LAND-SECURED FINANCING:
FUNDAMENTALS AND EVOLVING PRACTICES

SEPTEMBER 10–11, 2025
PLEASANTON, CALIFORNIA

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SESSION ONE

Introduction to and Comparison of Assessment Districts and Community Facilities Districts

History of Each in a Nutshell

<u>Special Assessment Districts</u>

- Municipal Improvement Act of 1913
- Used with the Improvement Bond Act of 1915
- Other acts normally used for maintenance

<u>Mello-Roos Community Facilities Districts</u>

- In 1978, proposition 13 was approved by California voters
- In response to Prop. 13 revenue constraints, the Mello-Roos Community Facilities Act of 1982 was adopted

California Statutes & Constitution

Assessment District (AD)

- Primarily 1913 & 1915 acts for capital projects
- Primarily 1972 & 1982 acts for maintenance and public services
- Article XIIID of California Constitution
- Section 53753 of the Government Code

Community Facilities District (CFD)

- Mello-Roos Community Facilities Act of 1982
- Articles XIIIA & XIIIC of CA Constitution
- Charter cities can use legislative powers

Eligible Capital Facilities to Finance

Assessment District

- Authorized public improvements
- Must provide local, special benefits to property

Community Facilities District

- Public improvements with useful life of 5 years or longer
- Can finance facilities:
  - Owned/controlled by issuer and/or
  - Owned, operated and maintained by other public entities
    - JCFAs with other public agencies

AD vs. CFD

Assessment District

- Sets a fixed lien for every parcel
- Annual payment reduces lien
- Term of payments = term of bonds

Community Facilities District

- Sets a maximum annual special tax rate
- Maximum tax rate may escalate
- Term of tax may outlive term of bonds

Special Benefits vs. Reasonableness

Special Benefits - ADs

- Assessment based on the direct and special benefit each property receives from improvements

Reasonableness - CFDs

- Special tax is not a special assessment
- May be allocated on any "reasonable" basis, as determined by the legislative body
- Cannot be an ad valorem tax

Usual Sequence of Events - ADs

1. Local agency/property owner petition initiated
2. Legislative body commences assessment proceedings
3. Notices of hearing and assessment ballots mailed
4. Public hearing
5. Ballot tabulation and “majority protest”
6. Final actions taken by legislative body
7. End of cash collection/statute of limitations
8. Bonds issued
9. Project costs funded/reimbursed
10. Annual assessment installments levied

Usual Sequence of Events - CFDs

1. Local agency/property owner petition initiated
2. Local goals & policies adopted
3. Legislative body commences CFD proceedings
4. Public hearing
5. Election
6. Final actions taken by legislative body
7. Bonds issued
8. Project costs funded/reimbursed
9. Annual special taxes levied
10. Annual continuing disclosure reports prepared

AD vs. CFD Comparison - Similarities

Issue	ADs	CFDs
Pay-as-you-go finance	1913 Act –Not common but possible 1972 Act – Permitted and fairly common	Permitted and fairly common
Pay-off or prepayment of lien	Automatically allowed by State statute	Allowed if included in RMA
Debt service structure	Almost universally level debt service	Usually level or escalating debt service
Maximum residential property tax burden as % of sales price	No State statutory limit. Standard is not to exceed 2%	No State statutory limit. Standard is not to exceed 2%

AD vs. CFD Comparison - Differences

Issue	ADs	CFDs
District boundaries	1913 Act - Boundaries are generally fixed once assessment confirmed 1972 Act — Annexation permitted	May be expanded through future annexations
Land use changes	1913 Act - Lien apportionments cannot easily be modified 1972 Act — Annual assessment can adapt	Special taxes generally adapt to changes in land use
Assessment of undeveloped property	1913 Act - Assessments on undeveloped land is based on potential development 1972 Act — Annual assessments generally differ between undeveloped and developed parcels	Special taxes between undeveloped and developed land can differ

Major Factors Favoring an AD

- **ADs are appropriate for:**
  - Small, local infrastructure projects with little “general benefit”
  - Projects with multiple property owners
  - Large variable rate financing programs that anticipate multiple conversion of bonds to a fixed rate of interest over several years
  - Some maintenance programs and services

Major Factors Favoring a CFD

- **CFDs are appropriate for:**
  - General benefit “community facilities”
  - Projects with few property owners, or broad support
  - Projects requiring flexibility
    - Phased land development projects
    - Uncertainties about eventual land use
  - Projects needing targeted economic burden
    - Exempting publicly-owned parcels
    - Reducing burden on select categories of parcels/uses
  - Projects requiring funding for eligible services and maintenance & operation activities

SESSION TWO

Pre-formation Considerations

Local Goals & Policies

- Legal requirement for CFDs
- Good idea for ADs
- Important to provide guidance, consistency, and assurances
- Not the place to cover all deal points

Key Issues to Cover in the Policies

- Priority & eligibility of facilities and services
- Disclosure to:
  - Homebuyers
  - Bond investors
  - Financial markets
- Total effective tax rate
- Escalation of special tax
- Appraisal criteria
- Application process
- Credit quality requirements

Preparing for District Formation

- **Internal Organization**
  - Which departments will be involved?
  - Who is the primary contact person?
  - How will policy issues be vetted?
  - Is the team aware of all existing agreements and entitlements?
  - Are there any political issues related to the developer or the development?
  - Does the issuer already have established goals and policies for land-secured districts?

City Staff Team Members

- Who will be responsible at city for CFD formation and bond issuance?
  - City manager’s office
  - Finance
  - Public works
  - Community development
- CFDs involve some aspect from all of the departments above
- Important to decide early on who will be lead and be on the internal team

Selecting the Consultant Team

- Public agency should choose a team
- Municipal advisor can assist
- RFP process/consultant pool
- Community facilities district or assessment district experience is key

Roles of Consultants

Bond counsel

- Legal guidance and opinion; formation documents

Municipal advisor

- Guidance & market knowledge
- Fiduciary obligation to public agency

Special tax consultant

- Cash flow analysis, tax formula, boundary map, CFD report

Assessment engineer

- Benefit finding & engineer's report

Underwriter

- Although not needed until bond issuance, usually part of formation team

Consultant Roles (cont.)

Market consultant

- Price point analysis
- Absorption study
- Mortgage study/report

Appraiser

- Determines value of properties to be assessed/taxed

Developer and its counsel and consultants

- Provide the required information about the developer, the project, and the financing proposal

Important Considerations in Assembling a Team

- Good communication among team members
- How to best facilitate meetings and calls
- Involve legal counsel to protect agency
- Understand structure and associated workload

Documentation of Deal Points

- Development agreement or disposition and development agreement
- Financing plan/implementation document
- Term sheet negotiated between parties to inform:
  - Acquisition agreement
  - Rate and method of apportionment (RMA)
  - Bond indenture/fiscal agent agreement

Comprehensive Funding Strategy

- Is there an adopted financing plan?
- Is the CFD/AD to act in conjunction with other mechanisms?
  - Infrastructure financing district (IFD)
  - Impact fee program
- How does funding of public services fit in?
- What is the timing of required infrastructure and services?

Coordination with Affected Agencies

- Factor in existing or proposed financing districts
- Consider approved but unissued general obligation bonds
- Joint community facilities agreements (JCFA)
- Joint powers agencies

Developer vs. Issuer Initiated Process

Developer initiated process

- Most common circumstance
- Property owners may file petition to initiate CFD
- Developer provides a deposit for non-contingent costs

Issuer initiated process

- Sometimes used for large, broad districts for a tax spread not tied to ad valorem
  - i.e. Santa Cruz countywide CFD for libraries, Altadena Library District CFD

Choice of Issuer

Typically, city, county, school district or special district

- At least 51% of bond-funded projects must be owned by sponsoring public agency

Alternatively, may be a financing authority

- Local agency (i.e. River Islands or Tejon Ranch)
- Conduit issuer (i.e. CSCDA, CMFA)

⇒ *Governance and marketing effectiveness vary for each*

Understanding Developer's Plan

- **Application from Developer(s)**
  - Project information: land uses, timing, and values
  - Land ownership information
  - Financial information
  - Deposit

- **Financing District Proposal**
  - Special tax categories and rates
  - Improvement areas/future annexation areas
  - PayGo, extended term, and transition
  - Facilities and services to be funded
  - Number and timing of bond issues

SESSION THREE

District Formation: Considerations, Strategies, and Process

Core Documents Needed for Formation

1. Boundary map
2. Rate and method of apportionment of special tax (RMA)
3. Eligible facilities and services
4. Acquisition agreement
5. Joint community facilities agreements

Formation Considerations: CFD Boundaries

- Can be tailored to areas of political support or development phase
- Can be non-contiguous
- Only property within the CFD and subject to the special tax is included within property valuation for value-to-lien calculation
- Size of initial boundaries is evaluated from a credit perspective and from the developer’s perspective to provide flexibility and control

Formation Considerations: Structure of District

- **Separate CFDS? Improvement areas? Tax zones?**
  - How similar are phases of the project?
  - What is the likelihood that the development plan or product mix may change?

- **How many landowners are involved in the project?**
  - Cross-collateralization
  - Facility oversizing and reimbursement

- **Are there other properties that may be added to the CFD in the future?**

Improvement Areas (IAs)

- Separate geographic areas within one facilities CFD
- Separate RMA for each improvement area
- Separate bond issues for each improvement area (usually)
- Changes within an IA require vote of electors only within IA
- IAs can be established at CFD formation or added upon annexation into CFD
- Provides for “bite-sized” pieces of a project and flexibility to make changes in future phases

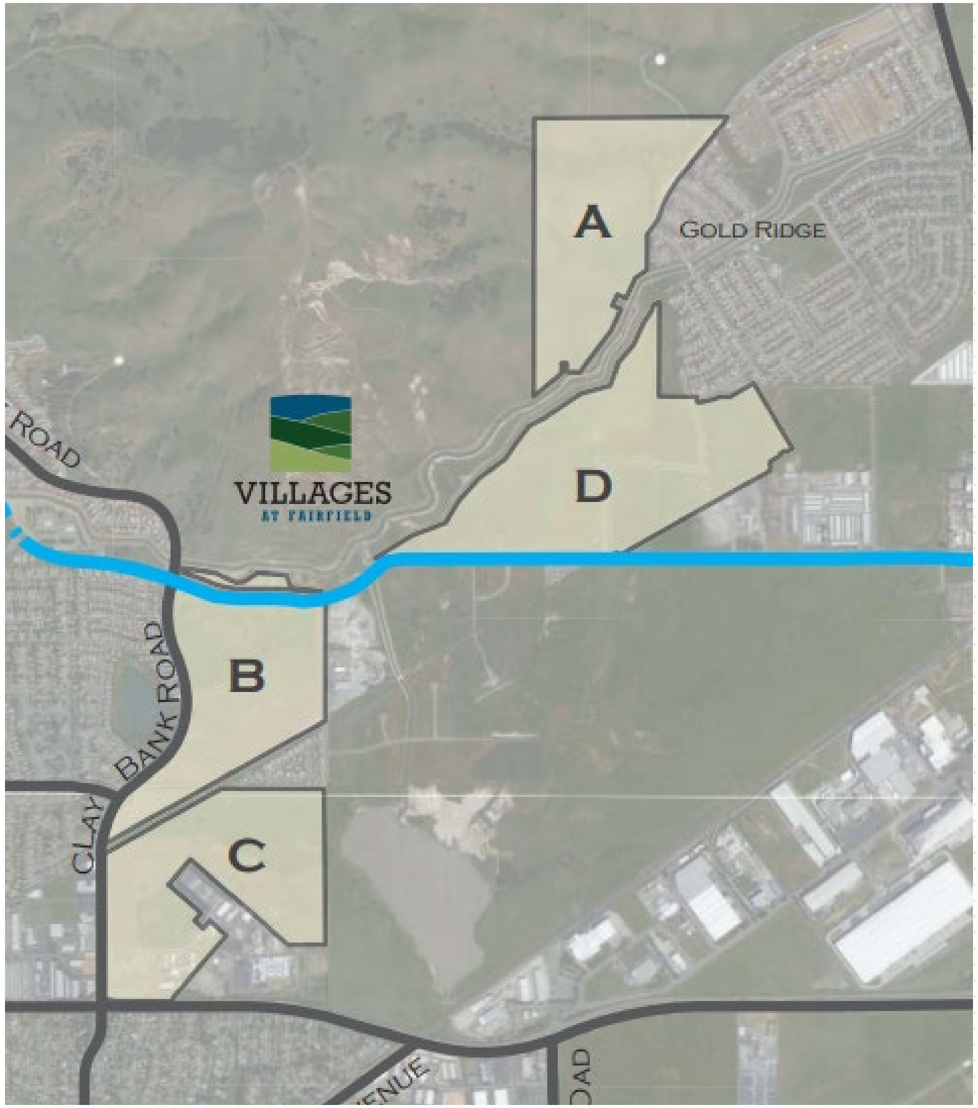
Future Annexation Area

- One or more parcels in initial CFD boundaries
- Any property that might join the CFD in the future is designated as future annexation area in CFD boundary map
- "Election" is a signature on a "unanimous approval form"
  - May include maximum tax rates different than those in other areas of CFD
  - Each annexation could have a different maximum tax rate if warranted
- For services CFDs, no meetings of legislative body are required for annexation
- Low cost, accelerated annexation procedure

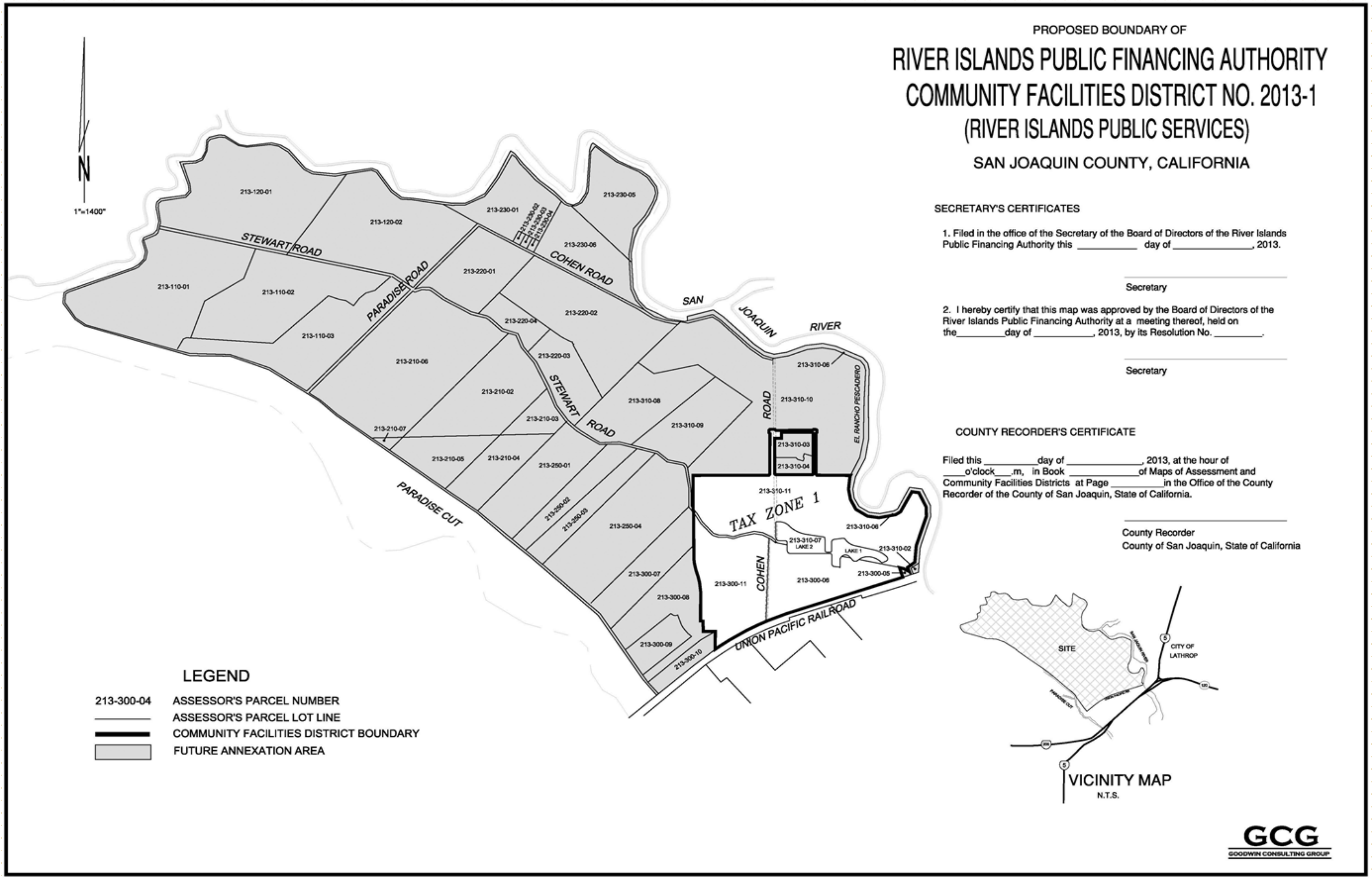
Improvement Areas for Each Project Phase

City of Fairfield
CFD No. 2016-1
(Villages of Fairfield)

- One CFD
- Distinct improvement areas (IAs) by project phase
- 3 IAs annexed to date
- 3 separate securities
- One "brand" in market



CFD with Future Annexation Area

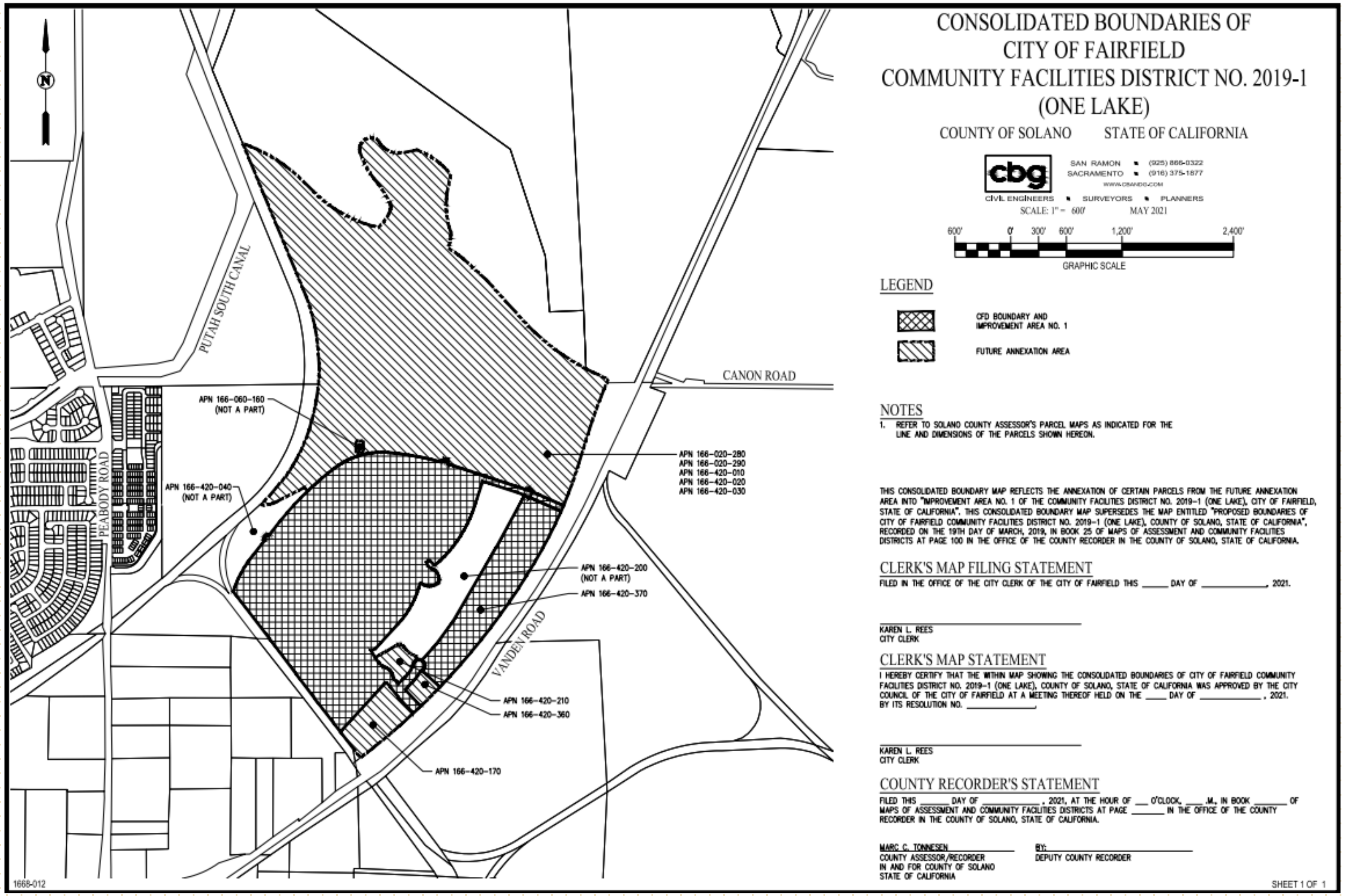


Flexibility to Annex - *or Not*

City of Fairfield
CFD No. 2019-1
(One Lake)

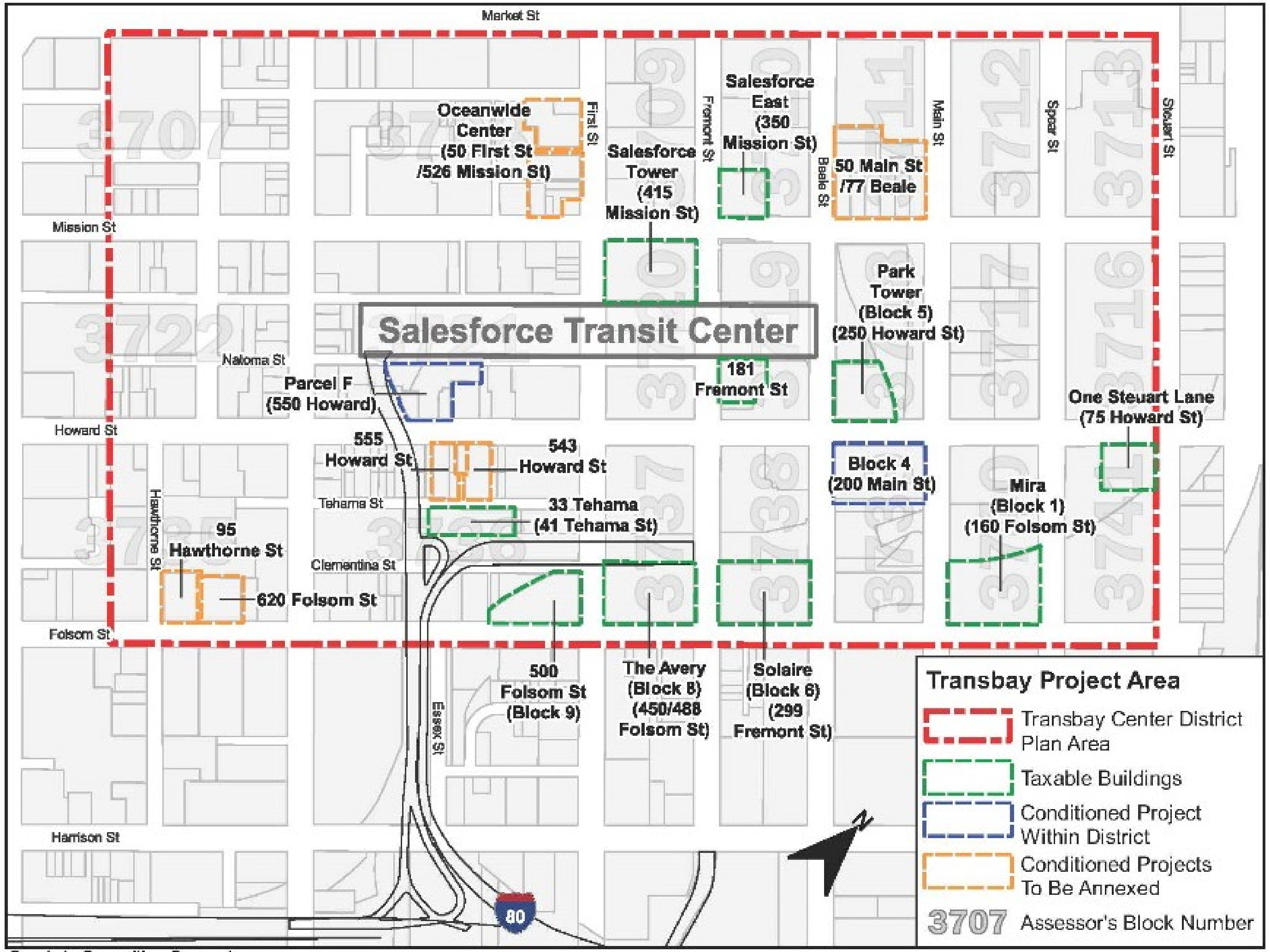
- Phase 1 in IA No. 1
- Phase 2 In future annexation area

- Subsequent decision to create a separate CFD for phase 2



Non-Contiguous CFD and Future Annexation Area

- Non-contiguous parcels
- Future annexation area overlaps up-zoned land use planning area
- Additional annexations from into the CFD on a *parcel* basis



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Mix of Separate Districts and Improvement Areas

Irvine's Great Park

- Former Marine Corps Air Station closed in 1999

Development plans

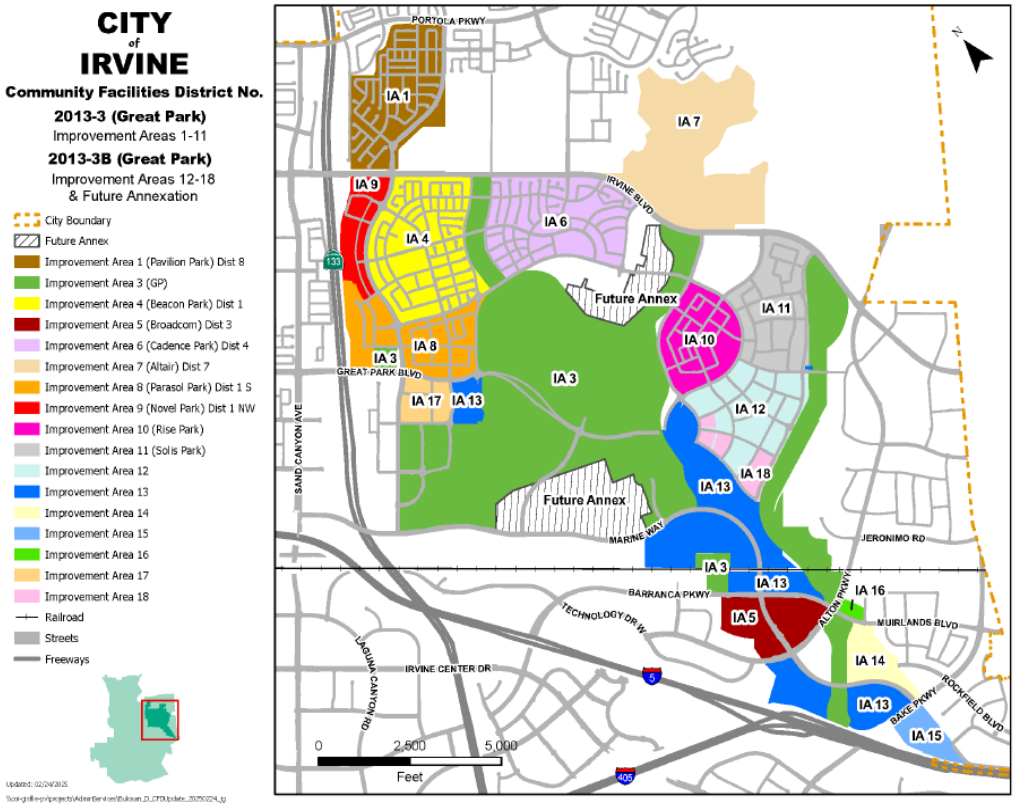
- 10,500+ residential units
- 4.8 million sq. ft. of commercial, retail, industrial, and R&D space

Two large CFDs

- 18 improvement areas formed to date
- Future annexation area

Community Facilities District No. 2013-3(B)

CFD 2013-3(B) includes Improvement Areas Nos. 12, 13 and 14 and proposed Improvement Areas Nos. 15, 16, 17 and 18



Formation Considerations: Special Tax Structure

- **Categories and maximum tax rates**
  - Market rate vs. affordable units
  - Square footage of lots vs. square footage of units
- **Term, transition, escalators**
- **PayGo**
- **Backup special tax mechanism**
- **Prepayment options**

Services Special Tax

- Annual stream of revenues to fund public services
- Usually levied in perpetuity
- No legal limit on annual escalation
- Often implemented to mitigate fiscal deficits projected in a fiscal impact analysis
- Include component for CFD administration costs
- Reduces capacity to fund public infrastructure

Allocating Tax Capacity

- Services special tax vs. facilities special tax
- Sharing tax capacity among multiple public agencies
- Timing of funding needs
  - Facility, services, maintenance needs, now and in the future
  - Timing of funding needs for each public agency
- All-in Tax Burden
  - Up to 2% of estimated home value for residential property
  - "Reasonable" rates for commercial uses
  - Includes 1% base property tax rate, plus any GO overrides, services tax, other special taxes, and assessments

Developers' Objectives for Financing

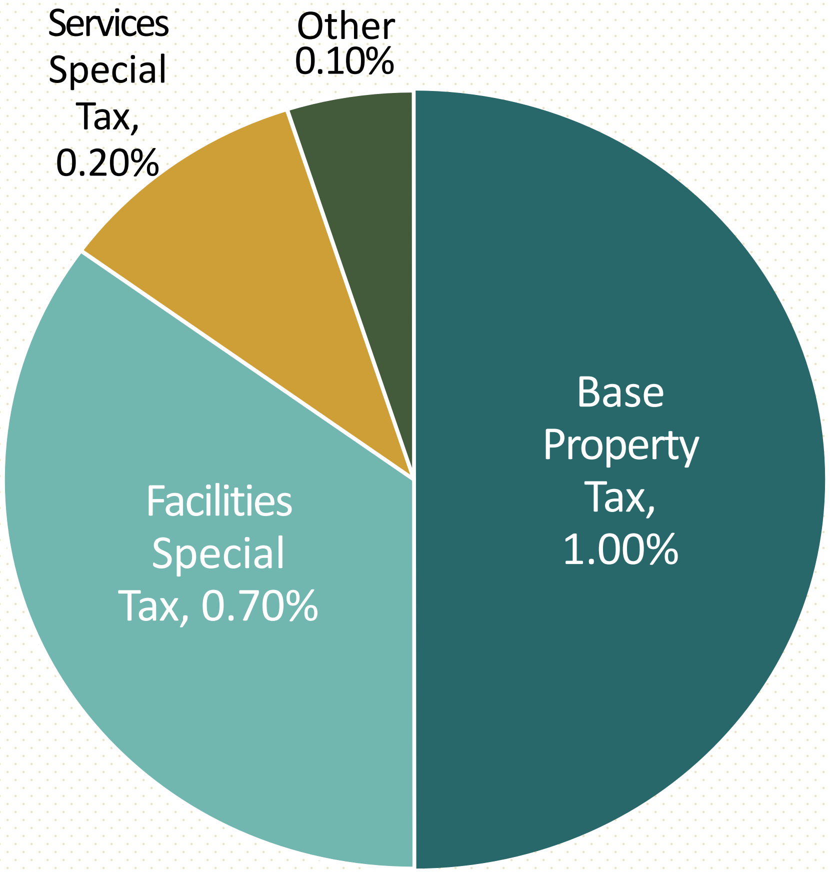
- Maximize net construction proceeds for infrastructure
  - Two percent (2%) special tax escalator
  - Limit special tax for services
  - PayGo, extended term
- Minimize burden on undeveloped property
  - Capitalized interest
  - Phasing of bond sales
  - Maximum levy on developed property
- Limit future discretionary actions that affect funding capacity
- Flexibility for changes in land use, infrastructure plans, and maximum special tax rates

Illustrative All-In Tax Burden

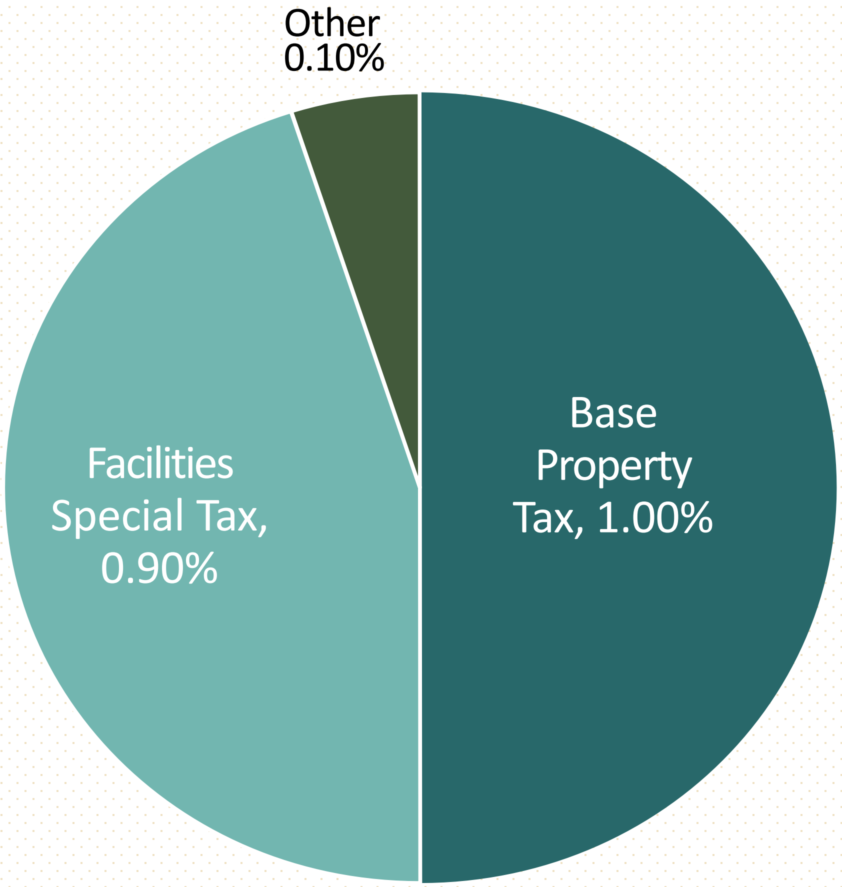
Estimated Home Price	**$ 600,000**	**$ 1,200,000**
Homeowners Exemption	(7,000)	(7,000)
Estimated Assessed Value	$ 593,000	$ 1,193,000
Ad Valorem Property Taxes		
Base 1% Property Tax	$ 5,930	$ 11,930
City GO	120	240
Local School District GO	180	360
Regional Community College District GO	90	180
	$ 6,320	$ 12,710
Direct Charges		
Proposed CFD Facilities Tax	$ 3,000	$ 6,000
Proposed CFD Services Tax	600	1,200
Local School District CFD	500	1,000
Lighting & Landscaping District	90	180
Library Service Tax	50	50
	$ 4,240	$ 8,430
Total Ad Valorem and Direct Charges	$ 10,560	$ 21,140
Overall Tax Burden	**1.76%**	**1.76%**

Allocating Capacity: Services vs. Facilities

200-unit Project
$500,000 Home Price
2% Total Tax Rate



Annual Services Costs Funded = $200,000
Net Construction Proceeds = $10.5 million



Annual Services Costs Funded = $0
Net Construction Proceeds = $13 million

Bond Capacity Considerations

How much in project funds can a CFD support?

Determined at district formation

- **CFD Parameters**
  - Maximum bond authorization
  - Eligible projects
  - Maximum annual tax rates and annual escalator (if any)

Determined at bond issuance

- **Value of land supporting debt**
  - Standard minimum aggregate value to debt ratio of 3-to-1
- **Maximum tax capacity and debt service coverage**
  - Based on maximum annual special tax revenues projected at build-out
  - Minimum coverage typically 110% annual debt service
  - Administrative expenses may be paid before or after debt service
- **Bond market conditions**
  - Lower interest rates = more bond proceeds within same revenues

District Formation: CFD Legislative Approvals

- **Resolution of Intention (ROI)**
  - Council/Board declares its intent to establish district
    - Identifies proposed boundary, tax formula, eligible facilities, maximum bond amount

Often occur at one Council/Board meeting

- **Public hearing**
  - At least 30 days but not more than 60 days later
- **Election**
  - 2/3 approval required
  - Vote by electorate if 12+ registered voters in the district, otherwise by landowners, weighted by acreage
- **Resolution of Formation (ROF)**
  - Approves final tax formula, boundary map, and eligible facilities, and max bond authorization

SESSION FOUR

Bond Issuance

Bond Issuance Process

May immediately follow CFD formation or occur much later

- **Re-engaging and expanding financing team**
  - Bond counsel, special tax consultant, and municipal advisor
  - Disclosure counsel, underwriter, fiscal agent or trustee, appraiser, absorption consultant (possibly)
  - Developer, developer’s counsel, developer’s consultant
- **Bond timing, capacity and credit considerations**
- **Documentation and approvals**
- **Bond sale and closing**

Bond Issuance Timing Considerations

- **Development momentum**
  - Status of bond-funded infrastructure and project reimbursement readiness
  - Proceeds used to acquire <u>completed</u> infrastructure
  - Credit quality and property values
  - Issuer policies and investor suitability
  - Bond market conditions and bond capacity
- **Federal tax law constraints**
  - "Reasonable expectations" of spending proceeds within 3 years

Bond Capacity Considerations

How much in project funds can a CFD support?

Determined at district formation

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- **Bond market conditions**
  - Lower interest rates = more bond proceeds within same revenues
  - Interest rates are driven by broad economic factors and specific credit quality

Key Credit Considerations

Most early stage land-secured bonds are sold as non-rated securities

Key Factors	Considerations
Issuer:	Reputation and experience
Local economy:	Employment options, real estate cycle, and sales activity
Property:	Location, attractiveness, environmental condition or hazards
Developer(s) strength:	Experience, financial resources, equity invested, and loans
Development plan:	Entitlements, development schedule, absorption schedule, and product mix
Development status:	Status of backbone and “in tract” infrastructure, land use maps, property ownership (developer, builder(s), land bank, homeowners), vertical construction, sales or leasing activity, and diversity of ownership
Product demand:	Demographics of competing projects
Special tax:	All-in tax burden on property, debt service coverage
Property values:	Value-to-lien
Legal structure:	Foreclosure provisions, reserve, and type of debt

Borrowing Cost and Development Status

Borrowing cost %

Raw land
Low land values
Concentrated ownership
High development risk

Backbone infrastructure complete
Ownership may include builders
Vertical construction underway
Pre-sale activity

Fully built-out
Diversified ownership/leases
Higher property values
Special tax collection history

Development momentum

Basic Bond Structure

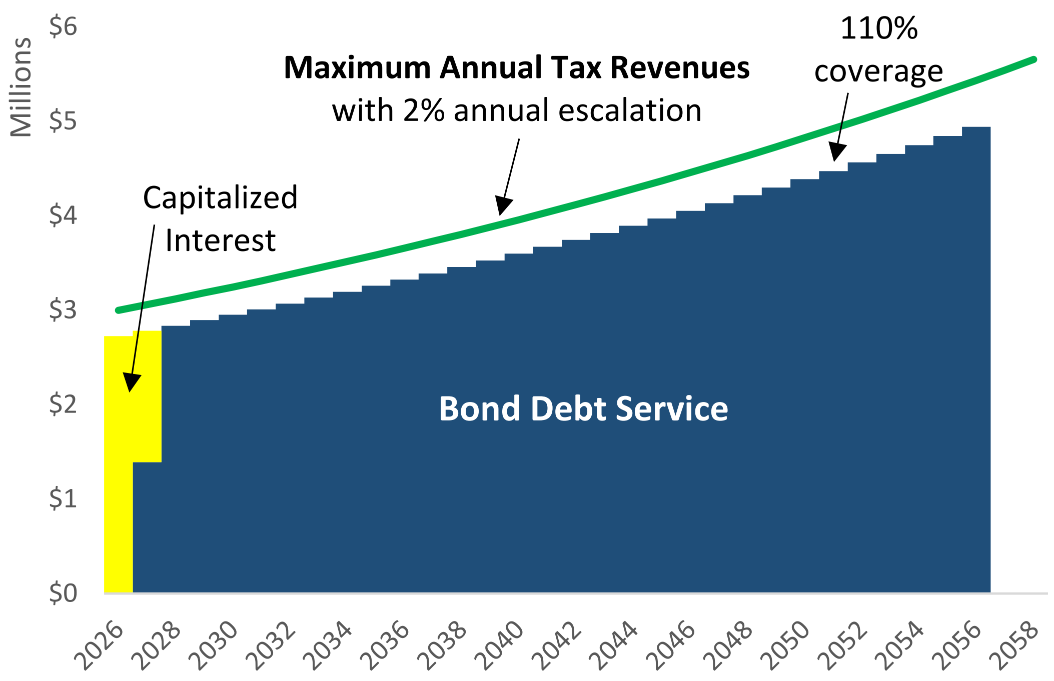
Bonds leverage maximum annual tax revenues
- At least 110% debt service coverage is typical
- Administrative expenses may be paid first or paid from coverage

Capitalized interest
- Needed if special tax not yet on the tax roll
- May be desired to enhance credit or cashflow

Reserve fund
- Usually least of (i) maximum annual debt service, (ii) 125% of average annual debt service, or (iii) 10% of par

Issuance costs
- Typically includes bond and disclosure counsel, special tax consultant, municipal advisor, appraiser, fiscal agent, printer, staff time, and other consultants
- Underwriter’s discount typically includes management fee, sales commission, and expenses

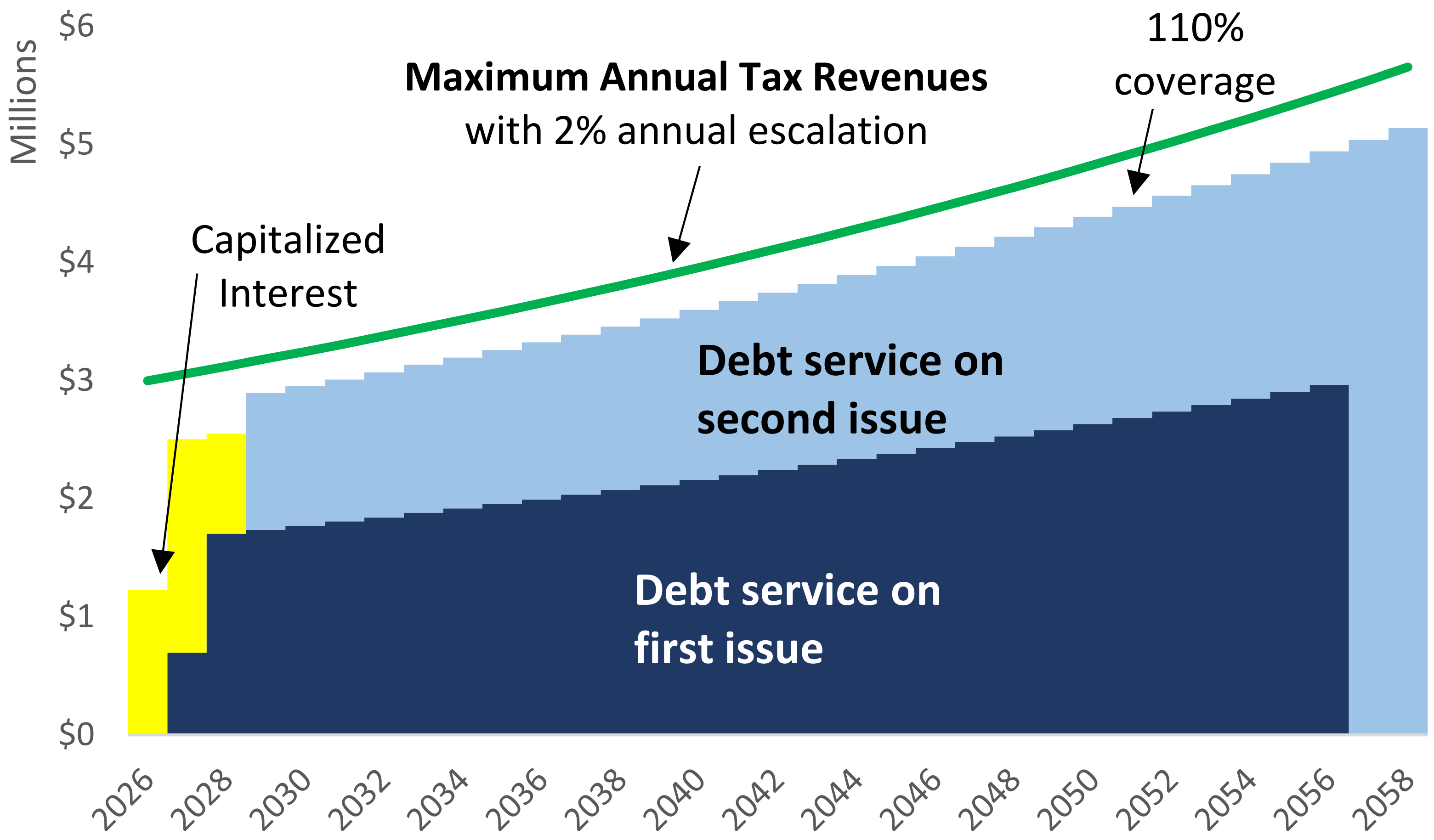
Project fund
- Bond proceeds less other costs



Phased Bond Issuance

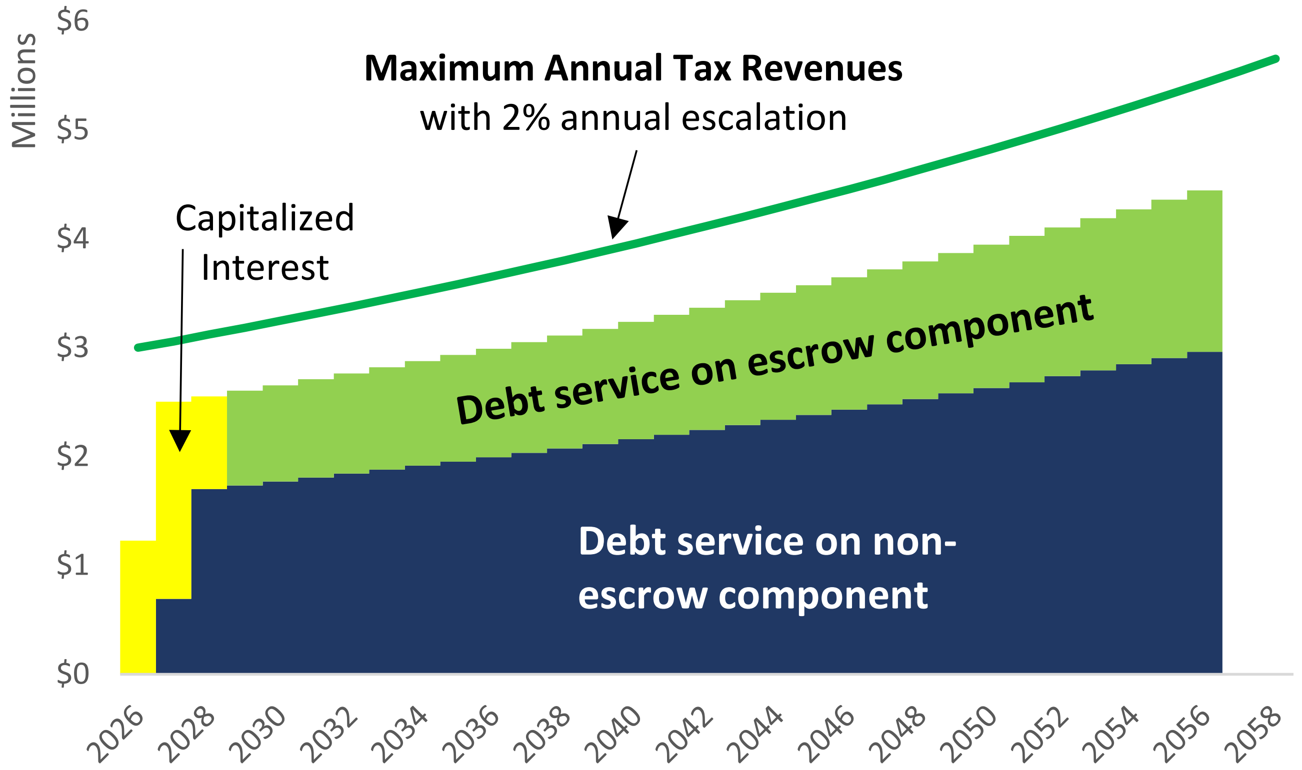
Bond sales may be phased over time

- Based on credit quality and/or readiness for proceeds
- "Additional bonds test" limits extent of future dilution for parity bonds



Bolstering Credit Quality - Escrow Bonds

- **Escrow bond proceeds held “in escrow” until release conditions met**
  - Proceeds invested to pay interest on escrowed bonds until release date
  - Can mitigate credit risks while avoiding time and effort of another bond sale
- **Escrow release conditions**
  - Development milestone or other measurable metric
    - Such as final map recordation or certain number of building permits pulled
  - Must have “reasonable expectations” to spend funds within 3 years
  - If condition isn’t timely met, escrowed proceeds pay off escrow bonds



Determining Property Values

- **Issuer promises to pursue accelerated foreclosure if taxes aren't paid**
  - Value of property at a foreclosure sale is key to "land-secured" credit quality
- **Assessed value (AV) sometimes used**
  - Completed projects or modest debt
- **Appraisal often used to determine property value**
  - CDIAC appraisal standards
  - "Bulk sale" value of property recognizing the bond-funded improvements
  - Comparable sales usually used to establish retail price of end product, discount rate, and absorption affect value
  - An absorption report can inform expected timing of build out and sales
- **A "composite value" uses AV and appraised values**

Preparing a Land-secured Bond For Sale

- Determine property values and credit characteristics
- Draft legal and disclosure documents
- Seek rating (if appropriate)
- Conduct thorough due diligence
- Pre-market the bonds to potential investors
- Price and close the bonds

Basic Legal Documents

- **Resolutions**
  - Issuer approves financing terms and related financing documents
  - "Good faith estimates" of financing costs may be included (or in staff report)

- **Indenture, trust agreement, or fiscal agent agreement**
  - Details legal structure of security: payment dates, flow of funds, reserve fund (if any), redemption provisions, issuer covenants

- **Bond purchase contract**
  - Contract between underwriter and issuer signed on date of pricing
  - Specifies interest rates, principal amounts, underwriter's discount

Credit Tables

- **Incorporate information from special tax consultant, tax rolls, appraiser, developer, and underwriter**

- **Typically summarize:**
  - Special tax rates and expected special tax revenues
  - Development plan details – i.e. by village and/or product type
  - Home prices and sales activity or leasing activity
  - Current development status by land use category, property ownership
  - Value-to-lien ratios – in aggregate and by category and/or owner
  - Total tax burden
  - Historic tax collections and delinquencies

Developing the Official Statement

- **Preliminary Official Statement (POS)**
  - Primary marketing document sent to potential investors
  - Describes the issuer, project, legal security, potential risks
  - Includes form of Continuing Disclosure Agreements
  - May also include appraisal and/or tax increment estimates
  - Clear, thoughtful “story” supported by data facilitates broadest credit approvals

- **Final Official Statement**
  - Filled in after pricing with final details – coupons, yields, principal amounts, call features, CUSIPs
  - Describes any material changes not disclosed in POS

PRELIMINARY OFFICIAL STATEMENT DATED JULY 31, 2025

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

NEW ISSUE-FULL BOOK ENTRY | **NOT RATED**

In the opinion of Jones Hall LLP, San Mateo, California, as Bond Counsel, subject, however to certain qualifications described herein, under existing law, the interest on the 2025 Bonds is excluded from gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of the federal alternative minimum tax. Interest on the 2025 Bonds may be subject to the corporate alternative minimum tax. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See “TAX MATTERS.”

$8,620,000*
COUNTY OF EL DORADO
COMMUNITY FACILITIES DISTRICT NO. 2024-1
(CARSON CREEK HERITAGE VILLAGE 11)
SPECIAL TAX BONDS SERIES 2025

Dated: Date of Delivery | **Due: September 1, as shown below**

The bonds captioned above (the “2025 Bonds”) are being issued by the County of El Dorado (the “County”), by and through its Community Facilities District No. 2024-1 (Carson Creek Heritage Village 11) (the “District”). The 2025 Bonds are special tax obligations of the County, authorized pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, being California Government Code Section 53311, et seq. (the “Act”), and will be issued pursuant to a Fiscal Agent Agreement dated as of August 1, 2025 (the “Fiscal Agent Agreement”) by and between the County and The Bank of New York Mellon Trust Company, N.A., as fiscal agent (the “Fiscal Agent”). See “THE BONDS – Authority for Issuance.” The 2025 Bonds are being issued to (i) finance certain capital improvements authorized for the District, (ii) establish a debt service reserve fund, and (iii) pay the costs of issuance of the 2025 Bonds. Interest on the 2025 Bonds is payable semiannually on March 1 and September 1 each year, commencing March 1, 2026.

The 2025 Bonds are being issued as fully registered bonds, registered in the name of Cede & Co. as nominee of The Depository Trust Company (“DTC”), and will be available to ultimate purchasers in the denomination of $5,000 or any integral multiple thereof, under the book-entry system maintained by DTC. See “APPENDIX F – THE BOOK-ENTRY SYSTEM.”

The 2025 Bonds are secured by and payable from a pledge of Special Tax Revenues (as defined herein) derived from Special Taxes (as defined herein) to be levied by the County on real property within the District, from the proceeds of any foreclosure actions brought following a delinquency in the payment of the Special Taxes, and from amounts held in certain funds under the Fiscal Agent Agreement, subject to the conditions of the Fiscal Agent Agreement, all as more fully described herein. Unpaid Special Taxes do not constitute a personal indebtedness of the owners of the parcels within the District. In the event of delinquency, proceedings may be conducted only against the parcel of real property securing the delinquent Special Tax. There is no assurance the owners will be able to pay the Special Tax or that they will pay a Special Tax even if financially able to do so. The 2025 Bonds are also secured by amounts in the debt service reserve fund established for the Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS.”

Property subject to the Special Tax is being developed by Lennar Homes of California, LLC (“Lennar Homes”) into 409 detached, age-restricted single-family residential homes across three product lines. Sales of homes are underway in the project, which is known as “Heritage Carson Creek” and is a continuation of Lennar Homes’ nearby “Carson Creek” development that is sold-out. Lennar Homes is acquiring lots over time from an unaffiliated landbank (the “Land Bank”) per a take-down schedule, as described herein. As of July 14, 2025, 156 of the 409 total planned homes in the District were completed, 87 of which had been conveyed to individual homeowners; an additional 87 homes were under construction and 29 homes were sold-but-not-yet closed to individual homeowners. As of that date, Lennar Homes owned 122 lots in various stages of development, including 69 completed homes, and the Land Bank owned the remaining 200 lots. See “THE DISTRICT” and “OWNERSHIP OF PROPERTY WITHIN THE DISTRICT.”

The 2025 Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS – Redemption.”

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE COUNTY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE 2025 BONDS, EXCEPT TO THE EXTENT DESCRIBED HEREIN. THE 2025 BONDS DO NOT CONSTITUTE A DEBT OF THE COUNTY WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL DEBT LIMITATION AND ARE PAYABLE SOLELY FROM THE SPECIAL TAX REVENUES AND OTHER FUNDS PLEDGED UNDER THE FISCAL AGENT AGREEMENT. THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT, INCLUDING INFORMATION UNDER THE HEADING “SPECIAL RISK FACTORS,” SHOULD BE READ IN ITS ENTIRETY.

This cover page contains certain information for general reference only. It is not a summary of all of the provisions of the 2025 Bonds. Prospective investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. See “SPECIAL RISK FACTORS” herein for a discussion of the special risk factors that should be considered, in addition to the other matters and risk factors set forth herein, in evaluating the investment quality of the 2025 Bonds.

The 2025 Bonds are offered when, as and if issued, subject to approval as to their legality by Jones Hall LLP, San Mateo, California, as Bond Counsel. Certain legal matters will also be passed on by Jones Hall LLP, as Disclosure Counsel, and Stradling, Yocca, Carlson & Rauth LLP, as counsel to the Underwriter. It is anticipated that the 2025 Bonds will be available for delivery through the facilities of DTC on or about August ____, 2025.

STIFEL

The date of this Official Statement is ________, 2025.

* Preliminary, subject to change.

Disclosure Standards

- **SEC seeks market transparency**
- **SEC doesn't *directly* regulate municipal issuers *<u>except</u>* for anti-fraud statutes**
- **Negligence standard applies**
  - Facts known or should have been known

Securities Exchange Act of 1934 Rule 10b-5:

"It shall be unlawful for any person. . .
(a) to employ any device, scheme or artifice to defraud,

(b) to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading. . ."

=> Applies to any circumstance where a municipal bond issuer is "***speaking to the market***," including when filing annual Continuing Disclosure Reports or Event Notices.

Continuing Disclosure

- **SEC requires underwriter to secure continuing disclosure agreements**
  - Per SEC rule 15c2-12(b)(5)
  - Enables investors to monitor value of bonds over time
- **Usually annual or semi-annual reports**
  - Annual audited financial statements of issuer
  - Updates material information in the official statement, usually from tax rolls
  - Developer obligation may end when key development milestones are met
- **“Material events” must be reported within 10 days**
- **MSRB provides website for disclosure**
  - Https://emma.Msrb.Org/
  - Issuer may appoint a dissemination agent for assistance

Due Diligence Process

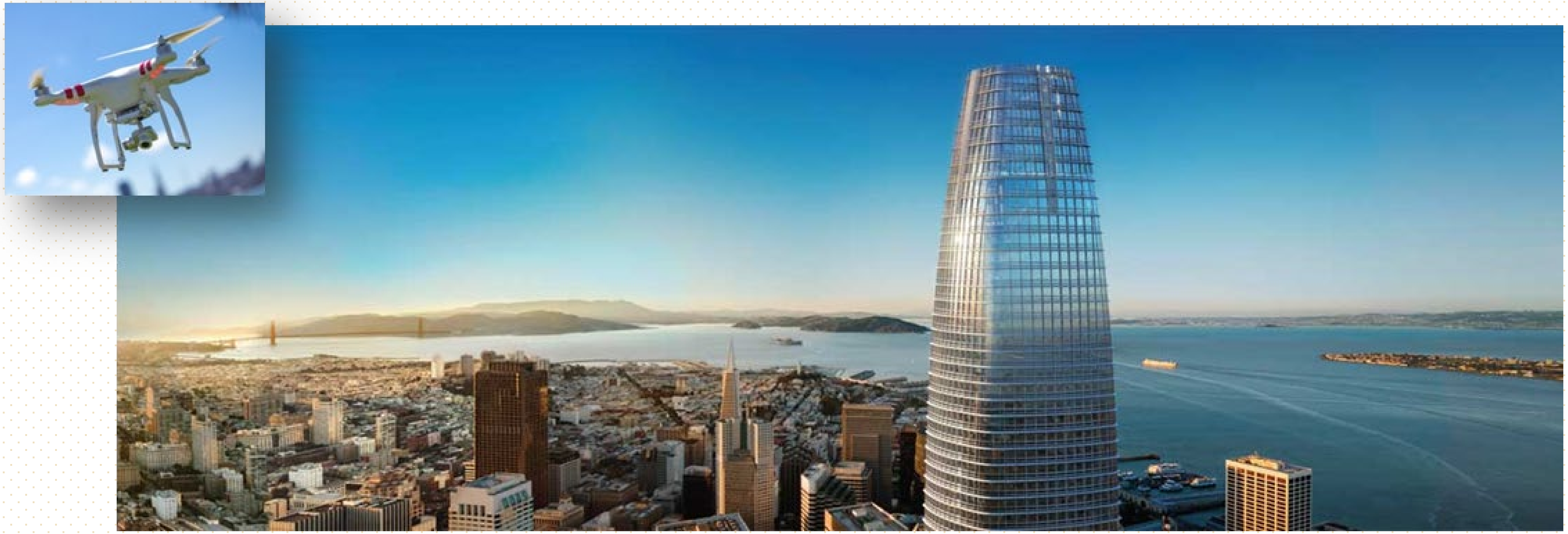
- **Completed before the POS is distributed**
  - Usually led by underwriter and underwriter’s counsel
  - Ensures that the POS is complete, accurate and does not misstate or omit material information or mislead investors
  - Requires engagement by issuer, developer, consultants and other financing team members

- **The Official Statement is ultimately the *issuer’s document***
  - Failure to adequately disclose all material facts has led to fines against bond issuers, charges against individual officials, fines against individuals, etcetera

Bond Marketing Process

- **Underwriter distributes POS to potential investors**
  - Follow up conversations to solicit interest

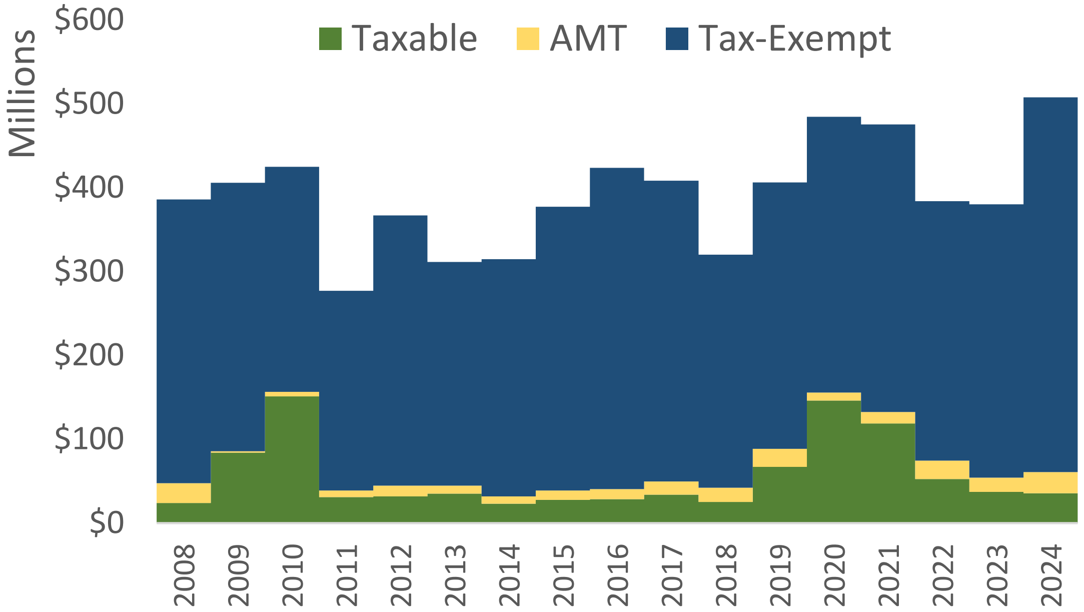
- **Supplemental marketing efforts**
  - Notice of upcoming sale on EMMA
  - In person site tours and/or “virtual” road show presentations, drone videos
  - Targeted advertisements (i.e. radio ads, retail mailers, etc.)



Municipal Bond Market

- **Fractured, "over-the-counter" market**
  - About 1 million different securities
  - About 50,000 different issuers
  - About 57,000 daily trades
- **Relatively small, less liquid market**
  - $4.2 trillion outstanding as of 12/31/24
    - ~ 15% of outstanding Treasury bonds
  - Average daily trading volume $14.5 billion
    - ~ 2% of Teasury daily trading volume
- **Record-setting bond issuance in 2024**
  - $508 billion
  - $447 billion or 88% tax-exempt

Annual Municipal Bond Issuance Since 2008*

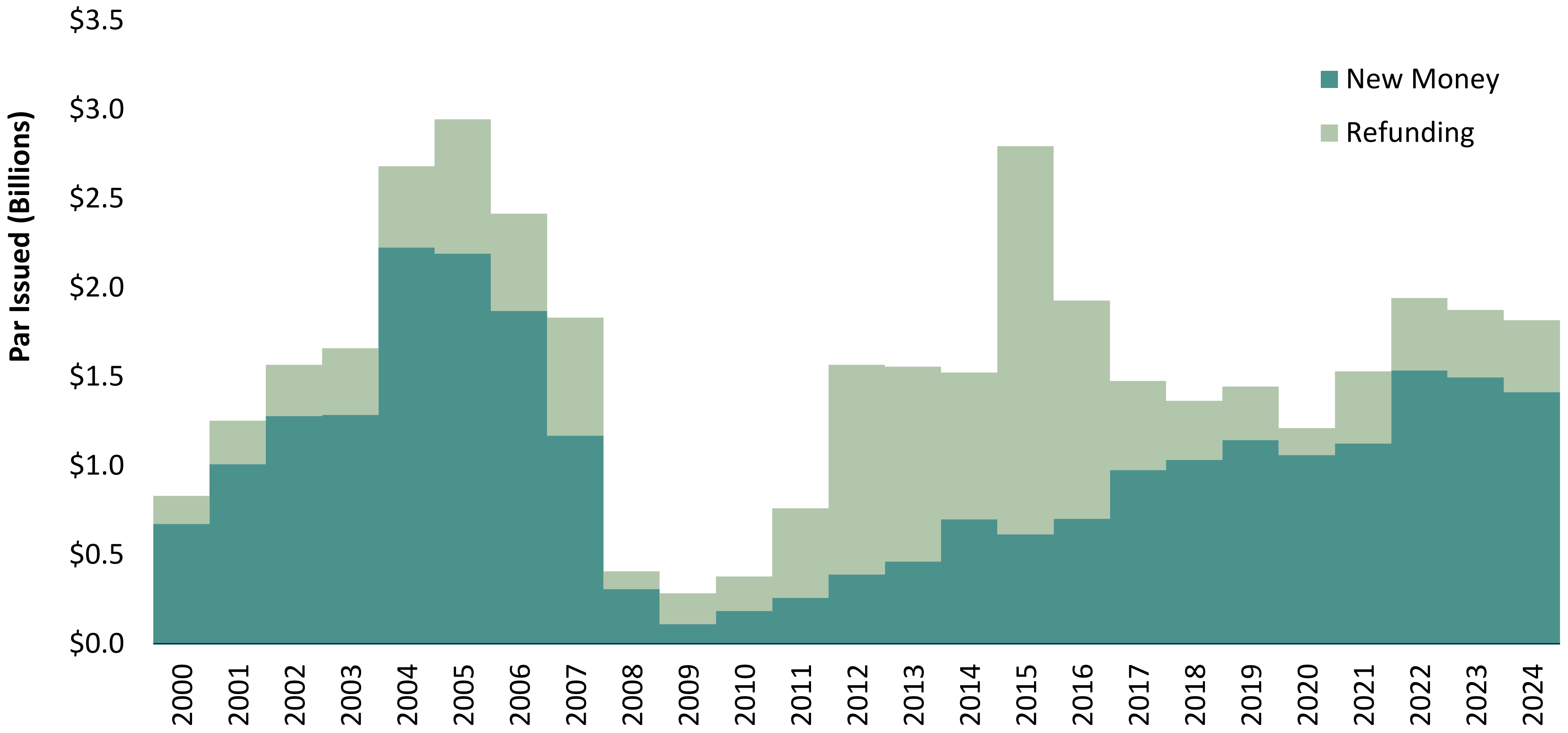


*Excludes notes and short-term municipal debt instruments with less than 1 year to maturity

Sources: SIFMA, data as of 12/31/2024; Thompson Reuters

California Land-secured Bond Market

California Annual Land-secured Bond Issuance by Par Issued, 2000 – 2024



Marketing Land-secured Issues

- **Investor base for land-secured credits**
  - Subset of general municipal bond buyers seeking diversification and stability, fixed income stream, assets matching liabilities, relative value, tax advantages
  - More sensitive to supply/demand trends

- **Institutional investors**
  - Bond funds, money managers, commercial banks, bank trust departments, insurance companies, hedge funds
  - Generally prefer larger, more liquid bond issues
  - About 25 firms participate in sector, 3-5 are most active

- **Sophisticated "retail" investors**
  - High net-worth individuals, seeking stability, tax-free income, and yield
  - Focus on stronger "story" credits, nominal yields

Bond Pricing Basics

- **Bond structure**
  - Carves up borrowing to appeal to different investor interests across yield curve
- **Maturity**
  - Date(s) on which principal is repaid
- **Coupon**
  - Rate at which interest is repaid
  - Chosen to appeal to distinct categories of investors
- **Yield**
  - Determined by market conditions and credit quality
- **Price**
  - A function of coupon, yield, and maturity

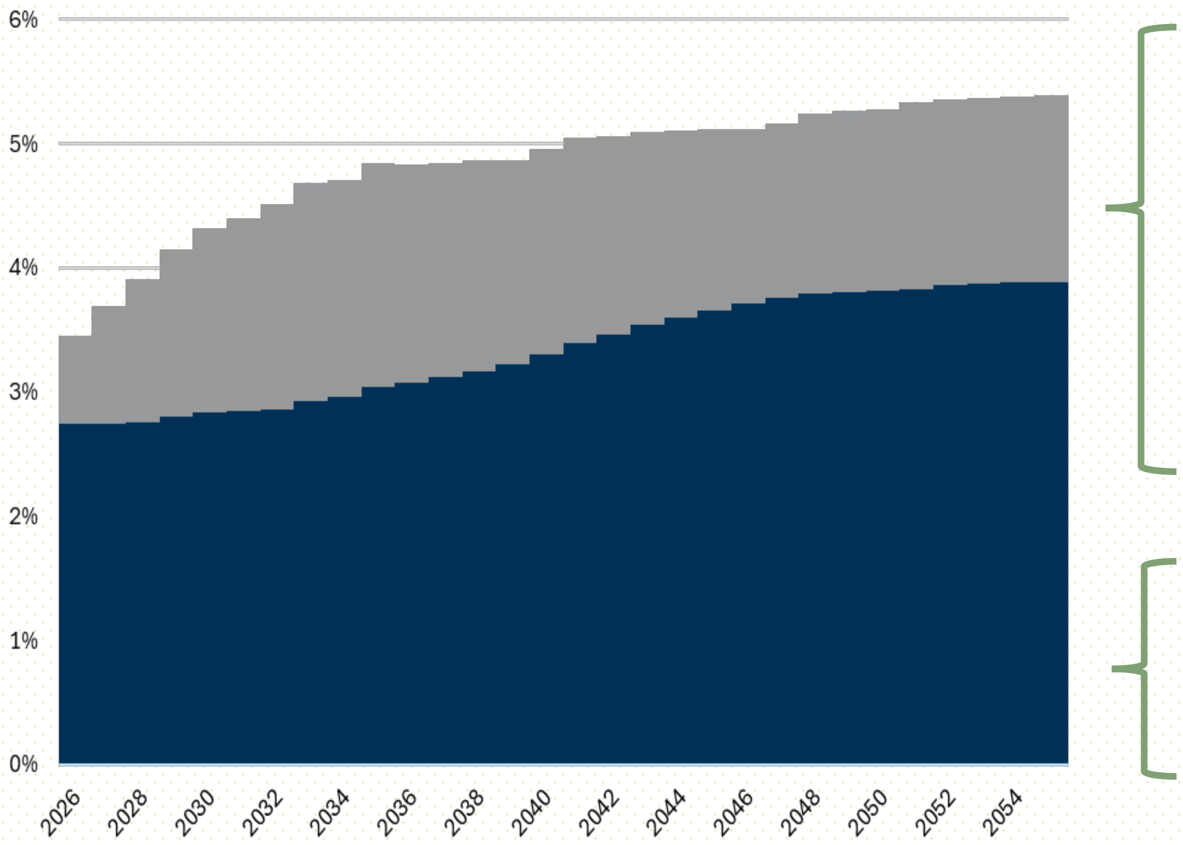
	Maturity	Amount	Coupon	Yield	Price
	9/1/26	$ 5,000	5.00%	2.90%	$ 102.077
	9/1/27	20,000	5.00%	2.95%	103.974
Serial	9/1/28	30,000	5.00%	3.13%	105.333
Bonds	9/1/29	40,000	5.00%	3.34%	106.183
	9/1/30	50,000	5.00%	3.56%	106.555
	9/1/31	65,000	5.00%	3.84%	106.173
	9/1/32	80,000	5.00%	4.01%	105.998
	9/1/33	95,000	5.00%	4.09%	106.162
	9/1/34	110,000	5.00%	4.26%	105.489
	9/1/35	125,000	5.00%	4.43%	104.568
	9/1/36	140,000	5.00%	4.61%	103.098
2040	9/1/37	160,000			
Term	9/1/38	180,000			
Bond	9/1/39	200,000			
	9/1/40	220,000	5.00%	5.02%	99.790
2045	9/1/41	245,000			
Term	9/1/42	270,000			
Bond	9/1/43	295,000			
	9/1/44	320,000			
	9/1/45	350,000	5.00%	5.16%	98.017
2050	9/1/46	290,000			
Term	9/1/47	325,000			
Bond	9/1/48	355,000			
	9/1/49	395,000			
	9/1/50	435,000	5.13%	5.23%	98.543
2055	9/1/51	570,000			
Term	9/1/52	615,000			
Bond	9/1/53	665,000			
	9/1/54	715,000			
	9/1/55	765,000	5.25%	5.28%	99.549
		$8,130,000			

Primarily retail investors

Primarily institutions, Some retail investors

Borrowing Costs for Land-secured Bonds

- **Municipal yields are typically quoted as a "spread" to a benchmark index**
  - AAA Municipal Market Data (MMD) index for tax-exempt debt, US Treasuries for taxable debt



What affects credit spreads?

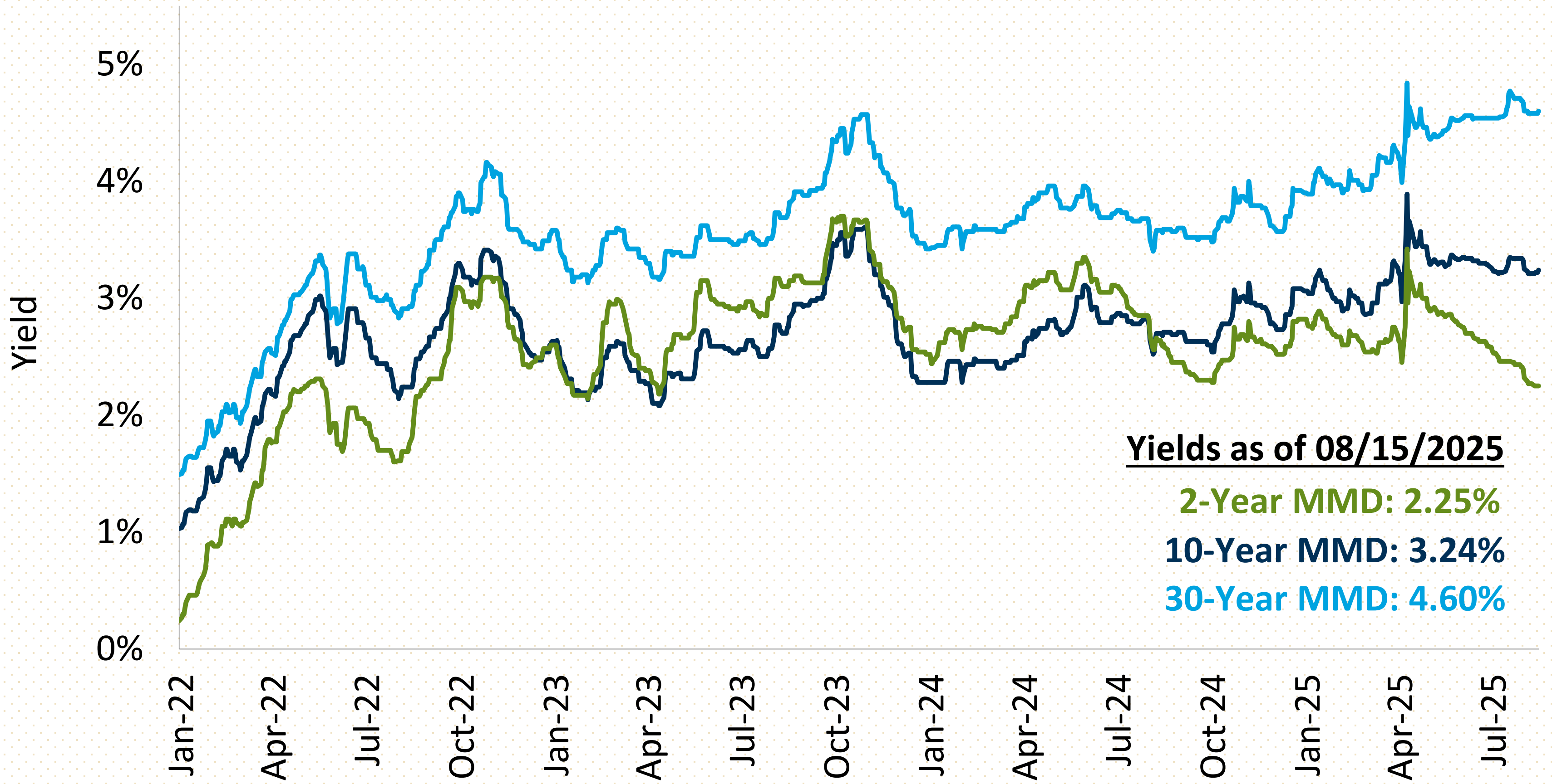
- Overall project appeal
- Development momentum
- Developer expertise
- Diversification at buildout
- Value-to-lien ratio
- Size of borrowing/liquidity
- High yield supply/demand
- *Ratings (if applicable)*

What affects benchmark yields?

- Level of general interest rates
- Expectations for future inflation
- Supply/demand dynamics

Recent Tax-Exempt Interest Rate Trends

AAA-Rated Municipal Market Data (MMD) Index Since 2022

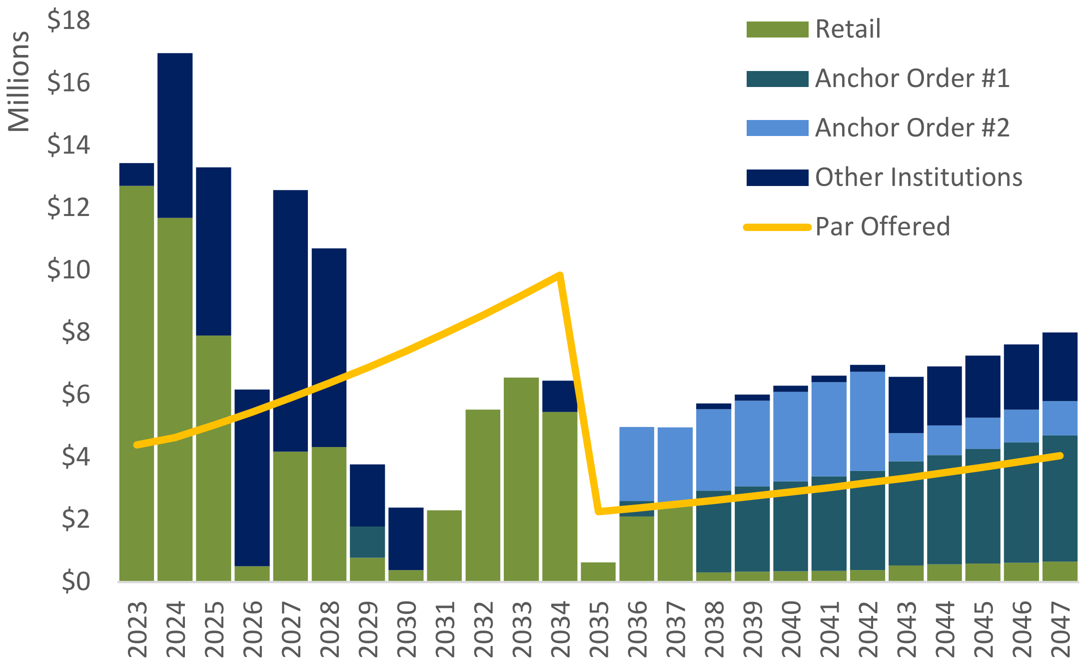


Sources: Thomson Reuters, As of August 15, 2025.

The Pricing Process

- **Pre-pricing:** Underwriter proposes coupons and yields based on market conditions, pricing "comparable," preliminary investor feedback
- **Pricing:** Investors place orders during order period after which underwriter may propose changes and then makes offer to underwrite at final coupons and yields

Illustrative Pricing Results: Sacramento County Metro Air Park CFD
$121 Million Special Tax Bonds, Series 2022



Retail Interest

- 220 individual orders, totaling $72 million
  - *Increases ability to use serial maturities*
  - *Provides pricing leverage with institutions*
  - *Enhances future liquidity*

Institutional Interest

- 8 institutions participated
- 2 "anchor orders"

Private Placement Alternatives

- **Distribution to smaller universe of buyers**

- **To commercial banks for cost, ease and timeliness**
  - Higher credit quality
  - Shorter tenor (generally < 10 years or < 20 years)
  - Smaller to moderate in size

- **To sophisticated institutional or individual investors for “suitability”**
  - Higher risk tolerance
  - Often larger denominations ($100,000 or $250,000)
  - Possible “big boy” letter

- **Consequences for interest rate and liquidity**

Regulatory Fine Print

Neither Fieldman, Rolapp & Associates nor Goodwin Consulting Group Inc. is recommending an action to a municipal entity or obligated person; Neither Fieldman, Rolapp & Associates nor Goodwin Consulting Group Inc. is acting as an advisor to a municipal entity or obligated person and does not owe a fiduciary duty pursuant to Section 15B of the Exchange Act to a municipal entity or obligated person with respect to the information and material contained in this communication; Fieldman, Rolapp & Associates and Goodwin Consulting Group Inc. are acting for their own interests; and the municipal entity or obligated person should discuss any information and material contained in this communication with any and all internal or external advisors and experts that a municipal entity or obligated person deems appropriate before acting on this information.

Regulatory *Really* Fine Print

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SESSION FIVE

Ongoing CFD Administration–Part I

Ongoing CFD Administration

- Calculate annual special tax levy
- Monitor and manage delinquencies
- Calculate arbitrage rebate due to federal government
- Comply with federal and state disclosure requirements
- Other annual CFD administration responsibilities

Calculating the Annual Special Tax Levy

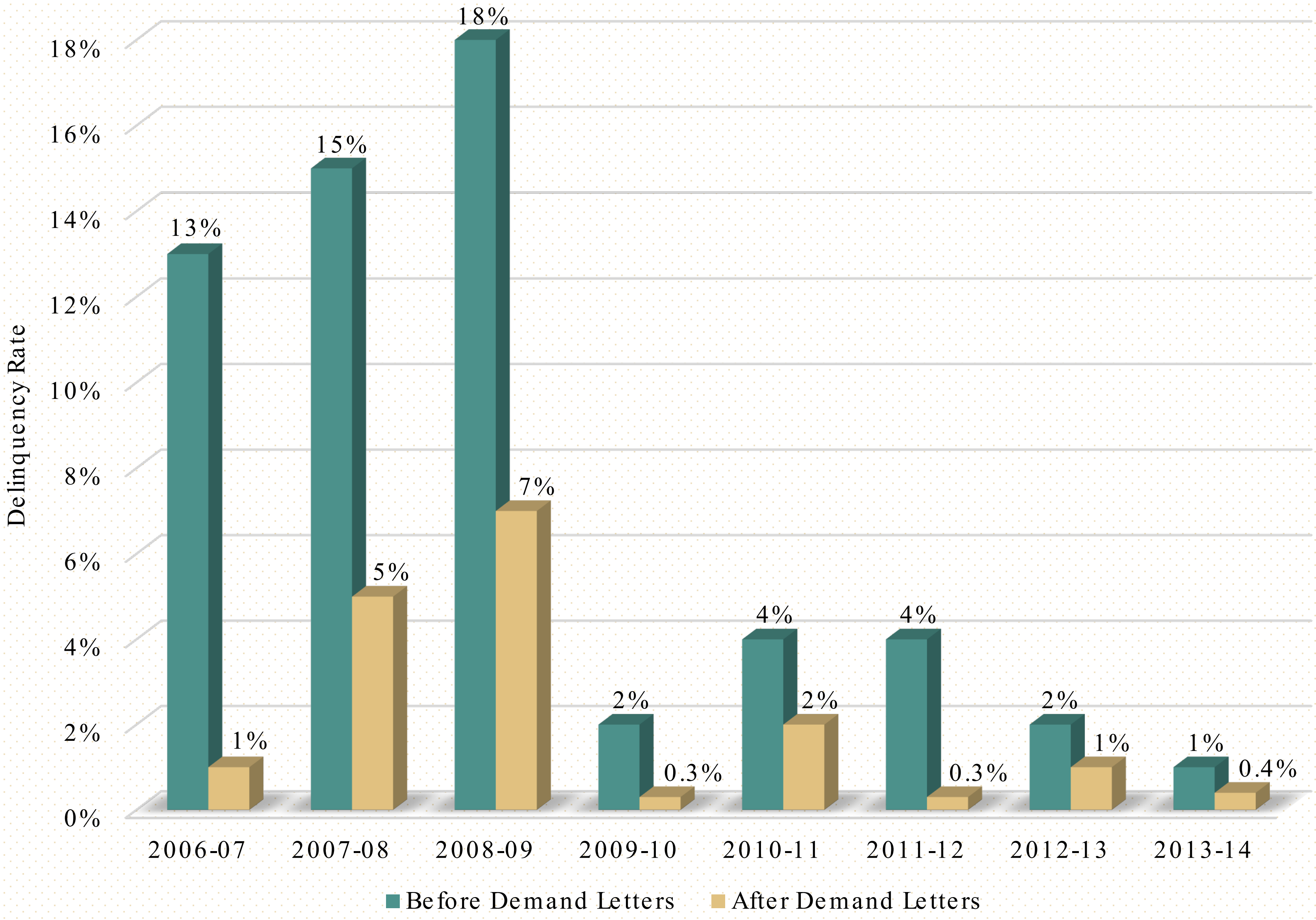
- Assign taxable parcels to appropriate special tax category
- Calculate "special tax requirement"
  - Debt service
  - Administrative expenses
  - Pay-as-you-go facilities costs (if applicable)
  - Services costs (if applicable)
- Apply RMA to determine special tax for each parcel
- Submit levy to auditor's office before deadline (usually the first week of August)
- Almost all CFD special tax levies require no action from the legislative body

Delinquency Management

- For delinquent payments, demand letters should be sent soon after April 10 (for large tax payments, send after December <u>and</u> April installments)
- For homes in foreclosure, send demand letters to the bank
  - Mello-Roos special tax lien is senior to mortgage lien
  - Accelerated foreclosure provision is an effective motivator
- Even in Teeter Plan counties, <u>don't wait to act</u>
  - Cumulative delinquencies are harder to remedy
  - Land-secured districts can be removed from Teeter at any time
- Strip Mello-Roos taxes for payment if the homeowner cannot pay the full tax bill
- Inform the tax collector that payment plans will not work for special taxes and assessments

Managing Special Tax Delinquencies

Sample of Central Valley CFDs during Great Recession



Arbitrage Rebate Calculations

- "Positive arbitrage" occurs when investment earnings on bond proceeds are greater than the interest rate paid on bonds
- Every five years, excess earnings must be rebated to the internal revenue service within 60 days after year-end
- Doing an annual calculation avoids trying to collect a large amount in the fifth year, which may be impossible within maximum tax rates
- Applies to proceeds from the bond issue. Does not generally apply to PayGo revenues.

Annual Reporting

- **SEC Rule 15c2-12 (Continuing Disclosure)**
  - Obligated persons: issuer and developer
  - Annual/semi-annual/quarterly reports and notice of listed events
  - File on the EMMA System of the Municipal Securities Rulemaking Board
- **California Debt and Investment Advisory Commission**
  - Yearly fiscal status report: October 30 deadline
  - Annual Debt Transparency Report: January 31 deadline
  - 10-day significant event reporting: form provided
- **State Controller's Office**
  - AB 2109 Parcel Tax Reporting: included in Financial Transactions Report
- **Local Agency Special Tax & Bond Accountability Act (SB 165)**
  - Report filed with Clerk each year
  - CFD Administration Report will suffice
- **Assembly Bill 1483**
  - Requires public agencies to post on their website a current schedule of fees, exactions, and affordability requirements imposed on housing developments
  - Special taxes are an exaction and must be posted
  - Information must be updated within 30 days of any changes, including annual escalation of special taxes

Other Annual CFD Administration Responsibilities

- Reconcile bank statements from fiscal agent/trustee
- Prepayment calculations
- Record releases of special tax lien
- Disbursing/investing bond proceeds
- Acquisition of facilities (to be discussed in more detail)
- Answer questions from homeowners, appraisers, realtors, bond investors

Consultants or Staff?

Considerations

- Experience of staff
- Existing workload
- Number of CFDs formed by the agency
- Complexity of CFDs
- Combined Approach

SESSION SIX

Ongoing CFD Administration–Part II

Ongoing CFD Administration Part II

- Use of bond proceeds in project fund
- Applicable agreements
- Overview of financing of impact fees and procedures
- Overview of financing of facilities and procedures
- Consultants or public agency staff?

Use of Bond Proceeds in Project Fund

- Initially discussed during AD or CFD formation process
  - List of impact fees and facilities included in engineer's report and proposition 218 notice and ballot for ads
  - List of impact fees and facilities included in resolutions for CFDs

- Eligible list of impact fees and facilities reaffirmed during bond issuance process based on projected net bond proceeds

- Expenses associated with district formation and bond issuance also eligible for reimbursement after bond issuance

Use of Bond Proceeds in Project Fund (cont.)

- Net bond proceeds deposited into "project fund" or "improvement fund" at bond closing and made available to finance eligible list of impact fees and facilities

- Funds can be disbursed upon public agency approval

- For expenditures made prior to district formation, 60-day "look-back" provision applies for tax-exempt bonds

- Additional amounts may be deposited into project fund later from CFD pay-go revenues or escrow bonds if applicable

Applicable Agreements

- Joint Community Facilities Agreement (JCFA) needed if financing Impact Fees or Facilities for public agencies other than the public agency forming CFD
- School districts may require Mitigation Agreement specifying amounts to be financed with CFD bond proceeds
- Acquisition Agreement needed if facilities are to be constructed by Developer and acquired by public agency
- If financing includes facilities included in impact fee programs, Credit/Reimbursement Agreements may limit what can be financed
- Agreements ideally finalized during district formation process but required to be finalized prior to bond closing

Overview of Financing of Impact Fees

- Impact Fees must fund capital facilities for bond financing
- Fees collected for maintenance, services, and building inspections are not eligible for bond financing
- Reasonable expectation to spend 85% of impact fees collected on capital facilities within 3 years of bond issuance for Tax-Exempt Bonds
- If 3-year expenditure timeline cannot be confirmed, impact fees can be financed with taxable bonds
- Bond proceeds can be used to reimburse developers for impact fees paid or to prepay impact fees due directly to public agency

Procedures for Financing of Impact Fees

- Creating a standard Payment request form for developers to complete and submit for review is recommended for proper record keeping

- Payment request form should convey the requirement to provide proof of payment and a summary table of fees to be financed by fee type and lot description

<u>Example of Payment Request Form Table</u>

Public Agency	Credit or Reimbursement?	Description of Impact Fees	Description of Lots or Parcels	Total Amount
Sacramento County	Reimbursement	Transportation	Lots 1 through 30	$150,000
SacSewer District	Reimbursement	Sanitation	Lots 1 through 30	$200,000

Total for Payment Request: $350,000

- Tracking fees financed with bond proceeds by lot and fee type is important to avoid duplicate payments for projects with multiple payment requests

Procedures for Financing of Impact Fees (cont. 2 of 3)

Example of Supporting Documentation for Impact Fees

building.saccounty.gov

Sacramento County Building Inspection

Inspections
(916) 875-5296

9700 Goethe Rd, Ste. A
Sacramento, CA 95827
Fax (916) 854-9228

827 7th St. Rm. 102
Sacrament, CA 95814
Fax (916) 854-9229

All permits that have no activity for 180 days (field inspections and/or plan check response by applicant) shall expire. All permits expired for 1 year or more shall be closed. All permits shall expire 2 years after the initial permit issuance date. (Project must be completed within two years of permit issuance date) Upon permit expiration or closure, standardized re-activation fees shall apply.

Fee Summary

Application Type: Building/Misc Sewer Water and Drainage/NA/SWD
Application: SWDX2024-00825
Application Name: SOUZA DAIRY UNIT 7 - LOT 1013
Application Status: Open
Address: 8299 ARTEMIS DR, ELK GROVE, CA 95757
Applicant Name: RANDI MCDANIEL

Invoice #	Invoice Date	Fee Item	Line No	Fee Due	Fee Paid	Date Paid
1661924	5/1/2024	WCA Initially Paid Fees Credit	4600	($2,930.00)	($2,930.00)	05/03/2024
1661924	5/1/2024	Zone41 New Srvc Connection	14400	$376.00	$376.00	05/03/2024
1661924	5/1/2024	IT Recovery Fee	75060	$350.00	$350.00	05/03/2024
1661932	5/1/2024	Zone40 1.5" Fire Sprinkler at 1" rate	14600	$19,078.00	$19,078.00	05/03/2024
				$16,874.00	***$16,874.00***	

Current Balance Due: **$0.00**

FEES SUBJECT TO CHANGE UPON PLAN REVIEW

Procedures for Financing of Impact Fees (cont. 3 of 3)

- Ensure impact fees are eligible per district formation documents and other applicable agreements (JCFA, mitigation agreement)
- Disbursement of impact fees for other public agencies should be approved by each respective public agency
- Coordination with finance and building departments to establish credits if bond proceeds are disbursed directly to the public agency to prepay fee obligations
  - Prepaying fee obligations with bond proceeds may be beneficial to a public agency if funding is needed for imminent capital projects
- Obtain written authorization from home builders paying impact fees if the master developer is entitled to bond proceeds
- Documenting expenditure of impact fees financed can be done with annual and five-year reporting required by the mitigation fee act

Overview of Financing of Facilities

- Facilities financed with ADs are based on special benefit to property
- CFDs may finance “purchase, construction, expansion, improvement, or rehabilitation of any real or other tangible property with an estimated useful life of five years or longer”
- CFD law allows financing of certain privately owned facilities (e.g., flood and storm protection) with Taxable Bonds
- Facilities do not need to be physically located within the boundaries of the AD or CFD

Upfront Considerations for Financing of Facilities

- Construction of facilities before or after CFD formation?
  - Bidding requirements typically are less stringent if construction is before CFD formation
  - If after CFD formation, construction should be performed "as if it had been constructed under the direction and supervision, or under the authority of, the local agency that will own or operate the facility"
- Prevailing wages paid for construction of facilities?
- Facilities complete or substantially complete?
  - "Discrete portions" or phases of facilities can be financed through CFD if value of completed facility exceeds $1 million

Acquisition vs. Issuer Construction

Acquisition of Facilities:

- Developer constructs facilities upfront and issuer “acquires” facilities with bond proceeds
- Bonds often sold after infrastructure is complete so there is higher value backing bonds
- Significantly less involvement from public agency staff
- Design and construction issues and cost overruns are borne by developer

Issuer Construction of Facilities:

- Issuer constructs public facilities and bond proceeds pay costs as needed
- Extensive involvement from public agency staff from design through project completion
- Design and construction issues and cost overruns are typically borne by issuer

Acquisition Agreement

- Required for acquisition of facilities
- Can be customized for each project as appropriate
- Acquisition agreements specify the following:
  - Purchase process and eligible facilities
  - Bidding and prevailing wage requirements
  - Review and payment timelines
  - Substantial completion and retainage requirements for “discrete portions”
  - Change order approval process
  - Limitations on eligibility of “soft costs”

Acquisition Audit Procedures

- Preparing a checklist of the essential items based on acquisition agreement is recommended to streamline review process
- Coordinate with developer on submittal of payment requests using guidelines in acquisition agreement and prepared checklist
- List of essential items for review generally include:
  - Bid documents
  - Construction contracts, change orders, invoices, and proof of payment
  - Confirmation of prevailing wages
  - Lien releases
  - Improvement plans
  - Evidence of acceptance or satisfaction with construction for discrete portions
  - Cost allocation between public and private improvements (e.g., grading costs)
  - Applicable credit/reimbursement agreements

Acquisition Audit Procedures (cont. 2 of 4)

Review and approval of payment requests involves the following:

- Confirm all essential items have been submitted for review
- Compliance with formation documents and acquisition agreement
- Analysis of public vs. private improvements and expenditures
- Confirm costs incurred not attributed to maintenance, defective materials, or contractor negligence
- Evaluate quantities and costs across documents (contracts, invoices, proof of payment, improvement plans). If discrepancies identified, approve lesser value.
- Prepare comprehensive audit report for payment request detailing items submitted for review, findings, and amount approved for financing
- Coordinate with authorized public agency representative to approve payment request and trustee to disburse bond proceeds

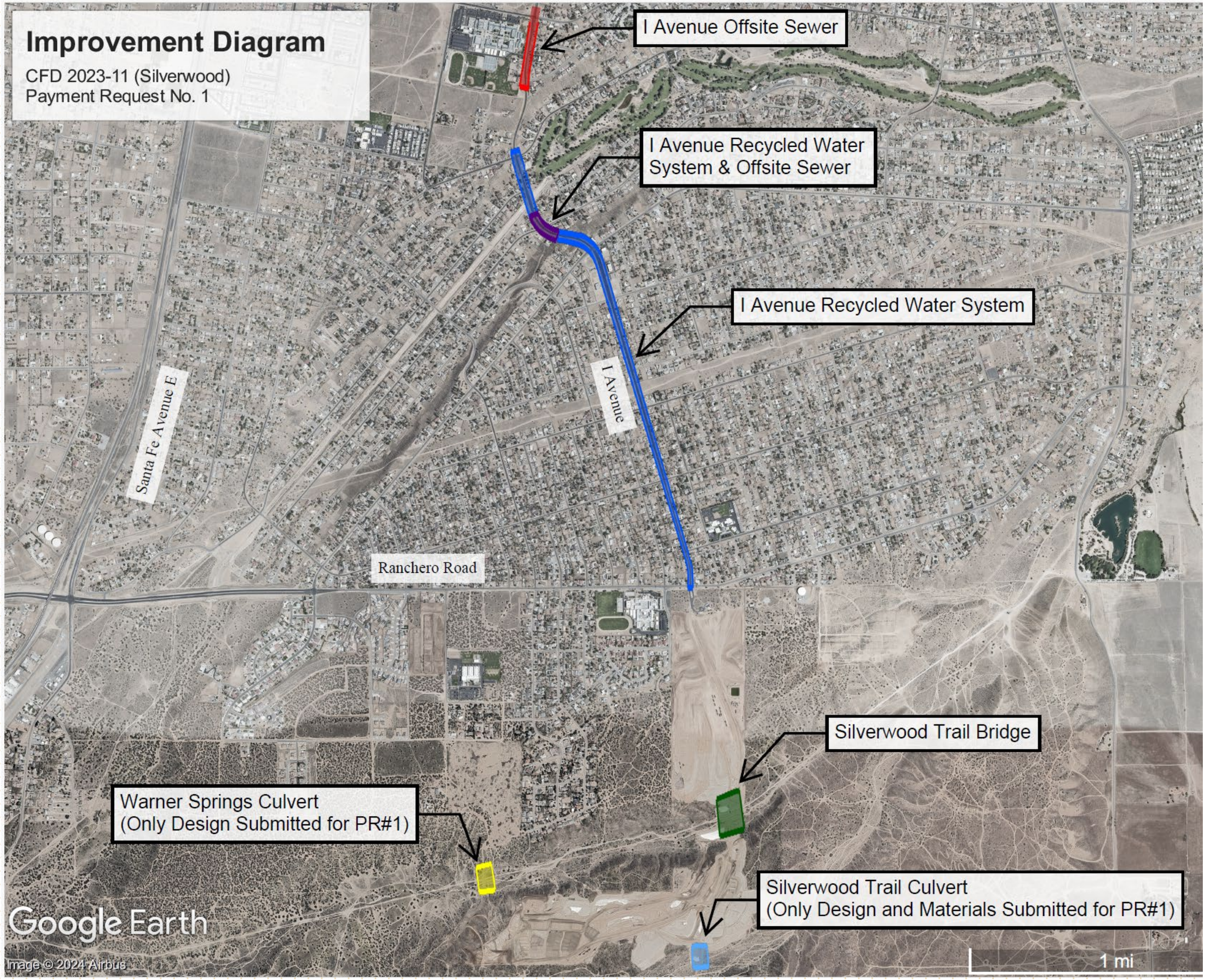
Acquisition Audit Procedures (cont. 3 of 4)

If payment requests include improvements under impact fee programs:

- Developer may be eligible for impact fee credits pursuant to applicable nexus study and credit agreements
- Impact fee credit value can be established concurrently with approval of the amount for CFD bond financing
- If actual costs incurred exceed impact fee obligation for the project, developers will typically look to do the following to maximize financing dollars for the project:
  - Seek CFD bond financing for construction costs up to impact fee obligation
  - Construction costs above impact fee obligation reimbursed from applicable impact fee program subject to potential caps in nexus study and credit agreements
- As part of review process, ensure developer does <u>not</u> receive payment from <u>both</u> CFD project fund and impact fee programs for the same improvement(s)

Acquisition Audit Procedures (cont. 4 of 4)

preparation of diagram of improvements relevant to payment request is recommended to assist with the review and approval process.



Consultants or Public Agency Staff?

- Experience of public agency staff. Review of payment requests for facilities recommended to be overseen by engineer.
- Existing workload
- Complexity of AD or CFD
- Experience of developer