisional Undeveloped Property. In addition, each Assessor’s Parcel of Developed Property shall further be classified as Residential Property or Non-Residential Property. Lastly, each Assessor’s Parcel of Residential Property shall further be classified as a Single Family Property or Affordable Housing Property, and each Assessor’s Parcel of Single Family Property shall be assigned to its appropriate Assigned Special Tax rate based on its Building Square Footage.

**SECTION C  
MAXIMUM SPECIAL TAX**

**1. Developed Property**

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

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

Prior to the issuance of Bonds, the Assigned Special Tax on Developed Property set forth in Table 1 may be reduced in accordance with, and subject to the conditions set forth in this paragraph. If it is reasonably determined by the CFD Administrator that the overlapping debt burden (as defined in the Statement of Goals and Policies for the Use of the Mello-Roos Community Facilities Act of 1982 adopted by the City Council as of the date of formation of CFD No. 2016-1, the “Goals and Policies”) calculated pursuant to the Goals and Policies exceeds the City’s maximum level objective set forth in such document, the Maximum Special Tax on Developed Property may be reduced (by modifying Table 1) to the amount necessary to satisfy the City’s objective with respect to the maximum overlapping debt burden level with the written consent of the CFD Administrator. In order to reduce the Maximum Special Tax on Developed Property it may be necessary to reduce the Maximum Special Tax for Undeveloped Property. The reductions permitted pursuant to this paragraph shall be reflected in an amended Notice of Special Tax Lien which the City shall cause to be recorded by executing a certificate in substantially the form attached hereto as Exhibit “A”.

**2. Multiple Land Use Type**

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

**3. Approved Property, Undeveloped Property and Provisional Undeveloped Property**

The Maximum Special Tax for each Assessor’s Parcel classified as Approved Property, Undeveloped Property, or Provisional Undeveloped Property in any Fiscal Year shall be the applicable Assigned Special Tax.

**SECTION D  
ASSIGNED SPECIAL TAX**

**1. Developed Property**

Each Fiscal Year, each Assessor’s Parcel of Single Family Property or Non-Residential Property shall be subject to an Assigned Special Tax. The Assigned Special Tax applicable to an Assessor’s Parcel of Developed Property for Fiscal Year 2016-17 shall be determined pursuant to Table 1 below.

**TABLE 1**

**Improvement Area No. 3  
For Fiscal Year 2016-17  
Assigned Special Tax for Developed Property**

Land Use Type	Building Square Footage	Rate
Single Family Property	Up to 2,250 SF	\$2,492 per Single Family Unit
Single Family Property	2,251 SF to 2,500 SF	\$2,654 per Single Family Unit
Single Family Property	2,501 SF to 2,750 SF	\$2,785 per Single Family Unit
Single Family Property	Greater than 2,750 SF	\$2,882 per Single Family Unit
Non-Residential Property	N/A	\$17,452 per Acre

**2. Approved Property, Undeveloped Property and Provisional Undeveloped Property**

Each Fiscal Year, each Assessor’s Parcel of Approved Property, Undeveloped Property and Provisional Undeveloped Property shall be subject to an Assigned Special Tax. The Assigned Special Tax rate for an Assessor’s Parcel classified as Approved Property, Undeveloped Property and Provisional Undeveloped Property for Fiscal Year 2016-17 shall be \$17,452 per Acre.

**SECTION E  
BACKUP SPECIAL TAX**

At the time a Final Map is recorded, the Backup Special Tax for all Assessor’s Parcels of Developed Property classified or reasonably expected to be classified as a Single Family Property within such Final Map area shall be determined by (i) multiplying (a) the Maximum Special Tax rate for Undeveloped Property by (b) the total Acreage of Taxable Property in such Final Map area, excluding Acreage classified as Provisional Undeveloped Property, Acreage classified or reasonably expected to be classified as Non-Residential Property, and any Acreage reasonably expected to be classified as Exempt Property in such Final Map area, and (ii) dividing the results in (i) by the total number of Single Family Units reasonably expected to be constructed within such Final Map area less the number of Affordable Housing Property units within CFD No. 2016-1 IA No. 3. The resulting quotient shall be the Backup Special Tax for each Assessor’s Parcel of Single Family Property within such Final Map area.

The Backup Special Tax shall not apply to Non-Residential Property.

Notwithstanding the foregoing, if Assessor’s Parcels of Developed Property which are classified or to be classified as Single Family Property are subsequently changed or modified by recordation of a lot line adjustment or similar instrument, then the Backup Special Tax for the area that has been changed or modified shall be recalculated, based on the methodology above, to equal the amount of Backup Special Tax that would have been generated if such change did not take place.

**SECTION F**  
**METHOD OF APPORTIONMENT OF THE SPECIAL TAX**

Commencing Fiscal Year 2016-17 and for each subsequent Fiscal Year, the City Council shall levy Special Taxes on all Taxable Property in accordance with the following steps:

- Step One: The Special Tax shall be levied Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the applicable Assigned Special Tax rates in Table 1 to satisfy the Special Tax Requirement.
- Step Two: If additional moneys are needed to satisfy the Special Tax Requirement after the first step has been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Approved Property at up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.
- Step Three: If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.
- Step Four: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, then the Special Tax on each Assessor's Parcel of Developed Property whose Maximum Special Tax is the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to 100% of the Backup Special Tax as needed to satisfy the Special Tax Requirement.
- Step Five: If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Provisional Undeveloped Property up to 100% of the Maximum Special Tax applicable to each such Assessor's Parcel as needed to satisfy the Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more than ten percent as a consequence of delinquency or default by the owner of any other Assessor's Parcel within CFD No. 2016-1 IA No. 3.

**SECTION G**  
**PREPAYMENT OF SPECIAL TAX**

The following additional definitions apply to this Section G:

**"CFD Public Facilities"** means \$2,648,863 expressed in 2016 dollars, which shall increase by the Construction Inflation Index on July 1, 2017, and on each July 1 thereafter, or such lower amount (i) determined by the City Council as sufficient to provide the public facilities under the authorized bonding program for CFD No. 2016-1 IA No. 3, or (ii) determined by the City Council concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes levied under this Rate and Method of Apportionment.

**"Construction Fund"** means an account specifically identified in the Indenture or functionally equivalent to hold funds, which are currently available for expenditure to acquire or construct public facilities eligible under CFD No. 2016-1 IA No. 3.

**“Construction Inflation Index”** means the annual percentage change in the Engineering News-Record Building Cost Index 20-City average measured as of the Calendar Year which ends in the previous Fiscal Year. In the event this index ceases to be published, the Construction Inflation Index shall be another index as determined by the City that is reasonably comparable to the Engineering News-Record Building Cost Index.

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

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

The Special Tax obligation of an Assessor’s Parcel of Developed Property, or an Assessor’s Parcel of Approved Property or Undeveloped Property for which a building permit has been issued or is expected to be issued, or an Assessor’s Parcel of Provisional Undeveloped Property may be prepaid in full, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor’s Parcel at the time the Special Tax obligation would be prepaid. The Prepayment Amount for an Assessor’s Parcel eligible for prepayment shall be determined as described below.

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 notice the CFD Administrator shall notify such owner of the Prepayment Amount of such Assessor’s Parcel. The CFD Administrator may charge a reasonable fee for providing this service. Prepayment must be made not less than 45 days prior to the next occurring date that notice of redemption of Bonds from the proceeds of such prepayment may be given by the Trustee pursuant to the Indenture.

The Prepayment Amount for each applicable Assessor’s Parcel shall be calculated according to the following formula (capitalized terms defined below):

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Cost
plus	Administrative Fee
less	Reserve Fund Credit
<u>less</u>	<u>Capitalized Interest Credit</u>
equals	Prepayment Amount

As of the date of prepayment, the Prepayment Amount shall be calculated as follows:

1. For an Assessor’s Parcel of Developed Property, compute the Assigned Special Tax and Backup Special Tax, if any, applicable to the Assessor’s Parcel. For an Assessor’s Parcel of Approved Property or Undeveloped Property, compute the Assigned Special Tax and the Backup Special Tax as though it was already designated as Developed Property based upon the building permit issued or expected to be issued for that Assessor’s Parcel. For an Assessor’s Parcel of Provisional Undeveloped Property compute the Assigned Special Tax for that Assessor’s Parcel.
2. For each Assessor’s Parcel of Developed Property, Approved Property, Undeveloped Property or Provisional Undeveloped Property to be prepaid, (a) divide the Assigned Special Tax computed pursuant to paragraph 1 for such Assessor’s Parcel by the sum of the estimated Assigned Special Tax applicable to all Assessor’s Parcels of Taxable Property at buildout, as

reasonably determined by the City, and (b) divide the Backup Special Tax computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Special Tax applicable to all Assessor's Parcels of Taxable Property at buildout, as reasonably determined by the City.

3. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the Outstanding Bonds. The product shall be the "Bond Redemption Amount".
4. Multiply the Bond Redemption Amount by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed with the proceeds of the Bond Redemption Amount. This product is the "Redemption Premium."
5. Compute the Future Facilities Cost.
6. Multiply the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the amount determined pursuant to paragraph 5 to determine the Future Facilities Cost to be prepaid (the "Future Facilities Amount").
7. Compute the amount needed to pay interest on the Bond Redemption Amount to be redeemed with the proceeds of the Prepayment Amount until the earliest redemption date for the Outstanding Bonds.
8. Determine the actual Special Tax levied on the Assessor's Parcel in the current Fiscal Year which has not yet been paid.
9. Estimate the amount of interest earnings to be derived from the reinvestment of the Bond Redemption Amount plus the Redemption Premium until the earliest redemption date for the Outstanding Bonds.
10. Add the amounts computed pursuant to paragraph 7 and 8 and subtract the amount computed pursuant to paragraph 9. This difference is the "Defeasance Cost."
11. Estimate the administrative fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount, the costs of redeeming Bonds, and the costs of recording any notices to evidence the prepayment and the redemption. This amount is the "Administrative Fee."
12. Calculate the "Reserve Fund Credit" as the lesser of: (a) the expected reduction in the applicable reserve requirements, 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 requirements in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the applicable reserve funds on the prepayment date. Notwithstanding the foregoing, if the reserve fund requirement is satisfied by a surety bond or other instrument at the time of the prepayment, then no Reserve Fund Credit shall be given. Notwithstanding the foregoing, the Reserve Fund Credit shall in no event be less than 0.
13. If any capitalized interest for the Outstanding Bonds will not have been expended as of the date immediately following the first interest and/or principal payment following the current Fiscal Year, a capitalized interest credit shall be calculated by multiplying the larger quotient computed pursuant to paragraph 2(a) or 2(b) by the expected balance in the capitalized interest fund or account under the Indenture after such first interest and/or principal payment. This amount is the "Capitalized Interest Credit."

14. The Prepayment Amount is equal to the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Cost, and the Administrative Fee, less the Reserve Fund Credit and the Capitalized Interest Credit.
15. From the Prepayment Amount, the amounts computed pursuant to paragraphs 3, 4, 10, 12, and 13 shall be deposited into the appropriate fund as established under the Indenture and 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 11 shall be retained by Improvement Area No. 3.

The Special Tax prepayment amount may be insufficient to redeem a full \$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 a Special Tax obligation that is prepaid pursuant to this Section G, the CFD Administrator shall indicate in the records of CFD No. 2016-1 IA No. 3 that there has been a prepayment of the Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such prepayment to indicate the prepayment of the Special Tax obligation and the release of the Special Tax lien on such Assessor's Parcel, and the obligation of such Assessor's Parcel to pay such Special Taxes shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Special Tax that may be levied on Taxable Property, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently Outstanding Bonds in each future Fiscal Year.

## **SECTION H PARTIAL PREPAYMENT OF SPECIAL TAX**

The Special Tax obligation of an Assessor's Parcel of Developed Property, or an Assessor's Parcel of Approved Property or Undeveloped Property for which a building permit has been issued or is expected to be issued, or and Assessor's Parcel of Provisional Undeveloped Property, as calculated in this Section H below, may be partially prepaid, provided that there are no delinquent Special Taxes, penalties, or interest charges outstanding with respect to such Assessor's Parcel at the time the Special Tax obligation would be prepaid.

The Partial Prepayment Amount shall be calculated according to the following formula:

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

The terms above have the following meanings:

- PP = the Partial Prepayment Amount.
- P<sub>G</sub> = the Prepayment Amount calculated according to Section G.
- F = the percent by which the owner of the Assessor's Parcel is partially prepaying the Special Tax obligation.
- A = the Administrative Fee calculated according to Section G.

The owner of any Assessor's Parcel who desires such prepayment shall notify the CFD Administrator of such owner's intent to partially prepay the Special Tax and the percentage by which the Special Tax shall be prepaid. The CFD Administrator shall provide the owner with a statement of the amount required for the partial prepayment of the Special Tax for an Assessor's Parcel within 30 days of the request and may charge a reasonable fee for providing this service. With respect to any Assessor's Parcel that is partially prepaid, the City Council shall (i) distribute the funds remitted to it according to Section G, and (ii) indicate in the records

of CFD No. 2016-1 that there has been a partial prepayment of the Special Tax obligation and shall cause a suitable notice to be recorded in compliance with the Act within thirty (30) days of receipt of such partial prepayment of the Special Tax obligation to indicate the obligation of such Assessor's Parcel to pay such prepaid portion of the Special Tax shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Special Tax that may be levied on Taxable Property after such partial prepayment, net of Administrative Expenses, shall be at least 1.1 times the regularly scheduled annual interest and principal payments on all currently Outstanding Bonds in each future Fiscal Year.

## **SECTION I TERMINATION OF SPECIAL TAX**

For each Fiscal Year that any Bonds are outstanding the Special Tax shall be levied on all Assessor's Parcels subject to the Special Tax. The Special Tax shall cease not later than the 2056-57 Fiscal Year, provide however that the Special Taxes will cease to be levied in an earlier Fiscal Year if the CFD Administrator has determined (i) that all required interest and principal payments on the CFD No. 2016-1 IA No. 3 Bonds have been paid; (ii) all authorized facilities for CFD No. 2016-1 have been acquired and all reimbursements for eligible facilities have been paid, (iii) no delinquent Special Taxes remain uncollected and (iv) all other obligations of Improvement Area No. 3 have been satisfied.

## **SECTION J EXEMPTIONS**

The City shall classify as Exempt Property, in order of priority, (i) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by the State of California, Federal or other local governments, including school districts, (ii) Assessor's Parcels which are used as places of worship and are exempt from *ad valorem* property taxes because they are owned by a religious organization, (iii) Assessor's Parcels which are owned by, irrevocably offered for dedication, encumbered by or restricted in use by a homeowners' association, (iv) Assessor's Parcels with public or utility easements making impractical their utilization for other than the purposes set forth in the easement, (v) Assessor's Parcels which are privately owned and are encumbered by or restricted solely for public uses, or (vi) Assessor's Parcels restricted to other types of public uses determined by the City Council, provided that no such classification would reduce the sum of all Taxable Property to less than 12.08 Acres.

Notwithstanding the above, the City Council shall not classify an Assessor's Parcel as Exempt Property if such classification would reduce the sum of all Taxable Property to less than 12.08 Acres. Assessor's Parcels which cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 12.08 Acres will be classified as Provisional Undeveloped Property, and will be subject to Special Taxes pursuant to Step Five in Section F.

## **SECTION K MANNER OF COLLECTION OF SPECIAL TAX**

The Special Tax shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that CFD No. 2016-1 may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may actually foreclose on delinquent Assessor's Parcels as permitted by the Act.

## **SECTION L APPEALS**

Any property owner claiming that the amount or application of the Special Tax is not correct may file a written notice of appeal with the CFD Administrator not later than thirty-six (36) months after having paid the first installment of the Special Tax that is disputed. The CFD Administrator shall promptly review the appeal, and if necessary, meet with the property owner, consider written and oral evidence regarding the amount of the Special Tax, and rule on the appeal. If the CFD Administrator's decision requires that the Special Tax for an Assessor's Parcel be modified or changed in favor of the property owner, the CFD Administrator shall take one of the following actions, in order of priority, in order to correct the error:

- i. amend the Special Tax levy for the current fiscal year prior to the payment date;
- ii. require CFD No. 2016-1 to reimburse the taxpayer the amount of the overpayment to the extent of available funds; or
- iii. grant a credit against, eliminate, or reduce the future Special Tax levied on the taxpayer's property in the amount of the overpayment.

The City Council may interpret this Rate and Method of Apportionment for purposes of clarifying any ambiguity and make determinations relative to the annual administration of the Special Tax and any landowner or residents appeals. Any decision of the City Council shall be final and binding as to all persons.

**EXHIBIT "A"**

**CITY OF SALINAS AND CFD NO. 2016-1, IMPROVEMENT AREA NO. 3 CERTIFICATE**

1. Pursuant to Section C of the Rate and Method of Apportionment of Special Tax (the "RMA"), the City of Salinas (the "City") and Community Facilities District No. 2016-1, Improvement Area No. 3 of the City of Salinas ("CFD No. 2016-1 IA No. 3") hereby agree to a reduction in the Maximum Special es:

(a) The information in Table 1 relating to the Maximum Special Tax for Developed Property and/or Undeveloped Property within CFD No. 2016-1 IA No. 3 shall be modified as follows:

*[insert Table 1 showing effective change to special tax]*

2. Table 1 may only be modified prior to the issuance of Bonds.

3. Upon execution of the Certificate by the City and CFD No. 2016-1 IA No. 3 the City shall cause an amended Notice of Special Tax Lien for CFD No. 2016-1 IA No. 3 to be recorded reflecting the modifications set forth herein.

By execution hereof, the undersigned acknowledges, on behalf of the City of Salinas and CFD No. 2016-1 IA No. 3 receipt of this Certificate and modification of the RMA as set forth in this Certificate.

CITY OF SALINAS

By: \_\_\_\_\_  
CFD Administrator

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

COMMUNITY FACILITIES DISTRICT NO. 2016-1  
IMPROVEMENT AREA NO. 3  
OF THE CITY OF SALINAS

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

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

## APPENDIX B

### SUPPLEMENTAL INFORMATION CONCERNING THE CITY OF SALINAS AND THE COUNTY OF MONTEREY

*The following information is presented as general background data. The Bonds are payable solely from Net Taxes as described in the Official Statement. The taxing power of the City, the County, the State of California or any political subdivision thereof is not pledged to the payment of the Bonds.*

*The District also notes that the below information is the latest available but does not in most instances reflect the impact of the COVID-19 pandemic. See the Official Statement under the caption “SPECIAL RISK FACTORS—COVID-19 Outbreak.” Accordingly, the historical information below does not necessarily reflect present economic conditions and future information could be significantly different from the historical information below.*

#### General

The City of Salinas (the “City”) is located in the County of Monterey (the “County”) in the Central Coast region of California, 17 miles inland from the Monterey Bay, 325 miles north of Los Angeles and 105 miles south of San Francisco. The City was incorporated as a charter city in 1874. The City has an area of approximately 24 square miles.

The City provides a wide range of municipal services, including public safety (police and fire), public works-maintenance services (streets, lighting, signals, facilities, parks and trees), development and permit services, current and advanced planning and traffic and facilities engineering, library, recreation and general administrative services. Business-type services include a municipal airport, industrial waste system, two municipal golf courses, sanitary sewer and storm drain systems, water utility and a parking district.

#### Government

The City operates under a Council/Manager form of government. Councilmembers are elected by districts for four year alternating terms and a mayor is elected at large for a two year term. The City Council appoints the City Attorney and the City Manager who is responsible for day-to-day administration of the City under the policy direction of the City Council. The population of the City is estimated to be approximately 162,222.

The City Council members and the expiration dates of their respective terms are as follows:

<i>Name</i>	<i>Office</i>	<i>Term Expires</i>
Kimbley Craig	Mayor	December 2024
—	Council Member, District 1	December 2024
Tony Barrera	Council Member, District 2	December 2022
Steve McShane	Council Member, District 3	December 2022
Orlando R. Osornio	Council Member, District 4	December 2024
Christie Cromeenes	Council Member, District 5	December 2022
Anthony Rocha	Council Member, District 6	December 2024

## Retail Sales

The table below present taxable sales for the years 2010 through 2019, the latest date for which such information is available, for the County.

### COUNTY OF MONTEREY TAXABLE SALES (DOLLARS IN THOUSANDS)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>	<i>Percentage Change</i>
2010	10,204	\$4,955,562	N/A
2011	10,268	5,312,732	7.2%
2012	10,184	5,637,445	6.1
2013	10,389	5,910,531	4.8
2014	10,535	6,200,747	4.9
2015	11,534	6,406,116	3.3
2016	11,725	6,665,936	3.9
2017	11,959	6,939,333	4.1
2018	12,490	7,339,237	5.7
2019	12,816	7,405,524	0.9

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Source: California State Board of Equalization, Research and Statistics Division.

The table below present taxable sales for the years 2010 through 2019, the latest date for which such information is available, for the City.

### CITY OF SALINAS TAXABLE SALES (DOLLARS IN THOUSANDS)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>	<i>Percentage Change</i>
2010	2,641	\$1,791,469	N/A
2011	2,665	1,984,048	10.7%
2012	2,661	2,089,040	5.2
2013	2,703	2,174,732	4.1
2014	2,759	2,265,218	4.1
2015	3,030	2,340,849	3.3
2016	3,053	2,458,354	4.8
2017	3,099	2,543,924	3.4
2018	3,284	2,635,379	3.6
2019	3,380	2,665,914	1.1

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Source: California State Board of Equalization, Research and Statistics Division.

## Population

Historic population information for the City, the County and the State of California is set forth below.

### SALINAS, COUNTY OF MONTEREY, STATE OF CALIFORNIA POPULATION

<i>Area</i>	<i>1990</i>	<i>2000</i>	<i>2010</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
City of Salinas	108,777	142,685	150,441	161,446	162,353	162,222
County of Monterey	355,660	401,762	415,057	439,193	441,304	441,143
State of California	29,758,213	33,873,086	37,253,956	39,586,646	39,695,379	39,782,870

Source: State of California, Department of Finance *E-4 Historical Population Estimates for City, County and the State, 1991-2000, with 1990 and 2000 Census Counts*, Sacramento, California, August 2007, *E-4 Historical Population Estimates for City, County and the State, 2001-2010, with 2000 and 2010 Census Counts*, Sacramento, California, August 2007 and *E-4 Population Estimates for Cities, Counties and State, 2011-2020, with 2010 Benchmark*, Sacramento, California, May 2020.

## Employment

Residents of the City find employment throughout the Salinas Metropolitan Division (the “**Metropolitan Division**”). The following tables set forth certain employment data for the Metropolitan Division.

The following table represents the Annual Average Labor Force and Industry Employment for the Metropolitan Division for the years 2015 through 2019.

**SALINAS MSA  
(MONTEREY COUNTY)  
ANNUAL AVERAGE INDUSTRY EMPLOYMENT 2015-2019**

	<i>2015</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
Total Farm	53,000	53,300	53,200	55,000	54,700
Total Nonfarm	133,100	136,200	139,200	143,000	145,300
Goods Producing	11,100	11,400	11,800	12,000	12,100
Natural Resources and Mining	300	200	200	200	300
Construction	5,200	5,800	6,000	6,400	6,500
Manufacturing	5,500	5,400	5,600	5,400	5,300
Service Providing	122,100	124,800	127,400	131,000	133,200
Trade, Transportation and Utilities	26,000	26,100	26,200	26,700	26,700
Wholesale Trade	5,300	5,300	5,600	5,900	5,800
Retail Trade	16,400	16,500	16,400	16,800	16,800
Transportation, Warehousing and Utilities	4,300	4,200	4,100	4,000	4,200
Information	1,300	1,100	1,100	1,000	1,000
Financial Activities	4,100	4,200	4,300	4,500	4,400
Professional and Business Services	12,800	13,400	13,200	14,000	14,800
Educational and Health Services	18,400	18,800	19,700	19,900	20,400
Leisure and Hospitality	23,400	24,300	24,500	25,300	26,200
Other Services	5,000	5,100	5,200	5,100	5,100
Government	31,100	31,900	33,300	34,500	34,600
Total, All Industries	186,100	189,500	192,400	198,000	200,000

Note: The "Total, All Industries" data is not directly comparable to the employment data found herein.

Source: State of California, Employment Development Department, Labor Market Information Division, Salinas Metropolitan Division, Industry Employment & Labor Force - by Annual Average, March 2019 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the years 2014 through 2019 for the City, the County, the State and the nation as a whole.

**SALINAS, COUNTY OF MONTEREY, STATE OF CALIFORNIA AND UNITED STATES  
AVERAGE ANNUAL CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT**

<i>Year and Area</i>	<i>Labor Force<sup>(1)</sup></i>	<i>Employment<sup>(2)</sup></i>	<i>Unemployment<sup>(3)</sup></i>	<i>Unemployment Rate</i>
<b>2014</b>				
Salinas	79,000	71,400	7,500	9.5%
Monterey County	219,000	199,200	19,800	9.0
California	18,755,000	17,348,600	1,406,400	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
<b>2015</b>				
Salinas	79,100	72,400	6,700	8.5%
Monterey County	221,400	203,500	17,900	8.1
California	18,893,200	17,723,300	1,169,900	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
<b>2016</b>				
Salinas	79,700	73,400	6,400	8.0%
Monterey County	220,400	203,800	16,700	7.6
California	19,102,700	18,065,000	1,037,700	5.4
United States	159,187,000	151,436,000	7,751,000	4.9
<b>2017</b>				
Salinas	80,500	74,300	6,200	7.6%
Monterey County	223,200	212,900	10,300	4.6
California	19,205,300	18,285,500	919,800	4.8
United States	160,381,000	153,861,000	6,520,000	4.1
<b>2018</b>				
Salinas	80,900	74,000	6,900	8.5%
Monterey County	222,200	207,900	14,200	6.4
California	19,398,200	18,582,800	815,400	4.2
United States	162,075,000	155,761,000	6,314,000	3.9
<b>2019<sup>(4)</sup></b>				
Salinas	81,000	74,300	6,700	8.3%
Monterey County	222,500	208,700	13,800	6.2
California	19,411,600	18,627,400	784,200	4.0
United States	163,539,000	157,538,000	6,001,000	3.7

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

(2) Includes all persons without jobs who are actively seeking work.

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

(4) Not strictly comparable with data for prior years.

Source: California Employment Development Department, March 2019 Benchmark and U.S. Department of Labor, Bureau of Labor Statistics.

## Largest Employers

The table below sets forth the largest employers within the City as of February 27, 2018, the latest date for which such information is available. Employers are presented in alphabetical order.

### CITY OF SALINAS LARGEST EMPLOYERS

<i>Rank</i>	<i>Name of Business</i>	<i>Number of Employees</i>	<i>Type of Business</i>
1.	Cardiology Clinic	500-999	Nurse Practitioners
2.	Hilltown Packing Co.	500-999	Harvesting-Contract
3.	Mann Packing Co.	500-999	Fruits and Vegetables-Growers/Shippers
4.	Monterey County Social Services Community Benefits Division	500-999	Government
5.	Monterey County Social Services Department	500-999	Government
6.	Monterey County Office of Education	500-999	Education
7.	Natividad Medical Center	500-999	Hospital
8.	Salinas Valley Memorial Healthcare	1,000-4,999	Hospital
9.	Salinas Valley Memorial Hospital	1,000-4,999	Hospital
10.	Taylor Farms	1,000-4,999	Fruits and Vegetables-Growers/Shippers

Source: State of California Employment Development Department.

The following table show the largest industries located in the County as of June 30, 2019.

### COUNTY OF MONTEREY LARGEST INDUSTRIES<sup>(1)</sup>

<i>Rank</i>	<i>Industry</i>	<i>Employees</i>
1.	Agriculture	69,481
2.	Other Services	64,714
3.	Retail Trade	16,684
4.	Construction & Mining	6,790
5.	Wholesale Trade	5,923
6.	Manufacturing	5,538
7.	Transportation & Warehousing	3,352
8.	Finance & Insurance	2,514
9.	Real Estate, Rental & Leasing	2,032
10.	Information	1,028
11.	Utilities	788

<sup>(1)</sup> Employment by industry presented because County has been unable to obtain employment numbers for individual employers.

Source: County of Monterey Comprehensive Annual Financial Report for the year ending June 30, 2019.

## Personal Income

Personal income is the income that is received by all persons from all sources. It is calculated as the sum of wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory valuation and capital consumption adjustments, rental income of persons with capital consumption adjustment, personal dividend income, personal interest income, and personal current transfer receipts, less contributions for government social insurance.

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

Total personal income in the County increased by approximately 71% between 2004 and 2018. The following tables summarize personal income for the County for the years 2004 through 2018, the latest period for which such information is available.

**MONTEREY COUNTY  
PERSONAL INCOME  
(DOLLARS IN THOUSANDS)**

<i>Year</i>	<i>Personal Income</i>	<i>Annual Percent Change</i>
2004	\$14,287,740	--
2005	14,856,269	4.0
2006	16,082,793	8.3
2007	16,613,668	3.3
2008	16,836,670	1.3
2009	16,801,573	(0.2)
2010	17,246,851	2.7
2011	17,866,246	3.6
2012	18,651,438	4.4
2013	19,184,163	2.9
2014	20,251,502	5.6
2015	22,142,878	9.3
2016	22,906,277	2.8
2017	23,511,124	2.6
2018	24,477,179	4.1

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

The following tables summarizes per capita personal income for the County, the State of California and the United States for the years 2003 through 2018, the latest period for which such information is available. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

**MONTEREY COUNTY, STATE OF CALIFORNIA AND THE UNITED STATES  
PER CAPITA PERSONAL INCOME**

<i>Year</i>	<i>Monterey County</i>	<i>California</i>	<i>United States</i>
2003	\$33,543	\$35,234	\$32,692
2004	34,956	37,551	34,316
2005	36,670	39,521	35,904
2006	40,024	42,334	38,144
2007	41,289	43,692	39,821
2008	41,467	44,162	41,082
2009	40,953	42,224	39,376
2010	41,417	43,315	40,277
2011	42,422	45,820	42,453
2012	43,803	48,312	44,267
2013	44,816	48,471	44,462
2014	47,107	50,988	46,414
2015	51,256	53,741	48,112
2016	52,686	57,801	49,890
2017	53,989	60,219	51,910
2018	56,193	63,711	54,526

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

## APPENDIX C

### SUMMARY OF BOND INDENTURE

*The following is a summary of certain provisions of the Indenture that are not described elsewhere. This summary does not purport to be comprehensive and reference should be made to the Indenture for a full and complete statement of the provisions thereof.*

#### DEFINITIONS

Unless the context otherwise requires, the following terms have the following meanings:

**“Account”** means any account created pursuant to the Indenture.

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

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

**“Administrative Expenses Account”** means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

**“Administrative Expenses Cap”** means an amount equal to \$15,000 per Bond Year, or such lesser amount as may be designated in written instructions from an Authorized Representative of the District.

**“Alternative Penalty Account”** means the account by that name created and established in the Rebate Fund pursuant to the Indenture.

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

**“Authorized Representative of the City”** means the Mayor of the City, the City Manager of the City, the Finance Director of the City or the City Clerk, or any other person or persons designated by the Mayor, the City Manager, the Finance Director or the City Clerk by a written certificate signed by the Mayor, the City Manager, the Finance Director or the City Clerk and containing the specimen signature of each such person.

**“Authorized Representative of the District”** means the Mayor of the City, the City Manager of the City, the Finance Director of the City or the City Clerk, or any other person or persons designated by the Mayor, the City Manager, the Finance Director or the City Clerk by a written certificate signed by the Mayor, the City Manager, the Finance Director or the City Clerk and containing the specimen signature of each such person, acting on behalf of the District.

**“Bond Counsel”** means an attorney at law or a firm of attorneys selected by the District of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions duly admitted to the practice of law before the highest court of any state of the United States of America or the District of Columbia.

**“Bond Register”** means the books which the Trustee will keep or cause to be kept on which the registration and transfer of the Bonds and any Parity Bonds are recorded.

**“Bondowner”** or **“Owner”** means the person or persons in whose name or names any Bond or Parity Bond is registered on the Bond Register.

**“Bonds”** means the Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) issued under the Indenture.

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

**“Business Day”** means a day which is not a Saturday or Sunday or a day of the year on which banks in New York, New York, Los Angeles, California, or the city where the corporate trust office of the Trustee is located are not required or authorized to remain closed.

**“Capitalized Interest Account”** means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

**“Certificate of an Authorized Representative”** means a written certificate executed by an Authorized Representative of the City or and Authorized Representative of the District, as applicable.

**“City”** means the City of Salinas, California.

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

**“Continuing Disclosure Certificate”** means the Continuing Disclosure Certificate of the District, dated as of the Delivery Date of the Bonds, relating to the Bonds.

**“Costs of Issuance”** means the costs and expenses incurred in connection with the issuance and sale of the Bonds or any Parity Bonds, including the acceptance and initial annual fees and expenses of the Trustee, legal fees and expenses, costs of printing the Bonds and Parity Bonds and the preliminary and final official statements for the Bonds and Parity Bonds, fees of financial consultants and all other related fees and expenses, as set forth in a Certificate of an Authorized Representative of the City.

**“Costs of Issuance Fund”** means the fund by that name established pursuant to the Indenture.

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

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

**“District”** means Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas established pursuant to the Act and the Resolution of Formation.

**“Event of Default”** means an event described in the Indenture.

**“Federal Securities”** means any of the following: (a) Treasuries; (b) evidence of ownership of proportionate interests in future interest and principal payments on Treasuries held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly

and individually against the obligor and the underlying Treasuries are not available to any person claiming through the custodian or to whom the custodian may be obligated; and (c) pre-refunded municipal obligations rated AAA and Aaa by Standard & Poor's and Moody's, respectively (or any combination thereof).

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

**"Governmental Authority"** means any governmental or quasi-governmental entity, including any court, department, commission, board, bureau, agency, administration, central bank, service, district or other instrumentality of any governmental entity or other entity exercising executive, legislative, judicial, taxing, regulatory, fiscal, monetary or administrative powers or functions of or pertaining to government, or any arbitrator, mediator or other person with authority to bind a party at law.

**"Improvement Area No. 3"** means Improvement Area No. 3 of the District as designated by the legislative body of the District in the Resolution of Formation.

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

**"Indenture"** means the Bond Indenture, dated as of September 1, 2016, by and between the District and the Trustee, together with any Supplemental Indenture approved pursuant to the Indenture.

**"Interest Account"** means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

**"Interest Payment Date"** means March 1 and September 1 of each year, commencing \_\_\_\_\_ 1, 2021; provided, however, that, if any such day is not a Business Day, interest up to the Interest Payment Date will be paid on the following Business Day.

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

**"Moody's"** means Moody's Investors Service, Inc., and its successors and assigns.

**"Net Taxes"** means Special Taxes less amounts set aside to pay Administrative Expenses not to exceed the Administrative Expenses Cap.

**"Nominee"** means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Indenture.

**"Ordinance"** means Ordinance No. 2582 adopted by the legislative body of the District on November 29, 2016, providing for the levy of the Special Tax.

**"Outstanding"** or **"Outstanding Bonds and Parity Bonds"** means all Bonds and Parity Bonds issued by the District, except: (a) Bonds and Parity Bonds cancelled or surrendered for cancellation in accordance with the Indenture; (b) Bonds and Parity Bonds for the payment or redemption of which moneys have been deposited in trust (whether upon or prior to the maturity or the redemption date of such Bonds or Parity Bonds), provided that, if such Bonds or Parity Bonds are to be redeemed prior to the maturity thereof, notice of such redemption has been given as provided in the Indenture or any applicable Supplemental Indenture for Parity Bonds; and (c) Bonds and Parity

Bonds that have been surrendered to the Trustee for transfer or exchange pursuant to the Indenture or for which a replacement has been issued pursuant to the Indenture.

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

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

**“Permitted Investments”** means:

- (a) Federal Securities;
- (b) Bonds, debentures, notes or other evidence issued or guaranteed by any of the following federal agencies and provided that such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) U.S. Export-Import Bank (Direct obligations or fully guaranteed certificates of beneficial ownership); (ii) Farmers Home Administration (Certificates of beneficial ownership); (iii) Federal Financing Bank; (iv) Federal Housing Administration Debentures; (v) General Services Administration Participation certificates; (vi) Government National Mortgage Association (guaranteed mortgage-backed bonds or guaranteed pass-through obligations); (vii) U.S. Maritime Administration (Guaranteed Title XI financing); and (viii) U.S. Department of Housing and Urban Development (Project Notes, Local Authority Bonds, New Communities Debentures – United States government guaranteed debentures and U.S. Public Housing Notes and Bonds – United States government guaranteed public housing notes and bonds);
- (c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) Federal Home Loan Bank System (Senior debt obligations); (ii) Federal Home Loan Mortgage Corporation (Participation Certificates and Senior debt obligations); (iii) Federal National Mortgage Association (Mortgage-backed securities and senior debt obligations); (iv) Student Loan Marketing Association (Senior debt obligations); (v) Resolution Funding Corporation obligations; and (vi) Farm Credit System (Consolidated systemwide bonds and notes);
- (d) Money market funds that constitute “Government Funds” under Rule 2a-7 promulgated by the Securities and Exchange Commission and that are registered under the Federal Investment Company Act of 1940 the shares of which are registered under the Federal Securities Act of 1933, and which a rating by Standard & Poor’s of AAAM-G, AAA-m or AA-m and, if rated by Moody’s, a rating Aaa, Aa1 or Aa2 by Moody’s, with a minimum of \$500 million in assets under management, including funds for which the Trustee or its affiliates receive and retain a fee for services provided to the fund, whether as a custodian, transfer agent, investment advisor or otherwise;
- (e) Certificates of deposit secured at all times by collateral described in clauses (a) and/or (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks of which the short-term obligations are rated A-1 or better and P1 or better by Moody’s or Standard & Poor’s, respectively, which may include the Trustee and its affiliates. The collateral must be held by a third party and the Trustee on behalf of the Owners of the Bonds must have a perfected first security interest in the collateral;
- (f) Certificates of deposit, savings accounts, deposit accounts, bank deposit products or money market deposits which are fully insured by Federal Deposit Insurance Corporation, including BIF and SAIF, and may include those offered by the Trustee and its affiliates;
- (g) Investment agreements with domestic or foreign banks, insurance companies other than a life or property casualty insurance company, or corporations the long-term debt or claims paying ability of which or, in the case of a guaranteed corporation, the long-term debt of the guarantor, or, in the case of a monoline financial

guaranty insurance company, claims paying ability or financial strength, of the guarantor is rated in at least the AA category by Standard & Poor's and/or Moody's; provided that, by the terms of the investment agreement:

(i) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service on the Bonds (if the funds invested pursuant to the investment agreement are from the Reserve Account);

(ii) the invested funds are available for withdrawal without penalty or premium, upon not more than seven days' prior notice;

(iii) the investment agreement provides that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

(iv) the District and the Trustee receive the opinion of domestic counsel (which opinion is addressed to the District) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the District;

(v) the investment agreement provides that if during its term: (1) the provider's rating by either Standard & Poor's or Moody's falls below AA- or Aa3, respectively, the provider will, at its option, within ten business days after the provider's receipt of a written request from the Trustee to satisfy the foregoing, either: (I) collateralize the investment agreement by delivering or transferring in accordance with the applicable state and federal laws (other than by means of entries on the provider's books) to the District, the Trustee or a third party acting solely as agent therefor (the "**Holder of the Collateral**") collateral free and clear of any third-party liens or claims, the market value of which collateral is maintained at 105% of securities identified in clauses (a) and (b) of the definition of "Permitted Investments;" or (II) assign the investment agreement and all of its obligations thereunder to, or enter into a repurchase agreement or such other agreement with, a financial institution that is mutually acceptable to the provider and the District which is rated either in the first or second highest category by Standard & Poor's and/or Moody's; and (2) the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below A- or A3, respectively, the provider must, at the direction of the District or the Trustee, within ten days of receipt of such direction, repay the principal of and accrued but unpaid interest on the invested funds, in either case with no penalty or premium to the District or the Trustee;

(vi) the investment agreement provides and an opinion of counsel is rendered, in the event that collateral is required to be pledged by the provider under the terms of the investment agreement at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, the foregoing means that the Holder of the Collateral is in possession of such collateral); and

(vii) the investment agreement provides that if during its term: (1) the provider defaults in its payment obligations, the provider's obligations under the investment agreement will, at the direction of the District or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon will be paid to the District or the Trustee, as appropriate; and (2) the provider becomes insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc., the provider's obligations will automatically be accelerated and amounts invested and accrued but unpaid interest thereon will be paid to the District or the Trustee, as appropriate;

(h) Commercial paper rated, at the time of purchase, Prime - 1 by Moody's and A-1 or better by Standard & Poor's having original maturity of not more than 180 days issued by a domestic corporation having assets in excess of \$500 million;

(i) Bonds or notes issued by any state or municipality which are rated by Moody's or Standard & Poor's in one of the two highest rating categories assigned by them;

(j) Federal funds or bankers acceptances with a maximum term of 270 days of any bank which has an unsecured, uninsured and unguaranteed obligation rating of Prime - 1 or A3 or better by Moody's and A-1 or better by Standard & Poor's;

(k) the Local Agency Investment Fund in the State Treasury of the State of California as permitted by the State Treasurer pursuant to Section 16429.1 of the California Government Code;

(l) forward delivery agreements or forward purchase and sale agreements with a domestic or foreign bank or corporation the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation, the long-term debt of the guarantor, or, in the case of a monoline financial guaranty insurance company, claims paying ability or financial strength, of the guarantor is rated at least in the A category by Standard & Poor's and Moody's; provided that, by the terms of the agreement; the underlying investment property consists of those investments which are listed in clauses (a), (b), (c) and (h) of the definition of "Permitted Investments;" and

(m) the City's pooled investment fund invested pursuant to the City's investment policy.

**"Person"** means natural persons, firms, corporations, partnerships, associations, trusts, public bodies and other entities.

**"Prepayments"** means any amounts paid by the District to the Trustee and designated by the District as a prepayment of Special Taxes for one or more parcels in Improvement Area No. 3 made in accordance with the Rate and Method.

**"Principal Account"** means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

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

**"Project"** means those public facilities described in the Resolution of Formation which were acquired or constructed within and outside of Improvement Area No. 3 with the proceeds of the Bonds, including all engineering, planning and design services and other incidental expenses related to such facilities and other facilities, if any, authorized by the qualified electors within Improvement Area No. 3 from time to time.

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

**"Project Fund"** means the fund by that name created and established pursuant to the Indenture.

**"Rate and Method"** means the document by such name attached to the Resolution of Formation.

**"Rating Agency"** means Moody's and Standard & Poor's, or both, as the context requires.

**"Rebate Account"** means the account by that name created and established in the Rebate Fund pursuant to the Indenture.

**"Rebate Fund"** means the fund by that name established pursuant to the Indenture in which there are established the Accounts described in the Indenture.

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

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

**“Redemption Account”** means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

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

**“Representation Letter”** means the Blanket Letter of Representations from the District to the Depository as described in the Indenture.

**“Reserve Account”** means the account by that name created and established in the Special Tax Fund pursuant to the Indenture.

**“Reserve Requirement”** means, as of the date of calculation, an amount equal to the least of: (a) Maximum Annual Debt Service; (b) 125% of average Annual Debt Service on the then-Outstanding Bonds and any Parity Bonds; or (c) 10% of the initial outstanding principal amount of the Bonds and any Parity Bonds.

**“Resolution of Formation”** means Resolution No. 1082 adopted by the City Council of the City on November 29, 2016, pursuant to which the City formed the District and designated Improvement Area No. 3.

**“Sinking Fund Payment”** means the annual payment to be deposited in the Redemption Account to redeem a portion of the Term Bonds in accordance with the schedules set forth in the Indenture and any annual sinking fund payment schedule to retire any Parity Bonds that are designated as Term Bonds.

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

**“Special Tax Fund”** means the fund by that name created and established pursuant to the Indenture.

**“Special Taxes”** means the taxes authorized to be levied by the District on property within Improvement Area No. 3 in accordance with the Ordinance, the Resolution of Formation, the Act and the voter approval obtained at the November 29, 2016 election in Improvement Area No. 3, including any scheduled payments and any Prepayments thereof, and the net proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes to the amount of said lien and penalties and interest thereon.

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

**“Supplemental Indenture”** means any supplemental indenture amending or supplementing the Indenture.

**“Surplus Fund”** means the fund by that name created and established pursuant to the Indenture.

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

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

“**Term Bonds**” means the Bonds maturing on September 1, 20\_\_ and any term maturities of an issue of Parity Bonds as specified in a Supplemental Indenture.

“**Treasuries**” means non-callable direct obligations of the United States of America, including United States Treasury Notes, Certificates and Bonds and State and Local Government Series.

“**Trustee**” means The Bank of New York Mellon Trust Company, N.A., a national banking association duly organized and existing under and by virtue of the laws of the United States, having a principal corporate trust office in Los Angeles, California, and its successors or assigns, or any other bank, national banking association or trust company which may at any time be substituted in its place as provided in the Indenture and any successor thereto.

## GENERAL AUTHORIZATION AND BOND TERMS

**Type and Nature of Bonds and Parity Bonds.** The District’s limited obligation to pay the principal of, premium, if any, and interest on the Bonds and any Parity Bonds from amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account) is absolute and unconditional, free of deductions and without any abatement, offset, recoupment, diminution or set-off whatsoever. No Owner of the Bonds or any Parity Bonds may compel the exercise of the taxing power by the District (except as pertains to the Special Taxes) or the City or the forfeiture of any of their property. The principal of and interest on the Bonds and any Parity Bonds and premiums upon the redemption thereof, if any, are not a debt of the City, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory limitation or restriction. The Bonds and any Parity Bonds are not a legal or equitable pledge, charge, lien or encumbrance upon any of the District’s property, or upon any of its income, receipts or revenues except the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account) which are, under the terms of the Indenture and the Act, set aside for the payment of the Bonds, any Parity Bonds and interest thereon. Neither the members of the legislative body of the District or the City Council of the City nor any persons executing the Bonds or any Parity Bonds are liable personally on the Bonds or any Parity Bonds by reason of their issuance.

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

**Equality of Bonds and Parity Bonds and Pledge of Net Taxes.** Pursuant to the Act and the Indenture, the Bonds and any Parity Bonds will be equally payable from and secured by a pledge and lien upon the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account), without priority for number, date of the Bonds or Parity Bonds, date of sale, date of execution or date of delivery, and the payment of the interest on and principal of the Bonds and any Parity Bonds and any premiums upon the redemption thereof will be exclusively paid from the Net Taxes and other amounts in the Special Tax Fund (exclusive of the Administrative Expenses Account), which have been set aside for the payment of the Bonds and any Parity Bonds. Amounts in the Special Tax Fund (other than the Administrative Expenses Account therein) will constitute a trust fund held for the benefit of the Owners to be applied to the payment of the interest on and principal of the Bonds and any Parity Bonds; and, so long as any of the Bonds and any Parity Bonds or interest thereon remains Outstanding, amounts in the Special Tax Fund will not be used for any other purpose, except as permitted by the Indenture or any Supplemental Indenture. Notwithstanding any provision contained in the Indenture to the contrary, Net Taxes deposited in the Rebate Fund and the Surplus Fund will no longer be considered to be pledged to the Bonds or any Parity Bonds, and none of the Rebate Fund, the Surplus Fund, the Costs of Issuance Fund, the Project Fund or the Administrative Expenses Account of the Special Tax Fund will be construed as a trust fund held for the benefit of the Owners.

Nothing in the Indenture or any Supplemental Indenture precludes: (a) subject to the limitations contained under the Indenture, the redemption prior to maturity of any Bonds or Parity Bonds subject to call and redemption,

and the payment of said Bonds or Parity Bonds from proceeds of refunding bonds issued under the Act as the same now exists or as later amended, or under any other law of the State of California; or (b) the issuance, subject to the limitations contained in the Indenture, of Parity Bonds which are payable from Net Taxes.

**Description of Bonds; Interest Rates.** The District and the Trustee may treat and consider the person in whose name each Bond is registered in the Bond Register as the holder and absolute owner of such Bond for the purpose of payment of principal, premium, if any, and interest on such Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfers with respect to such Bond, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners or their respective attorneys duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner will receive a certificated Bond evidencing the obligation of the District to make payments of principal, premium, if any, and interest pursuant to the Indenture.

Interest will be payable on each Bond and Parity Bond from the date established in accordance with the Indenture on each Interest Payment Date thereafter until the principal sum of such Bond or Parity Bond has been paid; provided, however, that if at the maturity date of any Bond or Parity Bond (or if the same is redeemable and will be duly called for redemption, then at the date fixed for redemption) funds are available for the payment or redemption thereof in full, in accordance with the terms of the Indenture, such Bonds and Parity Bonds will then cease to bear interest.

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

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

**Mutilated, Lost, Destroyed or Stolen Bonds or Parity Bonds.** If any Bond or Parity Bond becomes mutilated, the District will execute, and the Trustee will authenticate and deliver, a new Bond or Parity Bond of like tenor, date, issue and maturity in exchange and substitution for the Bond or Parity Bond so mutilated, but only upon surrender to the Trustee of the Bond or Parity Bond so mutilated. Every mutilated Bond or Parity Bond so surrendered to the Trustee will be cancelled by the Trustee pursuant to the Indenture. If any Bond or Parity Bond is lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence is satisfactory to the Trustee and, if any indemnity satisfactory to the Trustee is given, the District will execute and the Trustee will authenticate and deliver a new Bond or Parity Bond, as applicable, of like tenor, maturity and issue, numbered and dated as the Trustee will determine in lieu of and in substitution for the Bond or Parity Bond so lost, destroyed or stolen. Any Bond or Parity Bond issued in lieu of any Bond or Parity Bond alleged to be mutilated, lost, destroyed or stolen will be equally and proportionately entitled to the benefits of the Indenture with all other Bonds and Parity Bonds issued thereunder. The Trustee will not treat both the original Bond or Parity Bond and any replacement Bond or Parity Bond as being Outstanding for the purpose of determining the principal amount of Bonds or Parity Bonds which may be executed, authenticated and delivered under the Indenture or for the purpose of determining any percentage of Bonds or Parity Bonds Outstanding thereunder, but both the original and replacement Bond or Parity Bond will be treated as one and the same. Notwithstanding any other provision of the Indenture, in lieu of delivering a new Bond or Parity Bond which has been mutilated, lost, destroyed or stolen, and which has matured, the Trustee may make payment with respect to such Bonds or Parity Bonds.

**Validity of Bonds and Parity Bonds.** The validity of the authorization and issuance of the Bonds and any Parity Bonds will not be affected in any way by any defect in any proceedings taken by the District for the financing

or acquisition of the Project or by the invalidity, in whole or in part, of any contracts made by the District in connection therewith, and will not be dependent upon the completion of the Project or upon the performance by any Person of such Person's obligation with respect to the Project, and the recital contained in the Bonds or any Parity Bonds that the same are issued pursuant to the Act and other applicable laws of the State of California will be conclusive evidence of their validity and of the regularity of their issuance.

### **Book Entry System.**

(a) Election of Book Entry System. Prior to the issuance of the Bonds and any Parity Bonds, the District may provide that such Bonds and Parity Bonds will be initially issued as book entry bonds. If the District elects to deliver any Bonds or Parity Bonds in book entry form, then the District will cause the delivery of a separate single fully registered bond (which may be typewritten) for each maturity date of such Bonds or Parity Bonds in an authorized denomination corresponding to that total principal amount of the Bonds or Parity Bonds designated to mature on such date. Upon initial issuance, the ownership of each such Bond or Parity Bond will be registered in the Bond Register in the name of the Nominee, as nominee of the Depository, and ownership of the Bonds or Parity Bonds, or any portion thereof may not thereafter be transferred except as provided in the Indenture.

With respect to book entry Bonds or Parity Bonds, the District and the Trustee have no responsibility or obligation to any Participant or to any person on behalf of which such a Participant holds an interest in such book entry bonds. Without limiting the immediately preceding sentence, the District and the Trustee have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in book entry bonds; (ii) the delivery to any Participant or any other person, other than an Owner as shown in the Bond Register, of any notice with respect to book entry bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in book entry bonds to be redeemed in the event that the District redeems the Bonds or Parity in part; or (iv) the payment by the Depository or any Participant or any other person, of any amount of principal of, premium, if any, or interest on book entry bonds. The District and the Trustee may treat and consider the person in whose name each book entry bond is registered in the Bond Register as the absolute Owner of such book entry bond for the purpose of payment of principal of, premium and interest on such Bond or Parity Bond, for the purpose of giving notices of redemption and other matters with respect to such Bond or Parity Bond, for the purpose of registering transfers with respect to such Bond or Parity Bonds, and for all other purposes whatsoever. The Trustee will pay all principal of, premium, if any, and interest on the Bonds or Parity Bonds only to or upon the order of the respective Owner, as shown in the Bond Register, or such Owner's respective attorney duly authorized in writing, and all such payments will be valid and effective to fully satisfy and discharge the District's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds or Parity Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Bond Register, will receive a Bond or Parity Bond evidencing the obligation to make payments of principal of, premium, if any, and interest on the Bonds or Parity Bonds. Upon delivery by the Depository to the District and the Trustee, of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Indenture with respect to Record Dates, the word Nominee in the Indenture will refer to such nominee of the Depository.

(b) Delivery of Representation Letter. In order to qualify the Bonds for the Depository's book entry system, the District and the Trustee (if required by the Depository) will execute and deliver to the Depository a Representation Letter. The execution and delivery of a Representation Letter will not in any way impose upon the District or the Trustee any obligation whatsoever with respect to persons having interests in such book entry bonds other than the Owners, as shown on the Bond Register. By executing a Representation Letter, the Trustee will agree to take all action necessary at all times so that the Trustee will be in compliance with all representations of the Trustee in such Representation Letter. In addition to the execution and delivery of a Representation Letter, the District and the Trustee will take such other actions, not inconsistent with the Indenture, as are reasonably necessary to qualify book entry bonds for the Depository's book entry program.

(c) Selection of Depository. In the event that: (i) the Depository determines not to continue to act as securities depository for book entry bonds; or (ii) the District determines that continuation of the book entry system is not in the best interest of the beneficial owners of the Bonds, the Parity Bonds or the District, then the District will discontinue the book entry system with the Depository. If the District determines to replace the Depository with another qualified securities depository, the District will prepare or direct the preparation of a new single, separate,

fully registered bond for each of the maturity dates of such book entry bonds, registered in the name of such successor or substitute qualified securities depository or its Nominee as provided in the Indenture. If the District fails to identify another qualified securities depository to replace the Depository, then the Bonds or Parity Bonds will no longer be restricted to being registered in such Bond Register in the name of the Nominee, but will be registered in whatever name or names the Owners transferring or exchanging such Bonds or Parity Bonds designate, in accordance with the provisions of the Indenture.

(d) Payments To Depository. Notwithstanding any other provision of the Indenture to the contrary, so long as all Outstanding Bonds or Parity Bonds are held in book entry form and registered in the name of the Nominee, all payments of principal of, redemption premium, if any, and interest on such Bonds or Parity Bonds and all notices with respect thereto will be made and given, respectively to the Nominee, as provided in the Representation Letter or as otherwise instructed by the Depository and agreed to by the Trustee notwithstanding any inconsistent provisions in the Indenture.

(e) Transfer of Bonds to Substitute Depository.

(1) The Bonds will be initially issued as provided in the Indenture. Registered ownership of such Bonds, or any portions thereof, may not thereafter be transferred except: (i) to any successor of the Depository or its nominee, or of any substitute depository designated pursuant to clause (ii) below (a “**Substitute Depository**”); provided that any successor of the Depository or Substitute Depository is qualified under any applicable laws to provide the service proposed to be provided by it; (ii) to any Substitute Depository, upon: (I) the resignation of the Depository or its successor (or any Substitute Depository or its successor) from its functions as depository; or (II) a determination by the District that the Depository (or its successor) is no longer able to carry out its functions as depository; provided that any such Substitute Depository is qualified under any applicable laws to provide the services proposed to be provided by it; or (iii) to any person as provided below, upon: (I) the resignation of the Depository or its successor (or any Substitute Depository or its successor) from its functions as depository; or (II) a determination by the District that the Depository or its successor (or Substitute Depository or its successor) is no longer able to carry out its functions as depository.

(2) In the case of any transfer pursuant to clauses (i) or (ii) of clause (1), upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the District to the Trustee designating the Substitute Depository, a single new Bond, which the District will prepare or cause to be prepared, will be issued for each maturity of Bonds then Outstanding, registered in the name of such successor or such Substitute Depository or their Nominees, as the case may be, all as specified in such written request of the District. In the case of any transfer pursuant to clause (iii) of clause (1), upon receipt of all Outstanding Bonds by the Trustee, together with a written request of the District to the Trustee, new Bonds, which the District will prepare or cause to be prepared, will be issued in such denominations and registered in the names of such persons as are requested in such written request of the District, subject to the limitations of the Indenture; provided that the Trustee is not required to deliver such new Bonds within a period of less than 60 days from the date of receipt of such written request from the District.

(3) In the case of a partial redemption or an advance refunding of any Bonds evidencing a portion of the principal maturing in a particular year, the Depository or its successor (or any Substitute Depository or its successor) will make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Trustee, all in accordance with the Representation Letter. The Trustee is not liable for such Depository’s failure to make such notations or errors in making such notations and the records of the Trustee as to the Outstanding principal amount of such Bonds will be controlling.

(4) The District and the Trustee are entitled to treat the person in whose name any Bond is registered as the Owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Trustee or the District; and the District and the Trustee have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any beneficial owners of the Bonds. Neither the District nor the Trustee have any responsibility or obligation, legal or otherwise, to any such beneficial owners or to any other party, including the Depository or its successor (or Substitute Depository or its successor), except to the Owner of any Bonds, and the Trustee may rely conclusively on its records as to the identity of the Owners of the Bonds.

(f) Transfer Outside Book Entry System. In connection with any proposed transfer outside a book entry system, the District or DTC will provide or cause to be provided to the Trustee all information necessary to allow the Trustee to comply with any applicable tax reporting obligations, including without limitation any cost basis reporting obligations under Internal Revenue Code Section 6045. The Trustee may rely on the information provided to it and has no responsibility to verify or ensure the accuracy of such information.

**Initial Depository and Nominee.** The initial Depository under the Indenture will be The Depository Trust Company, New York, New York. The initial Nominee will be Cede & Co., as Nominee of The Depository Trust Company, New York, New York.

## CREATION OF FUNDS AND APPLICATION OF PROCEEDS

### Creation of Funds; Application of Proceeds.

(a) There have been created and established and will be maintained by the Trustee the following funds and accounts:

(1) The Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) Special Tax Fund (the “**Special Tax Fund**”) (in which there is established and created an Interest Account, a Principal Account, a Redemption Account, a Reserve Account and an Administrative Expenses Account).

(2) The Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) Rebate Fund (the “**Rebate Fund**”) (in which there is established a Rebate Account and an Alternative Penalty Account).

(3) The Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) Costs of Issuance Fund (the “**Costs of Issuance Fund**”).

(4) The Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) Surplus Fund (the “**Surplus Fund**”).

(5) The Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) Project Fund (the “**Project Fund**”).

The amounts on deposit in the foregoing funds, accounts and subaccounts will be held by the Trustee and the Trustee will invest and disburse the amounts in such funds, accounts and subaccounts in accordance with the provisions of the Indenture and disburse investment earnings thereon in accordance with the provisions of the Indenture. The Trustee may, in its discretion, establish temporary funds or accounts in its books and records to facilitate such transfers.

In connection with the issuance of any Parity Bonds, the Trustee, at the direction of an Authorized Representative of the District, may create new funds, accounts or subaccounts, or may create additional accounts and subaccounts within any of the foregoing funds and accounts for the purpose of separately accounting for the proceeds of the Bonds and any Parity Bonds.

### Deposits to and Disbursements from Special Tax Fund.

(a) Except for the portion of any Prepayment to be deposited in the Redemption Account as specified in a Certificate of an Authorized Representative, the Trustee will, on each date on which the Special Taxes are received from the District, deposit the Special Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee will transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the Indenture, in the following order of priority, to: (1) the Administrative Expenses Account of the Special Tax Fund; (2) the Interest Account of the Special Tax Fund; (3) the Principal Account of the Special Tax Fund; (4) the

Redemption Account of the Special Tax Fund; (5) the Reserve Account of the Special Tax Fund; (6) the Rebate Fund; and (7) the Surplus Fund.

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

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

**Interest Account and Principal Account of the Special Tax Fund.** The principal of (including any Sinking Fund Payment) and interest due on the Bonds and any Parity Bonds until maturity, other than principal due upon redemption under the Indenture, will be paid by the Trustee from the Principal Account and the Interest Account of the Special Tax Fund, respectively. For the purpose of assuring that the payment of principal of (including any Sinking Fund Payment) and interest on the Bonds and any Parity Bonds will be made when due, after making the transfer to the Administrative Expenses Account, at least one Business Day prior to each March 1 and September 1, the Trustee will, after having made any transfers required to be made from the Capitalized Interest Account to the Interest Account as described in the below proviso, make the below-described transfers from the Special Tax Fund first to the Interest Account and then to the Principal Account; provided, however, that to the extent that deposits have been made in the Interest Account or the Principal Account from the proceeds of the sale of an issue of the Bonds, any Parity Bonds, or otherwise, the transfer from the Special Tax Fund need not be made; and provided, further, that, if amounts in the Special Tax Fund (exclusive of the Reserve Account) are inadequate to make the foregoing transfers, then any deficiency will be made up by an immediate transfer from the Reserve Account; and provided further that at least one Business Day prior to each March 1 and September 1 through and including \_\_\_\_ 1, 202\_\_, the Trustee will transfer the amount set forth in the following table from the Capitalized Interest Account to the Interest Account before making any transfer from the Special Tax Fund to the Interest Account:

<i>Interest Payment Date</i>	<i>Amount Transferred From Capitalized Interest Account to Interest Account</i>
____ 1, 202__	\$
____ 1, 20__	

Any amount remaining in the Capitalized Interest Account on \_\_\_\_ 2, 20\_\_ will be transferred to the Special Tax Fund and the Capitalized Interest Account will thereafter be closed.

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

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

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

(a) After making the deposits to the Administrative Expenses Account, the Interest Account and the Principal Account of the Special Tax Fund pursuant to the Indenture, or to call Parity Bonds for optional redemption as set forth in any Supplemental Indenture for Parity Bonds, the Trustee will transfer from the Special Tax Fund and deposit in the Redemption Account moneys available for the purpose and sufficient to pay the principal and the premiums, if any, payable on the Bonds or Parity Bonds called for optional redemption; provided, however, that amounts in the Special Tax Fund (other than the Administrative Expenses Account therein) may be applied to optionally redeem Bonds and Parity Bonds only if immediately following such redemption the amount in the Reserve Account will equal the Reserve Requirement, as determined by the District.

(b) Prepayments deposited to the Redemption Account at least 90 days before a redemption date will be applied on the next redemption date established pursuant to the extraordinary redemption provisions of the Indenture for the use of such Prepayments to the payment of the principal of, premium, and interest on the Bonds and Parity Bonds to be redeemed with such Prepayments. Prepayments received less than 90 days before a redemption date will be applied to redeem Bonds in accordance with the Indenture on the succeeding redemption date.

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

#### **Rebate Fund.**

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

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

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

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

(iii) Payment to the Treasury. The Trustee will pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in each subaccount of the Rebate Account: (X) not later than 60 days after the end of: (A) the fifth Bond Year for the Bonds and each issue of Parity Bonds to which the Rebate Fund provisions of the Indenture are applicable; and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year for the Bonds and each issue of Parity Bonds, as applicable; and (Y) not later than 60 days after the payment or redemption of all of the Bonds or an issue of Parity Bonds, as applicable, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time that any payment is required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the District will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the Rebate Fund provisions of the Indenture will be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T prepared by the District, or will be made in such other manner as provided under the Code. The Trustee may rely conclusively upon the District’s determinations, calculations and certifications required by the foregoing provisions. The Trustee has no responsibility to independently make any calculation or determination or to review the District’s calculations under the Indenture.

(2) Alternative Penalty Account.

(i) Six Month Computation. If the 1½% Penalty has been elected for the Bonds or an issue of Parity Bonds, within 85 days of each particular Six Month Period, the District will determine or cause to be determined whether the 1½% Penalty is payable (and the amount of such penalty) as of the close of the applicable Six Month Period. The District will obtain expert advice in making such determinations.

(ii) Six Month Transfer. Within 85 days of the close of each Six Month Period, the Trustee, at the written direction of an Authorized Representative of the District, will deposit an amount in the appropriate subaccounts of the Alternative Penalty Account from any source of funds held by the Trustee pursuant to the Indenture and designated by the District in such written directions or provided to it by the District, if and to

the extent required, so that the balance in each subaccount of the Alternative Penalty Account equals the amount of 1½% Penalty due and payable to the United States Treasury determined as provided in clause (a)(2)(i). In the event that immediately following any transfer provided for in the previous sentence, or the date on which the District determines that no transfer is required for such Bond Year, the amount then on deposit in a subaccount of the Alternative Penalty Account exceeds the amount required to be on deposit therein to make the payments required by clause (a)(2)(iii), the Trustee, at the written direction of an Authorized Representative of the District, may withdraw the excess from the applicable subaccount of the Alternative Penalty Account and credit the excess to the Special Tax Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed in writing by an Authorized Representative of the District, to the United States Treasury, out of amounts in a subaccount of the Alternative Penalty Account, not later than 90 days after the close of each Six Month Period the 1½% Penalty, if applicable and payable, computed with respect to the Bonds and any issue of Parity Bonds in accordance with Section 148(f)(4) of the Code. In the event that, prior to the time that any payment is required to be made from a subaccount of the Alternative Penalty Account, the amount in such subaccount is not sufficient to make such payment when such payment is due, the District will calculate the amount of such deficiency and direct the Trustee, in writing, to deposit an amount equal to such deficiency into such subaccount of the Alternative Penalty Account from any funds held by the Trustee pursuant to the Indenture and designated by the District in such written directions prior to the time such payment is due. Each payment required to be made pursuant to the Rebate Fund provisions of the Indenture will be made to the Internal Revenue Service, Ogden, Utah 84201 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T prepared by the District or will be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the Accounts of the Rebate Fund with respect to the Bonds or an issue of Parity Bonds after redemption and payment of such issue and after making the payments described in clauses (a)(1)(iii) or (a)(2)(iii) (whichever is applicable), may be withdrawn by the Trustee at the written direction of the District and utilized in any manner by the District.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the Rebate Fund requirements of the Indenture will survive the defeasance and final payment of the Bonds and any Parity Bonds with respect to which an Account has been created in the Rebate Fund.

(d) Amendment Without Consent of Owners. The Rebate Fund provisions of the Indenture may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the District an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any issue of Parity Bonds issued on a tax exempt basis.

**Surplus Fund.** After making the transfers required by the Indenture, as soon as practicable after each September 1, and in any event prior to each March 1, the Trustee will transfer all remaining amounts in the Special Tax Fund to the Surplus Fund, unless on or prior to such date, it has received a Certificate of an Authorized Representative of the District directing that certain amounts be retained in the Special Tax Fund because the District has included such amounts as being available in the Special Tax Fund in calculating the amount of the levy of Special Taxes for such Fiscal Year pursuant to the Indenture. Moneys deposited in the Surplus Fund will be transferred by the Trustee at the direction of an Authorized Representative of the District: (a) to the Interest Account, the Principal Account or the Redemption Account of the Special Tax Fund to pay the principal of, including Sinking Fund Payments, premium, if any, and interest on the Bonds and any Parity Bonds when due in the event that moneys in the Special Tax Fund and the Reserve Account of the Special Tax Fund are insufficient therefor; (b) to the Reserve Account in order to replenish the Reserve Account to the Reserve Requirement; (c) to the Administrative Expenses Account of the Special Tax Fund to pay Administrative Expenses to the extent that the amounts on deposit in the Administrative Expenses Account of the Special Tax Fund are insufficient to pay Administrative Expenses; or (d) for any other lawful purpose of the District.

The amounts in the Surplus Fund are not pledged to the repayment of the Bonds or the Parity Bonds and may be used by the District for any lawful purpose. In the event that the District reasonably expects to use any

portion of the moneys in the Surplus Fund to pay debt service on any Outstanding Bonds or Parity Bonds, the District will notify the Trustee in a Certificate of an Authorized Representative and the Trustee will segregate such amount into a separate subaccount and the moneys on deposit in such subaccount of the Surplus Fund will be invested at the written direction of the District in Permitted Investments the interest on which is excludable from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals and corporations under the Code) or in Permitted Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds to which such amounts are to be applied, unless, in the opinion of Bond Counsel, investment at a higher yield will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes.

**Project Fund.** The moneys in the Project Fund will be applied exclusively to pay the Project Costs. Amounts for Project Costs will be disbursed by the Trustee from the Project Fund as specified in a Project Fund Requisition, substantially in the form attached to the Indenture. A properly executed Project Fund Requisition must be submitted in connection with each requested disbursement and the Trustee may rely thereon without investigating the accuracy thereof.

Upon receipt of a Certificate of an Authorized Representative of the District stating that: (i) all or a specified portion of the amount remaining in the Project Fund is no longer needed to pay Project Costs; and (ii) the District has provided 30-day written notice of the District's intention to close the Project Fund to KB HOME South Bay Inc., a California corporation, and has not received an objection to closing the Project Fund from such entity within such 30-day period, the Trustee will: (1) transfer all or such specified portion, as applicable, of the moneys remaining on deposit in the Project Fund to the Interest Account, the Principal Account or Redemption Account of the Special Tax Fund or to the Surplus Fund, as directed in such Certificate of an Authorized Representative of the District, provided that in connection with any direction to transfer amounts to the Surplus Fund there will be delivered to the Trustee with such Certificate of an Authorized Representative of the District an opinion of Bond Counsel to the effect that such transfer to the Surplus Fund will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes; and (2) thereafter, close the Project Fund.

**Investments.** Moneys held in any of the funds, Accounts and subaccounts under the Indenture will be invested at the written direction of the District in accordance with the limitations set forth below only in Permitted Investments which will be deemed at all times to be a part of such funds, Accounts and subaccounts. Any loss resulting from such Permitted Investments will be credited or charged to the fund, Account or subaccount from which such investment was made, and any investment earnings on a fund, Account or subaccount will be applied as follows: (i) investment earnings on all amounts deposited in the Costs of Issuance Fund, the Special Tax Fund, the Surplus Fund, the Project Fund and the Rebate Fund and each Account therein (other than the Reserve Account of the Special Tax Fund) will be deposited in those respective funds and Accounts; and (ii) investment earnings on all amounts deposited in the Reserve Account will be deposited therein to be applied as set forth in the Indenture. Moneys in the funds, Accounts and subaccounts held under the Indenture may be invested by the Trustee (as directed in writing filed by the District with the Trustee two Business Days in advance of the making of the investment) in Permitted Investments subject to the following restrictions:

(a) Moneys in the Costs of Issuance Fund, the Project Fund and the Interest Account, the Principal Account and the Redemption Account of the Special Tax Fund will be invested only in Permitted Investments which will by their terms mature, or in the case of an investment agreement are available for withdrawal without penalty, on such dates so as to ensure the payment of principal of, premium, if any, and interest on the Bonds and any Parity Bonds as the same become due. Notwithstanding anything in the Indenture to the contrary, amounts in the Acquisition and Construction Fund or the Accounts therein three years after the Delivery Date for the Bonds and the proceeds of each issue of Parity Bonds issued on a tax-exempt basis which are remaining on deposit therein on the date which is three years following the date of issuance of such issue of Parity Bonds will be invested by the District only in Authorized Investments the interest on which is excluded from gross income under Section 103 of the Code (other than bonds the interest on which is a tax preference item for purposes of computing the alternative minimum tax of individuals under the Code) or in Authorized Investments at a yield not in excess of the yield on the issue of Bonds or Parity Bonds from which such proceeds were derived, unless in the opinion of Bond Counsel such

restriction is not necessary to prevent interest on the Bonds or any Parity Bonds which were issued on a tax-exempt basis for federal income tax purposes from being included in gross income for federal income tax purposes.

(b) Moneys in the Reserve Account of the Special Tax Fund may be invested only in Permitted Investments which, taken together, have a weighted average maturity not in excess of five years; provided that such amounts may be invested in an investment agreement to the later of the final maturity of the Bonds or any Parity Bonds so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Indenture; and provided that no such Permitted Investment of amounts in the Reserve Account allocable to the Bonds or an issue of Parity Bonds will mature later than the respective final maturity date of the Bonds or the issue of Parity Bonds, as applicable.

(c) Moneys in the Rebate Fund will be invested only in Permitted Investments of the type described in clause (a) of the definition thereof which by their terms will mature, as nearly as practicable, on the dates such amounts are needed to be paid to the United States Government pursuant to the Indenture, or in Permitted Investments of the type described in clause (g) of the definition thereof.

(d) In the absence of written investment directions from the District, the Trustee will hold such moneys uninvested.

The Trustee will sell, or present for redemption, any Permitted Investment as directed in writing by the District whenever it may be necessary to do so in order to provide moneys to meet any payment or transfer to such funds and Accounts or from such funds and Accounts. For the purpose of determining at any given time the balance in any such funds and Accounts, any such investments constituting a part of such funds and Accounts will be valued at their cost, except that amounts in the Reserve Account will be valued at the market value thereof at least semiannually on or before each Interest Payment Date. In making any valuations under the Indenture, the Trustee may utilize such computerized securities pricing services as may be available to it, including, without limitation, those available through its regular accounting system, and conclusively rely thereon. Notwithstanding anything in the Indenture to the contrary, the Trustee will not be responsible for any loss from investments, sales or transfers undertaken in accordance with the provisions of the Indenture.

The Trustee or an affiliate may act as principal or agent in the making or disposing of any investment and will be entitled to its customary fee for such investment. The Trustee may sell, or present for redemption, any Permitted Investment so purchased whenever it is necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Permitted Investment is credited, and, subject to the provisions of the Indenture, the Trustee will not be liable or responsible for any loss resulting from such investment. For investment purposes, the Trustee may commingle the funds and accounts established under the Indenture, but will account for each separately.

The District has acknowledged that, to the extent that regulations of the Comptroller of the Currency or other applicable regulatory entity grant the District the right to receive brokerage confirmations of security transactions as they occur, the District has specifically waived receipt of such confirmations to the extent permitted by law. The Trustee will furnish the District periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Indenture.

#### REDEMPTION OF BONDS AND PARITY BONDS

**Redemption of Bonds.** In the event that the District elects to redeem Bonds as provided under the optional redemption provisions of the Indenture, the District will, at least 45 days prior to the redemption date, give written notice to the Trustee of its election to so redeem, the redemption date and the principal amount of the Bonds, among maturities, to be redeemed. In the event of redemption pursuant to the optional or extraordinary redemption provisions of the Indenture, the District will provide the Trustee with a revised sinking fund schedule giving effect to the redemption so completed.

The redemption provisions for Parity Bonds will be set forth in a Supplemental Indenture.

**Selection of Bonds and Parity Bonds for Redemption.** If less than all of the Bonds or Parity Bonds Outstanding are to be redeemed, the portion of any Bond or Parity Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof. The Trustee will promptly notify the District in writing of the Bonds or Parity Bonds, or portions thereof, selected for redemption.

**Partial Redemption of Bonds or Parity Bonds.** Upon surrender by the Owner of a Bond, at the option of such Owner, for mandatory redemption at the Principal Office of the Trustee, payment of such mandatory redemption of the principal amount of a Bond will be paid to such Owner. Upon surrender of any Bond or Parity Bond to be redeemed in part only, the District will execute and the Trustee will authenticate and deliver to the Bondowner, at the expense of the District, a new Bond or Bonds or a new Parity Bond or Parity Bonds of authorized denominations equal in aggregate principal amount to the unredeemed portion of the Bonds surrendered, with the same interest rate and the same maturity or, in the case of surrender of a Parity Bond, a new Parity Bond or Parity Bonds subject to the foregoing limitations. Such mandatory redemption will be valid upon payment of the amount thereby required to be paid to such Owner, and the District and the Trustee will be released and discharged from all liability to the extent of such payment.

**Effect of Notice and Availability of Redemption Money.** Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption:

(a) the Bonds and Parity Bonds, or portions thereof, designated for redemption will, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture or in any Supplemental Indenture with respect to any Parity Bonds, anything in the Indenture or in the Bonds or the Parity Bonds to the contrary notwithstanding;

(b) upon presentation and surrender thereof at the Principal Office of the Trustee, the redemption price of such Bonds and Parity Bonds will be paid to the Owners thereof;

(c) as of the redemption date, the Bonds or the Parity Bonds, or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds or Parity Bonds, or portions thereof, will cease to bear further interest; and

(d) as of the date fixed for redemption, no Owner of any of the Bonds, Parity Bonds or portions thereof so designated for redemption will be entitled to any of the benefits of the Indenture or any Supplemental Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

## COVENANTS AND WARRANTY

**Security.** The District will preserve and protect the security pledged under the Indenture to the Bonds and any Parity Bonds against all claims and demands of all persons.

**Covenants.** So long as any of the Bonds or Parity Bonds issued under the Indenture are Outstanding and unpaid, the District makes the following covenants with the Bondowners under the provisions of the Act and the Indenture (to be performed by the District or its proper officers, agents or employees), which covenants are necessary and desirable to secure the Bonds and Parity Bonds and tend to make them more marketable; provided, however, that said covenants do not require the District to expend any funds or moneys other than the Special Taxes and other amounts deposited to the Special Tax Fund:

(a) Punctual Payment; Against Encumbrances. The District has covenanted that it will receive all Special Taxes in trust for the Owners and will instruct the City Finance Director to deposit all Special Taxes with the Trustee immediately upon their apportionment to the District, and the District will have no beneficial right or interest in the amounts so deposited except as provided by the Indenture. All such Special Taxes will be disbursed, allocated and applied solely to the uses and purposes set forth in the Indenture, and will be accounted for separately and apart from all other money, funds, accounts or other resources of the District.

The District has covenanted that it will duly and punctually pay or cause to be paid the principal of and interest on every Bond and Parity Bond issued under the Indenture, together with the premium, if any, thereon on the date, at the place and in the manner set forth in the Bonds and the Parity Bonds and in accordance with the Indenture to the extent that Net Taxes and other amounts pledged under the Indenture are available therefor, and that the payments into the funds and Accounts created thereunder will be made, all in strict conformity with the terms of the Bonds, any Parity Bonds, the Indenture and any Supplemental Indenture, and that it will faithfully observe and perform all of the conditions, covenants and requirements of the Indenture and all Supplemental Indentures and of the Bonds and any Parity Bonds issued under the Indenture.

The District will not mortgage or otherwise encumber, pledge or place any charge upon any of the Net Taxes except as provided in the Indenture, and will not issue any obligation or security having a lien or charge upon the Net Taxes superior to or on a parity with the Bonds, other than Parity Bonds. Nothing in the Indenture will prevent the District from issuing or incurring indebtedness that is payable from a pledge of Net Taxes which is subordinate in all respects to the pledge of Net Taxes to repay the Bonds and the Parity Bonds.

(b) Payment of Claims. The District will pay and discharge any and all lawful claims for labor, materials or supplies which, if unpaid, might become a lien or charge upon the Net Taxes or other funds in the Special Tax Fund (other than the Administrative Expenses Account therein), or which might impair the security of the Bonds or any Parity Bonds then Outstanding; provided, however, that nothing contained in the Indenture will require the District to make any such payments so long as the District in good faith contests the validity of any such claims.

(c) Books and Accounts. The District will keep proper books of records and accounts, separate from all other records and accounts of the District, in which complete and correct entries will be made of all transactions relating to the Project, the levy of the Special Tax and the deposits to the Special Tax Fund. Such books of records and accounts will at all times during business hours be subject to the inspection of the Trustee, the Owners of not less than 10% of the principal amount of the Bonds or the Owners of not less than 10% of any issue of Parity Bonds then Outstanding or their representatives authorized in writing.

(f) Federal Tax Covenants. Notwithstanding any other provision of the Indenture, absent an opinion of Bond Counsel that the exclusion from gross income of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis for federal income tax purposes will not be adversely affected for federal income tax purposes, the District has covenanted to comply with all applicable requirements of the Code necessary to preserve such exclusion from gross income and has specifically covenanted, without limiting the generality of the foregoing, as follows:

(1) Private Activity. The District will take no action and refrain from taking any action or making any use of the proceeds of the Bonds or any Parity Bonds or of any other moneys or property which would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “private activity bonds” within the meaning of Section 141 of the Code;

(2) Arbitrage. The District will make no use of the proceeds of the Bonds or any Parity Bonds or of any other amounts or property, regardless of the source, and will not take any action or refrain from taking any action which will cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “arbitrage bonds” within the meaning of Section 148 of the Code;

(3) Federal Guaranty. The District will make no use of the proceeds of the Bonds or any Parity Bonds and will not take or omit to take any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be “federally guaranteed” within the meaning of Section 149(b) of the Code;

(4) Information Reporting. The District will take or cause to be taken all necessary action to comply with the informational reporting requirement of Section 149(e) of the Code;

(5) Hedge Bonds. The District will make no use of the proceeds of the Bonds or any Parity Bonds or any other amounts or property, regardless of the source, and will not take any action or refrain from taking

any action that would cause the Bonds or any Parity Bonds issued on a tax-exempt basis for federal income tax purposes to be considered “hedge bonds” within the meaning of Section 149(g) of the Code unless the District takes all necessary action to assure compliance with the requirements of Section 149(g) of the Code to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds and any applicable Parity Bonds;

(6) Miscellaneous. The District will take no action and refrain from taking any action inconsistent with its expectations stated in the Tax Certificate executed on the Delivery Date by the District in connection with the Bonds and any issue of Parity Bonds and will comply with the covenants and requirements stated therein and incorporated by reference in the Indenture;

(7) Other Tax-Exempt Issues. The District will not use proceeds of other tax-exempt securities to redeem any Bonds or Parity Bonds without first obtaining the written opinion of Bond Counsel that doing so will not impair the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds issued on a tax-exempt basis; and

(8) Subsequent Opinions. If the District obtains a subsequent opinion of Bond Counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation (“SYCR”), where such opinion is required in connection with a change or amendment to the Indenture or the procedures set forth in the Tax Certificate, it will obtain an opinion substantially to the effect originally delivered by SYCR that interest on the Bonds and Parity Bonds which are the subject of such change or amendment is excluded from gross income for federal income tax purposes.

(g) Reduction of Maximum Special Taxes. The District has found and determined that, historically, delinquencies in the payment of special taxes authorized pursuant to the Act in community facilities districts in Southern California have from time to time been at levels that required the levy of special taxes at the maximum authorized rates in order to make timely payment of principal of and interest on the outstanding indebtedness of such community facilities districts. For this reason, the District has determined that a reduction in the maximum Special Tax rates authorized to be levied on parcels in the District below the levels provided in the Indenture would interfere with the timely retirement of the Bonds and Parity Bonds. The District has determined it to be necessary in order to preserve the security for the Bonds and Parity Bonds to covenant, and, to the maximum extent that the law permits it to do so, the District has covenanted, that it will not initiate proceedings to reduce the maximum Special Tax rates for the District.

(h) Covenants to Defend. The District has covenanted that, in the event that any initiative is adopted by the qualified electors in the District which purports to reduce the maximum Special Tax below the levels specified in the Indenture or to limit the power of the District to levy the Special Taxes for the purposes set forth in the Indenture, it will commence and pursue legal action in order to preserve its ability to comply with such covenants.

(i) Limitation on Right to Tender Bonds. The District has covenanted that it will not adopt any policy pursuant to Section 53341.1 of the Act permitting the tender of Bonds or Parity Bonds in full payment or partial payment of any Special Taxes unless the District has first received a certificate from an Independent Financial Consultant that the acceptance of such a tender will not result in the District having insufficient Special Tax revenues to pay the principal of and interest on the Bonds and Parity Bonds when due.

(j) Continuing Disclosures. The District has covenanted to comply with the terms of the Continuing Disclosure Certificate and with the terms of any continuing disclosure agreement executed by the District with respect to any Parity Bonds in order to assist the underwriter thereof in complying with Rule 15(c)2-12 adopted by the Securities and Exchange Commission.

(k) Further Assurances. The District will make, execute and deliver any and all such further agreements, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture and for the better assuring and confirming unto the Owners of the Bonds and any Parity Bonds of the rights and benefits provided in the Indenture.

## AMENDMENTS TO INDENTURE

**Supplemental Indentures or Orders Not Requiring Bondowner Consent.** The District may from time to time, and at any time, without notice to or consent of any of the Bondowners, adopt Supplemental Indentures for any of the following purposes:

(a) to cure any ambiguity, to correct or supplement any provisions in the Indenture which may be inconsistent with any other provision therein or to make any other provision with respect to matters or questions arising under the Indenture 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 District contained in the Indenture, other covenants, agreements, limitations and restrictions to be observed by the District which are not contrary to or inconsistent with the Indenture as theretofore in effect or which further secure Bond or Parity Bond payments;

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

(d) to modify, amend or supplement the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute later in effect, or to comply with the Code or regulations issued thereunder, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which do not materially adversely affect the interests of the Owners of the Bonds or any Parity Bonds then Outstanding;

(e) subject to the provisions of the Indenture, to modify, alter or amend the Rate and Method 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 Improvement Area No. 3 of the District to an amount which is less than 110% of the principal and interest due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such amendment; or

(f) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the Bondowners.

**Supplemental Indentures or Orders Requiring Bondowner Consent.** Exclusive of the Supplemental Indentures described under the caption "Supplemental Indentures or Orders Not Requiring Bondowner Consent," the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding have the right to consent to and approve the adoption by the District of such Supplemental Indentures as are deemed necessary or desirable by the District for the purpose of waiving, modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture; provided, however, that nothing in the Indenture 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 or Parity Bond; (b) a reduction in the principal amount of, or redemption premium on, any Bond or Parity Bond or the rate of interest thereon; (c) a preference or priority of any Bond or Parity Bond over any other Bond or Parity Bond; or (d) a reduction in the aggregate principal amount of the Bonds and Parity Bonds the Owners of which are required to consent to such Supplemental Indenture, without the consent of the Owners of all Bonds and Parity Bonds then Outstanding.

If at any time the District desires to adopt a Supplemental Indenture, which pursuant to the terms of the Indenture require the consent of the Bondowners, the District will so notify the Trustee and deliver to the Trustee a copy of the proposed Supplemental Indenture. The Trustee will, at the expense of the District, cause notice of the proposed Supplemental Indenture to be mailed, by first class mail, postage prepaid, to all Bondowners at their addresses as they appear in the Bond Register. Such notice will briefly set forth the nature of the proposed Supplemental Indenture and state that a copy thereof is on file at the Principal Office of the Trustee for inspection by all Bondowners. The failure of any Bondowners to receive such notice will not affect the validity of such Supplemental Indenture when consented to and approved by the Owners of not less than a majority in aggregate

principal amount of the Bonds and Parity Bonds Outstanding as required by the Indenture. Whenever at any time within one year after the date of the first mailing of such notice, the Trustee receives an instrument or instruments purporting to be executed by the Owners of not less than a majority in aggregate principal amount of the Bonds and Parity Bonds Outstanding, which instrument or instruments refer to the proposed Supplemental Indenture described in such notice, and specifically consents to and approves the adoption thereof by the District substantially in the form of the copy referred to in such notice as on file with the Trustee, such proposed Supplemental Indenture, when duly adopted by the District, will thereafter become a part of the proceedings for the issuance of the Bonds and any Parity Bonds. In determining whether the Owners of a majority of the aggregate principal amount of the Bonds and Parity Bonds have consented to the adoption of any Supplemental Indenture, Bonds or Parity Bonds that are owned by the District, or by any person directly or indirectly controlling or controlled by or under the direct or indirect common control with the District, will be disregarded and will be treated as though they were not Outstanding for the purpose of any such determination.

Upon request of the Trustee, the District will specify in an Certificate of an Authorized Representative of the District to the Trustee those Bonds disqualified pursuant to the foregoing provisions and the Trustee may conclusively rely on such certificate.

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

**Notation of Bonds or Parity Bonds; Delivery of Amended Bonds or Parity Bonds.** After the effective date of any action taken as provided in the Indenture, the District may determine that the Bonds or any Parity Bonds may bear a notation, by endorsement in form approved by the District, as to such action, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date and presentation of such Owner's Bond or Parity Bond for the purpose at the Principal Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, a suitable notation as to such action will be made on such Bonds or Parity Bonds. If the District so determines, new Bonds or Parity Bonds so modified as, in the opinion of the District, are necessary to conform to such action will be prepared and executed, and in that case upon demand of the Owner of any Outstanding Bond or Parity Bond at such effective date such new Bonds or Parity Bonds will be exchanged at the Principal Office of the Trustee or at such additional offices as the Trustee may select and designate for that purpose, without cost to each Owner of Outstanding Bonds or Parity Bonds, upon surrender of such Outstanding Bonds or Parity Bonds.

In executing, or accepting the additional trusts created by any Supplemental Indenture permitted by the Indenture or the modification thereby of the trusts created by the Indenture, the Trustee is entitled to receive, and will be fully protected in relying upon, an opinion of counsel stating that the execution of such Supplemental Indenture is authorized or permitted by the Indenture and complies with the terms thereof. The Trustee may, but is not obligated to, enter into any such Supplemental Indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise.

#### TRUSTEE

**Trustee.** The Bank of New York Mellon Trust Company, N.A., will be the Trustee for the Bonds and any Parity Bonds unless and until another Trustee is appointed by the District under the Indenture. The District may, at any time, appoint a successor Trustee satisfying the requirements of the Indenture for the purpose of receiving all money that the District is required to deposit with the Trustee thereunder and to allocate, use and apply the same as provided in the Indenture.

The Trustee is authorized to and will mail by first class mail, postage prepaid, or wire transfer in accordance with the Indenture, interest payments to the Bondowners, to select Bonds and Parity Bonds for redemption, and to maintain the Bond Register. The Trustee has been authorized to pay the principal of and

premium, if any, on the Bonds and Parity Bonds when the same are duly presented to it for payment at maturity or on call and redemption, to provide for the registration of transfer and exchange of Bonds and Parity Bonds presented to it for such purposes, to provide for the cancellation of Bonds and Parity Bonds and to provide for the authentication of Bonds and Parity Bonds, and will perform all other duties assigned to or imposed on it as provided in the Indenture. The Trustee will keep accurate records of all funds administered by it and all Bonds and Parity Bonds paid, discharged and cancelled by it.

The Trustee is authorized to redeem the Bonds and Parity Bonds when duly presented for payment at maturity, or on redemption prior to maturity. The Trustee will cancel all Bonds and Parity Bonds upon payment thereof in accordance with the provisions of the Indenture.

The District will from time to time, subject to any agreement between the District and the Trustee then in force, pay to the Trustee compensation for its services, reimburse the Trustee for all of its advances and expenditures, including, but not limited to, advances to and fees and expenses of independent accountants or counsel employed by it in the exercise and performance of its powers and duties under the Indenture, and indemnify and save the Trustee, its officers, directors, employees and agents, harmless against costs, claims, expenses and liabilities, including, without limitation, fees and expenses of its attorneys, not arising from its own negligence or willful misconduct which it may incur in the exercise and performance of its powers and duties under the Indenture. The foregoing obligation of the District to compensate and indemnify the Trustee will survive the removal or resignation of the Trustee or the discharge of the Bonds.

**Removal of Trustee.** The District may at any time at its sole discretion, and will at the direction of a majority of the Owners, remove the Trustee initially appointed, and any successor thereto, by delivering to the Trustee a 30-day written notice of its decision to remove the Trustee. The District will appoint a successor or successors thereto, provided that any such successor is a bank, national banking association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$100,000,000, and subject to supervision or examination by federal or state authority. If any bank, national banking association or trust company appointed as a successor publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture, the combined capital and surplus of such bank, national banking association or trust company will be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. Any removal of the Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee and notice being sent by the successor Trustee to the Bondowners of the successor Trustee's identity and address.

**Resignation of Trustee.** The Trustee may at any time resign by giving written notice to the District and by giving to the Owners notice of such resignation, which notice will be mailed to the Owners at their addresses appearing in the registration books at the Principal Office of the Trustee. Upon receiving such notice of resignation, the District will promptly appoint a successor Trustee satisfying the criteria in the Indenture by an instrument in writing. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective only upon acceptance of appointment by the successor Trustee. If no successor Trustee has been appointed and has accepted appointment within 45 days of giving notice of removal or notice of resignation as aforesaid, the resigning Trustee or any Bondowner (on behalf of itself and all other Bondowners) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee.

**Liability of Trustee.** The recitals of fact and all promises, covenants and agreements contained in the Indenture and in the Bonds and any Parity Bonds will be taken as statements, promises, covenants and agreements of the District, and the Trustee assumes no responsibility for the correctness of the same and makes no representations as to the validity or sufficiency of the Indenture, the Bonds or any Parity Bonds, and will incur no responsibility in respect thereof, other than in connection with its duties or obligations specifically set forth in the Indenture, in the Bonds and any Parity Bonds, or in the certificate of authentication assigned to or imposed upon the Trustee. The Trustee is under no responsibility or duty with respect to the issuance of the Bonds or any Parity Bonds for value. The Trustee will not be liable in connection with the performance of its duties under the Indenture, except for its own negligence or willful misconduct.

The Trustee will be protected in acting upon any notice, resolution, request, consent, order, certificate, report, Bond, Parity Bond, facsimile transmission, electronic mail or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel to the District, with regard to legal questions, and the opinion of such counsel will be full and complete authorization and protection in respect of any action taken or suffered under the Indenture in good faith and in accordance therewith.

The Trustee is not bound to recognize any person as the Owner of a Bond or Parity Bond unless and until such Bond or Parity Bond is submitted for inspection, if required, and title thereto is satisfactorily established, if disputed.

Whenever in the administration of its duties under the Indenture the Trustee deems it necessary or desirable that a matter be proved or established prior to taking or suffering any action thereunder, such matter (unless other evidence in respect thereof is specifically prescribed in the Indenture) may, in the absence of bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a written certificate of the District, and such certificate will be full warrant to the Trustee for any action taken or suffered under the provisions of the Indenture upon the faith thereof, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

The Trustee has no duty or obligation whatsoever to enforce the collection of Special Taxes or other funds to be deposited with it under the Indenture, or as to the correctness of any amounts received, but its liability is limited to the proper accounting for such funds as it actually receives. No provision in the Indenture requires the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of its rights or powers.

The Trustee will not be deemed to have knowledge of any default or Event of Default until an officer at the Trustee's corporate trust office who is responsible for the administration of its duties under the Indenture has actual knowledge thereof or the Trustee has received written notice thereof at its corporate trust office.

The Trustee will not be considered in breach of or in default in its obligations under the Indenture or progress in respect thereto in the event of enforced delay ("**unavoidable delay**") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the Project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Trustee.

The Trustee has the right to accept and act upon instructions, including funds transfer instructions ("**Instructions**") given pursuant to the Indenture and delivered using Electronic Means. ("**Electronic Means**" means the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Trustee, or another method or system specified by the Trustee as available for use in connection with its services under the Indenture). The District will provide to the Trustee an incumbency certificate listing officers with the authority to provide such Instructions ("**Authorized Officers**") and containing specimen signatures of such Authorized Officers, which incumbency certificate will be amended by the District whenever a person is to be added or deleted from the listing. If the District elects to give the Trustee Instructions using Electronic Means and the Trustee in its discretion elects to act upon such Instructions, the Trustee's understanding of such Instructions will be deemed controlling. The District has understood and agreed that the Trustee cannot determine the identity of the actual sender of such Instructions and that the Trustee will conclusively presume that directions that purport to have been sent by an Authorized Officer listed on the incumbency certificate provided to the Trustee have been sent by such Authorized Officer. The District will be responsible for ensuring that only Authorized Officers transmit such Instructions to the Trustee and that the District and all Authorized Officers are solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the District. The

Trustee will not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such Instructions notwithstanding the fact that such directions conflict or are inconsistent with a subsequent written instruction. The District has agreed: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Trustee and that there may be more secure methods of transmitting Instructions than the method(s) selected by the District; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Trustee immediately upon learning of any compromise or unauthorized use of the security procedures.

The permissive right of the Trustee to do things enumerated in the Indenture will not be construed as a duty and it will not be answerable for other than its negligence or willful misconduct.

All immunities, indemnifications and releases from liability granted in the Indenture to the Trustee will extend to the directors, employees, officers and agents thereof.

The Trustee is under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request, order or direction of any of the Owners pursuant to the provisions of the Indenture unless such Owners have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby.

The Trustee will not be responsible for or accountable to anyone for the subsequent use or application of any moneys which are released or withdrawn in accordance with the provisions of the Indenture.

The Trustee may execute any of the trusts or powers of the Indenture and perform the duties required of it thereunder either directly or by or through attorneys or agents, will not be liable for the acts or omissions of such attorneys or agents appointed with due care, and will be entitled to rely on advice of counsel concerning all matters of trust and its duty under the Indenture.

The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Indenture. In case an Event of Default has occurred (which has not been cured) the Trustee will exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Trustee has no responsibility or liability with respect to any information, statements or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of these Bonds.

The Trustee is not required to determine the legality or suitability of any investments.

The Trustee has no duty to review, verify or analyze any financial statements furnished to it by the District and will hold such financial statements solely as a repository for Owners of the Bonds. The Trustee will not be deemed to have notice of any information contained therein or any Event of Default that may be disclosed therein in any manner.

**Merger or Consolidation.** Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it is a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, will be the successor to the Trustee without the execution or filing of any paper or further act, anything in the Indenture to the contrary notwithstanding.

## EVENTS OF DEFAULT; REMEDIES

**Events of Default.** Any one or more of the following events will constitute an “Event of Default”:

(a) default in the due and punctual payment of the principal of or redemption premium, if any, on any Bond or Parity Bond when and as the same becomes due and payable, whether at maturity as therein expressed, by declaration or otherwise;

(b) default in the due and punctual payment of the interest on any Bond or Parity Bond when and as the same becomes due and payable; or

(c) except as described in clauses (a) or (b), default by the District in the observance of any of the agreements, conditions or covenants on its part contained in the Indenture, the Bonds or any Parity Bonds, and such default continues for a period of 30 days after the District has been given notice in writing of such default by the Trustee or the Owners of 25% in aggregate principal amount of the Outstanding Bonds and Parity Bonds; provided, however, that such default will not constitute an Event of Default under the Indenture if the District commences to cure such default within said 30-day period and thereafter diligently and in good faith proceeds to cure such default within a reasonable period of time not to exceed 90 days after such notice.

The Trustee has agreed to give notice to the Owners as soon as practicable upon the occurrence of an Event of Default under clauses (a) or (b) above and within 30 days of the Trustee’s knowledge of an event of default under clause (c) above.

**Remedies of Owners.** 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 Parity Bonds, and to enforce any rights of the Trustee under or with respect to the Indenture, including:

(a) by mandamus or other suit or proceeding at law or in equity to enforce the Trustee’s rights against the District and any of the members, officers and employees of the District, and to compel the District or any such members, officers or employees to perform and carry out their duties under the Act and their agreements with the Owners as provided in the Indenture;

(b) by suit in equity to enjoin any actions or things which are unlawful or violate the rights of the Owners; or

(c) by a suit in equity to require the District and its members, officers and employees to account as the trustee of an express trust.

If an Event of Default has occurred and is continuing and if requested so to do by the Owners of at least 25% in aggregate principal amount of Outstanding Bonds and Parity Bonds and if indemnified to its satisfaction, the Trustee will be obligated to exercise such one or more of the rights and powers conferred by the Indenture, as the Trustee, being advised by counsel, deems most expedient in the interests of the Owners of the Bonds and Parity Bonds.

No remedy conferred upon or reserved to the Trustee or to the Owners in the Indenture is intended to be exclusive of any other remedy. Every such remedy will be cumulative and will be in addition to every other remedy given under the Indenture or now or later existing, at law or in equity or by statute or otherwise, and may be exercised without exhausting and without regard to any other remedy conferred by the Act or any other law.

**Application of Revenues and Other Funds After Default.** All amounts received by the Trustee pursuant to any right given or action taken by the Trustee under the provisions of the Indenture relating to the Bonds and Parity Bonds will be applied by the Trustee in the following order upon presentation of the several Bonds and Parity Bonds:

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, including reasonable compensation to its agents, attorneys and counsel, 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 and Parity Bonds then due and unpaid, with interest on overdue installments of principal and interest to the extent permitted by law at the net effective rate of interest then borne by the Outstanding Bonds and Parity Bonds; provided, however, that in the event that such amounts are insufficient to pay 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 and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing,

(b) second, to the payment of all installments of principal, including Sinking Fund Payments, of the Bonds and Parity Bonds then due and unpaid on a pro rata basis based on the total amount then due and owing; and

(c) third, to the payment of interest on overdue installments of principal and interest on the Bonds and Parity Bonds on a pro rata basis based on the total amount then due and owing.

**Power of Trustee to Control Proceedings.** In the event that the Trustee, upon the happening of an Event of Default, has taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the request of the Owners of 25% in aggregate principal amount of the Bonds and Parity Bonds then Outstanding, it will have full power, in the exercise of its discretion for the best interests of the Owners of the Bonds and Parity Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of a majority in aggregate principal amount of the Outstanding Bonds and Parity Bonds under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other such litigation. Any suit, action or proceeding that any Owner of Bonds or Parity Bonds has the right to bring to enforce any right or remedy under the Indenture may be brought by the Trustee for the equal benefit and protection of all Owners of Bonds and Parity Bonds similarly situated and the Trustee has been appointed (and the successive respective Owners of the Bonds and Parity Bonds issued under the Indenture, by taking and holding the same, will be conclusively deemed so to have appointed it) the true and lawful attorney in fact of the respective Owners of the Bonds and Parity Bonds for the purposes of bringing any such suit, action or proceeding and to do and perform any and all acts and things for and on behalf of the respective Owners of the Bonds and Parity Bonds as a class or classes, as may be necessary or advisable in the opinion of the Trustee as such attorney in fact.

**Appointment of Receivers.** Upon the occurrence of an Event of Default under the Indenture, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Owners of the Bonds and Parity Bonds under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Net Taxes and other amounts pledged under the Indenture, pending such proceedings, with such powers as the court making such appointment confers.

**Non-Waiver.** Nothing in the Indenture, or in the Bonds or the Parity Bonds, will affect or impair the obligation of the District, which is absolute and unconditional, to pay the interest on and principal of the Bonds and Parity Bonds to the respective Owners of the Bonds and Parity Bonds at the respective dates of maturity, as provided in the Indenture, out of the Net Taxes and other moneys therein pledged for such payment.

A waiver of any default or breach of duty or contract by the Trustee or any Owners will not affect any subsequent default or breach of duty or contract, or impair any rights or remedies on any such subsequent default or breach. No delay or omission of the Trustee or any Owner of any of the Bonds or Parity Bonds to exercise any right or power accruing upon any default will impair any such right or power or be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy conferred upon the Trustee or the Owners by the Act or by the Indenture may be enforced and exercised from time to time and as often as deemed expedient by the Trustee or the Owners, as the case may be.

**Limitations on Rights and Remedies of Owners.** No Owner of any Bond or Parity Bond issued under the Indenture has the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless: (a) such Owner has previously given to the Trustee written notice of the occurrence of an Event of Default; (b) the Owners of a majority in aggregate principal amount of all the Bonds and Parity Bonds then Outstanding have made written request upon the Trustee to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name; (c) said Owners have tendered to the Trustee indemnity reasonably acceptable to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee has refused or omitted to comply with such request for a period of 60 days after such written request has been received by, and said tender of indemnity has been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission have been declared, in every case, to be conditions precedent to the exercise by any Owner of Bonds and Parity Bonds of any remedy under the Indenture; it being understood and intended that no one or more Owners of Bonds and Parity Bonds have any right in any manner whatever by their action to enforce any right under the Indenture, except in the manner therein provided, and that all proceedings at law or in equity to enforce any provision of the Indenture will be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all Owners of the Outstanding Bonds and Parity Bonds.

The right of any Owner of any Bond and Parity Bond to receive payment of the principal of and interest and premium (if any) on such Bond and Parity Bond as provided in the Indenture or to institute suit for the enforcement of any such payment, will not be impaired or affected without the written consent of such Owner, notwithstanding any other provision of the Indenture.

**Termination of Proceedings.** In case the Trustee has proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings have been discontinued or abandoned for any reason, or have been determined adversely, then and in every such case, the District, the Trustee and the Owners be restored to their former positions and rights under the Indenture, respectively, with regard to the property subject to the Indenture, and all rights, remedies and powers of the Trustee will continue as if no such proceedings had been taken.

#### DEFEASANCE AND PARITY BONDS

**Defeasance.** If the District will pay or cause to be paid, or there will otherwise be paid, to the Owner of an Outstanding Bond or Parity Bond the interest due thereon and the principal thereof, at the times and in the manner stipulated in the Indenture or any Supplemental Indenture, then the Owner of such Bond or Parity 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 District to the Owner of such Bond or Parity Bond under the Indenture and any Supplemental Indenture 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 and Parity Bonds pursuant to the Indenture, the Trustee will execute and deliver to the District all such instruments as may be desirable to evidence such discharge and satisfaction, and the Trustee will pay over or deliver to the District's general fund all money or securities held by it pursuant to the Indenture which are not required for the payment of the principal of, premium, if any, and interest due on such Bonds and Parity Bonds.

Any Outstanding Bond or Parity Bond will be deemed to have been paid within the meaning expressed in the Indenture if such Bond or Parity Bond is paid in any one or more of the following ways:

(a) by paying or causing to be paid the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable;

(b) by depositing with the Trustee, in trust, at or before maturity, money which, together with the amounts then on deposit in the Special Tax Fund (exclusive of the Administrative Expenses Account) and available for such purpose, is fully sufficient to pay the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable; or

(c) by depositing with the Trustee or another escrow bank appointed by the District, in trust, Federal Securities, in which the District may lawfully invest its money, in such amount as will be sufficient, together with the interest to accrue thereon and moneys then on deposit in the Special Tax Fund (exclusive of the Administrative Expenses Account) and available for such purpose, together with the interest to accrue thereon, to pay and discharge the principal of, premium, if any, and interest on such Bond or Parity Bond, as and when the same become due and payable.

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

Upon a defeasance, the Trustee, upon request of the District, will release the rights of the Owners of such Bonds and Parity Bonds that have been defeased under the Indenture and any Supplemental Indenture and execute and deliver to the District all such instruments as may be desirable to evidence such release, discharge and satisfaction. In the case of a defeasance under the Indenture of all Outstanding Bonds and Parity Bonds, the Trustee will pay over or deliver to the District any funds held by the Trustee at the time of a defeasance that are not required for the purpose of paying and discharging the principal of or interest on the Bonds and Parity Bonds when due. The Trustee will, at the written direction of the District, mail, first class, postage prepaid, a notice to the Bondowners whose Bonds or Parity Bonds have been defeased, in the form directed by the District, stating that the defeasance has occurred.

**Conditions for the Issuance of Parity Bonds and Other Additional Indebtedness.** The District may at any time after the issuance and delivery of the Bonds under the Indenture issue Parity Bonds payable from the Net Taxes and other amounts deposited in the Special Tax Fund (other than in the Administrative Expenses Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing the Outstanding Bonds and any other Parity Bonds theretofore issued under the Indenture or under any Supplemental Indenture; solely for the purpose of refunding Bonds or other Parity Bonds. Parity Bonds may be issued subject to the following additional specific conditions, which have been made conditions precedent to the issuance of any such Parity Bonds:

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

(b) The issuance of such Parity Bonds has been duly authorized pursuant to the Act and all applicable laws, and the issuance of such Parity Bonds has been provided for by a Supplemental Indenture duly adopted by the District which specifies the following:

- (1) the authorized principal amount of such Parity Bonds;
- (2) the date and the maturity date or dates of such Parity Bonds; provided that: (i) each maturity date falls on a September 1; (ii) all such Parity Bonds of like maturity are identical in all respects, except as

to number; and (iii) fixed serial maturities or Sinking Fund Payments, or any combination thereof, are established to provide for the retirement of all such Parity Bonds on or before their respective maturity dates;

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

(4) the denominations and method of numbering of such Parity Bonds;

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

(6) the amount, if any, to be deposited from the proceeds of such Parity Bonds in the Reserve Account of the Special Tax Fund to increase the amount therein to the Reserve Requirement;

(7) the form of such Parity Bonds; and

(8) such other provisions as are necessary or appropriate and not inconsistent with the Indenture.

(c) The Trustee has received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the Delivery Date of such Parity Bonds by the Trustee (unless the Trustee accepts any of such documents bearing a prior date):

(1) a certified copy of the Supplemental Indenture authorizing the issuance of such Parity Bonds;

(2) a written request of the District as to the delivery of such Parity Bonds;

(3) an opinion of Bond Counsel to the effect that: (i) the District has the right and power under the Act to adopt the Indenture and the Supplemental Indentures relating to such Parity Bonds, and the Indenture and all such Supplemental Indentures have been duly and lawfully adopted by the District, are in full force and effect and are valid and binding upon the District and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights); (ii) the Indenture creates the valid pledge which it purports to create of the Net Taxes and other amounts as provided in the Indenture, subject to the application thereof to the purposes and on the conditions permitted by the Indenture; and (iii) such Parity Bonds are valid and binding limited obligations of the District, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Indenture and all Supplemental Indentures thereto and entitled to the benefits of the Indenture and all such Supplemental Indentures, and such Parity Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Indenture and all such Supplemental Indentures; and a further opinion of Bond Counsel to the effect that, assuming compliance by the District with certain tax covenants, the issuance of the Parity Bonds will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds and any Parity Bonds theretofore issued on a tax exempt basis, or the exemption from State of California personal income taxation of interest on any Outstanding Bonds and Parity Bonds theretofore issued;

(4) a certificate of the District containing such statements as may be reasonably necessary to show compliance with the requirements of the Indenture;

(5) a certificate of an Independent Financial Consultant or Participating Underwriter (as such term is defined in the Continuing Disclosure Certificate related to such Parity Bonds, or, if none, in the Continuing Disclosure Certificate related to the Bonds) certifying that in each Bond Year the Annual Debt Service on the Bonds and Parity Bonds to remain Outstanding following the issuance of the Parity Bonds proposed to be issued is less

than the Annual Debt Service on the Bonds and Parity Bonds Outstanding prior to the issuance of such Parity Bonds; and

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

#### MISCELLANEOUS

**Cancellation of Bonds and Parity Bonds.** All Bonds and Parity Bonds surrendered to the Trustee for payment upon maturity or for redemption will be upon payment therefor, and any Bond or Parity Bond purchased by the District as authorized in the Indenture and delivered to the Trustee for such purpose will be, cancelled forthwith and will not be reissued. The Trustee will destroy such Bonds and Parity Bonds, as provided by law, and, upon request of the District, furnish to the District a certificate of such destruction.

**Execution of Documents and Proof of Ownership.** Any request, direction, consent, revocation of consent, or other instrument in writing required or permitted by the Indenture to be signed or executed by Bondowners may be in any number of concurrent instruments of similar tenor and may be signed or executed by such Owners in person or by their attorneys appointed by an instrument in writing for that purpose, or by the bank, trust company or other depository for such Bonds. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, and of the ownership of Bonds or Parity Bonds will be sufficient for the purposes of the Indenture (except as otherwise provided in the Indenture), if made in the following manner:

(a) The fact and date of the execution by any Owner or his or her attorney of any such instrument and of any instrument appointing any such attorney, may be proved by a signature guarantee of any bank or trust company located within the United States of America. Where any such instrument is executed by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such signature guarantee will also constitute sufficient proof of his authority.

(b) As to any Bond or Parity Bond, the person in whose name the same is registered in the Bond Register will be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal of any such Bond or Parity Bond, and the interest thereon, will be made only to or upon the order of the registered Owner thereof or his or her legal representative. All such payments will be valid and effectual to satisfy and discharge the liability upon such Bond or Parity Bond and the interest thereon to the extent of the sum or sums to be paid. Neither the District nor the Trustee will be affected by any notice to the contrary.

Nothing contained in the Indenture will be construed as limiting the Trustee or the District to such proof, it being intended that the Trustee or the District may accept any other evidence of the matters stated in the Indenture which the Trustee or the District may deem sufficient. Any request or consent of the Owner of any Bond or Parity Bond will bind every future Owner of the same Bond or Parity Bond in respect of anything done or suffered to be done by the Trustee or the District in pursuance of such request or consent.

**Unclaimed Moneys.** Anything in the Indenture to the contrary notwithstanding, any money held by the Trustee in trust for the payment and discharge of any of the Outstanding Bonds and Parity Bonds that remains unclaimed for two years after the date when such Outstanding Bonds or Parity Bonds have become due and payable, if such money was held by the Trustee at such date, or for two years after the date of deposit of such money if deposited with the Trustee after the date when such Outstanding Bonds or Parity Bonds become due and payable, will be repaid by the Trustee (without liability for interest) to the District, as its absolute property free from trust, and the Trustee will thereupon be released and discharged with respect thereto and the Owners will look only to the District for the payment of such Outstanding Bonds or Parity Bonds; provided, however, that, before being required to make any such payment to the District, the Trustee, at the expense of the District, will cause to be mailed by first class mail, postage prepaid, to the registered Owners of such Outstanding Bonds or Parity Bonds at their addresses as they appear on the registration books of the Trustee a notice that said money remains unclaimed and that, after a date named in said notice, which date is not less than 30 days after the date of the mailing of such notice, the balance of such money then unclaimed will be returned to the District.

**Provisions Constitute Contract.** The provisions of the Indenture constitute a contract between the District and the Bondowners and the provisions thereof will be construed in accordance with the laws of the State of California.

In case any suit, action or proceeding to enforce any right or exercise any remedy is brought or taken and, should said suit, action or proceeding be abandoned, or be determined adversely to the Bondowners or the Trustee, then the District, the Trustee and the Bondowners will be restored to their former positions, rights and remedies as if such suit, action or proceeding had not been brought or taken.

After the issuance and delivery of the Bonds, the Indenture will be irrevocable, but will be subject to modifications to the extent and in the manner provided in the Indenture, but to no greater extent and in no other manner.

**Future Contracts.** Nothing contained in the Indenture will be deemed to restrict or prohibit the District from making contracts or creating bonded or other indebtedness payable from a pledge of the Net Taxes which is subordinate to the pledge under the Indenture, or which is payable from the general fund of the District or from taxes or any source other than the Net Taxes and other amounts pledged thereunder.

**Further Assurances.** The District will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Indenture, and for the better assuring and confirming unto the Owners of the Bonds or any Parity Bonds the rights and benefits provided in the Indenture.

**Severability.** If any covenant, agreement or provision, or any portion thereof, contained in the Indenture, or the application thereof to any person or circumstance, is held to be unconstitutional, invalid or unenforceable, the remainder of the Indenture and the application of any such covenant, agreement or provision, or portion thereof, to other persons or circumstances, will be deemed severable and will not be affected thereby, and the Indenture, the Bonds and any Parity Bonds issued pursuant thereto will remain valid and the Bondowners will retain all valid rights and benefits accorded to them under the laws of the State of California.

## APPENDIX D-1

### FORM OF DISTRICT CONTINUING DISCLOSURE CERTIFICATE

*Upon issuance of the Bonds, the District proposes to enter into a Continuing Disclosure Certificate in substantially the following form:*

This Continuing Disclosure Certificate, dated December \_\_, 2021 (the “**Disclosure Agreement**”) is executed and delivered by Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas (the “**Issuer**”) in connection with the issuance of the Issuer’s \$\_\_\_\_\_ 2020 Special Tax Bonds (Improvement Area No. 3) (the “**Bonds**”). The Bonds are being issued pursuant to a Bond Indenture, dated as of December 1, 2020 (the “**Bond Indenture**”), by and between the Issuer and The Bank of New York Mellon Trust Company, N.A. The Issuer covenants as follows:

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

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

“**Annual Report**” means any annual report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“**Beneficial Owner**” means any person which: (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income tax purposes.

“**City**” means the City of Salinas, California.

“**Disclosure Representative**” means the City Manager of the City, the Finance Director of the City, or the designee thereof, or such other officer or employee as the Issuer shall designate in writing from time to time.

“**Dissemination Agent**” means, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“**Financial Obligation**” means: (a) a debt obligation; (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of (a) or (b). The term “Financial Obligation” does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule and the issuer thereof has entered into a continuing disclosure undertaking for such municipal securities.

“**Fiscal Year**” means the period from July 1 to June 30, or any other period selected by the Issuer as its fiscal year.

“**Improvement Area**” means Improvement Area No. 3 of the Issuer.

“**Listed Events**” means any of the events listed in Section 5(a) and (b) of this Disclosure Agreement.

“**MSRB**” means the Municipal Securities Rulemaking Board, which has been designated by the Securities and Exchange Commission as the sole repository of disclosure information for purposes of the Rule, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

“**Official Statement**” means the Official Statement relating to the Bonds, dated December \_\_, 2020.

“**RMA**” means the Rate and Method of Apportionment of Special Tax approved by the qualified electors of the Improvement Area.

“**Rule**” means Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

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

“**Underwriter**” means the original underwriters of the Bonds that are required to comply with the Rule in connection with the offering of the Bonds.

**SECTION 3. Provision of Annual Reports.**

(a) The Issuer shall, or, upon delivery of the Annual Report to the Dissemination Agent (if other than the Issuer), shall cause the Dissemination Agent to, not later than April 1 of each year, commencing April 1, 2021, provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement; provided that the first Annual Report due by April 1, 2021 shall consist solely of the Official Statement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Issuer’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) Not later than fifteen (15) business days prior to each April 1, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB in a timely manner in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to April 1 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 Issuer, certify to the Issuer that the Annual Report has been filed with the MSRB pursuant to this Disclosure Agreement, and stating, to the extent that it can confirm such filing of the Annual Report, the date that it was filed.

**SECTION 4. Content of Annual Reports.** The Issuer’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the Issuer, if any have been prepared, for the most recent Fiscal Year of the Issuer then ended. If the audited financial statements are being prepared and are not available by the time that the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain any available unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements, if any, of the Issuer shall be audited by such auditor as shall then be required or permitted by State law or the Bond Indenture. Audited financial statements, if prepared by the Issuer, shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide a notice of such modification to EMMA, including a reference to the specific federal or state law or regulation specifically describing the legal requirements for the

change in accounting basis. The financial statements of the City shall be filed to the extent that the Issuer does not prepare audited financial statements, but the financial statements of the City shall not be deemed to be the financial statements of the Issuer unless such audited financial statements contain specific information as to the Issuer, its revenues, expenses and account balances. If the City's audited financial statements contain specific information as to the Issuer, its revenues, expenses and account balances, the Issuer's Annual Report shall contain or incorporate by reference the City's audited financial statements. If the City's audited financial statements contain specific information as to the Issuer, its revenues, expenses and account balances, but are not available at the time required for filing, unaudited financial statements of the City that contain specific information as to the Issuer, its revenues, expenses and account balances shall be submitted with the Annual Report and the City's audited financial statements shall be submitted once available.

(b) To the extent not contained in the audited financial statements filed pursuant to subsection (a):

(i) The total dollar amount of delinquencies in the Improvement Area as of each October 1 preceding to the April 1 Annual Report due date and, in the event that the total delinquencies within the Improvement Area as of such October 1 in any year exceed 5% of the Special Tax for the previous year, delinquency information for each parcel, including the amounts of delinquencies, length of delinquency and status of any foreclosure of each such parcel.

(ii) The amount of prepayments of the Special Tax with respect to the Improvement Area for the prior Fiscal Year.

(iii) A land ownership summary listing property owners responsible for more than 5% of the annual Special Tax levy, as shown on the Monterey County Assessor's last equalized tax roll prior to each September preceding the April 1 Annual Report due date.

(iv) The principal amount of the Bonds outstanding and the balance in the Reserve Account (along with a statement of the Reserve Requirement) as of each September 30 preceding the April 1 Annual Report due date.

(v) The total assessed value (per the Monterey County Assessor's records) of all parcels currently subject to the Special Tax within the Improvement Area, showing the total assessed valuation for all parcels within the Improvement Area and with separate columns showing the assessed value of improved and unimproved parcels. Parcels are considered improved if there is an assessed value for the improvements in the Monterey County Assessor's records.

(vi) An updated table in substantially the form of Table 6 in the Official Statement entitled "Estimated Value-to-Lien Ratios Allocated by Property Ownership" based upon the most recent information available, provided that assessed values shown on the Monterey County Assessor's most recent equalized tax roll prior to each September preceding the April 1 Annual Report due date may be substituted for appraised values.

(vii) Any changes to the RMA since the filing of the prior Annual Report.

(viii) A copy of the annual information required to be filed by the City with the California Debt and Investment Advisory Commission pursuant to the Mello-Roos Community Facilities Act of 1982, as amended and relating generally to outstanding Issuer bond amounts, fund balances, assessed values, special tax delinquencies and foreclosure information.

(ix) In addition to any of the information expressly required to be provided under paragraphs (i) through (viii) of this Section, the Issuer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Any or all of the items listed above may be included by specific reference to other documents, including official statements for debt issues of the Issuer or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

**SECTION 5. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) Business Days after the event:

- (i) Principal and interest payment delinquencies.
- (ii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iii) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (iv) Substitution of credit or liquidity providers, or their failure to perform.
- (v) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability or Notices of Proposed Issue (IRS Form 5701 TEB).
- (vi) Tender offers.
- (vii) Defeasances.
- (viii) Rating changes.
- (ix) Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the Issuer, any of which reflect financial difficulties.\*
- (x) Bankruptcy, insolvency, receivership or similar proceedings.

Note: For the purposes of the event identified in subparagraph (xi), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not more than ten (10) Business Days after occurrence:

- (i) Unless described in Section 5(a)(v), other notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other events affecting the tax status of the Bonds.
- (ii) Modifications to the rights of Bondholders.

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\* The Issuer shall interpret the events identified in Section 5(a)(ix) in accordance with Release No. 34-83885 adopted by the Securities and Exchange Commission on August 20, 2018 and or any future guidance or releases provided by the Securities and Exchange Commission.

- (iii) Bond calls.
- (iv) Release, substitution or sale of property securing repayment of the Bonds.
- (v) Non-payment related defaults.
- (vi) The consummation of a merger, consolidation or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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.
- (vii) Appointment of a successor or additional trustee or the change of the name of a trustee.
- (viii) Incurrence of a Financial Obligation of the Issuer or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the Issuer, any of which affect security holders.\*

(c) If the Issuer determines that knowledge of the occurrence of a Listed Event under subsection (b) would be material under applicable federal securities laws, and if the Dissemination Agent is other than the Issuer, the Issuer shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to file a notice of such occurrence with the MSRB in an electronic format as prescribed by the MSRB in a timely manner not more than ten (10) Business Days after the event. Notwithstanding the foregoing, notice of Listed Events described in subsection (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Owners of affected Bonds pursuant to the Bond Indenture.

(d) If the Issuer determines that a Listed Event under subsection (b) would not be material under applicable federal securities laws and if the Dissemination Agent is other than the Issuer, the Issuer shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Agreement is the responsibility of the Issuer and, if the Dissemination Agent is other than the Issuer, the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

**SECTION 6. Termination of Reporting Obligation.** The Issuer's obligations under this Disclosure Agreement 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 Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(a).

**SECTION 7. Dissemination Agent.** The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Issuer pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days' written notice to the Issuer and the Trustee. The Dissemination Agent shall have no duty to review any information provided to it by the Issuer. The Dissemination Agent shall have no duty to prepare any information report, nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Issuer in a timely manner and in a form suitable for filing.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, provided that, in the opinion of nationally recognized bond counsel, such amendment or waiver is

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\* The Issuer shall interpret the events identified in Section 5(b)(viii) in accordance with Release No. 34-83885 adopted by the Securities and Exchange Commission on August 20, 2018 and or any future guidance or releases provided by the Securities and Exchange Commission.

permitted by the Rule, and provided further that the Dissemination Agent shall have first consented to any amendment that modifies or increases its duties or obligations hereunder. In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements: (a) notice of such change shall be given in the same manner as for a Listed Event under Section 5(a); and (b) the Annual Report for the year in which the change is made shall present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or to include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure by the Issuer to comply with any provision of this Disclosure Agreement, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Agreement shall be an action to compel performance.

No Owner or Beneficial Owner may institute such action, suit or proceeding to compel performance unless they shall have first delivered to the Issuer satisfactory written evidence of their status as such, and a written notice of and request to cure such failure, and the Issuer shall have refused to comply therewith within a reasonable time.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Issuer agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Issuer for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. In performing its duties hereunder, the Dissemination Agent shall not be deemed to be acting in any fiduciary capacity for the Issuer, the Owners, or any other party. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given to the Dissemination Agent (if other than the Issuer) at such address provided by the Dissemination to the Issuer, and to the Issuer as follows:

Disclosure Representative: City of Salinas  
200 Lincoln Avenue  
Salinas, California 93901  
Attention: Finance Director

SECTION 13. Beneficiaries. This Disclosure Agreement inures solely to the benefit of the Issuer, the Dissemination Agent, the Underwriter and the Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Agreement has been executed by the undersigned on the date hereof, and such signature binds the Issuer to the undertaking herein provided.

COMMUNITY FACILITIES DISTRICT NO. 2016-1  
(MONTE BELLA) OF THE CITY OF SALINAS

By: \_\_\_\_\_  
Its: City Manager of the City of Salinas

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas

Name of Issue: 2020 Special Tax Bonds (Improvement Area No. 3)

Date of Issuance: December \_\_, 2020

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate executed by the Issuer on the date of issuance of the Bonds. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

Dissemination Agent

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

**APPENDIX D-2**

**FORM OF DEVELOPER CONTINUING DISCLOSURE CERTIFICATE**

*Upon issuance of the Bonds, the Developer proposes to enter into a Continuing Disclosure Certificate in substantially the following form:*

\$ \_\_\_\_\_  
**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE  
CITY OF SALINAS  
2020 SPECIAL TAX BONDS  
(IMPROVEMENT AREA NO. 3)**

This Developer Continuing Disclosure Certificate, dated December \_\_, 2020 (the “**Disclosure Certificate**”), is made and entered into by KB HOME South Bay Inc., a California corporation (the “**Property Owner**”), in connection with the issuance by Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas (the “**District**”) of its 2020 Special Tax Bonds (Improvement Area No. 3) (the “**Bonds**”). The Bonds are being issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and a Bond Indenture, dated as of December 1, 2020 (the “**Indenture**”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “**Trustee**”).

The Property Owner covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Property Owner for the benefit of the holders and beneficial owners of the Bonds.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized terms used in this Disclosure Certificate unless otherwise defined herein, the following capitalized terms shall have the following meanings:

“**Affiliate**” of another Person means: (a) a Person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of such other Person; (b) any Person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other Person; and (c) any Person directly or indirectly controlling, controlled by, or under common control with, such other Person. For purposes hereof, “**control**” means the power to exercise a controlling influence over the management or policies of a Person, unless such power is solely the result of an official position with such Person.

“**Annual Report**” means any Annual Report provided pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“**Annual Report Date**” means October 31 of each year. The first Annual Report Date shall be October 31, 2021.

“**Assumption Agreement**” means an agreement or certificate of a Major Property Owner or an Affiliate thereof for the benefit of the holders and beneficial owners of the Bonds containing terms that are substantially similar to this Disclosure Certificate, whereby such Major Property Owner or Affiliate agrees to provide Annual Reports and notices of Listed Events with respect to the portion of the Property owned by such Major Property Owner and its Affiliates.

“**Bond Counsel**” means an attorney or a firm of attorneys whose experience in matters relating to the issuance of obligations by the states and their political subdivisions and the tax-exempt status of the interest thereon is recognized nationally.

**“Dissemination Agent”** means the Property Owner or any other dissemination agent designated in writing by the Property Owner and which has filed with the District a written acceptance of such designation.

**“Improvement Area”** means Improvement Area No. 3 of the District.

**“Listed Event”** means any of the events listed in Section 5(a) of this Disclosure Certificate.

**“Major Property Owner”** means, as of any date, an owner of 16 or more parcels in the Improvement Area which are subject to the Special Taxes in the Improvement Area.

**“MSRB”** means the Municipal Securities Rulemaking Board.

**“Official Statement”** means the Official Statement relating to the Bonds, dated December \_\_, 2020.

**“Participating Underwriter”** means Stifel, Nicolaus & Company, Incorporated.

**“Person”** means an individual, a corporation, a partnership, an association, a joint stock company, a trust, a limited liability company, any unincorporated organization or a government or political subdivision thereof.

**“Property”** means the parcels within the boundaries of the Improvement Area that are owned by the Property Owner as of the date of this Disclosure Certificate.

**“Repository”** means the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive continuing disclosure annual reports in connection with municipal securities. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

### SECTION 3. Provision of Annual Reports.

(a) Not later than each Annual Report Date, the Property Owner shall (or shall cause the Dissemination Agent to) file an Annual Report which is consistent with the requirements of Section 4 with the Repository. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 4. The Property Owner 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 Property Owner hereunder. The Dissemination Agent may conclusively rely upon such certification of the Property Owner and shall have no duty or obligation to review such Annual Report.

(b) If the Dissemination Agent, if other than the Property Owner, has not received a copy of the Annual Report by fifteen (15) calendar days prior to an Annual Report Date, the Dissemination Agent shall notify the Property Owner of such failure to receive the Annual Report. If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository and the Participating Underwriter by the Annual Report Date, the Dissemination Agent shall send a notice to the Repository in substantially the form attached as Exhibit A.

(c) The Property Owner, or the Dissemination Agent (if other than the Property Owner), shall: (i) provide each Annual Report to the Repository as provided herein; and (ii) if it has provided the applicable report pursuant to clause (i) above, file a report with the District (and the Property Owner, if the Dissemination Agent is other than the Property Owner) certifying that it provided the Annual Report pursuant to this Disclosure Certificate and stating the date when it was provided to the Repository.

SECTION 4. Content of Annual Reports. Each Annual Report shall contain or incorporate by reference the information set forth in Exhibit B, any or all of which may be included by specific reference to other documents, including official statements of debt issues of the Property Owner or public entities, which have been

submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Property Owner shall clearly identify each such other document so included by reference.

In addition to any of the information that is expressly required to be provided in Exhibit B, each Annual Report shall include such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Major Property Owners that are Affiliates of each other may file either separate Annual Reports or combined Annual Reports covering all such entities.

**SECTION 5. Reporting of Listed Events.**

(a) The Property Owner shall give, or cause to be given, notice of the occurrence of any of the following Listed Events with respect to itself or the Property it owns at the time of the report, if material:

(i) bankruptcy or insolvency proceedings commenced by or against the Property Owner and, if known, any bankruptcy or insolvency proceedings commenced by or against any Affiliate of the Property Owner which are reasonably likely to have a significant impact on the Property Owner's ability to pay Special Taxes or to sell or develop the Property;

(ii) failure to pay any taxes, special taxes (including the Special Taxes) or assessments due with respect to the Property (to the extent the responsibility of the Property Owner) prior to the delinquency date;

(iii) filing of a lawsuit of which the Property Owner is aware against the Property Owner or an Affiliate of the Property Owner seeking damages which is reasonably likely to have a significant impact on the Property Owner's ability to pay Special Taxes or to sell or develop the Property;

(iv) damage to or destruction of any of the improvements on the Property; and

(v) any payment default or other default by the Property Owner on any loan with respect to the construction of improvements on the Property.

(b) Whenever the Property Owner obtains knowledge of the occurrence of a Listed Event, the Property Owner shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Property Owner determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Property Owner shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the Repository, if any, with a copy to the Trustee, the City and the Participating Underwriter.

**SECTION 6. Assumption of Obligations.** If a portion of the Property owned by the Property Owner, or any Affiliate of the Property Owner, is conveyed to a Person that, upon such conveyance, will be a Major Property Owner, the obligations of the Property Owner hereunder with respect to the Property owned by such Major Property Owner and its Affiliates may be assumed by such Major Property Owner or by an Affiliate thereof. In order to effect such assumption, such Major Property Owner or Affiliate shall enter into an Assumption Agreement.

**SECTION 7. Termination of Reporting Obligation.** The Property Owner's obligations hereunder shall terminate (except as provided in Section 12 hereof) upon the earliest to occur of: (a) the legal defeasance, prior redemption or payment in full of all the Bonds; or (b) the first date on which the Property Owner: (i) is no longer a Major Property Owner; (ii) has no obligations hereunder with respect to any property because such obligations have been assumed by one or more Major Property Owners or Affiliates thereof pursuant to an Assumption Agreement; or (iii) prepays in full all of the Special Taxes attributable to its Property in the Improvement Area.

Upon the occurrence of any such termination prior to the final maturity of the Bonds, the Property Owner shall, or shall cause the Dissemination Agent to, give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 8. Dissemination Agent. The Property Owner may, from time to time, appoint a Dissemination Agent or discharge a Dissemination Agent with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty (30) days' written notice to the Property Owner and the District. If at any time there is no other designated Dissemination Agent, the Property Owner shall be the Dissemination Agent. If the Dissemination Agent is an entity other than the Property Owner, the Property Owner shall be responsible for paying the fees and expenses of such Dissemination Agent for its services provided hereunder.

SECTION 9. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, neither the Property Owner nor the Dissemination Agent, if other than the Property Owner, may amend this Disclosure Certificate without the consent of the Participating Underwriter.

SECTION 10. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Property Owner 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 Property Owner 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 Property Owner 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. In the event of a failure of the Property Owner or the Dissemination Agent to comply with any provision of this Disclosure Certificate, the Dissemination Agent may (and, at the written request of the Participating Underwriter or the Bondowners of at least 25% of the aggregate principal amount of Outstanding Bonds, and upon being indemnified to its reasonable satisfaction against the costs, expenses and liabilities to be incurred in compliance with such request, shall), or 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 Property Owner or the Dissemination Agent, as the case may be, 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 Property Owner or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall not have any responsibility for the content of any Annual Report or notice of a Listed Event or any duty to review any Annual Report. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Property Owner agrees to indemnify and save the Dissemination Agent, including its officers, directors, employees and agents (each, an "Indemnified Party"), harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the reasonable costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding losses, expenses and liabilities due to such Indemnified Party's negligence or willful misconduct. The obligations of the Property Owner under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

The Dissemination Agent will not, without the Property Owner's prior written consent, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding in respect of which indemnification may be sought hereunder unless such settlement, compromise or consent includes an unconditional release of the Property Owner and its Affiliates from all liability arising out of any such claim, action or proceedings. A request by the Dissemination Agent for the Property Owner's written consent shall be answered within a reasonable amount of time to allow the Dissemination Agent to act in a timely manner. If any claim, action or proceeding is settled with the consent of the Property Owner or if there is a judgment (other than a stipulated final judgment without the approval of the Property Owner) for the plaintiff in any such claim, action or proceeding, with

or without the consent of the Property Owner, the Property Owner agrees to indemnify and hold harmless the Dissemination Agent to the extent described herein.

SECTION 13. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given by electronic mail, regular mail, or overnight mail as follows:

District:	City of Salinas Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 200 Lincoln Avenue Salinas, California 93901 Email: mattp@ci.salinas.ca.us
Property Owner:	KB HOME South Bay Inc. c/o KB Home 5000 Executive Parkway #125 San Ramon, California 94583 Attn: Jeffrey P. McMullen, Senior Vice President
Participating Underwriter:	Stifel, Nicolaus & Company, Incorporated One Montgomery Street, 35th Floor San Francisco, California 94104 Attn: Public Finance Department vlazalde@stifel.com

SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Property Owner (and its successors and assigns), the Participating Underwriter and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity. All obligations of the Property Owner hereunder shall be assumed by any legal successor to the obligations of the Property Owner as a result of a sale, merger, consolidation or other reorganization.

SECTION 15. Assignability. The Property Owner shall not assign this Disclosure Certificate or any right or obligation hereunder except to the extent permitted to do so under the provisions of Section 6 hereof. The Dissemination Agent may, with prior written notice to the Property Owner and the District, assign this Disclosure Certificate and the Dissemination Agent's rights and obligations hereunder to a successor Dissemination Agent.

SECTION 16. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

SECTION 17. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

SECTION 18. Governing Law. The validity, interpretation and performance of this Disclosure Certificate shall be governed by the laws of the State of California.

SECTION 19. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

KB HOME South Bay Inc., a California corporation

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

**EXHIBIT A**

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD OF FAILURE TO  
FILE ANNUAL REPORT**

Name of Obligated Person: KB HOME South Bay Inc. (the "Property Owner")

Name of Bond Issue: Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas 2020 Special Tax Bonds (Improvement Area No. 3) (the "Bonds")

Date of Issuance: December \_\_, 2020

NOTICE IS HEREBY GIVEN that the Property Owner has not provided an Annual Report with respect to the Bonds as required by Section 3 of the Developer Continuing Disclosure Certificate dated December \_\_, 2020. The Property Owner anticipates that the required report will be filed by \_\_\_\_\_ \_\_, 20\_\_.

Dated: \_\_\_\_\_ \_\_, 20\_\_

[DISSEMINATION AGENT]

cc: City of Salinas

**EXHIBIT B**

**ANNUAL REPORT**

\$ \_\_\_\_\_

**COMMUNITY FACILITIES DISTRICT NO. 2016-1 (MONTE BELLA) OF THE  
CITY OF SALINAS  
2020 SPECIAL TAX BONDS  
(IMPROVEMENT AREA NO. 3)**

This Annual Report is hereby submitted under Section 4 of the Developer Continuing Disclosure Certificate (the "Disclosure Certificate") dated December \_\_, 2020 executed by the undersigned (the "Property Owner") in connection with the issuance of the above-captioned obligations (the "Bonds").

Capitalized terms used in this Annual Report but not otherwise defined have the meanings given to them in the Disclosure Certificate.

**I. Property Ownership and Development**

The information in this section is provided as of \_\_\_\_\_, 20\_\_, which date is not more than 60 days before the date of this Annual Report.

A. Property currently owned by the Property Owner in the Improvement Area (the "Property"):

Development name: \_\_\_\_\_

Number of residential lots: \_\_\_\_\_

B. Status of land development or construction activities:

\_\_\_\_\_  
\_\_\_\_\_

C. Status of building permits and any significant amendments to land use or development entitlements:

\_\_\_\_\_  
\_\_\_\_\_

D. Aggregate property sold by the Property Owner to end users or merchant builders:

**Since the Date of Issuance of the Bonds**

**Since the Date of the Last Annual Report**

Lots \_\_\_\_\_

Lots \_\_\_\_\_

E. Status of any land purchase contracts with regard to the Property, whether acquisition of land in the Improvement Area by the Property Owner or sales of land in the Improvement Area to other property owners, distinguishing between: (i) end users (e.g., condominiums); (ii) developers; and (iii) merchant builders.

\_\_\_\_\_

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**II. Legal and Financial Status of Property Owner**

Unless such information has previously been included or incorporated by reference in an Annual Report, describe any change in the legal structure of the Property Owner or the financial condition and financing plan of the Property Owner that would materially and adversely interfere with its ability to complete its development plan described in the Official Statement, if any.

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**III. Change in Development or Financing Plans**

Unless such information has previously been included or incorporated by reference in an Annual Report, describe any development plans or financing plans relating to the Property that are materially different from the proposed development plans or financing plans described in the Official Statement, if any.

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**IV. Official Statement Updates**

Unless such information has previously been included or incorporated by reference in an Annual Report, describe any other significant changes in the information relating to the Property Owner or the Property contained in the Official Statement under the heading “IMPROVEMENT AREA NO. 3—The Developer” that would materially and adversely interfere with the Property Owner’s ability to develop and sell the Property as described in the Official Statement.

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**V. Other Material Information**

In addition to any of the information expressly required above, provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

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**Certification**

The undersigned Property Owner hereby certifies that this Annual Report constitutes the Annual Report required to be furnished by the Property Owner under the Disclosure Certificate.

ANY OTHER STATEMENTS REGARDING THE PROPERTY OWNER, THE DEVELOPMENT OF THE PROPERTY, THE PROPERTY OWNER’S FINANCING PLAN OR FINANCIAL CONDITION, OR THE BONDS, OTHER THAN STATEMENTS MADE BY THE PROPERTY OWNER IN AN OFFICIAL RELEASE, OR FILED WITH THE MUNICIPAL SECURITIES RULEMAKING BOARD OR A NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORY, ARE NOT AUTHORIZED BY

THE PROPERTY OWNER. THE PROPERTY OWNER IS NOT RESPONSIBLE FOR THE ACCURACY, COMPLETENESS OR FAIRNESS OF ANY SUCH UNAUTHORIZED STATEMENTS. THE PROPERTY OWNER HAS NO OBLIGATION TO UPDATE THIS ANNUAL REPORT OTHER THAN AS EXPRESSLY PROVIDED IN THE DISCLOSURE CERTIFICATE.

Dated: \_\_\_\_\_, 20\_\_

KB HOME South Bay Inc.,  
a California corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**APPENDIX E**

**FORM OF OPINION OF BOND COUNSEL**

*Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinions with respect to the Bonds in substantially the following form:*

December \_\_, 2020

Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas  
Salinas, California

*Re:     \$\_\_\_\_\_ Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas Special  
Tax Bonds (Improvement Area No. 3)*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California (the “State”), a certified record of the proceedings of the City of Salinas (the “City”) taken in connection with the formation of Community Facilities District No. 2016-1 (Monte Bella) of the City of Salinas (the “District”) and the authorization and issuance of the District’s 2020 Special Tax Bonds (Improvement Area No. 3) in the aggregate principal amount of \$\_\_\_\_\_ (the “Bonds”) and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the District, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), and a Bond Indenture dated as of December 1, 2020 (the “Indenture”), by and between the District and The Bank of New York Mellon Trust Company, N.A., as trustee (the “Trustee”). All capitalized terms not defined herein have the meanings set forth in the Indenture.

The Bonds are dated their date of delivery and mature on the dates and in the amounts set forth in the Indenture. The Bonds bear interest payable semiannually on March 1 and September 1 of each year, commencing March 1, 2021, at the rates per annum set forth in the Indenture. The Bonds are registered Bonds in the form set forth in the Indenture, redeemable in the amounts, at the times and in the manner provided for in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1) The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture. The Bonds are limited obligations of the District but are not a debt of the City, the State or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Special Taxes, neither the faith and credit nor the taxing power of the City, the State or any of its political subdivisions is pledged for the payment thereof.

(2) The execution and delivery of the Indenture has been duly authorized by the District, and the Indenture is valid and binding upon the District and is enforceable in accordance with its terms, provided, however, that we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative Expenses or as to any indemnification, penalty, choice of law, choice of forum or waiver provisions contained therein.

(3) The Indenture creates a valid pledge of that which the Indenture purports to pledge, subject to the provisions of the Indenture.

(4) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

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

(6) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond owner will increase the Bond owner's basis in the applicable Bond. The amount of original issue discount that accrues to the Bond owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations and is exempt from State personal income tax.

(7) The amount by which a Bond owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the Internal Revenue Code of 1986, as amended (the "Code"); such amortizable Bond premium reduces the Bond owner's basis in the applicable Bond (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Bond premium may result in a Bond owner realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

The opinions expressed in paragraphs (4) and (6) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the District and are subject to the condition that the District comply with certain covenants and all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such covenants and requirements of the Code may cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (4), (5), (6) and (7) above, we express no opinion as to any tax consequences related to the Bonds.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations of the District under the Indenture and the Bonds are subject to and may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies

are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State.

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Indenture.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement relating to the Bonds or other offering material relating to the Bonds and expressly disclaim any duty to advise the owners of the Bonds with respect to matters contained in the Official Statement.

Certain requirements and procedures contained or referred to in the Indenture and Tax Certificate may be changed, and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in the Indenture and Tax Certificate relating to the Bonds, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect on the exclusion from gross income for federal income tax purposes of the interest (and original issue discount) on any Bonds if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We call attention to the fact that the foregoing opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur). Our engagement as bond counsel to the District terminates upon the issuance of the Bonds.

Respectfully submitted,

## APPENDIX F

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual

Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account. DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

**APPENDIX G**

**APPRAISAL**