

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

**PRELIMINARY OFFICIAL STATEMENT DATED MAY \_\_, 2018**

**NEW ISSUE—BOOK-ENTRY ONLY**

**NO RATING**

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

**\$1,645,000\***

**CITY OF LAKE ELSINORE  
COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)  
SPECIAL TAX BONDS, SERIES 2018**

**Dated: Delivery Date**

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

The City of Lake Elsinore Community Facilities District No. 2007-5 (Red Kite) Special Tax Bonds, Series 2018 (the "Bonds") are being issued by City of Lake Elsinore Community Facilities District No. 2007-5 (Red Kite) (the "District") to: (i) finance certain public improvements needed with respect to the development of property located within the District, including public improvements to be owned by the City and water and sewer facilities to be owned and operated by the Elsinore Valley Municipal Water District; (ii) fund a reserve account for the Bonds; and (iii) pay costs of issuance for the Bonds. The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the "Act"), and pursuant to that certain Bond Indenture, dated as of June 1, 2018 (the "Indenture"), by and between the District and Wilmington Trust, National Association, as trustee (the "Trustee").

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

The Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on each March 1 and September 1, commencing March 1, 2019. Principal of and interest on the Bonds will be paid by the Trustee to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners of the Bonds.

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

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

**Investment in the Bonds involves risks that are not appropriate for certain investors. Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption "SPECIAL RISK FACTORS" for a discussion of certain risk factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds.**

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

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

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*The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by Leibold McClendon, & Mann, Irvine, California, City Attorney, and for the District by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel, for the Underwriter by Nossaman LLP, Irvine, California, and for the Trustee by its counsel. It is anticipated that the Bonds in book-entry form will be available for delivery on or about May \_\_, 2018.*

**STIFEL**

Dated: May \_\_, 2018

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\* Preliminary, subject to change.

**\$1,645,000\***  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**SPECIAL TAX BONDS, SERIES 2018**

**MATURITY SCHEDULE**

**BASE CUSIP®† 50963N**

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

<i><b>Maturity Date</b></i> <i><b>(September 1)</b></i>	<i><b>Principal</b></i> <i><b>Amount</b></i>	<i><b>Interest Rate</b></i>	<i><b>Yield</b></i>	<i><b>Price</b></i>	<i><b>CUSIP No.†</b></i>
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**\$\_\_\_\_\_ Term Bonds**

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

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\* Preliminary, subject to change.

† CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This information is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services Bureau. CUSIP numbers have been assigned by an independent company not affiliated with the City, the District or the Underwriter and are included solely for the convenience of the registered owners of the applicable Bonds. None of the City, the District or the Underwriter is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the applicable Bonds or as included herein. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

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

**CITY COUNCIL**

Natasha Johnson, *Mayor*  
Steve Manos, *Mayor Pro Tem*  
Daryl Hickman, *Councilmember*  
Robert E. Magee, *Councilmember*  
Brian Tisdale, *Councilmember*

**CITY ADMINISTRATORS**

Grant Yates, *City Manager*  
Jason Simpson, *Assistant City Manager*

**CITY ATTORNEY**

Leibold McClendon, & Mann  
Irvine, California

**BOND AND DISCLOSURE COUNSEL**

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

**MUNICIPAL ADVISOR**

Urban Futures Incorporated  
Orange, California

**SPECIAL TAX CONSULTANT**

Spicer Consulting Group, LLC  
Temecula, California

**APPRAISER**

Kitty Siino & Associates, Inc.  
Tustin, California

**TRUSTEE**

Wilmington Trust, National Association  
Costa Mesa, California

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

This Official Statement is not to be construed as a contract with the purchasers or Owners of the Bonds. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The Underwriter has provided the following sentence for inclusion in this Official Statement:

The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City, the District or any other parties described herein since the date hereof. All summaries of the Indenture or other documents are made subject to the provisions of such documents respectively and do not purport to be complete statements of any or all of such provisions. Reference is hereby made to such documents on file with the City for further information in connection therewith.

**IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 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 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.**

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget,” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the caption “THE DISTRICT.”

**THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICT DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT. IN EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.**

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

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[INSERT VICINITY MAP]

[INSERT AERIAL PHOTOGRAPH]



**\$1,645,000\***  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**SPECIAL TAX BONDS, SERIES 2018**

**INTRODUCTION**

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by City of Lake Elsinore Community Facilities District No. 2007-5 (Red Kite) (the “District”) of its Special Tax Bonds, Series 2018 in the aggregate principal amount of \$1,645,000\* (the “Bonds”). The proceeds of the Bonds will be used to: (i) finance certain public improvements needed with respect to the development of property located within the District, including public improvements to be owned by the City and water and sewer facilities to be owned and operated by the Elsinore Valley Municipal Water District; (ii) fund a reserve account for the Bonds; and (iii) pay costs of issuance for the Bonds.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and a Bond Indenture, dated as of June 1, 2018 (the “Indenture”), by and between the District and Wilmington Trust, National Association, as trustee (the “Trustee”). The Bonds are secured under the Indenture by a pledge of and lien upon Net Taxes (as such term is defined herein) and all moneys in the Special Tax Fund (other than the Administrative Expense Account therein) as described in the Indenture.

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The sale and delivery of Bonds to potential investors is made only by means of the entire Official Statement. All capitalized terms used in this Official Statement and not defined have the meanings set forth in Appendix E.

**The District**

**General.** The City of Lake Elsinore (the “City”) is located in the western portion of the County of Riverside (the “County”), California (the “State”). The District contains approximately 10.3 gross acres and approximately 6.5 net acres, and is located in the northwestern portion of the City, north of Tiller Lane and southwest of Lakeside High School. The District consists of a portion of Tract Map No. 32996 and includes 46 single family detached homes in a project that has been marketed by FH II, LLC, a California limited liability company, dba Frontier Communities (“Frontier Communities”) as “Cottage Lane.” As of March 15, 2018, as described in the Appraisal Report (defined below), within the District, there were 29 completed homes owned by individual homeowners. As of such date, Frontier Communities owned three completed model homes, 10 homes over 95% complete and four homes under construction (14 of which were in escrow). Between March 15, 2018 and May 4, 2018, Frontier Communities completed and conveyed all remaining homes within the District to individual homeowners.

Five of the homes within the District owned by individual homeowners were completed in 2008, however, due in part to the severe economic recession in the 2000’s, such homes were not sold until 2014 and 2015. Frontier Communities purchased the remaining land in the District in 2016 and has undertaken the development within the District as described herein. A detention basin and a completed park are located on land within the District. The parcels associated with the detention basin and the park site are owned and maintained by the homeowner’s association and are not subject to the Special Tax levy.

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\* Preliminary, subject to change.

See the caption “THE DISTRICT” for further information with respect to the District, Frontier Communities and development within the District.

**Formation Proceedings.** The District was formed on January 8, 2008 pursuant to the Act. The Act was enacted to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district and may levy and collect a special tax within such district to repay such indebtedness.

Pursuant to the Act, on November 27, 2007, the City Council adopted Resolution No. 2007-198 (the “Resolution of Intention”), stating its intention to form the District and to authorize the levy of a special tax on the taxable property within the District, and Resolution No. 2007-199, stating its intention to incur bonded indebtedness in an aggregate principal amount not to exceed \$2,500,000 for the purpose of financing the purchase, construction, expansion or rehabilitation of certain public facilities to serve the area within the District.

Subsequent to a noticed public hearing on January 8, 2008, the City Council adopted Resolution Nos. 2008-11 and 2008-12 on January 8, 2008 (collectively the “Resolution of Formation”). The Resolution of Formation: (i) established the District; (ii) authorized the levy of a special tax (the “Special Tax”) within the District; (iii) determined the necessity to incur bonded indebtedness in an amount not to exceed \$2,500,000 within the District; and (iv) called an election within the District on the proposition of incurring bonded indebtedness, levying a special tax and setting an appropriations limit.

On January 8, 2008, an election was held within the District in which the property owner within the District approved the proposition authorizing the issuance of bonds in an amount not to exceed \$2,500,000 to finance the Facilities. A Notice of Special Tax Lien for the District was recorded in the office of the County Recorder on January 17, 2008, as Document No 2008-0026504. On January 22, 2008, the City Council adopted Ordinance No. 1242 (the “Ordinance”) which authorizes the levy of a special tax pursuant to the Rate and Method of Apportionment approved at the January 8, 2008, election (the “Rate and Method”), a copy of which is attached hereto as Appendix A.

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

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

Under the Indenture, the District has pledged to repay the Bonds and any Parity Bonds (as defined herein) from the Special Tax revenues remaining after the payment of certain annual Administrative Expenses of the District (the “Net Taxes”) and from other amounts in the Special Tax Fund (other than the Administrative Expense Account therein) established under the Indenture. The Special Taxes are the primary source of security for the repayment of the Bonds and any Parity Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds and any Parity Bonds are amounts held by the Trustee in the Special Tax Fund, including amounts held in the Reserve Account therein, to the limited extent described in the Indenture. See the caption “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund.”

The Rate and Method authorizes the District to levy a Special Tax for Services (as defined in the Rate and Method). The Special Tax for Services is not pledged to and is not available to pay debt service on the Bonds.

***Foreclosure Proceeds.*** The District will covenant in the Indenture for the benefit of the owners of the Bonds and Parity Bonds that it will: (i) commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement. See the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — Proceeds of Foreclosure Sales.” There is no assurance that the property within the District can be sold for the appraised or assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within the District. See the caption “SPECIAL RISK FACTORS—Property Values.”

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

### **Appraisal Report**

Kitty Siino & Associates, Inc. (the “Appraiser”) has conducted an Appraisal dated April 2, 2018 (the “Appraisal Report”) of certain land and existing improvements within the District to provide an estimate of the market value of the fee simple interest of such land and improvements. The property included in the Appraisal Report consists of the 24 homes completed and conveyed by Frontier Communities to individual homeowners, the three completed model homes and the 14 homes under construction owned by Frontier Communities (collectively, the “Appraised Property”). The Appraised Property does not include the five homes within the District which were completed in 2008 and currently owned by individual homeowners. The Appraiser is of the opinion that, based upon the assumptions and conditions contained in the Appraisal Report, the market value of the Appraised Property, as of March 15, 2018 (the “Date of Value”), was \$12,368,479. Between the Date of Value and May 4, 2018, Frontier Communities completed and conveyed all remaining homes within the District to individual homeowners.

Combining the appraised value of the Appraised Property with the Fiscal Year 2017-18 assessed value of the five homes within the District which were completed in 2008 (\$1,614,514), results in an aggregate estimated value \$13,982,993. Based on such aggregate estimated value of the property within the District and the estimated amount of land secured debt allocated to parcels within the District (including the Bonds), the overall value-to-lien ratio of the property within the District is approximately 8.5-to-1\*. See “THE DISTRICT — Appraisal Report,” Appendix D — “APPRAISAL REPORT” and “SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness.”

### **Description of the Bonds**

The Bonds will be issued and delivered as fully registered Bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), and will be available to actual purchasers of the Bonds (the “Beneficial Owners”) in the denominations of \$5,000 or any integral multiple

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\* Preliminary, subject to change.

thereof, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry only system described herein is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture. See Appendix G — “BOOK-ENTRY ONLY SYSTEM.”

Principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. See Appendix G — “BOOK-ENTRY ONLY SYSTEM.”

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

### **Tax Exemption**

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California (“Bond Counsel”), under existing statutes, regulations, rulings and judicial decisions, and assuming 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. See the caption “TAX EXEMPTION.”

Set forth in Appendix C is the form of opinion of Bond Counsel expected to be delivered in connection with the issuance of the Bonds. For a more complete discussion of such opinion and certain tax consequences incident to the ownership of the Bonds, see the caption “TAX EXEMPTION.”

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

Wilmington Trust, National Association, Costa Mesa, California, will act as Trustee under the Indenture. Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) is the Underwriter of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel to the District in connection with the issuance of the Bonds. Certain legal matters will be passed on for the City and the District by Leibold McClendon, & Mann, Irvine, California, City Attorney, for the Underwriter by Nossaman LLP, Irvine, California, and for the Trustee by its counsel. Other professional services have been performed by Spicer Consulting Group, LLC, Temecula, California, as Special Tax Consultant (the “Special Tax Consultant”) and by Kitty Siino & Associates, Tustin, California, as Appraiser.

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

### **Continuing Disclosure**

Pursuant to a Continuing Disclosure Certificate to be executed by the District (the “District Continuing Disclosure Certificate”), the District will agree to provide, or cause to be provided, to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access system (“EMMA”), maintained on the Internet at <http://emma.msrb.org>, certain annual financial information and operating data and notices of certain enumerated

events. These covenants are being made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12 adopted by the Securities and Exchange Commission (“Rule 15c2-12”).

See “CONTINUING DISCLOSURE” and Appendix F — “FORM OF CONTINUING DISCLOSURE CERTIFICATE.”

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

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

### **Bond Owners’ Risks**

Certain events could affect the ability of the District to pay the principal of and interest on the Bonds when due. See the caption “SPECIAL RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds. The purchase of the Bonds involves risks, and the Bonds may not be appropriate investments for some types of investors.

### **Other Information**

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

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

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

## ESTIMATED SOURCES AND USES OF FUNDS

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

### Sources of Funds

Principal Amount of Bonds	\$
Plus/Less Net Original Issue Premium/Discount	
Total Sources	<u>\$</u>

### Uses of Funds:

Acquisition and Construction Fund	\$
Costs of Issuance Account <sup>(1)</sup>	
Reserve Account of the Special Tax Fund	
Underwriter's Discount	
Total Uses	<u>\$</u>

<sup>(1)</sup> To pay costs of issuance of the Bonds, including legal fees, printing costs, Appraiser, Special Tax Consultant and Trustee fees.

## THE BONDS

### General Provisions

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing March 1, 2019 (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 denominations of \$5,000 or any integral multiple thereof.

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 that Bond, unless: (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day (each, a "Record Date") but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, 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.

Interest on any Bond will be paid to the person whose name appears as its owner in the registration books held by the Trustee on the close of business on the Record Date. Principal of, premium, if any, due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Trustee in Costa Mesa, California.

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. So long as DTC is the securities depository all payments of principal and interest on the Bonds will be made to DTC and will be paid to the Beneficial Owners in accordance with DTC's procedures and the procedures of DTC's Participants. See APPENDIX G — "BOOK-ENTRY-ONLY SYSTEM."

In the event the Bonds are not held in book-entry form, interest will be paid by check of the Trustee mailed by first class mail, postage prepaid, to the Bondowner at its address on the registration books kept by the Trustee. Pursuant to a written request prior to the Record Date of a Bondowner of at least \$1,000,000 in aggregate principal amount of Bonds, payment will be made by wire transfer in immediately available funds to a designated account in the United States.

### **Debt Service Schedule**

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

<i><b>Year Ending September 1</b></i>	<i><b>Principal</b></i>	<i><b>Interest</b></i>	<i><b>Total Debt Service</b></i>
2019			
2020			
2021			
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			
<b>Total</b>			

### **Redemption\***

**Optional Redemption.** The Bonds may be redeemed at the option of the District from any source of funds on any Interest Payment Date on or after \_\_\_\_\_, 201\_, in whole or in part, from such maturities as

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\* Preliminary, subject to change.

are selected by the District and by lot within a maturity, at the following redemption prices, expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

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

In the event that the District elects to redeem Bonds as provided above, the District will give written notice to the Trustee of its election to so redeem, the redemption date and the principal amount of the Bonds of each maturity to be redeemed. The notice to the Trustee will be given at least 30 but no more than 60 days prior to the redemption date, or by such later date as is acceptable to the Trustee.

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

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

<i>Sinking Fund Redemption Date</i> <i>(September 1)</i>	<i>Sinking Payments</i>
	\$

†

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† Maturity.

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

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

<i>Sinking Fund Redemption Date</i> <i>(September 1)</i>	<i>Sinking Payments</i>
	\$

†

---

† Maturity.



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

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

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

<b><i>Redemption Date</i></b>	<b><i>Redemption Price</i></b>
Any Interest Payment Date through 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

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

The Trustee will give notice, in the name of the District, of the redemption of Bonds. Such notice of redemption will: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all of the Bonds of one maturity are to be redeemed, the bond numbers of such issue need not be specified; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as specified by the Trustee. Such notice will further state that on the date fixed for redemption, there will become due and payable on each Bond, or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable. At least 30 days but no more than 45 days prior to the redemption date, the Trustee will mail a copy of such notice of redemption, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register, and to the original purchaser of any Bonds; provided, however, so long as the Bonds are registered in the name of the Nominee, such notice shall be given in such manner as complies with the requirements of the Depository. The actual receipt by the Owner of any Bond of notice of such redemption is not a condition precedent to redemption, and neither the failure to receive nor any defect in such notice will affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Trustee that notice of such redemption has been given as provided in the Indenture will be conclusive as against all parties and the Owner is not entitled to show that he or she failed to receive notice of such redemption.

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

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

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

With respect to any notice of optional redemption of Bonds, such notice may state that such redemption is conditional upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds to be redeemed and that, if 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.

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

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

***Effect of Notice and Availability of Redemption Money.*** Notice of redemption having been duly given, as provided in the Indenture, and the amount necessary for the redemption having been made available for that purpose and being available therefor on the date fixed for such redemption: (i) the Bonds, or portions thereof, designated for redemption will, on the date fixed for redemption, become due and payable at the redemption price thereof as provided in the Indenture, anything in the Indenture or in the Bonds to the contrary notwithstanding; (ii) upon presentation and surrender thereof at the office of the Trustee, the redemption price of such Bonds will be paid to the Owners thereof; (iii) as of the redemption date the Bonds, or portions thereof so designated for redemption will be deemed to be no longer Outstanding and such Bonds, or portions thereof, will cease to bear further interest; and (iv) as of the date fixed for redemption no Owner of any of the Bonds, or portions thereof so designated for redemption will be entitled to any of the benefits of the Indenture, or to any other rights, except with respect to payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

## **Registration, Transfer and Exchange**

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

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

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

## **SOURCES OF PAYMENT FOR THE BONDS**

### **Limited Obligations**

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

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

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

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

## Special Taxes

***Authorization and Pledge.*** In accordance with the provisions of the Act, the City established the District on January 8, 2008 for the purpose of financing of various public improvements required in connection with the proposed development within the District. At a special election held on January 8, 2008, the qualified elector within the District authorized the District to incur indebtedness in an amount not to exceed \$2,500,000 for the District and the levy of the Special Taxes on property within the District to repay such bonds and to finance the Facilities (as defined below). The qualified elector within the District also voted to approve the Rate and Method which authorized the Special Tax to be levied to repay indebtedness of the District, including the Bonds.

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

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

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

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

Pursuant to the Rate and Method the District is required to determine the “Special Tax Requirement for Facilities” for each Fiscal Year. The Special Tax Requirement for Facilities for the District is the amount required in any Fiscal Year to pay: (i) the debt service or the periodic costs on all outstanding Bonds and Parity Bonds due in the calendar year that commences in such Fiscal Year, (ii) Administrative Expenses, (iii) the costs associated with the release of funds from an escrow account, (iv) any amount equal to establish or replenish any reserve funds established in association with the Bonds, (v) an amount equal to any anticipated shortfall due to Special Tax for Facilities delinquencies, and (vi) the collection or accumulation of funds for the acquisition or construction of facilities authorized by the District, provided that the inclusion of such amount does not cause an increase in the levy of Special Tax for Facilities on Undeveloped Property as set forth in the Rate and Method,

(vii) any amount required to establish or replenish any delinquency management funds established in association with the Special Taxes, less (viii) any amounts available to pay debt service or other periodic costs on the Bonds pursuant to the Indenture.

The Special Tax Requirement for Facilities for the District is to be satisfied first by levying the Special Tax Proportionately on each Assessor's Parcel of Developed Property at up to 100% of the Assigned Special Tax for Facilities. If additional moneys are needed to satisfy the Special Tax Requirement for Facilities, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Approved Property at up to 100% of the Maximum Special Tax for Facilities applicable to each such Assessor's Parcel. If additional moneys are still needed to satisfy the Special Tax Requirement for Facilities, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property up to 100% of the Maximum Special Tax for Facilities applicable to each such Assessor's Parcel. If additional moneys are needed to satisfy the Special Tax Requirement for Facilities, the Special Tax for Facilities on each Assessor's Parcel of Developed Property whose Maximum Special Tax for Facilities is the Backup Special Tax for Facilities shall be increased Proportionately from the Assigned Special Tax for Facilities up to 100% of the Backup Special Tax for Facilities. Finally, if additional moneys are needed to satisfy the Special Tax Requirement for Facilities, the Special Tax for Facilities shall be levied Proportionately on each Assessor's Parcel of Provisional Undeveloped Property at up to 100% of the Maximum Special Tax for Facilities applicable to each such Assessor's Parcel. Notwithstanding the above, under no circumstances will the Special Tax for Facilities levied against any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased as a consequence of delinquency or default by the owner of any other Assessor's Parcel within the District by more than 10% per Fiscal Year.

Within the District, all 46 parcels will be classified as Developed Property for the Fiscal Year 2018-19 Special Tax levy.

For Fiscal Year 2018-19, the Assigned Special Tax for Facilities for Developed Property within the District that is classified as Single Family Property will range from \$2,528.00 per taxable unit with a Residential Floor Area of 2,101 square feet or less to \$3,672.00 per taxable unit with a Residential Floor Area of 2,300 square feet or greater. For Fiscal Year 2018-19, the Maximum Special Tax for Non Residential Property will be \$22,530 per acre.

Annual Debt Service for the Bonds has been structured so that Developed Property levied at the Assigned Special Tax for Facilities rate based on the development status within the District as of May 1, 2018 (which consisted of all 46 parcels of Developed Property for the Fiscal Year 2018-19 Special Tax levy), assuming no delinquencies, will generate in each Fiscal Year not less than the Administrative Expenses Cap plus 110% of debt service payable with respect to the Bonds in the calendar year that begins in that Fiscal Year, assuming that Special Taxes are levied and collected on such Developed Property pursuant to the Rate and Method.

Table 1 below sets forth the Assigned Special Tax for Facilities per unit of Developed Property, the projected Fiscal Year 2018-19 Special Tax levy and the percent of such levy based on land use type.

**TABLE 1**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**ASSIGNED SPECIAL TAXES**

<i>Land Use Type</i>	<i>Residential Floor Area<sup>(1)</sup></i>	<i>Assigned Fiscal Year 2018-19 Special Tax Rates Per Unit<sup>(2)</sup></i>	<i>No. of Units</i>	<i>Estimated Fiscal Year 2018-19 Special Tax Levy*</i>	<i>Percent of Total</i>
Residential Property	2,101 sq. ft. or less	\$ 2,528.00	30	\$ 75,840.00	56.3%
Residential Property	2,201 sq. ft. to 2,300 sq. ft.	2,619.00	0	0.00	0.0
Residential Property	Greater than 2,300 sq. ft.	3,672.00	16	58,752.00	43.7
Apartment Property	N/A	22,530.00	--	0.00	0.0
Non-Residential Property	N/A	22,530.00	--	0.00	0.0
		<b>Total</b>	<b>46</b>	<b>\$134,592.00</b>	<b>100.0%</b>

\* Preliminary, subject to change.

(1) Parcels classified between 2,102 and 2,200 square feet have been classified in the tax rate for homes of 2,201 square feet or less.

(2) Includes the Fiscal Year 2018-19 Administrative Expenses Cap of \$25,000.

Source: Spicer Consulting Group, LLC.

At the time a Final Map is recorded, the Backup Special Tax for Facilities 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 for Facilities 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 Apartment Property or 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. The resulting quotient shall be the Backup Special Tax for Facilities for each Assessor's Parcel of Single Family Property within such Final Map area. The Backup Special Tax for Facilities shall not apply to Non-Residential Property or Apartment 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 Facilities 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 for Facilities that would have been generated if such change did not take place.

The Annual Special Tax obligation for an Assessor's Parcel may be prepaid in full, or in part, provided that the terms set forth under the Rate and Method are satisfied. The Prepayment Amount is calculated based on the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Cost, Administrative Fee and less a credit for the resulting reduction in the Reserve Requirement for the Bonds (if any) and less capitalized interest (if any), all as specified in Section G of the Rate and Method attached as Appendix A. Prepayments of Special Taxes will be applied to effect an extraordinary redemption of Bonds and Parity Bonds. See "THE BONDS — Redemption — *Special Mandatory Redemption from Special Tax Prepayments.*"

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

***Limitation on Special Tax Levy and Potential Impact on Coverage.*** Pursuant to Section 53321(d) of the Government Code, the special tax levied against any Assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other Assessor's parcel within the District by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the District may not be able to increase the tax levy to the Assigned Special Tax in all years.

***Levy, Collection and Application of Special Taxes.*** The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes, although it is possible that the District could elect to provide handbills to property owners within the District.

The District will covenant in the Indenture that each year it will levy Special Taxes up to the maximum rates permitted under the Rate and Method in an amount sufficient, together with other amounts on deposit in the Special Tax Fund, to pay the principal of and interest on any Outstanding Bonds and Parity Bonds, to replenish the Reserve Account to the Reserve Requirement and to pay Administrative Expenses.

The District will make certain covenants in the Indenture which are intended to ensure that the current maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due.

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

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

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

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

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

Although the Special Taxes constitute liens on taxed parcels within the District, they do not constitute a personal indebtedness of the owners of property within the District. Moreover, other liens for taxes and assessments already exist on the property located within the District and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners in the District. See

the captions “THE DISTRICT—Direct and Overlapping Debt” and “SPECIAL RISK FACTORS—Direct and Overlapping Indebtedness.” There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described under the caption “SPECIAL RISK FACTORS.”

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

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Taxes levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a Superior Court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District will covenant in the Indenture for the benefit of the owners of the Bonds and any Parity Bonds that it will: (i) commence judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of each Fiscal Year in which such Special Taxes were due; and (ii) commence judicial foreclosure proceedings against all parcels with delinquent Special Taxes by the October 1 following the close of each Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied; and (iii) diligently pursue such foreclosure proceedings until the delinquent Special Taxes are paid; provided that, notwithstanding the foregoing, the District may elect to defer foreclosure proceedings on any parcel so long as the amount in the Reserve Account is at least equal to the Reserve Requirement.

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

If foreclosure is necessary and other funds (including amounts in the Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed unless the foreclosure proceedings produce sufficient net foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See the caption “SPECIAL RISK FACTORS — Enforcement Delays – Bankruptcy.” Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the net proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See the caption “SPECIAL RISK FACTORS — Property Values.” Although the Act authorizes the District to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the District or the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

***Collection of Special Taxes and Flow of Funds.*** The Special Taxes will be levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes, although it is possible that the District could elect to provide handbills to property owners within the District. When the County apportions Special Taxes to the District, the District will transmit the Special Taxes to the Trustee for deposit in the Special Tax Fund established by the Indenture.

Except for Prepayments, which shall be deposited to the Redemption Account of the Special Tax Fund, the Trustee shall, on each date on which the Special Taxes are received from the District, deposit the Special



Taxes in the Special Tax Fund to be held in trust for the Owners. The Trustee shall transfer the Special Taxes on deposit in the Special Tax Fund on the dates and in the amounts set forth in the following Sections, in the following order of priority, to:

- First: To the Administrative Expense Account in an amount up to the Administrative Expenses Cap.
- Second: To the Interest Account, an amount such that the balance in the Interest Account one Business Day prior to each Interest Payment Date is equal to the installment of interest due on the Bonds and any Parity Bonds on said Interest Payment Date. Moneys in the Interest Account will be used for the payment of interest on the Bonds and any Parity Bonds as the same become due.
- Third: To the Principal Account, an amount such that the balance in the Principal Account one Business Day prior to September 1 of each year, commencing September 1, 2019, is equal to the principal payment due on the Bonds and any Parity Bonds maturing on such September 1 and any principal payment due on a previous September 1 which remains unpaid. Moneys in the Principal Account shall be used for the payment of the principal of such Bonds and any Parity Bonds as the same become due at maturity.
- Fourth: To the Redemption Account, the amount needed to make the balance in the Redemption Account one Business Day prior to each September 1 on which a Sinking Fund Payment is due equal to the Sinking Fund Payment due on any Outstanding Bonds and Parity Bonds on such September 1 and thereafter, to pay the principal and premium, if any, due in connection with an optional redemption of Bonds or Parity Bonds.
- Fifth: To the Reserve Account of the Special Tax Fund to the extent necessary to replenish the Reserve Account to the Reserve Requirement.
- Sixth: To the Administrative Expense Account of the Special Tax Fund the amount of any Administrative Expenses for the current Bond Year in excess of the Administrative Expenses Cap as directed by the City.
- Seventh: To the Rebate Fund established by the Indenture to the extent directed by the City pursuant to the Indenture.
- Seventh: To the Surplus Fund established by the Indenture such remaining amounts in the Special Tax Fund after making the foregoing transfers on September 1.

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

In order to secure further the payment of principal of and interest on the Bonds, the District is required, upon delivery of the Bonds, to deposit in the Reserve Account and thereafter to maintain in the Reserve Account an amount equal to the Reserve Requirement. "Reserve Requirement" is defined in the Indenture to mean, as of any date of calculation, the lesser of: (i) 10% of the initial principal amount of the Bonds and any Parity Bonds; (ii) the Maximum Annual Debt Service on the then Outstanding Bonds and Parity Bonds; or (iii) 125% of average Annual Debt Service on the then Outstanding Bonds and Parity Bonds.

Subject to the limits on the maximum annual Special Tax levy set forth in the Rate and Method and in the Indenture, the District will covenant in the Indenture to levy Special Taxes in an amount sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Account at the Reserve Requirement. Amounts in the Reserve Account are to be applied: (i) to pay debt service on the Bonds, or any Parity Bonds, including Sinking Fund Payments, to the extent that other monies are not available therefor;

(ii) to redeem Bonds or Parity Bonds in the event of prepayment of Special Taxes or to optionally redeem Bonds or Parity Bonds in accordance with the Indenture; and (iii) to pay any rebate requirements. See Appendix E under the caption “CREATION OF FUNDS AND APPLICATION OF PROCEEDS — Reserve Account of the Special Tax Fund.”

### **No Teeter Plan**

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

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

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

## **THE DISTRICT**

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

The District contains approximately 10.3 gross acres and approximately 6.5 net acres, and is located in the northwestern portion of the City, north of Tiller Lane and southwest of Lakeside High School. The District consists of a portion of Tract Map No. 32996 and includes 46 single family detached homes in a project that has been marketed by Frontier Communities as “Cottage Lane.” As of the Date of Value, within the District, there were 29 completed homes owned by individual homeowners. As of such date, Frontier Communities owned three completed model homes, 10 homes over 95% complete and four homes under construction (14 of which were in escrow). Between March 15, 2018 and May 4, 2018, Frontier Communities completed and conveyed all remaining homes within the District to individual homeowners.

Five of the homes owned by individual homeowners were completed in 2008, however, due in part to the severe economic recession in the 2000’s, such homes were not sold until 2014 and 2015. Frontier Communities purchased the remaining land in the District in 2016 and has undertaken the development within the District as described herein.

All backbone and in-tract infrastructure relating to the development within the District is complete and all fees relating to such development have been paid. A detention basin and a completed park are located on within the District. The parcels associated with the detention basin and the park site are owned and maintained by the homeowner’s association and are not subject to the Special Tax levy.

Based on the number of building permits obtained for lots within the District as of May 1, 2018, all 46 lots will be classified as Developed Property under the Rate and Method for the Fiscal Year 2018-19 Special Tax levy. See APPENDIX A — “RATE AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

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

Although, like all of Southern California, the land within the District is subject to seismic activity, it is not located within an Alquist-Priolo Earthquake Fault Zone.

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

### **The Project**

The Project includes the financing of the costs of construction of certain storm drain and street improvements to be owned by the City and the costs of certain water and sewer system improvements to be owned and operated by the Elsinore Valley Municipal Water District.

### **Appraisal Report**

The estimated assessed value of the property within the District, as shown on the County's assessment roll for Fiscal Year 2017-18, is approximately \$3,611,173. However, as a result of the requirements of Article XIII A of the California Constitution, a property's assessed value is not necessarily indicative of its market value. In order to provide information with respect to the value of the Appraised Property within the District, the City engaged the Appraiser to prepare the Appraisal Report. The Appraiser has an "MAI" designation from the Appraisal Institute and has prepared numerous appraisals for the sale of land-secured municipal bonds. The Appraiser was selected by the City and has no material relationships with the City or the owners of the land within the District other than the relationship represented by the engagement to prepare the Appraisal Report. The City instructed the Appraiser to prepare its analysis and report in conformity with City-approved guidelines and the Appraisal Standards for Land Secured Financings published in 1994 and revised in 2004 by the California Debt and Investment Advisory Commission. A copy of the Appraisal Report is included as Appendix D — "APPRAISAL REPORT" to this Official Statement.

The purpose of the Appraisal Report was to estimate the market value of the fee simple interest of the Appraised Property. The estimate of market value assumes that all improvements and/or benefits for the Appraised Property which are to be funded from proceeds of the Bonds are completed or have accrued to the property. Subject to the assumptions and limiting conditions set forth in the Appraisal Report, the Appraiser concluded that, as of the Date of Value, the market value of the Appraised Property was \$12,368,479. The Fiscal Year 2017-18 assessed value of the five homes which were completed in 2008 is \$1,614,514, which combined with the appraised value of the Appraised Property, results in an aggregate estimated value of the property within the District of \$13,982,993.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in Appendix D. The City makes no representation as to the accuracy of the Appraisal Report. See Appendix D — "APPRAISAL REPORT." There is no assurance that the Appraised Property within the District can be sold for the prices set forth in the Appraisal Report or that any parcel can be sold for a price sufficient to pay the Special Tax for that parcel in the event of a default in payment of Special Taxes by the landowner. See "SPECIAL RISK FACTORS — Property Values" and Appendix D — "APPRAISAL REPORT."

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

The aggregate estimate of value of property within the District is \$13,982,993, which amount is the sum of the appraised value of the Appraised Property (\$12,368,479) as of the Date of Value and the Fiscal Year 2017-18 assessed value of the five homes which were constructed in 2008 (\$1,614,514). Dividing the aggregate estimate of value by the principal amount of the Bonds results in value to lien ratio of 8.5-to-1\* for the District. See "SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness." The assessed value of the property within the District is \$3,611,173 for Fiscal Year 2017-18. Dividing the assessed value by the principal amount of the Bonds results in an estimated assessed value-to-lien ratio of 2.20-to-1\* for the District.

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\* Preliminary, subject to change.

Table 2 below sets forth the value-to-lien ratio of the 46 parcels of Developed Property within the District based on the appraised value of the Appraised Property and the Fiscal Year 2017-18 assessed value of five homes which were completed in 2008, and the principal amount of the Bonds. As of May 4, 2018, Frontier Communities had completed and conveyed all homes within the District to individual homeowners. Therefore, all Special Taxes to be levied in Fiscal Year 2018-19 are expected to be payable by individual homeowners.

**TABLE 2**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**ESTIMATED VALUE-TO-LIEN RATIOS**  
**(AS OF MAY 4, 2018)**

<i>Property Owner</i>	<i>No. of Parcels</i>	<i>Total Property Value<sup>(2)</sup></i>	<i>Percentage of Total Property Value</i>	<i>Maximum Special Tax</i>	<i>Percentage of Maximum Special Tax</i>	<i>Estimated Fiscal Year 2018-19 Special Tax Levy<sup>(3)*</sup></i>	<i>Percentage of Estimated Fiscal Year 2018-19 Levy*</i>	<i>CFD 2007-5 Bonds<sup>(4)</sup></i>	<i>Appraised Value-to- Lien Ratio*</i>
Developed Property – Individually Owned <sup>(1)</sup>	46	\$ 13,982,993	100.00%	\$ 163,209	100.00%	\$ 134,592	100.00%	\$ 1,645,000	8.50:1
<b>Total</b>	<b>46</b>	<b>\$ 13,982,993</b>	<b>100.00%</b>	<b>\$ 163,209</b>	<b>100.00%</b>	<b>\$ 134,592</b>	<b>100.00%</b>	<b>\$ 1,645,000</b>	<b>8.50:1</b>

\* Preliminary, subject to change.

(1) Includes five homes which were completed in 2008 and conveyed to individual homeowners in 2014 and 2015 and the balance of the homes in the District which, as of May 4, 2018, had been completed and conveyed to individual homeowners by Frontier Communities. Pursuant to the Rate and Method, all parcels for which a building permit had been issued as of the preceding May 1 are classified as Developed Property.

(2) Total Property Value includes the appraised value of the Appraised Property and the Fiscal Year 2017-18 assessed value of the five homes not subject to the Appraisal Report.

(3) Estimated Fiscal Year 2018-19 Special Tax Levy based upon development status as of May 1, 2018 and includes Administrative Expenses of \$25,000.

(4) Allocated based on the projected Fiscal Year 2018-19 Special Tax levy.

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

**TABLE 3**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**VALUE-TO-LIEN STRATIFICATION\***

<i>Value-to Lien</i>	<i>No. of Parcels of Developed Property</i>	<i>Percentage of Developed Property</i>	<i>Total Property Value<sup>(1)</sup></i>	<i>Percentage of Total Property Value</i>	<i>CFD 2007-5 Estimated Fiscal Year 2018-19 Levy</i>	<i>Percent of Estimated Fiscal Year 2018-19</i>	<i>CFD 2007-5 Proposed Bonds</i>	<i>Aggregate Value-to Lien</i>
Less than 5.00:1 <sup>(3)</sup>	4	8.70%	\$ 560,000	4.00%	\$ 12,400	9.21%	\$ 151,554	3.70:1
Between 5.00:1 to 8.00:1	12	26.09	4,065,034	29.07	44,064	32.74	538,556	7.55:1
Between 8.01:1 to 10.00:1	16	34.78	4,712,739	33.70	42,736	31.75	522,325	9.02:1
10.01:1 and Greater <sup>(3)</sup>	<u>14</u>	<u>30.43</u>	<u>4,645,220</u>	<u>33.22</u>	<u>35,392</u>	<u>26.30</u>	<u>432,565</u>	<u>10.74:1</u>
<b>Total</b>	<b>46</b>	<b>100.00%</b>	<b>\$ 13,982,993</b>	<b>100.00%</b>	<b>\$ 134,592</b>	<b>100.00%</b>	<b>\$ 1,645,000</b>	<b>8.50:1</b>

\* Preliminary, subject to change.

<sup>(1)</sup> Total Property Value includes the appraised value of the Appraised Property and the Fiscal Year 2017-18 assessed value of the five homes not subject to the Appraisal Report.

<sup>(2)</sup> The lowest value to lien in the less than 5.00:1 category is 3.12:1. The highest value to lien in the 10.01:1 and greater category is 10.98:1.

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

## **Direct and Overlapping Debt**

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

**TABLE 4**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**DIRECT AND OVERLAPPING DEBT**  
**AS OF MARCH 15 2018**

<b>I. Total Property Value<sup>(1)</sup></b>							\$13,982,993
<b>II. Land Secured Bond Indebtedness</b>							
<i>Outstanding Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>% Applicable</i>	<i>No. of Parcels<sup>(3)</sup></i>	<i>Amount Applicable</i>	
CITY OF LAKE ELSINORE CFD NO. 2007-5	CFD	\$ 1,645,000	\$ 1,645,000	100.000%	46	\$1,645,000*	
<b>TOTAL LAND SECURED BONDED DEBT <sup>(2)</sup></b>							<b>\$1,645,000*</b>
<b>III. General Obligation Bond Indebtedness</b>							
<i>Outstanding Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>% Applicable</i>	<i>No. of Parcels<sup>(3)</sup></i>	<i>Amount Applicable</i>	
METROPOLITAN WATER DEBT SERVICE	GO	\$850,000,000	\$110,420,000	0.004%	46	\$ 4,171	
MT. SAN JACINTO JR COLLEGE	GO	70,000,000	70,000,000	0.004	46	3,079	
LAKE ELSINORE UNIFIED SCHOOL DISTRICT DEBT SERVICE	GO	32,415,000	32,415,000	0.032	46	10,450	
<b>TOTAL OUTSTANDING GENERAL OBLIGATION BONDED DEBT <sup>(2)</sup></b>							<b>\$ 17,700</b>
<i>Authorized but Unissued Direct and Overlapping Indebtedness</i>	<i>Type</i>	<i>Authorized</i>	<i>Unissued</i>	<i>% Applicable</i>	<i>No. of Parcels<sup>(3)</sup></i>	<i>Amount Applicable</i>	
METROPOLITAN WATER DEBT SERVICE	GO	\$850,000,000	\$ 0	0.004%	46	\$0	
MT. SAN JACINTO JR COLLEGE	GO	295,000,000	225,000,000	0.004	46	9,895.69	
LAKE ELSINORE UNIFIED SCHOOL DISTRICT DEBT SERVICE	GO	105,000,000	72,585,000	0.032	46	23,400.64	
<b>TOTAL UNISSUED GENERAL OBLIGATION INDEBTEDNESS <sup>(2)</sup></b>							<b>\$33,296</b>
<b>TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION INDEBTEDNESS</b>							<b>\$50,996</b>
<b>TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT</b>							<b>\$1,662,700*</b>
<b>TOTAL OF ALL OUTSTANDING DIRECT AND UNISSUED DIRECT OVERLAPPING INDEBTEDNESS</b>							<b>\$1,695,996*</b>
<b>IV. Ratios to Appraisal Value</b>							
Outstanding Land Secured Bonded Debt		8.50:1*					
Total Outstanding Bonded Debt		8.41:1*					

\* Preliminary, subject to change.

(1) Total Property Value includes the appraised value of the Appraised Property and the Fiscal Year 2017-18 assessed value of the five homes not subject to the Appraisal Report.

(2) The Special Tax Consultant is not aware of any additional bonded debt for parcels in the District.

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



Annual Debt Service for the Bonds has been structured so that Assigned Special Tax for Facilities levied on Developed Property, assuming no delinquencies, based on the development status within the District as of May 1, 2018 (which includes all 46 parcels for purposes of the projected Fiscal Year 2018-19 Special Tax levy), will generate in each Fiscal Year not less than the Administrative Expenses Cap plus 110% of debt service payable with respect to the Bonds in the calendar year that begins in that Fiscal Year, assuming that Special Taxes are levied and collected on such Developed Property in the District pursuant to the Rate and Method.

Based on the appraised value of the Appraised Property within the District set forth in the Appraisal Report, the projected debt service on the Bonds, and Administrative Expenses Cap of \$25,000, the City expects that, in Fiscal Year 2018-19, the projected effective tax rates levied on taxable property in the District, will range from approximately 2.21% to 2.44% of average appraised value of the Appraised Property within each Land Use Type (as defined in the Rate and Method).

Table 5 below describes the estimated Fiscal Year 2018-19 effective tax burden for sample units of Developed Property within the District based on the estimated Special Taxes levy and Fiscal Year 2017-18 actual levies for all other overlapping taxing jurisdictions.

**TABLE 5**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**ESTIMATED FISCAL YEAR 2018-19 TAX OBLIGATION**

<i>Plan Type</i>	<i>Tract 32996 (Cottage Lane)</i>	
	<i>1</i>	<i>3</i>
CFD Tax Category (Square Feet)	<2,100	>2,300
Home Size	1,893	2,466
Appraised Value <sup>(1)</sup>	\$321,810	\$350,172
<b>Ad Valorem Property Taxes:</b>		
General Purpose	\$3,218	\$3,502
Metro Water East (0.00350%)	11	12
Lake Elsinore Unified School District (0.0190%)	61	67
Mt. San Jacinto Jr College (0.01320%)	42	46
<b>Total General Property Taxes</b>	<b>\$3,333</b>	<b>\$3,627</b>
<b>Assessment, Special Taxes &amp; Parcel Charges:</b>		
Flood Control Stormwater / Cleanwater / Santa Ana	\$4	\$4
MWD Standby Charge West	9	9
CSA #152 City of Lake Elsinore Stormwater	14	14
City of Lake Elsinore Citywide LLMD	25	25
City of Lake Elsinore CFD 2007-1 Public Safety	507	507
City of Lake Elsinore CFD 2015-2 Maintenance Tax Zone 2	378	378
City of Lake Elsinore CFD 2007-5 <sup>(2)</sup>	2,528	3,672
City of Lake Elsinore CFD 2007-5 Services	307	307
<b>Total Assessments &amp; Taxes</b>	<b>\$3,772</b>	<b>\$4,916</b>
<b>Projected Total Property Tax</b>	<b>\$7,105</b>	<b>\$8,542</b>
<b>Projected Effective Tax Rate</b>	<b>2.21%</b>	<b>2.44%</b>

<sup>(1)</sup> Reflects the appraised value based on the Appraisal.

<sup>(2)</sup> Reflects estimated Fiscal Year 2018-19 Special Tax levy based on development as of March 1, 2018 and includes Administrative Expenses in the amount of \$25,000.

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

## Delinquency History

Table 6 below sets forth the Special Tax levy, collections and delinquency rates in the District for Fiscal Year 2013-14 through Fiscal Year 2017-18.

**TABLE 6**  
**CITY OF LAKE ELSINORE**  
**COMMUNITY FACILITIES DISTRICT NO. 2007-5 (RED KITE)**  
**SPECIAL TAXES LEVIES, DELINQUENCIES AND DELINQUENCY RATES**

<i>Fiscal Year</i>	<i>Amount of Special Taxes Levied</i>	<i>Delinquencies as of June 30 of Fiscal Year</i>				<i>Delinquencies as of April 26, 2018</i>		
		<i>Parcels Levied</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2013-14	\$14,928.00	5	0	\$0	0.00%	0	\$0	0.00%
2014-15	14,927.90	5	0	0	0.00	0	0	0.00
2015-16	15,019.00	5	0	0	0.00	0	0	0.00
2016-17	15,019.00	5	0	0	0.00	0	0	0.00
2017-18	15,019.00	5	N/A	N/A	N/A	0	0	0.00

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

### PROPERTY OWNERSHIP AND THE DEVELOPMENT

***The Development.*** The District contains approximately 10.3 gross acres and approximately 6.5 net acres, and is located in the northwestern portion of the City, north of Tiller Lane and southwest of Lakeside High School. The District consists of a portion of Tract Map No. 32996 and includes 46 single family detached homes in a project that has been marketed by Frontier Communities as "Cottage Lane."

As of May 4, 2018, all 46 homes planned within the District had been completed and conveyed to individual homeowners. A summary of the product mix for the Cottage Lane project that were completed and conveyed by Frontier Homes (which excludes the five homes which were completed in 2008), including square footage and average actual sales prices for each floor plan is set forth below:

<i>Plan</i>	<i>Number of Homes</i>	<i>Square Footage<sup>(1)</sup></i>	<i>Number of Bedrooms/ Bathrooms</i>	<i>Average Actual Sales Price<sup>(2)</sup></i>
1	12	1,893	3/2.5	\$334,990
2	15	2,189	4/3	350,990
3	<u>14</u>	2,466	4/3	361,990
<b>TOTAL:</b>	<b>41</b>			

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

(2) Actual sales prices for individual homes varied based on premiums, upgrades, options and incentives.

Source: Frontier Communities.

All backbone and intract infrastructure relating to the development within the District is complete. Within the District, there is a completed park site which includes amenities such as a basketball half court and a gazebo area. A detention basin has also been constructed within the District. The parcels associated with the detention basin and the park site are owned and maintained by the homeowner's association and are not subject to the Special Tax levy.

FH II, LLC is a California limited liability company (previously defined as "Frontier Communities") that has been in the business of developing residential real estate communities in California since 2013. The members of Frontier Communities are James L. Previti, as the managing member and FH II GP. Frontier Communities has been on the largest the largest private homebuilding company in Riverside and San Bernardino counties since 2014. James L. Previti, has been in the real estate industry for over 20 years and has worked for both public and private homebuilding companies. Since 2013, Frontier Communities has delivered more than 1,200 homes in California.

## **SPECIAL RISK FACTORS**

The Bonds have not been rated by any rating agency, and the purchase of the Bonds involves significant risks that are not appropriate for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in the District to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the District to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in the District. See “— Property Values” below.

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

The Bond Owners will be subject to the risks generally incident to an investment secured by real estate, including, without limitation: (i) adverse changes in local market conditions, such as changes in the market value of real property in the vicinity of the District, the supply of or demand for competitive properties in such area, and the market value of residential property or buildings and/or sites in the event of sale or foreclosure; (ii) changes in real estate tax rates and other operating expenses, governmental rules (including, without limitation, zoning laws and laws relating to endangered species and hazardous materials) and fiscal policies; (iii) natural disasters (including, without limitation, earthquakes, wildfires and floods), which may result in uninsured losses; (iv) adverse changes in local market conditions; and (v) increased delinquencies due to rising mortgage costs and other factors.

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

### **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 (the “Code”). 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, which could increase the cost of home ownership within the District. However, neither the City nor the District can predict the effect that the Tax Act may have on the cost of home ownership or the ability or willingness of homeowners to pay Special Taxes or property taxes.

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

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

In order to pay debt service on the Bonds, it is generally necessary that the Special Taxes be paid in a timely manner. Should the Special Taxes not be paid on time, the District has established a Reserve Account under the Indenture to be maintained in an amount equal to the Reserve Requirement to pay debt service on the Bonds to the extent other funds are not available. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund.” The District will covenant in the Indenture to maintain in the Reserve Account an amount equal to the Reserve Requirement, subject, however, to the availability of Net Taxes in amounts sufficient to do so and to the limitation that the District may not levy the Special Tax in any Fiscal Year

at a rate in excess of the maximum amounts permitted under the Rate and Method. See Appendix E hereto. As a result, if a significant number of Special Tax delinquencies occurs within the District, the District could be unable to replenish the Reserve Account to the Reserve Requirement due to the limitations on the amount of the Special Tax that may be levied. If such defaults were to continue in successive years, the Reserve Account could be depleted and a default on the Bonds could occur.

The Act provides that, if any property within the District not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts, but it is doubtful that they would be upheld as to, for example, property owned by the federal government. If for any reason property within the District becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitation of the Maximum Special Tax, the Special Tax will be reallocated to the remaining taxable parcels within the District. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon their willingness and/or ability to pay the Special Tax. Moreover, if a substantial portion of additional land within the District became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.

The District will covenant in the Indenture that, under certain circumstances, it will institute foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” for provisions which apply in the event of such foreclosure and which the District is required to follow in the event of delinquencies in the payment of the Special Tax.

In the event that sales or foreclosures of property are necessary, there could be a delay in payments to Owners of the Bonds (if the Reserve Account has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the City on behalf of the District of the proceeds of sale. The District may adjust the future Special Tax levied on taxable parcels in the District, subject to limitations described above under the caption “THE DISTRICT—Rate and Method of Apportionment,” to provide an amount required to pay interest on and principal of the Bonds, and the amount, if any, necessary to replenish the Reserve Account to an amount equal to the Reserve Requirement, and to pay all current expenses. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in the District will be at all times sufficient to pay the amounts required to be paid by the applicable Indenture, even if the Special Tax is levied at the Maximum Special Tax rates. See “— Enforcement Delays —*Bankruptcy*.”

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

Prior to July 1, 1983, the right of redemption from foreclosure sales was limited to a period of one year from the date of sale. Under legislation effective July 1, 1983, the statutory right of redemption from such

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

## **Property Values**

The value of the property within the District is a critical factor in determining the investment quality of the Bonds. If a property owner is delinquent in the payment of Special Taxes, the District's only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See "THE DISTRICT — Appraisal Report" and Appendix D — "APPRAISAL REPORT."

The Appraiser has estimated, on the basis of certain assumptions and limiting conditions contained in the Appraisal Report, that as of the Date of Value, the aggregate estimate of value of the Appraised Property within the District was \$12,368,479. Combined with the Fiscal Year 2017-18 assessed value of the five homes which were completed in 2008, the estimated aggregate value of the property within the District is \$13,982,993. See "THE DISTRICT — Appraisal Report." The Appraisal Report indicates the Appraiser's opinion as to the market value of the properties referred to therein as of the date and under the conditions specified therein. The Appraiser's opinion reflects conditions prevailing in the applicable market as of the Date of Value. The Appraiser's opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future.

Prospective purchasers of the Bonds should not assume that the taxable land within the District could be sold for the appraised amount or for the assessed values at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value of the Appraised Property, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See Appendix D for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser's assumptions to be untrue could result in a reduction of the value of the taxable land and improvements within the District from the market value estimated by the Appraiser.

No assurance can be given that any bid will be received for a parcel with delinquent Special Taxes offered for sale at foreclosure or, if a bid is received, that such bid will be sufficient to pay all delinquent Special Taxes. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*."

## **Natural Disasters**

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

In recent years, wildfires have caused extensive damage throughout the State, including within the County. Certain of these fires have burned thousands of acres and destroyed hundreds and in some cases

thousands of homes. In some instances entire neighborhoods have been destroyed. Several fires which occurred in 2017 damaged or destroyed property in areas that were not previously considered to be at risk from such events. The District is not located in an area which the Department of Forestry and Fire Protection of the State of California has designated as a very high fire hazard severity zone. However, there is a risk of residential property within the District being destroyed by wildfires and no assurance can be given as to the severity or frequency of wildfires within the vicinity of the District.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in the District. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in the District could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

### **Hazardous Substances**

While government taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may also be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Super Fund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within the District be affected by a hazardous substance, is to reduce the marketability and value by the costs of remedying the condition.

A Phase I Environmental Site Assessment Report for the property within the District was prepared by GeoTek, Inc., Corona, California in June 2016. The report found that the property within the District had been used for agricultural purposes and consideration should be given for soil testing in connection with development. Frontier Communities has undertaken all remediation necessary to complete the planned development within the District.

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

It is possible that property in the District may be liable for hazardous substances in the future as a result of the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or the existence, currently, on the property of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could have the effect of reducing the value of the applicable property.

### **Enforcement Delays – Bankruptcy**

In the event of a delinquency in the payment of the Special Taxes, the District is required to commence enforcement proceedings under the circumstances described under the heading “SECURITY FOR THE BONDS — Covenant for Superior Court Foreclosure.” However, prosecution of such proceedings could be delayed due to crowded local court calendars or by bankruptcy, insolvency and other laws generally affecting creditors’ rights (such as the Soldiers’ and Sailors’ Relief Act of 1940) and by the laws of the State relating to judicial and non-judicial foreclosure. Although bankruptcy proceedings would not cause the liens of the Special Taxes to become extinguished, bankruptcy of a person or entity with an interest in the applicable property could result in a delay

in the enforcement proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delay could increase the likelihood of delay or default in payment of the principal of and interest on the applicable Bonds. The various legal opinions to be delivered in connection with the issuance of the Bonds, including Bond Counsel's approving legal opinion, are qualified as to the enforceability of the Bonds and the Indenture by reference to bankruptcy, reorganization, moratorium, insolvency and other laws affecting the rights of creditors generally or against public entities such as the District.

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

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

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

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

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

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



Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government's mortgage interest. For a discussion of risks associated with taxable parcels within the District becoming owned by the federal government, federal government entities or federal government sponsored entities, see "— Insufficiency of Special Tax Revenues."

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

### **Direct and Overlapping Indebtedness**

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

The imposition of additional liens on a parity with the Special Taxes may reduce the ability or willingness of property owners to pay the Special Taxes and increase the possibility that foreclosure proceeds will not be adequate to pay delinquent Special Taxes.

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

An owner of a taxable parcel is not personally obligated to pay Special Taxes. Rather, Special Taxes are an obligation which is secured only by a lien against the taxable parcel. If the value of a taxable parcel is not sufficient, taking into account other liens imposed by public agencies, to secure fully Special Taxes, the District has no recourse against the property owner.

### **No Acceleration Provision**

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture.

### **Limited Obligations**

The Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Net Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Indenture, no Owner of the Bonds may compel the exercise of any taxing power by the District or the City or force the forfeiture of any City or District property. The principal of, premium, if any, and interest on the Bonds are not a debt of the City or a legal or equitable pledge, charge, lien or encumbrance upon any of the City's or the District's property or upon any of the City's or the District's income, receipts or revenues, except the Net Taxes and other amounts pledged under the Indenture.

The District's legal obligations with respect to any delinquent Special Taxes are limited to: (i) payments from the Reserve Account to the extent of funds on deposit therein; and (ii) the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes are delinquent. See

the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Proceeds of Foreclosure Sales.*” The Bonds cannot be accelerated in the event of any default.

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

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

### **Ballot Initiatives**

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

### **Proposition 218**

An initiative measure entitled “The Right to Vote on Taxes Act” (“Proposition 218”) was approved by the voters at the November 5, 1996 statewide general election. Among other things, Proposition 218 added a new Article XIII C to the California Constitution which states that “. . . the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge.” The Act provides for a procedure which includes notice, hearing, protest and voting requirements to alter the rate and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. While the application of Proposition 218 in this context has not yet been interpreted by the courts and the matter is not completely free from doubt, it is not likely that Proposition 218 has conferred on the voters the power to effect a repeal or reduction of the Special Tax if the result thereof would be to impair the security of the Bonds.

It may be possible, however, for voters or the City Council, acting as the legislative body of the District, to reduce the Special Taxes in a manner which does not interfere with the timely repayment of the Bonds, but which does reduce the maximum amount of Special Taxes that may be levied in any year below the existing levels. Therefore, no assurance can be given with respect to the future levy of Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Nevertheless, to the maximum extent that the law permits it to do so, the District will covenant that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates for the District, unless, in connection therewith, (i) such changes do not reduce the maximum Special Taxes that may be levied in each year on property within the District to an amount which is less than the Administrative Expense Cap plus 110% of the Annual Debt Service due in each corresponding future Bond Year with respect to the Bonds and Parity Bonds Outstanding as of the date of such proposed reduction; and (ii) the District is not delinquent in the payment of the principal of or interest on the Bonds or any Parity Bonds. The District also will covenant that, in the event an initiative is adopted which purports to reduce or otherwise alter the Rate and Method, it will commence and pursue legal action in order to preserve its ability

to comply with the foregoing covenant. However, no assurance can be given as to the enforceability of the foregoing covenants.

### **Shapiro Case**

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

The election authorizing the special tax was limited to owners of hotel properties and lessees of real property owned by a governmental entity on which a hotel is located. Thus, the election was not a registered voter election. Such approach to determining who would constitute the qualified electors of the CCFD was modeled after Section 53326(c) of the Act, which generally provides that, if a special tax will not be apportioned in any tax year on residential property, the legislative body may provide that the vote shall be by the landowners of the proposed district whose property would be subject to the special tax. The Court held that the CCFD special tax election was invalid under the California Constitution because Article XIII A, Section 4 thereof and Article XIII C, Section 2 thereof require that the electors in such an election be the registered voters within the district.

The facts of the San Diego Decision show that there were hundreds of thousands of registered voters within the CCFD (viz., all of the registered voters in the City of San Diego). The elections held in the District at the time of had no registered voters at the time of such election. In the San Diego Decision, the Court expressly stated that it was not addressing the validity of landowner voting to impose special taxes pursuant to the Act in situations where there are fewer than 12 registered voters. Thus, by its terms, the Court’s holding does not apply to the elections in connection with the formation of the District or the authorization of the Special Tax levy. Moreover, Section 53341 of the Act provides that any “action or proceeding to attack, review, set aside, void or annul the levy of a special tax...shall be commenced within 30 days after the special tax is approved by the voters.” Similarly, Section 53359 of the Act provides that any action to determine the validity of bonds issued pursuant to the Act be brought within 30 days of the voters approving the issuance of such bonds. Voters in the District approved Special Tax on January 8, 2008. Based on Sections 53341 and 53359 of the Act and analysis of existing laws, regulations, rulings and court decisions, Bond Counsel is of the opinion that no successful challenge to the Special Tax being levied in accordance with the Rate and Method may now be brought.

The interpretation and application of Proposition 218 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.

### **Loss of Tax Exemption**

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

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

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

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

### **Limitations on Remedies**

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the Indenture to the extent that enforceability may be limited by bankruptcy, insolvency reorganization, fraudulent conveyance or transfer, moratorium or other similar laws affecting generally the enforcement of creditor's rights, by equitable principles and by the exercise of judicial discretion and by limitations on remedies against public agencies in the State of California. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

### **Potential Early Redemption of Bonds from Prepayments or Assessment Bond Proceeds**

Property owners within the District are permitted to prepay their Special Taxes at any time. Such prepayments will result in a redemption of the Bonds on the Interest Payment Date following the receipt of the prepayment.

## **CONTINUING DISCLOSURE**

Pursuant to a Continuing Disclosure Certificate, dated as of June 1, 2018 (the "Disclosure Agreement"), to be executed and delivered by the District at the time of issuance of the Bonds, the District will covenant for the benefit of the holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District by February 15 following the end of the District's Fiscal Year (currently its Fiscal Year ends on June 30) (the "Annual Report"), commencing with the report for the Fiscal Year ended June 30, 2018, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with EMMA. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix F—"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12.

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

(1) Comprehensive audited financial statements of the City, the Agency or certain community facilities districts, as applicable for Fiscal Year 2012-13 were filed more than 180 days late and the audited financial statements for Fiscal Year 2014-15 were filed more than 30 days late.

(2) Updated tabular and other operating information relating to the City, the Agency and community facilities districts for Fiscal Years 2012-13, 2013-14, and 2016-17 were filed late, and certain instances more than 180 days late.

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

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

(5) Certain material event notices of changes in bond ratings were not filed in a timely fashion.

The City and its affiliated entities have made additional filings to provide certain of the previously omitted information (including the existing ratings of the outstanding bonds).

The City has retained Spicer Consulting Group, LLC to serve as Dissemination Agent for the continuing disclosure undertaking related to the Bonds, and has adopted policies and procedures with respect to its continuing disclosure practices. In addition, the City has reported the failures in compliance under its previous continuing disclosure undertakings pursuant to the Municipalities Continuing Disclosure Cooperation Initiative of the U.S. Securities Exchange Commission.

### **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 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 on the Bonds is exempt from State of California personal income tax.

The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of the same 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 Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Beneficial Owner will increase the Beneficial Owner's basis in the Bond. In the opinion of Bond Counsel, 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.

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

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

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

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL, STATE, OR LOCAL TAX TREATMENT OF THE BONDS INCLUDING THE IMPOSITION OF ADDITIONAL FEDERAL INCOME OR STATE TAXES BEING IMPOSED ON OWNERS OF TAX-EXEMPT STATE OR LOCAL OBLIGATIONS, SUCH AS THE BONDS. THESE CHANGES COULD ADVERSELY AFFECT THE MARKET VALUE OR LIQUIDITY OF THE BONDS. NO ASSURANCE CAN BE GIVEN THAT SUBSEQUENT TO THE ISSUANCE OF THE BONDS STATUTORY CHANGES WILL NOT BE INTRODUCED OR ENACTED OR JUDICIAL OR REGULATORY INTERPRETATIONS WILL NOT OCCUR HAVING THE EFFECTS DESCRIBED ABOVE. BEFORE PURCHASING ANY OF THE BONDS, ALL POTENTIAL PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS REGARDING POSSIBLE STATUTORY CHANGES OR JUDICIAL OR REGULATORY CHANGES OR INTERPRETATIONS, AND THEIR COLLATERAL TAX CONSEQUENCES RELATING TO THE BONDS.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, 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 and the City continue to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the Bonds may otherwise affect the tax liability of certain persons. Bond Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

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

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix C.

### **LEGAL OPINION**

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

### **ABSENCE OF LITIGATION**

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

### **NO RATING**

The District has not made, and does not contemplate making, an application to any rating organization for the assignment of a rating on the Bonds.

### **UNDERWRITING**

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of \$\_\_\_\_\_ (being the \$\_\_\_\_\_ aggregate principal amount of the Bonds, less an Underwriter's discount of \$\_\_\_\_\_ and plus/less net original issue premium/discount of \$\_\_\_\_\_). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter's compensation is contingent upon the successful issuance of the Bonds.

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

### **FINANCIAL INTERESTS**

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

### **MUNICIPAL ADVISOR**

The District has retained Urban Futures Incorporated, Orange, California, as Municipal Advisor for the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an

independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

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

#### **MISCELLANEOUS**

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

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

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

CITY OF LAKE ELSINORE COMMUNITY FACILITIES  
DISTRICT NO. 2007-5 (RED KITE)

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



## **APPENDIX A**

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

#### **RATE AND METHOD OF APPORTIONMENT FOR COMMUNITY FACILITIES DISTRICT NO. 2007-5 OF THE CITY OF LAKE ELSINORE (RED KITE)**

The following sets forth the Rate and Method of Apportionment for the levy and collection of Special Taxes of the City of Lake Elsinore Community Facilities District No. 2007-5 (Red Kite) ("CFD No. 2007-5"). The Special Tax shall be levied on and collected 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. 2007-5 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 similar 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. 2007-5: 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 for Facilities 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. 2007-5 or any designee thereof of complying with arbitrage rebate requirements; the costs to the City, CFD No. 2007-5 or any designee thereof of complying with disclosure requirements of the City, CFD No. 2007-5 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. 2007-5 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. Administrative Expenses shall also include amounts estimated by the CFD Administrator or advanced by the City or CFD No. 2007-5 for any other administrative purposes of CFD No. 2007-5, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure of delinquent Special Taxes.

**"Apartment Property"** means all Assessor's Parcels of Residential Property on which one or more Apartment Units are constructed.

**"Apartment Unit"** means a dwelling unit within a building comprised of attached residential units available for rental by the general public, not for sale to an end user, and under common management.

**“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 shown on an Assessor’s Parcel Map with an assigned Assessor’s Parcel Number valid at the time the Special Tax is enrolled for the Fiscal Year for which the Special Tax is being levied.

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

**“Backup Special Tax for Facilities”** 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 for Facilities within CFD No. 2007-5 have been pledged.

**“Building Square Footage”** or **“BSF”** means the square footage of living area of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio or similar area on an Assessor’s Parcel. The determination of Building Square Footage shall be made by reference to the building permit(s) for the Assessor’s Parcel or similar official document means selected by the CFD Administrator. Once such determination has been made for an Assessor’s Parcel, it shall remain fixed in all Future Years.

**“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 for Facilities, (ii) determining the Special Tax Requirement for Services, as defined in Section L, as applicable, and (iii) providing for the levy and collection of the Special Taxes.

**“CFD No. 2007-5”** means Community Facilities District No. 2007-5 (Red Kite) established by the City under the Act.

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

**“City Council”** means the City Council of the City of Lake Elsinore, acting as the Legislative Body of CFD No. 2007-5, or its designee.

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

**“Developed Property”** means all Assessor’s Parcels of Taxable Property, not classified as Approved Property, Undeveloped Property, Provisional Undeveloped Property that are not Exempt Property pursuant to the provisions of Section J. below : (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) a building permit for new construction has been 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 pursuant to Section J., below.

**“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.

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

**“Maximum Special Tax for Facilities”** means the maximum Special Tax for Facilities, determined in accordance with Section C, that can be levied by CFD No. 2007-5 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 for Facilities obligation for an Assessor’s Parcel, as described in Section H.

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

**“Proportionately”** means that the ratio of the actual Special Tax for Facilities levy to the applicable Assigned Special Tax for Facilities is equal for all applicable Assessor’s Parcels. In case of Developed Property subject to the apportionment of the Special Tax for Facilities under step four of Section F, “Proportionately” in step four means that the quotient of (a) actual Special Tax for Facilities less the Assigned Special Tax for Facilities divided by (b) the Backup Special Tax for Facilities less the Assigned Special Tax for Facilities, 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 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 Parcels of Residential Property, other than Apartment Property, for which building permits have been issued for detached or attached residential units.

**“Single Family Unit”** means a residential dwelling unit other than an Apartment Unit.

**“Special Tax”** means any of the special taxes authorized to be levied by CFD No. 2007-5 pursuant to the Act.

**“Special Tax for Facilities”** means any of the special taxes authorized to be levied within CFD No. 2007-5 pursuant to the Act to fund the Special Tax Requirement for Facilities.

**“Special Tax Requirement for Facilities”** 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 for Facilities delinquencies, and (vi) the collection or accumulation of funds for the acquisition or construction of facilities authorized by CFD No. 2007-5 provided that the inclusion of such amount does not cause an increase in the levy of Special Tax for Facilities on Undeveloped Property as set forth in Step Three of Section F., (vii) any amount required to establish or replenish any delinquency management funds established in association with the Special Taxes, less (viii) 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 the boundaries of CFD No. 2007-5, which have not prepaid the Special Tax for Facilities obligation in full pursuant to Section G or 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 2008-09, each Assessor’s Parcel within CFD No. 2007-5 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 Apartment Property, and each Assessor’s Parcel of Single Family Property shall be assigned to its appropriate Assigned Special Tax for Facilities rate based on the Building Square Footage for such Assessor’s Parcel.

## **SECTION C MAXIMUM SPECIAL TAX FOR FACILITIES**

### **1. Developed Property**

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

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

Prior to the issuance of Bonds, the Assigned Special Tax for Facilities 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, the “Goals and Policies”) calculated pursuant to the Goals and Policies exceeds the City’s maximum level objective set forth in such document, the Assigned Special Tax for Facilities 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 for Facilities on

Developed Property it may be necessary to reduce the Maximum Special Tax for Facilities 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 for Facilities levied on an Assessor's Parcel shall be the sum of the Maximum Special Tax for Facilities 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 Facilities 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 for Facilities.

**SECTION D  
ASSIGNED SPECIAL TAX FOR FACILITIES**

**1. Developed Property**

Each Fiscal Year, each Assessor's Parcel of Single Family Property, Apartment Property, or Non-Residential Property shall be subject to an Assigned Special Tax for Facilities. The Assigned Special Tax for Facilities applicable to an Assessor's Parcel of Developed Property for Fiscal Year 2008-09 shall be determined pursuant to Table 1 below.

**TABLE 1  
ASSIGNED SPECIAL TAX FOR FACILITIES RATES  
FOR DEVELOPED PROPERTY FOR FISCAL YEAR 2008-09**

<b>Land Use Type</b>	<b>Building Square Footage</b>	<b>Rate</b>
Single Family Property	Less than 2,101	\$2,528 per Single Family Unit
Single Family Property	2,201-2,300	\$2,619 per Single Family Unit
Single Family Property	Greater than 2,300	\$3,672 per Single Family Unit
Apartment Property	N/A	\$22,530 per Acre
Non Residential Property	N/A	\$22,530 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 for Facilities. The Assigned Special Tax for Facilities rate for an Assessor's Parcel classified as Approved Property, Undeveloped Property and Provisional Undeveloped Property for Fiscal Year 2008-09 shall be \$22,530 per Acre.

**SECTION E  
BACKUP SPECIAL TAX FOR FACILITIES**

At the time a Final Map is recorded, the Backup Special Tax for Facilities 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 for Facilities 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 Apartment Property or 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. The resulting quotient shall be the Backup Special Tax for Facilities for each Assessor's Parcel of Single Family Property within such Final Map area.

The Backup Special Tax for Facilities shall not apply to Non-Residential Property or Apartment 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 Facilities 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 for Facilities that would have been generated if such change did not take place.

## **SECTION F**

### **METHOD OF APPORTIONMENT OF THE SPECIAL TAX FOR FACILITIES**

Commencing Fiscal Year 2008-09 and for each subsequent Fiscal Year, the City Council shall levy Special Taxes for Facilities on all Taxable Property in accordance with the following steps:

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

Notwithstanding the above, under no circumstances will the Special Tax for Facilities 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 owner of any other Assessor's Parcel within CFD No. 2007-5.

## **SECTION G PREPAYMENT OF SPECIAL TAX FOR FACILITIES**

The following additional definitions apply to this Section G:

**“CFD Public Facilities”** means, \$1,379,734, expressed in 2007 dollars, which shall increase by the Construction Inflation Index on July 1, 2008, 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. 2007-5, 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 for Facilities 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. 2007-5.

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

**“Future Facilities Costs”** means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or 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 for Facilities 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 for Facilities.

The Special Tax for Facilities 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 for Facilities 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 for Facilities 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 for Facilities and Backup Special Tax for Facilities, if any, applicable to the Assessor's Parcel. For an Assessor's Parcel of Approved Property or Undeveloped Property, compute the Assigned Special Tax for Facilities and the Backup Special Tax for Facilities 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 Facilities 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 for Facilities computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Assigned Special Tax for Facilities applicable to all Assessor's Parcels of Taxable Property at buildout, as reasonably determined by the City, and (b) divide the Backup Special Tax for Facilities computed pursuant to paragraph 1 for such Assessor's Parcel by the sum of the estimated Backup Special Tax for Facilities 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 for Facilities 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 CFD No. 2007-5.

The Special Tax for Facilities 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 for Facilities obligation that is prepaid pursuant to this Section G, the City Council shall indicate in the records of CFD No. 2007-5 that there has been a prepayment of the Special Tax for Facilities 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 for Facilities obligation and the release of the Special Tax for Facilities lien on such Assessor’s Parcel, and the obligation of such Assessor’s Parcel to pay such Special Taxes for Facilities shall cease.

Notwithstanding the foregoing, no prepayment will be allowed unless the amount of Special Tax for Facilities 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 FOR FACILITIES**

The Special Tax for Facilities 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 for Facilities 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 for Facilities 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 for Facilities and the percentage by which the Special Tax for Facilities 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 Facilities 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. 2007-5 that there has been a partial prepayment of the Special Tax for Facilities 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 for Facilities obligation to indicate the obligation of such Assessor's Parcel to pay such prepaid portion of the Special Tax for Facilities shall cease.

Notwithstanding the foregoing, no partial prepayment will be allowed unless the amount of Special Tax for Facilities 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 for Facilities shall be levied on all Assessor's Parcels subject to the Special Tax for Facilities. The Special Tax for Facilities shall cease not later than the 2047-2048 Fiscal Year, however, the Special Taxes for Facilities 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. 2007-5 Bonds have been paid; (ii) all authorized facilities for CFD No. 2007-5 have been acquired and all reimbursements to the developer have been paid, (iii) no delinquent Special Taxes for Facilities remain uncollected and (iv) all other obligations of CFD No. 2007-5 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 5.55 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 5.55 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 5.55 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 FOR FACILITIES**

The Special Tax for Facilities shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that CFD No. 2007-5 may collect Special Taxes for Facilities 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 SPECIAL TAX FOR SERVICES**

The following additional definitions apply to this Section L:

**“Developed Multifamily Unit”** means a residential dwelling unit within a building in which each of the individual dwelling units has or shall have at least one common wall with another dwelling unit and a building permit has been issued by the City for such dwelling unit on or prior to May 1 preceding the Fiscal Year in which the Special Tax for Services is being levied.

**“Developed Single Family Unit”** means a residential dwelling unit other than a Developed Multifamily Unit on an Assessor's Parcel for which a building permit has been issued by the City on or prior to May 1 preceding the Fiscal Year in which the Special Tax for Services is being levied.

**“Maximum Special Tax for Services”** means the maximum Special Tax for Services that can be levied by CFD No. 2007-5 in any Fiscal Year on any Assessor's Parcel.

**“Operating Fund”** means a fund that shall be maintained for CFD No. 2007-5 for any Fiscal Year to pay for the actual costs of maintenance related to the Service Area, and the applicable Administrative Expenses.

**“Operating Fund Balance”** means the amount of funds in the Operating Fund at the end of the preceding Fiscal Year.

**“Service Area”** means parks, open space, and storm drains.

**“Special Tax for Services”** means any of the special taxes authorized to be levied within CFD No. 2007-5 pursuant to the Act to fund the Special Tax Requirement for Services.

**“Special Tax Requirement for Services”** means the amount determined in any Fiscal Year for CFD No. 2007-5 equal to (i) the budgeted costs directly related to the Service Area, including maintenance, repair and replacement of certain components of the Service Area which have been accepted and maintained or are reasonably expected to be accepted and maintained during the current Fiscal Year, (ii) Administrative Expenses, and (iii) anticipated delinquent Special Taxes for Services based on the delinquency rate in CFD No. 2007-5 for the previous Fiscal Year, less (iv) the Operating Fund Balance, as determined by the CFD Administrator.

**1. Rate and Method of Apportionment of the Special Tax for Services**

Commencing Fiscal Year 2008-2009 and for each subsequent Fiscal Year, the City Council shall levy Special Taxes for Services on (i) all Assessor’s Parcels containing a Developed Single Family Unit or Developed Multifamily Unit and (ii) all Assessor’s Parcels of Non-Residential Property, up to the applicable Maximum Special Tax for Services to fund the Special Tax Requirement for Services.

The Maximum Special Tax for Services for Fiscal Year 2008-2009 shall be \$256.81 per Developed Single Family Unit, \$128.41 per Developed Multifamily Unit, and \$578.36 per Acre for each Assessor’s Parcel of Non-Residential Property.

On each July 1, commencing July 1, 2009, the Maximum Special Tax for Services shall be increased by two percent (2.00%) of the amount in effect in the prior Fiscal Year.

**2. Duration of the Special Tax for Services**

The Special Tax for Services shall be levied in perpetuity to fund the Special Tax Requirement for Services, unless no longer required as determined at the sole discretion of the City Council.

**3. Collection of the Special Tax for Services**

The Special Tax for Services shall be collected in the same manner and at the same time as ordinary *ad valorem* property taxes, provided, however, that CFD No. 2007-5 may collect the Special Tax for Services at a different time or in a different manner if necessary to meet its funding requirements.

**SECTION M  
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 twelve 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, a cash refund shall not be made (except for the last year of levy), but an adjustment shall be made to the Special Tax on that Assessor’s Parcel in the subsequent Fiscal Year(s).

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 and levy of the Special Taxes and any landowner or resident’s appeals. Any decision of the City Council shall be final and binding as to all persons.

**EXHIBIT "A"**

**CITY OF LAKE ELSINORE AND CFD NO. 2007-5 CERTIFICATE**

1. Pursuant to Section \_\_\_\_ of the Rate and Method of Apportionment of Special Tax (the "RMA"), the City of Lake Elsinore (the "City") and Community Facilities District No. 2007-5 of the City of Lake Elsinore ("CFD No. 2007-5") hereby agree to a reduction in the Maximum Special Tax for Facilities for Developed Property [*within CFD No. 2007-5*]:
  - (a) The information in Table 1 relating to the Maximum Special Tax for Facilities for Developed Property and/or Undeveloped Property within [*CFD No. 2007-5*] shall be modified as follows:

*[insert Table 1 showing effective change to special tax rates and/or insert change to special tax rates for Undeveloped Property]*
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. 2007-5 the City shall cause an amended Notice of Special Tax Lien [*for the CFD No. 2007-5*] to be recorded reflecting the modifications set forth herein.

By execution hereof, the undersigned acknowledges, on behalf of the City of Lake Elsinore and CFD No. 2007-5, receipt of this Certificate and modification of the RMA as set forth in this Certificate.

CITY OF LAKE ELSINORE

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

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

COMMUNITY FACILITIES DISTRICT NO. 2007-5  
OF THE CITY OF LAKE ELSINORE

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

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

## APPENDIX B

### CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING

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

#### General

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

#### Population

The following table offers population figures for the City, the County and the State for 2013 through 2017.

<i>Area</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
City of Lake Elsinore	55,943	57,282	59,049	60,876	62,092
County of Riverside	2,266,290	2,291,699	2,318,762	2,348,213	2,384,783
State of California	38,238,492	38,572,211	38,915,880	39,189,035	39,523,613

Source: California State Department of Finance, Demographic Research Unit. 2010 Census Benchmark.

#### Building Activity

The following tables provide summaries of the building permit valuations and the number of new dwelling units authorized in the City and County from 2012 through 2016.

#### BUILDING PERMIT VALUATIONS

##### City of Lake Elsinore 2012-2016

	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Valuation (\$000):					
Residential	\$71,920	\$113,861	\$80,159	\$75,979	\$121,211
Non-residential	<u>6,154</u>	<u>4,262</u>	<u>5,300</u>	<u>5,879</u>	<u>18,587</u>
Total*	\$78,074	\$118,123	\$85,459	\$81,858	\$139,798
Residential Units:					
Single family	401	685	429	372	457
Multiple family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	401	685	429	372	457

\* Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

**BUILDING PERMIT VALUATIONS**  
**County of Riverside**  
**2012-2016**

	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Valuation (\$000):					
Residential	\$1,079,405	\$1,375,593	\$1,621,751	\$1,536,742	\$1,759,535
Non-residential	<u>657,595</u>	<u>873,977</u>	<u>814,990</u>	<u>911,465</u>	<u>1,346,019</u>
Total*	<u>\$1,737,000</u>	<u>\$2,249,570</u>	<u>\$2,436,741</u>	<u>\$2,448,207</u>	<u>\$3,105,554</u>
Residential Units:					
Single family	3,720	4,716	5,007	5,007	5,662
Multiple family	<u>909</u>	<u>1,427</u>	<u>1,931</u>	<u>1,189</u>	<u>1,039</u>
Total	<u>4,629</u>	<u>6,143</u>	<u>6,938</u>	<u>6,196</u>	<u>6,701</u>

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

**Employment**

The following tables show the largest employers located in the City and County as of June 30, 2017.

**LARGEST EMPLOYERS**  
**City of Lake Elsinore**  
**(as of June 30, 2017)**

<i>Rank</i>	<i>Name of Business</i>	<i>Employees</i>	<i>Type of Business</i>
1.	Lake Elsinore Unified School District	2,644	School District
2.	M & M Framing	500	Construction
3.	Stater Bros	319	Supermarkets
4.	Lake Elsinore Hotel & Casino	275	Casino & Resort
5.	Costco	259	Retail Stores
6.	Walmart	234	Retail Stores
7.	Riverside County – Dept. of Social Services	173	Government
8.	Elsinore Valley Municipal Water District	154	Water District
9.	Home Depot	150	Building Supplies
10.	Target	150	Retail Stores

Source: City of Lake Elsinore Comprehensive Annual Financial Report for the year ending June 30, 2017.

**LARGEST EMPLOYERS**  
**County of Riverside**  
**(as of June 30, 2017)**

<i><b>Rank</b></i>	<i><b>Name of Business</b></i>	<i><b>Employees</b></i>	<i><b>Type of Business</b></i>
1.	County of Riverside	22,538	County Government
2.	University of California-Riverside	8,686	University
3.	March Air Reserve Base	8,500	Military Reserve Base
4.	Amazon	7,500	Distribution Center
5.	Kaiser Permanente Riverside Medical Center	5,739	Medical Center
6.	Corona-Norco Unified School District	5,399	School District
7.	Riverside Unified School District	4,236	School District
8.	Pechanga Resort and Casino	4,000	Casino & Resort
9.	Riverside University Health Systems-Medical Center	3,876	Medical Center
10.	Eisenhower Medical Center	3,665	Medical Center

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Source: County of Riverside Comprehensive Annual Financial Report for the year ending June 30, 2017.



## Employment and Industry

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

The following table represents the Annual Average Labor Force and Industry Employment for the County for the period from 2013 through 2017.

### RIVERSIDE-SAN BERNARDINO-ONTARIO MSA INDUSTRY EMPLOYMENT & LABOR FORCE - BY ANNUAL AVERAGE

	2013	2014	2015	2016	2017
Civilian Labor Force	1,893,100	1,921,000	1,956,900	1,984,900	2,023,200
Civilian Employment	1,706,800	1,765,300	1,828,200	1,866,600	1,920,400
Civilian Unemployment	186,300	155,700	128,600	118,300	102,800
Civilian Unemployment Rate	9.8%	8.1%	6.6%	6.0%	5.1%
 Total Farm	14,500	14,400	14,800	14,600	14,400
Total Nonfarm	1,233,300	1,289,300	1,353,100	1,401,900	1,451,600
Total Private	1,008,100	1,060,500	1,119,800	1,159,600	1,201,600
Goods Producing	158,600	170,200	183,000	191,500	196,600
Mining and Logging	1,200	1,300	1,300	900	900
Construction	70,000	77,600	85,700	92,000	97,000
Manufacturing	87,300	91,300	96,100	98,600	98,700
Service Providing	1,074,700	1,119,100	1,170,100	1,210,500	1,255,000
Trade, Transportation and Utilities	299,700	314,900	333,200	348,100	366,000
Wholesale Trade	56,400	58,900	61,600	62,800	63,700
Retail Trade	164,800	169,400	174,300	178,000	182,100
Transportation, Warehousing and Utilities	78,400	86,600	97,400	107,300	120,200
Information	11,500	11,300	11,400	11,500	11,300
Financial Activities	41,800	42,900	43,900	44,600	44,500
Professional and Business Services	131,900	138,700	147,400	145,000	147,200
Educational and Health Services	187,600	194,800	205,100	214,300	224,800
Leisure and Hospitality	135,900	144,800	151,700	160,200	165,700
Other Services	41,100	43,000	44,000	44,600	45,600
Government	<u>225,200</u>	<u>228,800</u>	<u>233,300</u>	<u>242,300</u>	<u>250,000</u>
Total, All Industries	<u>1,247,800</u>	<u>1,303,700</u>	<u>1,367,900</u>	<u>1,416,600</u>	<u>1,466,000</u>

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

Source: State of California, Employment Development Department, March 2017 Benchmark.

The following table summarizes the labor force, employment and unemployment figures for the period from 2013 through 2017 for the City, the County, the State and the nation as a whole.

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

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment<sup>(2)</sup></i>	<i>Unemployment<sup>(3)</sup></i>	<i>Unemployment Rate (%)</i>
2013				
City of Lake Elsinore	26,500	23,700	2,800	10.5%
County of Riverside	996,400	897,700	98,700	9.9
State of California	18,625,000	16,958,400	1,666,600	8.9
United States	155,389,000	143,929,000	11,460,000	7.4
2014				
City of Lake Elsinore	26,900	24,500	2,300	8.7%
County of Riverside	1,013,500	930,400	83,100	8.2
State of California	18,758,400	17,351,300	1,407,100	7.5
United States	155,922,000	146,305,000	9,617,000	6.2
2015				
City of Lake Elsinore	27,500	25,500	2,000	7.1%
County of Riverside	1,035,700	966,300	69,400	6.7
State of California	18,896,500	17,724,800	1,171,700	6.2
United States	157,130,000	148,834,000	8,296,000	5.3
2016				
City of Lake Elsinore	27,900	26,100	1,800	6.5%
County of Riverside	1,052,600	988,200	64,500	6.1
State of California	19,093,700	18,048,800	1,044,800	5.5
United States	159,187,000	151,436,000	7,751,000	4.9
2017				
City of Lake Elsinore	27,200	25,500	1,600	6.0%
County of Riverside	1,072,500	1,016,200	56,300	5.2
State of California	19,312,000	18,393,100	918,900	4.8
United States	160,320,000	153,337,000	6,982,000	4.4

Note: Data is not seasonally adjusted.

(1) Annual averages, unless otherwise specified.

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

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

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. 2017 Benchmark.

## Personal Income

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

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

Total personal income in Riverside County increased by 52% between 2005 and 2016. The following tables summarize personal income for Riverside County for 2005 through 2016.

**PERSONAL INCOME**  
**Riverside County**  
**2005-2016**  
**(Dollars in Thousands)**

<i>Year</i>	<i>Riverside County</i>	<i>Annual Percent Change</i>
2005	\$57,669,741	9.2%
2006	63,538,333	10.2
2007	66,347,611	4.4
2008	67,367,683	1.5
2009	65,359,484	(3.0)
2010	66,904,690	2.4
2011	71,213,948	6.4
2012	73,158,724	2.7
2013	75,223,346	2.8
2014	79,066,137	5.1
2015	84,429,454	6.8
2016	87,827,068	4.0

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

The following table summarizes per capita personal income for Riverside County, California and the United States for 2005-2016. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

**PER CAPITA PERSONAL INCOME**  
**Riverside County, State of California and the United States**  
**2005-2016**

<i>Year</i>	<i>Riverside County</i>	<i>California</i>	<i>United States</i>
2005	\$29,853	\$39,521	\$35,904
2006	31,574	42,334	38,144
2007	31,972	43,692	39,821
2008	31,932	44,162	41,082
2009	30,446	42,224	39,376
2010	30,380	43,323	40,278
2011	31,847	45,854	42,463
2012	32,301	48,359	44,283
2013	32,828	48,555	44,489
2014	34,044	51,317	46,486
2015	35,883	54,664	48,429
2016	36,782	56,308	49,204

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

## Taxable Sales

The table below presents taxable sales for the years 2010 through 2016<sup>(1)</sup> for the City.

**TAXABLE SALES**  
**City of Lake Elsinore**  
**2010-2016<sup>(1)</sup>**  
**(Dollars in Thousands)**

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2010	1,197	\$599,836
2011	1,248	634,553
2012	1,274	665,409
2013	1,716	688,483
2014	1,176	728,088
2015 <sup>(1)</sup>	1,420	765,715
2016	1,510	791,622

<sup>(1)</sup> Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry-level data for 2015 are not comparable to that of prior years.

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

The table below presents taxable sales for the years 2010 through 2016<sup>(1)</sup> for the County.

**TAXABLE SALES**  
**County of Riverside**  
**2010-2016<sup>(1)</sup>**  
**(Dollars in Thousands)**

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2010	45,688	\$23,152,780
2011	46,886	25,641,497
2012	46,316	28,096,009
2013	46,805	30,065,467
2014	48,453	32,035,687
2015 <sup>(1)</sup>	56,846	32,910,909
2016	57,771	34,231,144

<sup>(1)</sup> Beginning in 2015, the outlet counts in these reports show the number of outlets that were active during the reporting period. Retailers that operate part-time are now tabulated with store retailers. Industry-level data for 2015 are not comparable to that of prior years.

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

## APPENDIX C

### 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 opinion in substantially the following form:*

[Closing Date]

City of Lake Elsinore  
Community Facilities District No. 2007-5 (Red Kite)  
Lake Elsinore, California

Re:     \$\_\_\_\_\_ *City of Lake Elsinore Community Facilities District No. 2007-5 (Red Kite)*  
          *Special Tax Bonds, Series 2018*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Lake Elsinore (the “City”) taken in connection with the formation of City of Lake Elsinore Community Facilities District No. 2007-5 (Red Kite) (the “District”) and the authorization and issuance of the District’s Special Tax Bonds, Series 2018 in the aggregate principal amount of \$\_\_\_\_\_ (the “Bonds”) and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the District, the City, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), a resolution adopted by the City Council of the City, acting in its capacity as the legislative body of the District (the “City Council”) on May 8, 2018 (the “Resolution”), and a Bond Indenture (the “Indenture”) dated as of June 1, 2018, by and between the District and Wilmington Trust, National Association, as trustee (the “Trustee”). All capitalized terms not defined herein shall have the meaning set forth in the Indenture.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

(1)     The Bonds have been duly and validly authorized by the District and are legal, valid and binding limited obligations of the District, enforceable in accordance with their terms and the terms of the Indenture. The Bonds are limited obligations of the District but are not a debt of the City, the State of California or any other political subdivision thereof within the meaning of any constitutional or statutory limitation, and, except for the Net Taxes, neither the faith and credit nor the taxing power of the City, the State of California, or any of its political subdivisions is pledged for the payment thereof.

(2)     The Indenture has been duly executed and delivered by the District. The Indenture creates a valid pledge of, and the Bonds are secured by, the Net Taxes and the amounts on deposit in certain funds and accounts established under the Indenture, as and to the extent provided in the Indenture. The Indenture is enforceable in accordance with its terms; provided, however, we express no opinion as to the enforceability of the covenant of the District contained in the Indenture to levy Special Taxes for the payment of Administrative

Expenses or as to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals.

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

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. Original issue discount that accrues for 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 (as described in paragraph (3) above) and is exempt from State of California personal income tax.

(6) The amount by which a Bond Owner's original basis for determining loss on sale or exchange in the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Bond premium which must be amortized under Section 171 of the 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.

The opinions expressed in paragraphs (3) and (5) above as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) on the Bonds is subject to the condition that the District complies with all requirements of the Code, that must be satisfied subsequent to the issuance of the Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The District has covenanted to comply with all such requirements. Except as set forth in paragraphs (3), (4), (5) and (6) above, we express no opinion as to any tax consequences related to the Bonds.

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

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction. We call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Tax Certificate may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds and expressly disclaim any duty to advise the Owners of the Bonds with respect to matters contained in the Official Statement or other offering material.

The opinions expressed herein are based upon an analysis of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions or events are taken (or not taken) or do occur (or do not occur).

Respectfully submitted,

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



## **APPENDIX E**

### **SUMMARY OF THE INDENTURE**

*The following is a summary of certain provisions of the Indenture which 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.*

[TO COME]

**APPENDIX F**

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## APPENDIX G

### BOOK-ENTRY ONLY SYSTEM

*The information in this Appendix concerning DTC and DTC's book-entry only system has been obtained from sources that the District and the Underwriter believe to be reliable, but neither the District nor the Underwriter takes any responsibility for the completeness or accuracy thereof. The following description of the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, premium, if any, accreted value and interest on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond will be issued for each annual maturity of the Bonds, each in the aggregate principal amount of such annual maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the District or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE BONDS, WILL SEND ANY NOTICE OF REDEMPTION OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF THE PROCEEDINGS RELATING TO THE REDEMPTION OF THE BONDS CALLED FOR REDEMPTION OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.