

In the opinion of Best Best & Krieger LLP Riverside, California (“Bond Counsel”), subject to certain qualifications described in this Official Statement, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, the interest on the 2016A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. Interest on the 2016B Bonds is subject to all applicable federal income taxation. In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income tax. See “LEGAL MATTERS — Tax Exemption.”

County of Riverside

State of California

\$1,800,000

\$810,000

**COMMUNITY FACILITIES DISTRICT NO. 2014-2
(THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
SPECIAL TAX BONDS
SERIES 2016A**

**COMMUNITY FACILITIES DISTRICT NO. 2014-2
(THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
TAXABLE SPECIAL TAX BONDS
SERIES 2016B**

Dated: Date of Delivery**Due: September 1, as shown on the inside cover page**

The Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Special Tax Bonds, Series 2016A (the “2016A Bonds”) and Taxable Special Tax Bonds, Series 2016B (the “2016B Bonds,” and with the 2016A Bonds, the “Bonds”) are being issued and delivered to finance various public improvements needed with respect to the development within Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside (the “District”) and regional park improvements to be owned and operated by the City of Riverside (the “City”), to finance certain elementary and secondary school facilities for the Alvord Unified School District (the “School District”), to fund a reserve fund securing the Bonds and to pay costs of administration and issuance of the Bonds. The District has been formed by the City and is located in the in the southwestern portion of the City, in the County of Riverside, California (the “County”).

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 et seq. of the Government Code of the State of California), and pursuant to a Fiscal Agent Agreement, dated as of April 1, 2016 (the “Fiscal Agent Agreement”), by and between the City, for and on behalf of the District, and U.S. Bank National Association as fiscal agent (the “Fiscal Agent”). The Bonds are special obligations of the District and are payable solely from revenues derived from certain annual Special Taxes (as defined in this Official Statement) to be levied on and collected from the owners of certain taxable land within the District and from certain other funds pledged under the Fiscal Agent Agreement, all as further described in this Official Statement. The Special Taxes are to be levied according to the rates and method of apportionment of special tax approved by the City Council of the City and the qualified electors within the District. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and APPENDIX A — “RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” The City Council of the City is the legislative body of the District.

The Bonds are issuable in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases may be made in integral multiples of \$5,000 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 in this Official Statement. Interest on the Bonds will be payable semiannually on each March 1 and September 1, commencing September 1, 2016. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants who are obligated to remit such payments to the beneficial owners of the Bonds. See “THE BONDS — General Provisions,” “— Book-Entry Only System” and APPENDIX G — “INFORMATION CONCERNING DTC.”

Neither the faith and credit nor the taxing power of the City, the County, the State of California or any political subdivision of such entities is pledged to the payment of the Bonds. Except for the Special Taxes, no other taxes are pledged to the payment of the Bonds. The Bonds are special obligations of the District payable solely from Special Taxes and certain other amounts held under the Fiscal Agent Agreement as more fully described in this Official Statement.

The Bonds are subject to optional redemption, mandatory redemption prior to maturity from special tax prepayments and mandatory sinking fund redemption as described in this Official Statement. See “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 section of this Official Statement entitled “RISK FACTORS” for a discussion of certain risk factors that should be considered, in addition to the other matters set forth in this Official Statement, in evaluating the investment quality of the Bonds.

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

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by Stifel, Nicolaus & Company, Incorporated, the Underwriter, subject to approval as to their legality by Best Best & Krieger LLP, Riverside, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City and the District by the City Attorney, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as counsel to the Underwriter. It is anticipated that the Bonds in book-entry form will be available for delivery to DTC in New York, New York, on or about April 28, 2016.

STIFEL

**COMMUNITY FACILITIES DISTRICT NO. 2014-2
(THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
SPECIAL TAX BONDS
SERIES 2016A**

**Base CUSIP No.† 769053
\$630,000 Serial Bonds**

<u>Maturity Date (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP No.†</u>
2017	\$ 10,000	2.000%	0.810%	101.584	FC8
2018	10,000	2.000	0.940	102.448	FD6
2019	10,000	2.000	1.150	102.778	FE4
2020	10,000	2.000	1.360	102.688	FF1
2021	10,000	2.000	1.600	102.039	FG9
2022	10,000	2.000	1.830	101.012	FH7
2023	10,000	2.000	2.050	99.659	FJ3
2024	15,000	2.000	2.230	98.256	FK0
2025	10,000	2.000	2.350	97.078	FL8
2026	15,000	2.250	2.510	97.643	FM6
2027	10,000	2.375	2.650	97.319	FN4
2028	15,000	2.500	2.730	97.602	FP9
2029	10,000	2.500	2.800	96.677	FQ7
2030	15,000	2.625	2.900	96.790	FR5
2031	15,000	2.750	3.020	96.702	FS3
2032	85,000	3.000	3.130	98.344	FT1
2033	90,000	3.000	3.190	97.481	FU8
2034	90,000	3.000	3.250	96.563	FV6
2035	95,000	3.125	3.310	97.370	FW4
2036	95,000	3.125	3.360	96.554	FX2

\$1,170,000 Term Bonds

\$535,000 3.375% Term Bonds due September 1, 2041 Yield: 3.550% Price: 97.088 CUSIP No.† FY0

\$635,000 3.500% Term Bonds due September 1, 2046 Yield: 3.610% Price: 97.978 CUSIP No.† FZ7

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Underwriter take any responsibility for the selection or correctness of the CUSIP numbers set forth herein.

**COMMUNITY FACILITIES DISTRICT NO. 2014-2
(THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
TAXABLE SPECIAL TAX BONDS
SERIES 2016B**

**Base CUSIP No.† 769053
\$490,000 Serial Bonds**

<i><u>Maturity Date</u></i> <i><u>(September 1)</u></i>	<i><u>Principal</u></i> <i><u>Amount</u></i>	<i><u>Interest</u></i> <i><u>Rate</u></i>	<i><u>Yield</u></i>	<i><u>Price</u></i>	<i><u>CUSIP No.†</u></i>
2017	\$ 45,000	1.500%	1.850%	99.537	GA1
2018	45,000	2.000	2.200	99.544	GB9
2019	45,000	2.250	2.550	99.043	GC7
2020	45,000	2.500	2.850	98.578	GD5
2021	50,000	3.000	3.150	99.265	GE3
2022	50,000	3.250	3.450	98.866	GF0
2023	50,000	3.500	3.700	98.720	GG8
2024	50,000	3.750	3.950	98.586	GH6
2025	55,000	4.000	4.100	99.225	GJ2
2026	55,000	4.000	4.250	97.920	GK9

\$320,000 Term Bonds

\$320,000 4.625% Term Bonds due September 1, 2031 Yield: 4.850% Price: 97.578 CUSIP No.† GL7

† CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Underwriter take any responsibility for the selection or correctness of the CUSIP numbers set forth herein.

**CITY OF RIVERSIDE
MAYOR AND CITY COUNCIL**

Rusty Bailey, Mayor
Mike Gardner, Ward 1
Andy Melendrez, Ward 2
Mike Soubirous, Ward 3
Paul Davis, Ward 4
Chris MacArthur, Ward 5
James Perry, Ward 6
John Burnard, Ward 7

CITY STAFF

John A. Russo, City Manager
Marianna Marysheva-Martinez, Assistant City Manager
Scott Miller, Interim Finance Director
Gary Geuss, City Attorney
Colleen J. Nicol, City Clerk

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San Francisco, California

SPECIAL TAX CONSULTANT

Albert A. Webb Associates
Riverside, California

FISCAL AGENT

U.S. Bank National Association
Los Angeles, California

APPRAISER

Kitty Siino & Associates, Inc.
Tustin, 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 Fiscal Agent 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 in this Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, the District, the Fiscal Agent 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 in this Official Statement, are intended solely as such and are not to be construed as representations of fact. This Official Statement, including any supplement or amendment to this Official Statement, is intended to be deposited with the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org.

The information set forth in this Official Statement which has been obtained from third party sources is believed to be reliable but is not guaranteed as to accuracy or completeness by the City or the District. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the District or any other parties described in this Official Statement since the date of this Official Statement. All summaries of the Fiscal Agent Agreement 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 made by this Official Statement to such documents on file with the City for further information. While the City maintains an Internet website for various purposes, none of the information on that website is incorporated by reference in this Official Statement or intended to assist investors in making any investment decision or to provide any continuing information with respect to the Bonds or any other bonds or obligations of the City. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded.

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.

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other 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 CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

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.

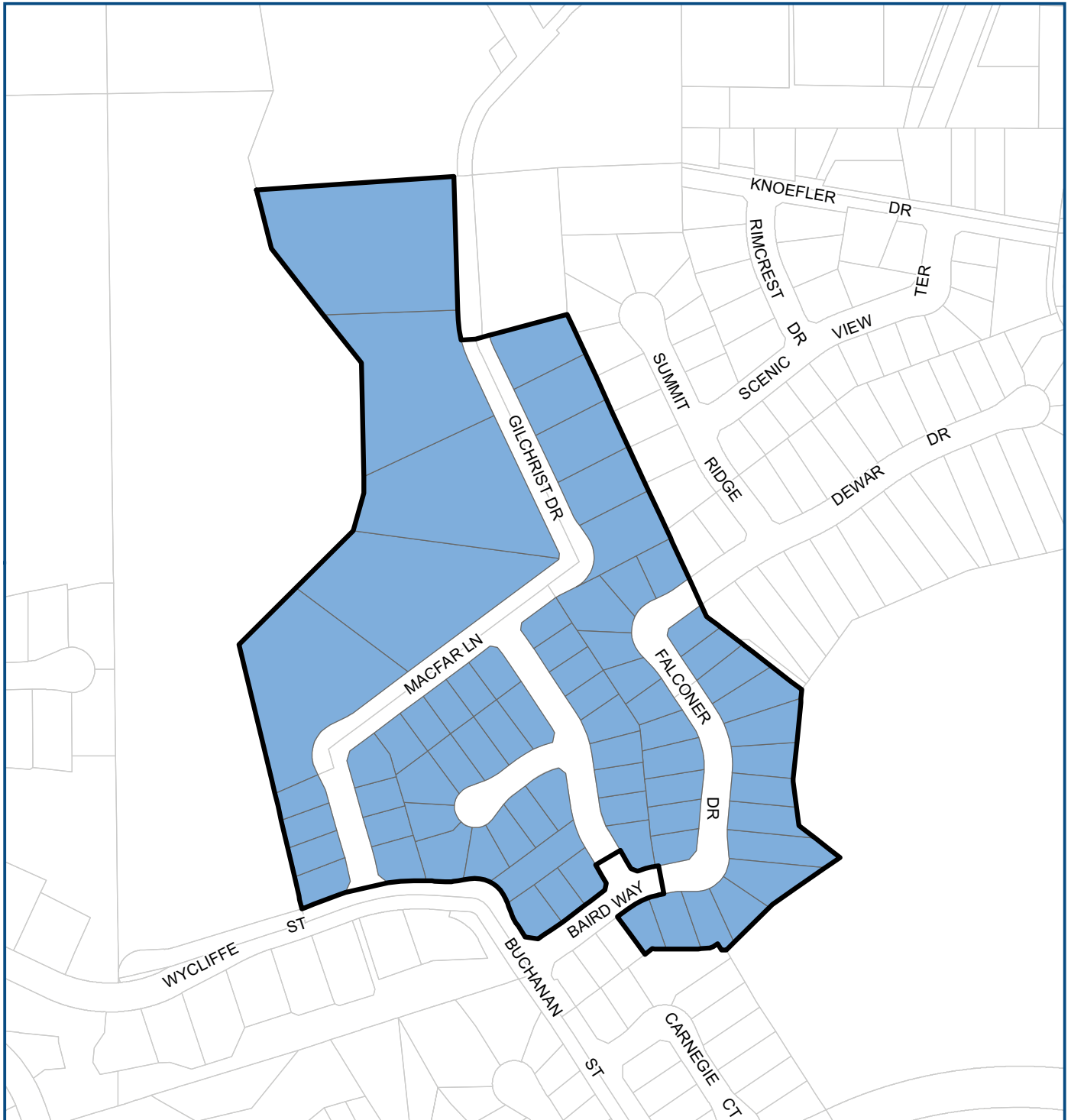
THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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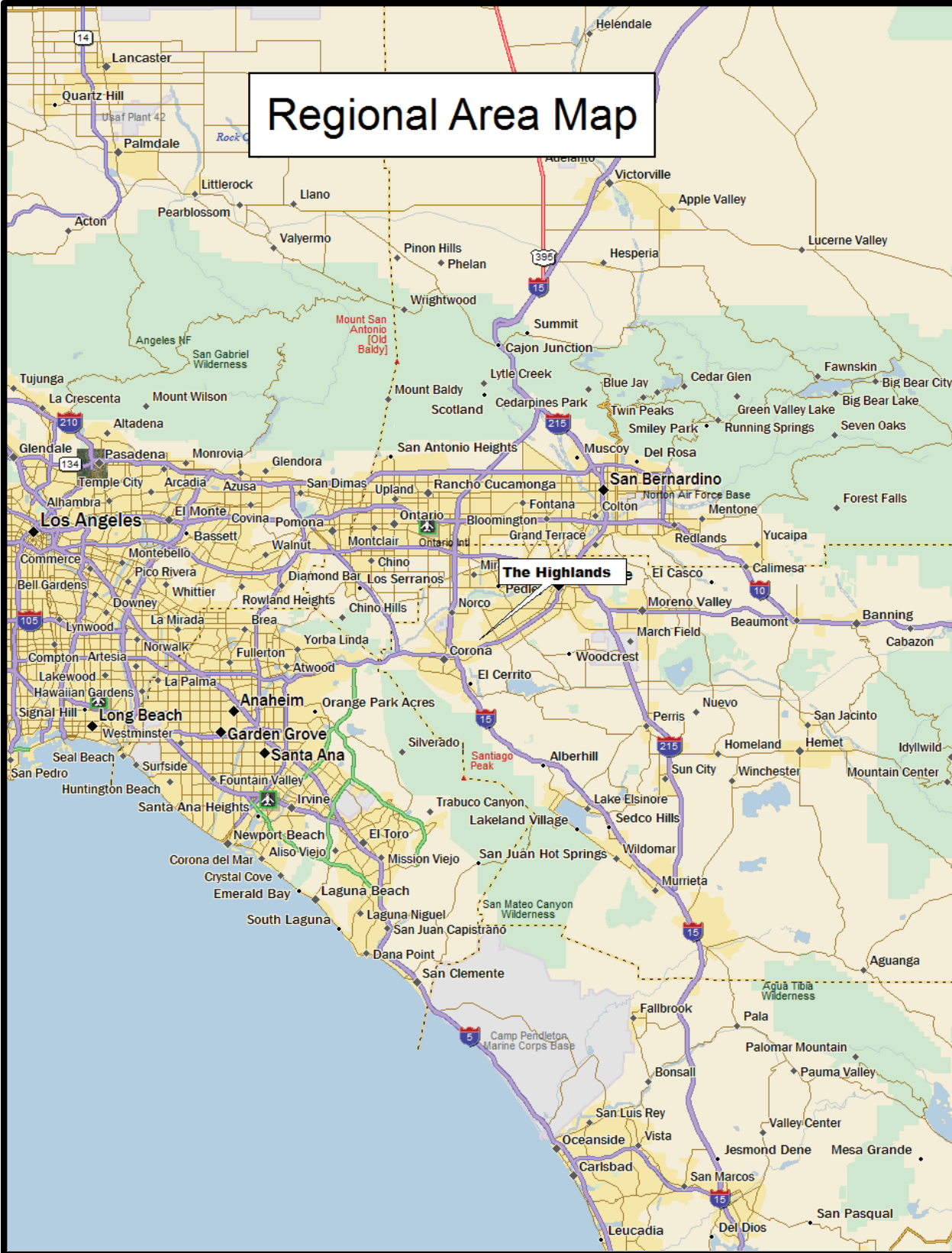
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CITY OF RIVERSIDE BOUNDARY MAP

COMMUNITY FACILITIES DISTRICT No. 2014-2 (The Highlands)



Regional Area Map



City of Riverside
Communities Facilities District No. 2014-2
(The Highlands)



N Aerial by Airviews taken 1/2/16

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\$1,800,000
COMMUNITY FACILITIES DISTRICT NO.
2014-2
(THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
SPECIAL TAX BONDS
SERIES 2016A

\$810,000
COMMUNITY FACILITIES DISTRICT NO.
2014-2
(THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
TAXABLE SPECIAL TAX BONDS,
SERIES 2016B

INTRODUCTION

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement. 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 shall have the meaning set forth in APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT — DEFINITIONS” or APPENDIX A — “RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.”

General

The purpose of this Official Statement (the “Official Statement”), is to provide certain information concerning the issuance of the \$1,800,000 Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Special Tax Bonds, Series 2016A (the “2016A Bonds”) and \$810,000 Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Taxable Special Tax Bonds, Series 2016B (the “2016B Bonds,” and with the 2016A Bonds, the “Bonds”). The proceeds of the Bonds will be used to finance various public improvements needed with respect to the development within Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside (the “District”) and regional park facilities to be owned and operated by the City of Riverside (the “City”), to finance certain elementary and secondary school facilities for the Alvord Unified School District (the “School District”), to fund a Reserve Fund securing the Bonds and to pay costs of administration and issuance of the Bonds.

The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Sections 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and a Fiscal Agent Agreement dated as of April 1, 2016 (the “Fiscal Agent Agreement”) by and between the City, for and on behalf of the District, and U.S. Bank National Association (the “Fiscal Agent”). The Bonds are secured under the Fiscal Agent Agreement by a pledge of and lien upon Special Tax Revenues (as defined in this Official Statement) and all moneys in the Principal Account and Interest Account of the Bond Fund and all moneys deposited in the Reserve Fund as described in the Fiscal Agent Agreement.

The District

The District contains approximately 32 gross acres located in the southwestern portion of the City, on the eastside of Buchanan Avenue generally between Baird Way and Napier Way, within 1/2 mile of the 91 Freeway. Development within The Highlands is subject to the City’s General Plan 2025. The District encompasses the master planned community known as “The Highlands.” The District is proposed to contain 72 single family detached homes at buildout. The original master developer, Infinity Homes RV I, LLC (“Infinity”), completed all of the backbone infrastructure within the District.

D.R. Horton Los Angeles Holding Company, Inc., a California corporation (“D.R. Horton”) acquired the property in the District in 2013 from Infinity and is in the process of developing The Highlands into 72 single family residential homes. As of January 15, 2016, 37 units had been completed and conveyed to individual homeowners, 9 units were completed (over 95% complete) and owned by D.R. Horton (including 2 model homes), 15 units were under construction, and 11 were in finished lot condition. Of the 11 homes in finished lot condition, 6 had obtained building permits. All taxable property within the District was classified as Developed Property under the Rates and Method by March 10, 2016. See “THE DISTRICT — General Description.”

As of March 10, 2016, an additional 9 homes had been conveyed to individual homeowners and all remaining building permits had been pulled.

Formation Proceedings. The District has been formed by the City pursuant to the Act.

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

Pursuant to the Act, the City Council of the City (the “City Council”), acting as the Legislative body of the District, adopted the necessary resolutions stating its intent to establish the District, to authorize the levy of Special Taxes (defined below) on taxable property within the boundaries of the District, and to have the District incur bonded indebtedness to fund (i) the design, construction and acquisition of various public improvements and water and sewer system facilities, which are necessary to meet increased demands placed upon the City as a result of the development of the District (the “City Facilities”), and (ii) the design, construction and acquisition of certain public school facilities (the “School District Facilities”) to be owned and operated by the Alford Unified School District (the “School District”). Following public hearings conducted pursuant to the provisions of the Act, the City Council adopted resolutions establishing the District and calling special elections to submit the levy of the Special Taxes and the incurring of bonded indebtedness to the qualified voters of the District. On July 22, 2014, at a special election held pursuant to the Act, D.R. Horton, as the sole landowner in the District and therefore the only qualified voter of the District, authorized the District to incur bonded indebtedness within the District in an aggregate principal amount not to exceed \$3,500,000, and approved the rates and method of apportionment of special taxes for the District which is set forth in APPENDIX A (the “Rates and Method”).

Appraisal Report. Kitty Siino & Associates, Inc. (the “Appraiser”) has conducted an Appraisal dated January 29, 2016 of the land within the District subject to the Special Tax (the “Appraisal Report”). The Appraisal Report sets forth an estimate of the market value of the fee simple interest of the taxable land and improvements within the District. The Appraiser is of the opinion that, based upon the assumptions and conditions contained in the Appraisal Report, the aggregate market value and minimum market value of the taxable land and improvements in existence within the District, as of January 15, 2016, was \$30,208,677. This estimate of value results in an overall District-wide appraised value-to-lien ratio of approximately 11.57-to-1 for the District based on the estimated amount of land secured debt allocated to parcels within the District (including the Bonds and all overlapping debt secured by a tax or assessment on the property within the District). See “THE DISTRICT — Appraisal Report” and APPENDIX B — “APPRAISAL REPORT.”

Sources of Payment for the Bonds

Special Taxes. As used in this Official Statement, the term “Special Tax” is that tax which has been authorized to be levied against certain land within the District pursuant to the Act and in accordance with the Rates and Method to satisfy the Special Tax Requirement (as defined in the Rates and Method). “Special Tax Revenues” are defined to mean the proceeds of the Special Taxes received by the City, including any scheduled payments, receipts of sale of delinquencies, interest and penalties and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and APPENDIX A — “RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” Under the Fiscal Agent Agreement, the District has pledged to repay the 2016A Bonds and the 2016B Bonds on a pro rata basis from the Special Tax Revenues and amounts on deposit in the Principal Account and Interest Account of the Bond Fund and the Reserve Fund established under the Fiscal Agent Agreement. As used in this Official Statement, “Special Tax” means the Special Tax to be levied in each Fiscal Year on each Assessor’s Parcel of Taxable Property within the District to fund the Special Tax Requirement, as such capitalized terms are defined in the Rates and Method.

Reserve Fund. The Reserve Fund shall consist of two Reserve Accounts: (i) the Series 2016A Reserve Account held in connection with the 2016A Bonds, and (ii) the Series 2016B Reserve Account held in connection with the 2016B Bonds. **Both Reserve Accounts will be available to make the payments of principal of and interest on all of the Bonds.**

The Fiscal Agent Agreement provides that the amount in the Reserve Fund (consisting of amounts in the Series 2016A Reserve Account and the Series 2016B Reserve Account) shall, as of the date of calculation, equal the lesser of (i) 10% of the proceeds of the sale of the Bonds and any Parity Bonds; (ii) Maximum Annual Debt Service on the Bonds and any Parity Bonds; or (iii) 125% of average Annual Debt Service on the Bonds and any Parity Bonds (the “Reserve Requirement”). The initial Reserve Requirement for the Bonds is an amount equal to \$143,225. Subject to the maximum annual amounts of Special Taxes contained in the Rates and Method, if the amount in the Reserve Fund is less than the Reserve Requirement, the City has covenanted to restore the amount in the Reserve Accounts to the Reserve Requirement on a pro rata basis based on the Annual Debt Service of the series of Bonds relating to the specific Reserve Account by the inclusion of a sufficient amount in the next annual Special Tax levy within the District. The ability of the City Council to increase the annual Special Taxes levied in the District to replenish the Reserve Fund is subject to the maximum annual amounts of Special Taxes authorized for the District. The moneys in the Reserve Fund will be used only for payment of the principal of, and interest and any redemption premium on, the Bonds, and, at the direction of the City, for deposit in the Rebate Fund. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Fund.”

The Special Tax Revenues are the primary security for the repayment of the Bonds. In the event that the Special Taxes are not paid when due, the only sources of funds available to pay the debt service on the Bonds are amounts held by the Fiscal Agent in the Principal Account and Interest Account of the Bond Fund and the Reserve Fund, to the limited extent described in the Fiscal Agent Agreement. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Fund.”

Foreclosure Proceeds. The City has covenanted for the benefit of the owners of the Bonds that it will commence, and diligently pursue to completion, judicial foreclosure proceedings against parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due, and it will commence and diligently pursue to completion judicial foreclosure proceedings against all properties with delinquent Special Taxes by the October 1 following the close of any Fiscal Year in which it receives Special Taxes in an amount which is less than 95% of the total Special Tax levied. See “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 value or assessed values described in this Official Statement, 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 property owners within the District. See “RISK FACTORS — Land Values” and APPENDIX B — “APPRAISAL REPORT.”

EXCEPT FOR THE SPECIAL TAXES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY NOR GENERAL OBLIGATIONS OF THE DISTRICT, BUT ARE SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM SPECIAL TAXES AND AMOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.

No Parity Bonds. The City has covenanted not to issue any additional Bonds secured by a pledge and lien on the Special Taxes (“Parity Bonds”) for any purpose other than paying and discharging all or a portion of the Outstanding Bonds. See “SOURCES OF PAYMENT FOR THE BONDS — No Parity Bonds.”

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 integral multiples of \$5,000, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. In the event that the book-entry only system described in this Official Statement is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Fiscal Agent Agreement. See APPENDIX G — “INFORMATION CONCERNING DTC.”

Principal of, premium, if any, and interest on the Bonds is payable by the Fiscal Agent to DTC, as the registered Owner of the Bonds. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the book-entry only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal and interest by the Fiscal Agent, all as described in this Official Statement. See “THE BONDS — Book-Entry Only System” and see APPENDIX G — “INFORMATION CONCERNING DTC.”

Redemption

The Bonds are subject to optional redemption, mandatory redemption from Special Tax Prepayments and mandatory sinking fund redemption as described in this Official Statement. For a more complete description of the Bonds and the basic documentation pursuant to which they are being sold and delivered, see “THE BONDS” and APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT.”

Tax Matters

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is exempt from personal income taxes of the State of California. Assuming compliance with certain covenants described in the Official Statement, interest on the 2016A Bonds is excluded from gross income for federal income tax purposes, and is not a specific preference item for purposes of the federal alternative minimum tax; however, it should be noted that, with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations. Set forth in Appendix F is the proposed form of Bond Counsel opinions expected to be delivered in connection with the issuance of the Bonds. For a more complete

discussion of such opinion and certain other tax consequences incident to the ownership of the Bonds, including certain exceptions to the tax treatment of interest, see “LEGAL MATTERS — Tax Exemption.”

Professionals Involved in the Offering

U.S. Bank National Association will act as Fiscal Agent under the Fiscal Agent Agreement. Stifel, Nicolaus & Company, Incorporated is the Underwriter of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Best Best & Krieger LLP, Riverside, California, Bond Counsel. Certain legal matters will be passed on for the City and the District by the City Attorney’s Office and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as Underwriter’s Counsel. Other professional services have been performed by Albert A. Webb Associates, Riverside, California, as Special Tax Consultant, and Kitty Siino & Associates, Tustin, California, as Appraiser. At times, Bond Counsel represents the Underwriter in matters unrelated to the Bonds.

For information concerning the respects in which certain of the above-mentioned professionals, advisors, counsel and agents may have a financial or other interest in the offering of the Bonds, see “LEGAL MATTERS — Financial Interests.”

Continuing Disclosure

Pursuant to a Continuing Disclosure Certificate executed by the City (the “Continuing Disclosure Certificate”), the City, on behalf of the District, has agreed to provide, or cause to be provided, on an annual basis, to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board (the “MSRB”), which can be found at www.emma.msrb.org (“EMMA”), certain financial information and operating data. The City has further agreed to provide notice to EMMA of certain material events. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) (the “Rule”) adopted by the Securities and Exchange Commission (the “SEC”).

In addition, pursuant to a Continuing Disclosure Certificate executed by D.R. Horton (such certificate, the “Developer Continuing Disclosure Certificate”), until such time as D.R. Horton is no longer expected to be responsible for at least 20% of the Special Tax levy, D.R. Horton has agreed to provide or cause to be provided to EMMA certain semi-annual and annual information with respect to itself and its development within the District and notice of certain listed events to assist the Underwriter in marketing the Bonds. The Underwriter does not consider D.R. Horton to be an obligated party under the Rule. See “CONTINUING DISCLOSURE” and Appendix E for a description of the specific nature of the annual reports to be filed by the City, on behalf of the District, and D.R. Horton, and notices of listed events to be provided by the City, on behalf of the District, and D.R. Horton.

Bondowners’ Risks

Certain events could affect the timely repayment of the principal of and interest on the Bonds when due. See the section of this Official Statement entitled “RISK FACTORS” for a discussion of certain factors which should be considered, in addition to other matters set forth in this Official Statement, in evaluating an investment in the Bonds. The Bonds are not rated by any nationally recognized rating agency.

Forward Looking Statements

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

Other Information

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

Brief descriptions of the Bonds and the Fiscal Agent Agreement are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references to the Fiscal Agent Agreement, 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 Fiscal Agent Agreement.

Copies of the Fiscal Agent Agreement, the Continuing Disclosure Certificate, the Developer Continuing Disclosure Certificate and other documents and information referred to in this Official Statement are available for inspection and (upon request and payment to the City of a charge for copying, mailing and handling) for delivery from the City at 3900 Main Street, Riverside, California 92522, Attention: City Clerk.

THE FINANCING PLAN

A portion of the Bond proceeds will be used by the District to design, construct and acquire certain authorized City facilities and School District facilities. See “THE DISTRICT — Description of Authorized Facilities” and Table 1 in this Official Statement for a description of the public facilities authorized to be financed with the proceeds of the Bonds.

Estimated Sources and Uses of Funds

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

<i>Sources of Funds</i>	<i>2016A Bonds</i>	<i>2016B Bonds</i>	<i>Total</i>
Principal Amount of Bonds	\$ 1,800,000.00	\$ 810,000.00	\$ 2,610,000.00
Less Original Issue Discount	<u>(42,581.95)</u>	<u>(13,086.25)</u>	<u>(55,668.20)</u>
Total Sources	<u>\$ 1,757,418.05</u>	<u>\$ 796,913.75</u>	<u>\$ 2,554,331.80</u>
<i>Uses of Funds</i>			
Improvement Fund ⁽¹⁾	\$ 1,539,962.00	\$ 644,553.00	\$ 2,184,515.00
2016A Bonds Reserve Account	66,978.67	0.00	66,978.67
2016B Bonds Reserve Account	0.00	76,246.33	76,246.33
Costs of Issuance Fund ⁽²⁾	80,456.27	36,370.52	116,826.79
Capitalized Interest through September 1, 2016	19,842.29	10,134.69	29,976.98
Administrative Expense Fund	10,344.83	4,655.17	15,000.00
Underwriter's Discount	<u>39,833.99</u>	<u>24,954.04</u>	<u>64,788.03</u>
Total Uses	<u>\$ 1,757,418.05</u>	<u>\$ 796,913.75</u>	<u>\$ 2,554,331.80</u>

⁽¹⁾ \$609,811.00 will be deposited in the Series 2016A City Facilities Sub-Account, \$644,553.00 will be deposited in the Series 2016B City Facilities Sub-Account and \$930,151.00 will be deposited in the School District Facilities Account.

⁽²⁾ Costs of Issuance include legal fees, printing costs, Appraisal Report costs, Financial Advisor fees, Special Tax Consultant fees, and Fiscal Agent fees, in addition to other miscellaneous costs incidental to Bond issuance.

THE BONDS

General Provisions

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page, payable semiannually on each March 1 and September 1, commencing on September 1, 2016 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form in integral multiples of \$5,000.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Each Bond will bear interest from the Interest Payment Date next preceding the date of authentication of that Bond, unless (i) it is authenticated on an Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or (ii) it is authenticated prior to an Interest Payment Date and after the close of business on the fifteenth day of the month preceding such Interest Payment Date (such fifteenth day, the "Record Date"), in which event it shall bear interest from such Interest Payment Date, or (iii) it is authenticated prior to the Record Date preceding the first Interest Payment Date, in which event it shall bear interest from the date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment or from the date of the Bonds, if no interest has previously been paid or made available for payment.

Interest on any Bond will be paid to the person whose name appears as its registered Owner in the registration books held by the Fiscal Agent on the close of business on the Record Date. Interest will be paid by check of the Fiscal Agent mailed by first class mail, postage prepaid, to the registered Owner at its address on the registration books. 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.

Principal of the Bonds and any premium due upon redemption is payable upon presentation and surrender of the Bonds at the principal corporate trust office of the Fiscal Agent in St. Paul, Minnesota.

Authority for Issuance

The Bonds are issued pursuant to the Act and the Fiscal Agent Agreement. As required by the Act, the City Council has taken the following actions with respect to establishing the District and the Bonds:

Resolutions of Intention. On June 17, 2014 the City Council adopted a resolution stating its intention to establish the District and to authorize the levy of a special tax therein, and a resolution declaring its intention to have the District incur bonded indebtedness in an amount not to exceed \$3,500,000.

Resolutions of Formation. Following a noticed public hearing conducted on July 22, 2014, the City Council adopted on that same date resolutions which established the District, authorized the levy of a special tax within the District, and declared the necessity for the District to incur bonded indebtedness in a maximum aggregate principal amount of \$3,500,000.

Resolution Calling Election. The resolutions adopted by the City Council on July 22, 2014 also called for a consolidated special election by the landowners in the District on the issues of the levy of the Special Tax, the incurring of bonded indebtedness within the District, and the establishment of an appropriations limit.

Landowner Election and Declaration of Results. On July 22, 2014, an election was held at which the landowners within the District approved ballot propositions authorizing the issuance of up to \$3,500,000 of bonds to finance the acquisition and construction of various public facilities, the levy of the Special Tax and the establishment of an appropriations limit for the District. The landowners within the District approved ballot propositions authorizing the District to issue bonds in an aggregate principal amount not to exceed \$3,500,000 for financing public facilities. On July 22, 2014, the City Council adopted a resolution approving the canvass of the votes and declaring the District to be fully formed with the authority to levy the Special Taxes, to incur the bonded indebtedness, and to have the established appropriations limit.

Special Tax Lien and Levy. The Notice of Special Tax Lien for the District was recorded in the Office of the County Recorder of the County on July 24, 2014 as Document No. 2014-0276449 reflecting a continuing lien against the taxable property within the District (the “Notice of Special Tax Lien”).

Ordinance Levying Special Taxes. On August 12, 2014, the City Council adopted Ordinance No. 7259 which authorized the levy of Special Taxes within the District.

Resolution Authorizing Issuance of the Bonds. On April 5, 2016, the City Council adopted a resolution approving issuance of the Bonds.

Redemption

Optional Redemption. The Bonds are subject to redemption prior to their stated maturity dates on any Interest Payment Date on and after September 1, 2020, as selected among maturities by the City (and by lot within any one maturity), in integral multiples of \$5,000, at the option of the City from moneys derived by the City from any source, at redemption prices (expressed as percentages of the principal amounts of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<i>Redemption Dates</i>	<i>Redemption Prices</i>
September 1, 2020 through March 1, 2023	103%
September 1, 2023 and March 1, 2024	102
September 1, 2024 and March 1, 2025	101
September 1, 2025 and any Interest Payment Date thereafter	100

Mandatory Redemption From Special Tax Prepayments. The Bonds are subject to mandatory redemption prior to their stated maturity dates on any Interest Payment Date, pro rata among all series and maturities (and by lot within any one maturity), in integral multiples of \$5,000, from moneys derived by the City from Special Tax Prepayments, at redemption prices (expressed as percentages of the principal amounts of the Bonds to be redeemed), together with accrued interest to the date of redemption, as follows:

<i>Redemption Dates</i>	<i>Redemption Prices</i>
September 1, 2016 through March 1, 2023	103%
September 1, 2023 and March 1, 2024	102
September 1, 2024 and March 1, 2025	101
September 1, 2025 and any Interest Payment Date thereafter	100

Mandatory Sinking Fund Redemption. The outstanding 2016A Bonds maturing on September 1, 2041 are subject to mandatory sinking fund redemption, in part, on September 1, 2037 and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

2016A Bonds Maturing on September 1, 2041

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2037	\$100,000
2038	105,000
2039	105,000
2040	110,000
2041 (Maturity)	115,000

The outstanding 2016A Bonds maturing on September 1, 2046 are subject to mandatory sinking fund redemption, in part, on September 1, 2042 and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

2016A Bonds Maturing on September 1, 2046

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2042	\$120,000
2043	125,000
2044	125,000
2045	130,000
2046 (Maturity)	135,000

The outstanding 2016B Bonds maturing on September 1, 2031 are subject to mandatory sinking fund redemption, in part, on September 1, 2027 and on each September 1 thereafter to maturity, by lot, at a redemption price equal to the principal amount thereof to be redeemed, together with accrued interest to the date of redemption, without premium, and from sinking payments as follows:

2016B Bonds Maturing on September 1, 2031

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2027	\$ 60,000
2028	60,000
2029	65,000
2030	65,000
2031 (Maturity)	70,000

The amounts in the foregoing schedules shall be reduced by the City pro rata among redemption dates, in order to maintain substantially level Debt Service, as a result of any prior or partial optional or mandatory redemption of the Bonds.

Purchase of Bonds. In lieu of payment at maturity or redemption under the Fiscal Agent Agreement, moneys in the Bond Fund may be used and withdrawn by the Fiscal Agent for purchase of Outstanding Bonds, upon the filing with the Fiscal Agent of an Officer's Certificate requesting such purchase, at public or private sale as and when, and at such prices (including brokerage and other charges) as such Officer's Certificate may provide, but in no event may Bonds be purchased at a price in excess of the principal amount thereof, plus interest accrued to the date of purchase. In such event, the City shall, as may be appropriate, provide to the Fiscal Agent a revised maturity schedule or a revised mandatory sinking fund schedule for the Bonds, or both.

Notice to Fiscal Agent. An Authorized Officer shall give the Fiscal Agent written notice of the City's intention to redeem Bonds not less than 45 days (or such lesser number of days acceptable to the Fiscal Agent) prior to the applicable redemption date. Such written notice shall specify whether Bonds are to be redeemed by optional redemption or mandatory redemption from special tax prepayments. The provisions of this subsection shall not apply to mandatory sinking fund redemption of the Bonds.

Redemption Procedure by Fiscal Agent. The Fiscal Agent shall cause notice of any redemption to be mailed by first class mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption, to the Securities Depositories and to one or more Information Services, and to the respective registered Owners of any Bonds designated for redemption, at their addresses appearing on the Bond registration books maintained by the Fiscal Agent at its Principal Office; but such mailing shall not be a condition precedent to such redemption and failure to mail or to receive any such notice, or any defect therein, shall not affect the validity of the proceedings for the redemption of such Bonds. Any such notice given may be conditional and/or rescinded by written notice given to the Fiscal Agent by an Authorized Officer and the Fiscal Agent shall provide notice of such rescission as soon thereafter as practicable in the same manner, and to the same recipients, as notice of such redemption was given pursuant to the Fiscal Agent Agreement.

Such notice shall state the date of such notice, the date of issue of the Bonds, the place or places of redemption, the redemption date, the redemption price and, if less than all of the then Outstanding Bonds are to be called for redemption, shall designate the CUSIP numbers and Bond numbers of the Bonds to be redeemed, by giving the individual CUSIP number and Bond number of each Bond to be redeemed, or shall state that all Bonds between two stated Bond numbers, both inclusive, are to be redeemed or that all of the Bonds of one or more maturities have been called for redemption, shall state as to any Bond called for redemption in part the portion of the principal of the Bond to be redeemed, shall require that such Bonds be then surrendered at the Principal Office of the Fiscal Agent for redemption at the said redemption price, and shall state that further interest on such Bonds will not accrue from and after the redemption date. The cost of the mailing and publication of any such redemption notice shall be paid by the District.

Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall, 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.

In the event of an optional redemption or mandatory redemption from Special Tax Prepayments pursuant to the Fiscal Agent Agreement, the City shall transfer or cause to be transferred to the Fiscal Agent for deposit in the Bond Fund moneys in an amount equal to the redemption price of the Bonds being redeemed on or before the Interest Payment Date upon which such Bonds are to be redeemed.

If less than all the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed shall be in integral multiples of \$5,000, and, in selecting portions of such Bonds for redemption, the Fiscal Agent shall treat each such Bond as representing the number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

Whenever provision is made in the Fiscal Agent Agreement for the redemption of less than all of the Bonds of a maturity or any given portion thereof, the Fiscal Agent shall select the Bonds not previously called for redemption pro rata among the maturities and by lot within a maturity in any manner which the Fiscal Agent in its sole discretion shall deem appropriate.

Upon surrender of Bonds redeemed in part only, the City shall execute and the Fiscal Agent shall authenticate and deliver to the Owner, at the expense of the District, a new Bond or Bonds, of the same maturity, of authorized denominations in an aggregate principal amount equal to the unredeemed portion of the Bond or Bonds.

Effect of Redemption. From and after the date fixed for redemption, if funds available for the payment of the redemption prices of the Bonds called for redemption shall have been deposited in the Bond Fund, such Bonds shall cease to be entitled to any benefit under the Fiscal Agent Agreement other than the right to receive payment of the redemption price, and interest shall cease to accrue on the Bonds to be redeemed on the redemption date specified in the notice of redemption.

All Bonds redeemed and purchased by the Fiscal Agent pursuant to the Fiscal Agent Agreement shall be cancelled by the Fiscal Agent.

Registration, Transfer and Exchange

Registration. The Fiscal Agent 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 Fiscal Agent.

Transfer or Exchange. Whenever any Bond is surrendered for registration of transfer or exchange, the Fiscal Agent will authenticate and deliver a new Bond or Bonds of the same maturity, for a like aggregate principal amount of authorized denominations; provided that the Fiscal Agent will not be required to register transfers or make exchanges of (i) Bonds for a period of 15 days next preceding the date established by the Fiscal Agent for selection of Bonds for redemption, or (ii) with respect to Bonds selected for redemption.

Book-Entry Only System

The Bonds will be issued in book-entry form, and The Depository Trust Company of New York, New York (“DTC”) will act as securities depository. So long as the Bonds are held in book-entry form, principal of, premium, if any, and interest on the Bonds will be paid by the Fiscal Agent directly to DTC for distribution to the beneficial owners of the Bonds in accordance with procedures adopted by DTC. See APPENDIX G — “INFORMATION CONCERNING DTC.”

Debt Service Schedule

The following table presents the annual debt service on the Bonds (including sinking fund redemptions), assuming there are no optional redemptions or mandatory redemptions from prepayment of Special Taxes pursuant to the Rates and Method. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and “THE BONDS — Redemption.”

ANNUAL DEBT SERVICE SCHEDULE

<i>Payment Year (September 1)</i>	<i>2016A Bonds</i>		<i>2016B Bonds</i>		<i>Total</i>
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>	
2016	\$ --	\$ 19,842.29	\$ --	\$ 10,134.69	\$ 29,976.98
2017	10,000.00	58,075.00	45,000.00	29,662.50	142,737.50
2018	10,000.00	57,875.00	45,000.00	28,987.50	141,862.50
2019	10,000.00	57,675.00	45,000.00	28,087.50	140,762.50
2020	10,000.00	57,475.00	45,000.00	27,075.00	139,550.00
2021	10,000.00	57,275.00	50,000.00	25,950.00	143,225.00
2022	10,000.00	57,075.00	50,000.00	24,450.00	141,525.00
2023	10,000.00	56,875.00	50,000.00	22,825.00	139,700.00
2024	15,000.00	56,675.00	50,000.00	21,075.00	142,750.00
2025	10,000.00	56,375.00	55,000.00	19,200.00	140,575.00
2026	15,000.00	56,175.00	55,000.00	17,000.00	143,175.00
2027	10,000.00	55,837.50	60,000.00	14,800.00	140,637.50
2028	15,000.00	55,600.00	60,000.00	12,025.00	142,625.00
2029	10,000.00	55,225.00	65,000.00	9,250.00	139,475.00
2030	15,000.00	54,975.00	65,000.00	6,243.76	141,218.76
2031	15,000.00	54,581.26	70,000.00	3,237.50	142,818.76
2032	85,000.00	54,168.76	--	--	139,168.76
2033	90,000.00	51,618.76	--	--	141,618.76
2034	90,000.00	48,918.76	--	--	138,918.76
2035	95,000.00	46,218.76	--	--	141,218.76
2036	95,000.00	43,250.00	--	--	138,250.00
2037	100,000.00	40,281.26	--	--	140,281.26
2038	105,000.00	36,906.26	--	--	141,906.26
2039	105,000.00	33,362.50	--	--	138,362.50
2040	110,000.00	29,818.76	--	--	139,818.76
2041	115,000.00	26,106.26	--	--	141,106.26
2042	120,000.00	22,225.00	--	--	142,225.00
2043	125,000.00	18,025.00	--	--	143,025.00
2044	125,000.00	13,650.00	--	--	138,650.00
2045	130,000.00	9,275.00	--	--	139,275.00
2046	135,000.00	4,725.00	--	--	139,725.00
Total	<u>\$1,800,000.00</u>	<u>\$1,346,161.13</u>	<u>\$810,000.00</u>	<u>\$300,003.45</u>	<u>\$4,256,164.58</u>

Source: Underwriter.

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

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

The Special Tax Revenues are the primary security for the repayment of the Bonds. Under the Fiscal Agent Agreement, the District has pledged to repay the Bonds from the Special Tax Revenues (which are the proceeds of the Special Taxes received by the City, including any scheduled payments, receipts of sale of delinquencies, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes) and all moneys deposited in Principal and Interest Accounts of the Bond Fund and the Reserve Fund.

As used in this Official Statement, "Special Tax" means the Special Tax to be levied in each Fiscal Year on each Assessor's Parcel of Taxable Property within the District to fund the Special Tax Requirements, as such capitalized terms are defined in the Rates and Method. See APPENDIX A — "RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX."

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 Fiscal Agent in the Principal and Interest Accounts of the Bond Fund and the Reserve Fund for the exclusive benefit of the 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 SPECIAL 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 SPECIAL OBLIGATIONS OF THE DISTRICT PAYABLE SOLELY FROM THE SPECIAL TAXES AND OTHER AMOUNTS PLEDGED UNDER THE FISCAL AGENT AGREEMENT AS MORE FULLY DESCRIBED IN THIS OFFICIAL STATEMENT.

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the City Council established the District on July 22, 2014 for the purpose of financing the acquisition, construction and installation of various public improvements required in connection with the proposed development within the District. At a special election held on July 22, 2014, the owners of the property within the District authorized the District to incur indebtedness in an amount not to exceed \$3,500,000 and approved the Rates and Method which authorizes the Special Tax to be levied to repay District indebtedness, including the Bonds. On August 12, 2014, the Board adopted Ordinance No. 7259 which authorized the levy of Special Taxes in the District. The District expects to levy Special Taxes beginning in Fiscal Year 2016-17.

The District has covenanted in the Fiscal Agent Agreement that each year it will levy Special Taxes up to the maximum rates permitted under the Rates 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 (including any Parity Bonds that may be issued) to replenish the Reserve Fund and to pay the estimated Administrative Expenses. Notwithstanding the foregoing, pursuant to Section 53321(d) of the Act, under no circumstances will the Special Taxes levied against any Assessor's Parcel used as a private residence be increased as a consequence of delinquency or default by the owner of any other Assessor's Parcel or Assessor's Parcels within the District by more than 10%.

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

Rates and Method of Apportionment of Special Tax. All capitalized terms used in this section shall have the meaning set forth in Appendix A.

Under the Rates and Method, commencing with Fiscal Year 2014-15, all Taxable Property in the District has and will continue to be classified as Developed Property (Residential or Non-Residential), Approved Property or Undeveloped Property and has and will continue to be subject to a Special Tax levy at the maximum rates described in Section C of the Rates and Method.

For purposes of the levy of Special Taxes to satisfy the Special Tax Requirement, a parcel will be classified as Developed Property if it is Taxable Property for which a building permit for residential dwelling units or non-residential construction was issued prior to March 1 of the Fiscal Year preceding the Special Tax levy. The Maximum Special Tax for each parcel of Developed Property will be the greater of (a) the applicable amount set forth in Table 1 of the Rates and Method (ranging from \$3,223 per parcel to \$3,707 per parcel for parcels classified as Residential Property, and \$10,394 per acre for parcels classified as Non-Residential Property), and (b) the applicable amount of “Backup Special Tax.”

The total amount of the Backup Special Tax for Assessor’s Parcels of Taxable Property, exclusive of Assessor’s Parcels of Non-Residential Property, Taxable Association Property and Taxable Public Property, in a Final Subdivision will be determined by multiplying the Acreage of all such Assessor’s Parcels of Taxable Property by the Backup Special Tax per Acre. If a Final Subdivision will include Assessor’s Parcels of Residential Property, the total amount of the Backup Special Tax for such Assessor’s Parcels of Residential Property will be based only on the Acreage of those Assessor’s Parcels.

The Backup Special Tax for each Assessor’s Parcel of Residential Property in a Final Subdivision will be determined by multiplying the Maximum Special Tax per Acre for Undeveloped Property by the total Acreage of Taxable Property within such Final Subdivision which created such Assessor’s Parcel.

Notwithstanding the foregoing, if Assessor’s Parcels of Residential Property are subsequently changed or modified by recordation of a lot line adjustment or similar instrument, the total amount of the Backup Special Tax will be as follows:

1. Determine the total Backup Special Taxes anticipated to apply to the changed or modified Final Subdivision area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision area, as reasonably determined by the District Administrator.
3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Special Tax per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision area for all remaining Fiscal Years in which the Special Tax may be levied.

After classifying the parcels in the District, the City Council will determine the Special Tax Requirement (as defined in the Rates and Method) for the District for the Fiscal Year. “Special Tax Requirement” means for the District that amount required in any Fiscal Year after taking into consideration available funds pursuant to the Fiscal Agent Agreement: (1) to pay principal of and interest on all outstanding

bonds which are payable from Special Taxes levied on Taxable Property in the District, (2) to pay periodic costs for the Bonds, including, but not limited to, costs related to credit enhancement and rebate payments, (3) to pay Administrative Expenses, (4) to provide an amount equal to reasonably anticipated delinquencies in the collection of Special Taxes, (5) pay any amount required to replenish the reserve fund for the outstanding Bonds, (6) to pay annually the allocable share of other obligations of the City relating to such facilities, and (7) provide any amounts that the City Council determines are necessary to pay the costs on the provision, construction and acquisition of public facilities and/or to accumulate funds therefor.

The Special Tax will be levied first on Developed Property in the District up to 100% of the applicable rate for the District is set forth in Table 1 of the Rates and Method. If additional monies are needed to satisfy the Special Tax Requirement after levying on all Developed Property in the District at the applicable Table 1 rate, the Special Tax will be levied first on Approved Property in the District up to 100% of the Maximum Special Tax for Approved Property and then on Undeveloped Property in the District up to 100% of the Maximum Special Tax for Undeveloped Property. If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax to be levied on all Assessor's Parcels of Developed Property whose Maximum Special Tax is its Backup Special Tax will be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel. If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax will be levied Proportionately on all Assessor's Parcels of Taxable Association Property up to 100% of its Maximum Special Tax. If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax will be levied Proportionately on all Assessor's Parcels of Taxable Public Property up to 100% of its Maximum Special Tax.

No Special Tax shall be levied on Assessor's Parcels of Undeveloped Property in the District to provide any amounts that the City Council determines are necessary to pay the costs of the provision, construction and acquisition of public facilities and/or to accumulate funds therefor, as described in clause (vii) of the definition of Special Tax Requirement.

However, pursuant to Section 53321(d) of the Act, notwithstanding the above, under no circumstances will the Special Tax levied against any taxable parcel of residential property within the District be increased by more than 10% as a consequence of a delinquency or default by the owner of any other parcel within the District.

Prepayment of Special Taxes. The City Council may allow property owners to fully prepay the obligation of parcels of Taxable Property to pay the Special Taxes with respect to the Special Tax Requirement.

Additionally, the City has covenanted in the Fiscal Agent Agreement that the City shall cause all applications of owners of property in the District to prepay and satisfy the Special Tax obligation for their property to be reviewed by the Special Tax Consultant and shall not accept any such prepayment unless such consultant certifies in writing that the total amount of the Maximum Special Tax (as defined in the Rates and Method) that may be levied on Taxable Property both prior to and after the proposed prepayment is and will be at least 1.1 times the amount of Maximum Annual Debt Service on all Outstanding Bonds plus estimated annual Administrative Expenses for the then current Fiscal Year. For purposes of such certification, Taxable Property means all parcels of property in the District that are not exempt from the levy of the Special Tax pursuant to the Act or the Rates and Method. (See APPENDIX A — "RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX"). Prepayments of Special Taxes aggregating in excess of \$5,000 will result in a mandatory redemption of Bonds. See "THE BONDS — Redemption — *Mandatory Redemption from Special Tax Prepayments.*"

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

Covenants to Protect Special Tax Rates. The City has made certain covenants in the Fiscal Agent Agreement for the purpose of ensuring that the current Maximum Special Tax rates and method of collection of the Special Taxes are not altered in a manner that would impair the District's ability to collect sufficient Special Taxes to pay debt service on the Bonds and Administrative Expenses when due. First, the District has covenanted that, to the extent it is legally permitted to avoid doing so, it will not initiate and conduct proceedings to reduce the Maximum Special Tax rates (the "Maximum Rates") and, in the event an ordinance is adopted by initiative which purports to reduce or otherwise alter the Maximum Rates, the City will commence and pursue legal action seeking to preserve its ability to avoid reduction of Maximum Rates. See "RISK FACTORS — Proposition 218." Second, the City has covenanted not to permit the tender of Bonds in payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues to pay the principal of and interest on the Outstanding Bonds following such tender. See "RISK FACTORS — Non-Cash Payments of Special Taxes."

Although the Special Taxes constitute liens on taxable 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 "RISK FACTORS — Parity Taxes and Special Assessments." 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 in the section of this Official Statement entitled "RISK FACTORS."

Under the terms of the Fiscal Agent Agreement, all Special Tax Revenues received by the District are to be deposited in the Special Tax Fund. Special Tax Revenues deposited in the Special Tax Fund are to be applied by the Fiscal Agent under the Fiscal Agent Agreement in the following order of priority: (i) to deposit up to \$30,000 to the Administrative Expense Fund to pay Administrative Expenses; (ii) to replenish the Reserve Fund to the Reserve Requirement; (iii) to transfer to the Bond Fund to pay the principal of and interest on the Bonds when due; (iv) to make any required transfers to the Rebate Fund; and (v) for any other lawful purpose of the District. See APPENDIX D — "SUMMARY OF FISCAL AGENT AGREEMENT."

Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of land within the District resulting from a landowner's failure to pay the Special Taxes when due are included within the Special Tax Revenues pledged to the payment of principal of and interest on the Bonds under the Fiscal Agent Agreement.

Pursuant to Section 53356.1 of the Act, in the event of any delinquency in the payment of any Special Tax or receipt by the District of Special Taxes in an amount which is less than the Special Tax levied, the City Council, as the legislative body of the District, may order that Special Taxes be collected by a superior court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the District has covenanted for the benefit of the owners of the Bonds that it will commence and diligently pursue to completion, judicial foreclosure proceedings against (i) parcels with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due; and (ii) all properties with delinquent Special Taxes by the October 1 following the close of any Fiscal Year in which the District receives Special Taxes in an amount which is less than 95% of the total Special Tax levied; provided that the City will not be required to order, and cause to be commenced, judicial foreclosure

proceedings against any such properties if the City determines that the amount of the delinquent Special Taxes for such properties is so small that the cost of foreclosure is not warranted. See APPENDIX D — “SUMMARY OF FISCAL AGENT AGREEMENT — OTHER COVENANTS OF THE CITY.”

If foreclosure is necessary and other funds (including amounts in the Reserve Fund) have been exhausted, debt service payments on the Bonds could be delayed until the foreclosure proceedings have ended with the receipt of any foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City and the District. See “RISK FACTORS — Bankruptcy and Foreclosure.” 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 proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See “RISK FACTORS — Land 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.

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.

Though the District is not enrolled in the Teeter Plan, the City may enter into one or more agreements in the future to sell the Special Tax delinquencies in the District to a third party. Under such an arrangement, after an installment of Special Taxes becomes due, the third party would pay to the District an amount equal to delinquent Special Taxes from that installment. In exchange, all penalties and interest on such delinquencies when paid would be retained by the third party. No assurance can be given as to whether the City on behalf of the District will enter into such an arrangement in the future and Owner consent will not be required therefor.

Special Tax Fund

Pursuant to the Fiscal Agent Agreement, there will be established, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2014-2 of the City of Riverside Special Tax Bonds Special Tax Fund” (the “Special Tax Fund”) to the credit of which the City will deposit, as hereinafter provided, not later than ten (10) Business Days after receipt, all Special Tax Revenues received by the City. There will also be established in the Special Tax Fund as a separate account, to be held by the Fiscal Agent, the “Surplus Account” to the credit of which amounts will be deposited as provided in the Fiscal Agent Agreement. Moneys in the Special Tax Fund, and the Surplus Account therein, will be held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, will be disbursed as provided below and, pending disbursement, will be subject to a lien in favor of the Owners of the Bonds. Notwithstanding the foregoing, any amounts received by the City which constitute Special Tax Prepayments will be transferred by the City not later than ten (10) business days after receipt to the Fiscal Agent for deposit by the Fiscal Agent in the “Special Tax Prepayments Account” established pursuant to the Fiscal Agent Agreement.

As soon as practicable after the receipt from the City of any Special Tax Revenues, but no later than ten (10) Business Days after such receipt, the Fiscal Agent will withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount which is estimated by the City, in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely) to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount

deposited in the Administrative Expense Fund prior to the deposits to the Interest Account and the Principal Account of the Bond Fund, as provided below, will not exceed \$30,000 for any Fiscal Year. From the amount then remaining on deposit in the Special Tax Fund, the Fiscal Agent will as soon as the amount on deposit in the Special Tax Fund is sufficient, deposit in the Reserve Fund, pro rata among Annual Debt Service by series of Bonds, the amount, if any, which the City shall direct in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), to be withdrawn from the Special Tax Fund and deposited in the Reserve Fund to make the amount on deposit therein equal to the Reserve Requirement. Thereafter, on or before each Interest Payment Date, the Fiscal Agent will deposit in the Interest Account and the Principal Account of the Bond Fund the amounts required for payment of interest on or interest on and principal of the Bonds, as provided in the Fiscal Agent Agreement.

Notwithstanding the two preceding paragraphs, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account and the Principal Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer's Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount in the Administrative Expense Fund before making the required deposits to the Interest Account and the Principal Account of the Bond Fund, and the Fiscal Agent will deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or the Interest Account and the Principal Account of the Bond Fund.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent will transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent will transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2016 the Fiscal Agent will notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on March 1 and September 1 of the following calendar year.

Amounts in the Interest Account and the Principal Account shall be used to make the payments of principal of (including sinking payments) and interest on the 2016A Bonds and the 2016B Bonds on a pro rata basis.

On September 2 of each year, beginning on September 2, 2016, the amount, if any, on deposit in the Special Tax Fund (including the amount on deposit in the Surplus Account), together with the amount then on deposit in the in the Principal Account of the Bond Fund (but not including, however, the amounts, if any, then on deposit Interest Account or the Special Tax Prepayments Account), as determined by the City, will not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, exceeds the maximum amount allowable pursuant to the preceding sentence, as determined by the City and communicated in writing by an Authorized Officer to the Fiscal Agent (upon which the Fiscal Agent may

conclusively rely), the excess amount will be transferred from the Special Tax Fund to and deposited in the Reserve Fund, pro rata among Annual Debt Service by series of Bonds, to the extent that the amount on deposit therein is less than the Reserve Requirement. Any such excess remaining in the Special Tax Fund after any such amount is transferred from the Special Tax Fund to the Reserve Fund will be transferred from the Special Tax Fund to and deposited in the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as provided above, the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, will not exceed in the aggregate the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent will have no obligation to monitor the City's obligations as set forth in this paragraph.

Moneys in the Special Tax Fund will be invested and deposited in accordance with the Fiscal Agent Agreement. Investment Earnings will be retained in the Special Tax Fund to be used for the purposes of such fund. See APPENDIX D — "SUMMARY OF FISCAL AGENT AGREEMENT."

Reserve 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 Fund (consisting of the Series 2016A Reserve Account and the Series 2016B Reserve Account) and thereafter to maintain in the Reserve Fund an amount equal to the Reserve Requirement. The Fiscal Agent Agreement provides that the amount in the Reserve Fund shall, as of any date in any Bond Year, equal the lesser of (i) 10% of the proceeds of the sale of the Bonds and any Parity Bonds; (ii) Maximum Annual Debt Service on the Bonds and any Parity Bonds; or (iii) 125% of average Annual Debt Service on the Bonds and any Parity Bonds.

Subject to the limits on the maximum annual Special Tax which may be levied within the District, as described in Appendix A, the City has covenanted to levy Special Taxes in an amount that is anticipated to be sufficient, in light of the other intended uses of the Special Tax proceeds, to maintain the balance in the Reserve Fund at the Reserve Requirement; provided, if a shortfall occurs in the Reserve Fund as a consequence of Special Tax delinquencies, the City may only increase Special Taxes within the District to replenish the Reserve Fund on a pro rata basis among Annual Debt Service by series of Bonds between the Reserve Accounts in the amount of such delinquencies. The ability of the legislative body of the District to increase the annual Special Taxes levied in the District to replenish the Reserve Fund is additionally subject to certain additional limitations under the Act restricting the amount by which Special Taxes on taxable parcels can be increased due to delinquencies of other taxable parcels.

However, notwithstanding the above, under no circumstances will the Special Tax levied against any taxable parcel of residential property within the District be increased by more than 10% as a consequence of a delinquency or default by the owner of any other parcel within the District.

The moneys in the Reserve Fund will be used for payment of the principal of, and interest and any redemption premium on, the Bonds and, at the direction of the City, for deposit in the Rebate Fund. Amounts in the Reserve Fund are to be applied to (i) pay debt service on the Bonds, to the extent other monies are not available therefor; (ii) redeem all Outstanding Bonds, including without limitation, from Special Tax Prepayments; and (iii) pay the principal and interest due on the Bonds in the next succeeding Interest Payment Date.

In the event of a prepayment of Special Taxes, under certain circumstances, a portion of the Reserve Fund will be added to the amount being prepaid and be applied to redeem Bonds. As described in the Fiscal Agent Agreement, the Reserve Fund credit will be equal to the expected reduction in the Reserve Requirement; provided, however, there will be no Reserve Fund credit if the amount in the Reserve Fund is less than the Reserve Requirement. See APPENDIX D — "SUMMARY OF FISCAL AGENT AGREEMENT."

No Parity Bonds

The City may not issue bonds of the District secured by the Special Taxes on a parity with the Bonds (“Parity Bonds”), except for the purpose of refunding all or a portion of the Outstanding Bonds. The City will not issue any additional bonds for the District to finance additional public facilities for the District.

THE DISTRICT

General Description of the District

The District contains approximately 32 gross acres located in the southwestern portion of the City, on the eastside of Buchanan Avenue generally between Baird Way and Napier Way, within 1/2 mile of the 91 Freeway. Development within the District is subject to the City’s General Plan 2025. The District encompasses the master planned community known as “The Highlands.” The District is projected to consist of 72 proposed single family detached homes at buildout.

The majority of the property within the District is zoned R-1-7,000 which allows for a maximum density of 6.2 dwelling units per acre and a 7,000 square foot minimum lot size. A portion of the property within the District is zoned R-1-1/2 acre with a minimum ½ acre residential lot size and a portion of the property within the District is zoned R-1-10,500 which allows for a minimum 10,500 square foot residential lot. All of the taxable property within the District is located within two tracts: Tract Nos. 31147 and 32741.

Development within the District began in 2013 by Infinity, which completed the majority of the backbone infrastructure. D.R. Horton purchased the property within the District from Infinity on November 5, 2013. The property was sold in a mass graded condition.

As of January 15, 2016, 37 units have been completed and conveyed to individual homeowners, 9 units were completed (over 95% complete) and owned by the D.R. Horton, 15 units were under construction, and 11 were in finished lot condition. Building permits had been obtained for 6 of the 11 lots in finished condition. All taxable property within the District was classified as Developed Property as of March 1, 2016. As of January 15, 2016, 11 units owned by D.R. Horton were in escrow. See “—D.R. Horton” below.

As of March 10, 2016, an additional 9 homes had been conveyed to individual homeowners and all remaining building permits had been pulled.

Description of Authorized Facilities

The City Facilities authorized to be financed from Bond proceeds consist of street and road facilities, include street lights and traffic signals, storm water drainage facilities, water system facilities, including capacity in existing facilities, sewer system facilities including capacity in existing facilities and sewage treatment capacity, parks and park and recreation facilities, transportation facilities, and electric transmission and distribution facilities, as well as incidental expenses related to the planning, design and completion of such facilities. The School District Facilities authorized to be financed from Bond proceeds include the design, construction and acquisition of certain public school facilities of the School District for elementary school, middle school and high school facilities, to be owned and operated by the School District pursuant to that certain Joint Community Facilities Agreement by and between the School District and the City dated as of July 17, 2014.

The estimated costs of the City Facilities and School District Facilities to be paid from the proceeds of the Bonds and Special Taxes levied and collected by the District are described in Table 1 below:

TABLE 1
COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
ESTIMATED COSTS OF FACILITIES

<i>Project</i>	<i>Estimated Cost</i>
City Facilities	\$1,254,364
School District Facilities	<u>930,151</u>
Total	<u>\$2,184,515</u>

Source: The District.

D.R. Horton

The information about D.R. Horton contained in this Official Statement has been provided by representatives of D.R. Horton and has not been independently confirmed or verified by the Underwriter, the City or the District. Neither the Underwriter, the City nor the District make any representation as to the accuracy or adequacy of the information contained in this section. There may be material adverse changes in this information after the date of this Official Statement.

No assurance can be given that the proposed development within the District will occur as described below. As the proposed land development progresses and parcels are sold, it is expected that the ownership of the land within the District will become more diversified. No assurance can be given that development of the land within the District will occur in a timely manner or in the configuration or intensity described herein, or that any landowner described herein will obtain or retain ownership of any of the land within the District. The Bonds and the Special Taxes are not personal obligations of any landowners, including D.R. Horton and, in the event that a landowner defaults in the payment of the Special Taxes, the District may proceed with judicial foreclosure but has no direct recourse to the assets of any landowner. As a result, other than as provided herein, no financial statements or information is, or will be, provided about D.R. Horton or any other landowners. The Bonds are secured solely by the Special Tax revenues and other amounts pledged under the Fiscal Agent Agreement. See “SOURCES OF PAYMENT FOR THE BONDS” and “RISK FACTORS.”

General. As previously defined in this Official Statement, “D.R. Horton” is D.R. Horton Los Angeles Holding Company Inc., a California corporation, which markets the homes it is constructing in the District under the tradename “D.R. Horton, America’s Builder.” D.R. Horton is a subsidiary of D.R. Horton, Inc., a Delaware corporation (“D.R. Horton, Inc.”), a public company whose common stock is traded on the New York Stock Exchange under the symbol “DHI.” Founded in 1978 and headquartered in Fort Worth, Texas, D.R. Horton, Inc. constructs and sells homes in 27 states and 79 metropolitan markets of the United States under the names of D.R. Horton, America’s Builder, Express Homes, Emerald Homes, Breland Homes, Regent Homes, Crown Communities and Pacific Ridge Homes.

D.R. Horton, Inc. is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information, including financial statements, with the SEC. Such filings, particularly, D.R. Horton, Inc.’s Annual Report on Form 10-K for the Fiscal Year ended September 30, 2015, as filed by D.R. Horton, Inc. with the SEC on November 10, 2015, and D.R. Horton, Inc.’s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2015, as filed by D.R. Horton, Inc. with the SEC on or about

January 28, 2016, set forth certain data relative to the consolidated results of operations and financial position of D.R. Horton, Inc. and its subsidiaries, including D.R. Horton, as of such dates.

The SEC maintains an Internet web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC, including D.R. Horton, Inc. The address of such Internet web site is www.sec.gov. In addition, the aforementioned material may also be inspected at the offices of the NYSE at 20 Broad Street, New York, NY 10005. All documents subsequently filed by D.R. Horton, Inc. pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in such manner as the SEC prescribes.

Copies of D.R. Horton, Inc.'s Annual Report and each of its other quarterly and current reports, including any amendments, are available from D.R. Horton, Inc.'s website at www.drhorton.com.

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

Representations. In connection with the issuance of the Bonds, an authorized representative or officer of D.R. Horton will execute a certificate (the "D.R. Horton Letter of Representations") containing the following representations (among others):

(1) Except as described in this Official Statement, there is no material indebtedness of D.R. Horton or its Relevant Entities (defined below) that is secured by an interest in the Property (defined below).

(2) Neither D.R. Horton nor, to the Actual Knowledge of D.R. Horton (defined below), any of its Relevant Entities is in default on any obligation to repay borrowed money, which default is reasonably likely to materially and adversely affect D.R. Horton's ability to develop the Property as proposed in this Official Statement or to pay the Special Taxes due with respect to the Property.

(3) To the Actual Knowledge of D.R. Horton, neither D.R. Horton nor any Relevant Entity has been delinquent to any material extent in the last five years in the payment of any *ad valorem* property tax, special assessment or special tax on property in California owned by D.R. Horton or by any such Relevant Entity during the period of its ownership included within the boundaries of a community facilities district or an assessment district that (a) caused a draw on a reserve fund relating to such assessment district or community facilities district financing or (b) resulted in a foreclosure action being commenced by a court of law against DR Horton or any such Relevant Entity.

As used in the above representations of D.R. Horton, the following defined terms and phrases have the following meanings:

"Actual Knowledge of D.R. Horton" shall mean the knowledge of the authorized representative or officer of D.R. Horton signing the D.R. Horton Letter of Representations currently has as of the date of the D.R. Horton Letter of Representations or has obtained through (i) interviews with such current officers and responsible employees of D.R. Horton and its Relevant Entities as such authorized representative or officer has determined are likely, in the ordinary course of his or her respective duties, to have knowledge of the matters set forth in the D.R. Horton Letter of Representations, and/or (ii) review of documents reasonably available to such authorized representative or officer and which such authorized representative or officer has deemed necessary for such authorized representative or officer to obtain the

knowledge of the matters set forth in the D.R. Horton Letter of Representations. The authorized representative or officer executing the D.R. Horton Letter of Representations has not conducted any extraordinary inspection or inquiry other than such inspections or inquiries as are prudent and customary in connection with the ordinary course of D.R. Horton's business and operations. D.R. Horton notes that its parent D.R. Horton, Inc., including its subsidiaries such as D.R. Horton and its Relevant Entities, have undergone several restructurings, including office closures and division consolidations. Individuals who are no longer employees of the various entities have not been contacted.

"Relevant Entity" means, with respect to D.R. Horton, any other Person: (i) who directly, or indirectly through one or more intermediaries, is currently controlling, controlled by or under common control with D.R. Horton, and (ii) for whom information, including financial information or operating data, concerning such Person is material to an evaluation of the District and the Bonds (*i.e.*, information relevant to D.R. Horton's development plans with respect to its Property and its payment of Special Taxes, or such Person's assets or funds that would materially affect D.R. Horton's ability to develop its Property as proposed in this Official Statement or to pay its Special Taxes).

"Property" means the property within the District held in the name of D.R. Horton.

Development Plan.

The Highlands neighborhood is being built by D.R. Horton and is expected to include 72 homes at build out. As of the January 15, 2016 date of value of the Appraisal Report (the "Date of Value"), 37 units had been completed and conveyed to individual homeowners, nine (9) units were completed (construction over 95% complete) and owned by D.R. Horton (including two (2) model homes), 15 units were under construction, and 11 were in a finished lot condition (of which six (6) had been issued building permits). Of the 35 homesites not yet conveyed to individual homeowners, as of the Date of Value, 11 had been sold (under contract) but escrow has not yet closed. Homes under contract may not result in closed escrows as sales contracts are subject to cancellation. The first homes in The Highlands neighborhood were completed and conveyed to individual homeowners in August 2014.

As of March 10, 2016, 46 units had been completed and conveyed to individual homeowners, 5 units were completed (construction over 95% complete) and owned by D.R. Horton (including two (2) model homes), 15 units were under construction, and 6 were in finished lot condition (with all building permits having been pulled).

All of the public improvements with respect to the development of the Highlands neighborhood have been completed and the development within the Highlands neighborhood, including the transfer of all units to individual homeowners, is anticipated to be completed by October 2016.

The homes being constructed within The Highlands neighborhood range in size from approximately 2,798 square feet to approximately 3,929 square feet.

A summary of the proposed product mix, including estimated square footage and estimated base sales prices for the property being developed by D.R. Horton within the District as of March 10, 2016 is set forth below:

**The Highlands
(as of March 10, 2016)**

<i>Plan</i>	<i>Expected number of Homes at Buildout</i>	<i>Estimated Square Footage ⁽¹⁾</i>	<i>Minimum Lot Size</i>	<i>Closed to Individual Homeowners</i>	<i>Estimated Base Sales Price ⁽²⁾</i>
1	19	2,798	7,000	13	\$553,222
2	9	3,114	7,000	8	544,607
2X	8	3,175	7,000	2	544,607
3	3	3,639	7,000	3	573,203
3X	15	3,929	7,000	8	573,203
4	3	3,794	7,000	3	590,845
4X	13	3,866	7,000	9	590,845
5	<u>2</u>	2,806	7,000	<u>0</u>	571,557
TOTAL:	72			46	

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

⁽²⁾ Base sales prices are subject to change and exclude any lot premiums, options, upgrades, incentives and any selling concessions or price reductions which may be offered.

Source: D.R. Horton

Financing Plan.

As of March 10, 2016, all backbone infrastructure facilities required to serve the Highlands neighborhood have been completed. As of March 10, 2016, D.R. Horton had expended approximately \$32.0 million in land acquisition, improvements, home construction costs, and other development, marketing and sales costs (exclusive of internal financing repayment) related to its property in the District. D.R. Horton expects the remaining land improvements, home construction costs and other development, marketing and sales costs within the District to be approximately \$3.8 million.

To date, D.R. Horton has financed its land acquisition and various site development and home construction costs related to its property in the District through home sales and internally generated funds. D.R. Horton expects to use home sales and internal funding to complete its development within the District. However, home sales revenues for D.R. Horton's project in the District are not segregated and set aside for completing its project in the District. Home sales revenue is swept daily from D.R. Horton's divisions for use in operations, to pay down debt and for other corporate purposes and might get diverted to other D.R. Horton needs at the discretion of D.R. Horton's management. Notwithstanding the foregoing, D.R. Horton believes that it will have sufficient funds available to complete its proposed development in the District commensurate with the development timing described in this Official Statement.

Although D.R. Horton expects to have sufficient funds available to complete its development in the District, commensurate with the development timing described in this Official Statement, there can be no assurance, however, that amounts necessary to finance the remaining development and home construction costs will be available from D.R. Horton or any other source when needed. Neither D.R. Horton, nor its parent, D.R. Horton, Inc., nor any of its related entities are under any legal obligation of any kind to expend funds for the remaining development of and construction of homes on its property in

the District. Any contributions by D.R. Horton to fund the costs of such development and home construction are entirely voluntary.

If and to the extent that internal funding, including but not limited to home sales revenues, is inadequate to pay the costs to complete the planned development by D.R. Horton within the District and other financing by D.R. Horton is not put into place, there could be a shortfall in the funds required to complete the proposed development by D.R. Horton in the District and the remaining portions of the project in the District may not be developed.

Except as described in this Official Statement and except for those consents, permits, authorizations, certifications and approvals of governmental entities required in the ordinary course of development, D.R. Horton has no actual knowledge of any impediment to construction or obtaining land use entitlements which could be reasonably expected to have a material adverse effect on its ability to complete the planned development of its property within the District within the timeframe and budget described in the Official Statement.

Estimated Direct and Overlapping Indebtedness

Within the boundaries of the District are numerous overlapping local agencies providing public services. The approximate amount of the direct and overlapping debt on the parcels within the District for Fiscal Year 2015-16 is shown in Table 2 below (the “Debt Report”).

TABLE 2
COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
DIRECT AND OVERLAPPING DEBT
AS OF JANUARY 15, 2016

I. Appraisal Value \$30,208,677
II. Land Secured Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels in CFD No. 2014-2 ⁽³⁾	Amount Applicable
CITY OF RIVERSIDE CFD NO. 2014-2 (HIGHLANDS)	CFD	\$2,610,000	\$ 2,610,000	100.000%	72	\$ 2,610,000
TOTAL LAND SECURED BONDED DEBT⁽¹⁾⁽²⁾						\$ 2,610,000

III. General Obligation Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels in CFD No. 2014-2	Amount Applicable
METROPOLITAN WATER DEBT SERVICE	GO	\$850,000,000	\$110,420,000	0.000990%	72	\$ 1,093
CITY OF RIVERSIDE	GO	20,000,000	12,430,000	0.099944	72	12,423
RIVERSIDE COMMUNITY COLLEGE DISTRICT DEBT SERVICE	GO	310,003,424	267,357,210	0.027469	72	73,442
ALVORD UNIFIED SCHOOL DISTRICT DEBT SERVICE	GO	252,940,233	223,080,233	0.331862	72	740,319
TOTAL GENERAL OBLIGATION BONDED DEBT⁽¹⁾						\$ 827,277

Authorized but Unissued Direct and Overlapping Debt	Type	Authorized	Unissued	% Applicable	Parcels in CFD No. 2014-2	Amount Applicable
METROPOLITAN WATER DEBT SERVICE	GO	\$850,000,000	\$ 0	0.000990%	72	\$ 0
CITY OF RIVERSIDE	GO	20,000,000	0	0.099944	72	0
RIVERSIDE COMMUNITY COLLEGE DISTRICT DEBT SERVICE	GO	350,000,000	39,996,576	0.027469	72	10,987
ALVORD UNIFIED SCHOOL DISTRICT DEBT SERVICE	GO	253,000,000	59,767	0.331862	72	198
TOTAL UNISSUED GENERAL OBLIGATION INDEBTEDNESS⁽¹⁾						\$ 11,185

TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION INDEBTEDNESS \$ 838,462

TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT	\$ 3,437,277
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IV. Ratios to Appraisal Value

Outstanding Land Secured Bonded Debt	11.57:1
Total Outstanding Bonded Debt	8.79:1

⁽¹⁾ Albert A. Webb Associates is not aware of any additional bonded debt for parcels in the District for the referenced Fiscal Year 2016-17
⁽²⁾ Amount includes \$1,800,000 Special Tax Revenue Bonds Series 2016A and \$810,000 Special Tax Revenue Bonds, Series 2016 B (Taxable).
Additional bonds will be issued for refunding only.
⁽³⁾ All parcels have subdivided into 72 individual parcels for Fiscal Year 2016-17 for the District.
Source: Albert A. Webb Associates

Expected Tax Burden

Based on the appraised values within the District set forth in the Appraisal Report, the projected debt service on the Bonds, estimated District administrative expenses of \$30,000 and other information known to the City, the City expects that, beginning in Fiscal Year 2016-17, the projected effective tax rates levied on taxable property in the District, based on development status as of January 15, 2016, will range from approximately 1.61% to 1.67% of the appraised value. However, subject to the limitations established by the Rates and Method and the provisions of the Act, the City Council is obligated to levy Special Taxes on parcels of taxable property in the District in each Fiscal Year in an amount sufficient to pay debt service on the outstanding Bonds.

Table 3 below describes the estimated Fiscal Year 2016-17 effective tax burden for sample units of Developed Property within the District, based on development status as of January 15, 2016, assuming Special Taxes levied in Fiscal Year 2016-17 will equal the projected Bond debt service plus \$30,000 in estimated District administrative expenses and other overlapping debt.

The estimated tax rates and amounts presented in this Official Statement are based on currently available information. The actual amounts charged may vary and may increase in future years depending on the amount of Bonds and Parity Bonds outstanding, and the number of delinquencies in the District, among other factors.

**TABLE 3
COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
PROJECTED FISCAL YEAR 2016-17 EFFECTIVE TAX RATES
FOR SAMPLE DEVELOPED UNITS WITHIN EACH NEIGHBORHOOD**

Plan Type CFD Tax Category	CFD 2014-2 (Highlands)														Average Parcel
	TR 31147							TR 32741							
	1 Less than 3,000 S.F.	2 3,001 to 3,300 S.F.	2X 3,001 to 3,300 S.F.	3 3,301 to 3,600 S.F.	3X 3,301 to 3,600 S.F.	4 Greater than 3,601 S.F.	4X Greater than 3,601 S.F.	1 Less than 3,000 S.F.	2 3,001 to 3,300 S.F.	2X 3,001 to 3,300 S.F.	3 3,301 to 3,600 S.F.	3X 3,301 to 3,600 S.F.	4 Greater than 3,601 S.F.	4X Greater than 3,601 S.F.	
Home Size	2,798	3,114	3,175	3,639	3,929	3,794	3,866	2,798	3,114	3,175	3,639	3,929	3,794	3,866	
Appraised Value ⁽¹⁾	\$531,620	\$513,810	\$523,875	\$538,572	\$561,847	\$550,130	\$560,570	\$531,620	\$513,810	\$523,875	\$538,572	\$561,847	\$550,130	\$560,570	\$540,061
Ad Valorem Property Taxes:															
General Purpose	\$ 5,316	\$ 5,138	\$ 5,239	\$ 5,386	\$ 5,618	\$ 5,501	\$ 5,606	\$ 5,316	\$ 5,138	\$ 5,239	\$ 5,386	\$ 5,618	\$ 5,501	\$ 5,606	\$ 5,401
Alvord Unified School District (0.15335%)	815	788	803	826	862	844	860	815	788	803	826	862	844	860	828
Riverside City Community College District (0.01725%)	92	89	90	93	97	95	97	92	89	90	93	97	95	97	93
Metro Water West (0.00350%)	19	18	18	19	20	19	20	19	18	18	19	20	19	20	19
City of Riverside (0.00576%)	31	30	30	31	32	32	32	31	30	30	31	32	32	32	31
Total General Property Taxes	\$ 6,272	\$ 6,062	\$ 6,181	\$ 6,354	\$ 6,629	\$ 6,491	\$ 6,614	\$ 6,272	\$ 6,062	\$ 6,181	\$ 6,354	\$ 6,629	\$ 6,491	\$ 6,614	\$ 6,372
Assessment, Special Taxes & Parcel Charges:															
Flood Control Stormwater / Cleanwater / Santa Ana	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4	\$ 4
CSA #152 City of Riverside	10	10	10	10	10	10	10	10	10	10	10	10	10	10	10
City of Riverside Lighting District	31	31	31	31	31	31	31	31	31	31	31	31	31	31	31
Riverside City Library Services	19	19	19	19	19	19	19	19	19	19	19	19	19	19	19
MWD Standby charge	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
CFD 2014-2 (Highlands)(2)	2,233	2,255	2,255	2,568	2,568	2,568	2,568	2,233	2,255	2,255	2,438	2,438	2,568	2,568	2,412
Total Assessments & Parcel Charges	\$ 2,306	\$ 2,329	\$ 2,328	\$ 2,641	\$ 2,641	\$ 2,641	\$ 2,641	\$ 2,306	\$ 2,328	\$ 2,328	\$ 2,511	\$ 2,511	\$ 2,641	\$ 2,641	\$ 2,486
Projected Total Property Tax	\$ 8,579	\$ 8,391	\$ 8,509	\$ 8,996	\$ 9,270	\$ 9,132	\$ 9,255	\$ 8,579	\$ 8,391	\$ 8,509	\$ 8,866	\$ 9,140	\$ 9,132	\$ 9,255	\$ 8,858
Projected Effective Tax Rate	1.61%	1.63%	1.62%	1.67%	1.65%	1.66%	1.65%	1.61%	1.63%	1.62%	1.65%	1.63%	1.66%	1.65%	1.64%

⁽¹⁾ Reflects the appraised value based on ownership status as of January 15, 2016, the date of value of the Appraisal.

⁽²⁾ Reflects Fiscal Year 2016-17 Special Tax Levy and includes priority Administrative Expenses.

Source: Albert A. Webb Associates

Appraisal Report

An MAI appraisal of the land and existing improvements within the District was prepared by Kitty Siino & Associates, Inc., Tustin, California, dated January 29, 2016. See APPENDIX B — “APPRAISAL REPORT.” The Appraisal Report sets forth an estimate of the market value of the fee simple interest of the taxable land and improvements within the District based on a sales comparison approach along with utilizing certain mass appraisal techniques. The Appraisal Report determined a minimum base value for the completed homes in each floor plan of each tract within the District. Parcels with homes under construction that are less than 95% complete were valued as if in a finished lot condition with no additional improvements. The Appraiser is of the opinion that, based upon the assumptions and conditions contained in the Appraisal Report, the aggregate market value and minimum market value of the taxable land and improvements in existence within the District as of January 15, 2016, was \$30,208,677.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in Appendix B. The City makes no representation as to the accuracy of the Appraisal Report. See APPENDIX B — “APPRAISAL REPORT.” There is no assurance that the 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 “RISK FACTORS — Land Values” and APPENDIX B — “APPRAISAL REPORT.”

Estimated Value-to-Lien Ratio

Estimated Assessed Value-to-Lien Ratio. The assessed value of the land within the District is \$24,255,506 for Fiscal Year 2015-16. Dividing the assessed value by the principal amount of the Bonds plus all overlapping debt secured by a tax or assessment on the property within the District and all overlapping general obligation debt results in an estimated assessed value-to-lien ratio of 7.06-to-1 for the District.

Estimated Appraised Value-To-Lien Ratio. Table 4 below incorporates the values assigned to parcels in the Appraisal Report, the estimated principal amount of the Bonds allocable to each category of parcels and the estimated appraised value-to-lien ratios for various categories of parcels based upon (i) land values in the District as updated by the Appraisal Report to January 15, 2016, (ii) property ownership as of March 10, 2016 and (iii) the projected Fiscal Year 2016-17 Special Tax levy based upon development status as of March 1, 2016.

**TABLE 4
COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
ESTIMATED VALUE-TO-LIEN RATIOS
ALLOCATED BY PROPERTY OWNER
OWNERSHIP AS OF MARCH 10, 2016**

<i>Property Owner</i>	<i>No. of Parcels</i>	<i>Appraised Property Value⁽³⁾</i>	<i>% of Appraised Value</i>	<i>Maximum Tax</i>	<i>Percentage of Maximum Tax</i>	<i>Estimated FY 2016-17 Levy⁽⁴⁾</i>	<i>Percentage of FY 2016-17 Levy</i>	<i>CFD 2014-2 Proposed 2016 Bonds⁽⁵⁾</i>	<i>Direct Debt Value-to- Lien Ratio⁽⁶⁾</i>
Developed Individually Owned	46	\$ 23,247,195	76.96%	\$ 175,191	63.36%	\$ 110,317	63.86%	\$ 1,666,847	13.95:1
Developed DR Horton ⁽²⁾	<u>26</u>	<u>6,961,482</u>	<u>23.04</u>	<u>101,320</u>	<u>36.64</u>	<u>62,421</u>	<u>36.14</u>	<u>943,153</u>	<u>7.38:1</u>
Total	72	\$ 30,208,677	100.00%	\$ 276,511	100.00%	\$ 172,738	100.00%	\$ 2,610,000	11.57:1

⁽¹⁾ Reflects Appraised Value for 46 individually owned homes as of March 10, 2016. 9 lots were conveyed to individual property owners after January 15, 2016.

⁽²⁾ Reflects Appraised Value for 2 Model Homes which have building permits issued, 12 Homes Under Construction, 11 Finished Lots, and 1 Home 95% Completed which have building permits issued and are therefore considered developed under the Rates and Method.

⁽³⁾ Reflects the appraised value as of January 15, 2016, the date of value of the Appraisal based on ownership status as of March 10, 2016.

⁽⁴⁾ Estimated Fiscal Year 2016-17 Special Tax Levy based upon development status as of March 1, 2016 and projected debt service with priority administration of \$30,000.

⁽⁵⁾ Includes the principal amount of the Bonds. Responsibility of the principal amount of the Bonds has been allocated based on the projected Fiscal Year 2016-17 Special Tax levy, based on development status as of March 1, 2016 and the assigned rates per tax rate category as outlined in the Rates and Method.

⁽⁶⁾ Excludes general obligation indebtedness. See Table 2.

Source: Albert A. Webb Associates

Delinquency History

Special Taxes are expected to be levied within the District beginning in Fiscal Year 2016-17.

Value-to- Lien Strata

Table 5 below sets forth the appraised value-to- lien ratios for the parcels in the District by value-to-lien range based on the projected Fiscal Year 2016-17 Special Tax levy and development status as of March 1, 2016.

**TABLE 5
COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS)
OF THE CITY OF RIVERSIDE
VALUE-TO-LIEN STRATA**

<i>Value-to Lien</i>	<i>No. of Parcels of Developed Property</i>	<i>Percentage of Developed Property</i>	<i>Appraised Value⁽¹⁾</i>	<i>Percentage of Appraised Value</i>	<i>CFD 2014-2 Estimated FY 2016-17 Levy</i>	<i>Percent Share of Estimated FY 2016-17 Levy</i>	<i>CFD 2014-2 Proposed 2016 Bonds⁽²⁾</i>	<i>Percent Share of Proposed 2016 Bonds</i>	<i>Aggregate Direct Debt Value-to Lien⁽⁴⁾</i>
Less than 7.00:1 ⁽³⁾	18	25.00%	\$ 4,289,543	14.20%	\$ 44,535	25.78%	\$ 672,900	25.78%	6.37:1
7.01:1 to 12.00:1	12	16.67	3,858,074	12.77	28,137	16.29	425,144	16.29	9.07:1
12.01:1 to 14.00:1	8	11.11	3,705,108	12.27	18,914	10.95	285,788	10.95	12.96:1
Greater than 14.01:1	<u>34</u>	<u>47.22</u>	<u>18,355,952</u>	<u>60.76</u>	<u>81,152</u>	<u>46.98</u>	<u>1,226,167</u>	<u>46.98</u>	<u>14.97:1</u>
Total	72	100.00%	\$ 30,208,677	100.00%	\$ 172,738	100.00%	\$ 2,610,000	100.00%	11.57:1

(1) Reflects the appraised value based on ownership status as of January 15, 2016, the date of value of the Appraisal.

(2) Responsibility of the par amount has been allocated based on the projected Fiscal Year 2016-17 special tax levy and based on development status as of March 1, 2016.

(3) The lowest value to lien in this category is 6.08:1.

(4) Excludes general obligation indebtedness. See Table 2.

Source: Albert A. Webb Associates

City's Collection Practices

The staff of the City provides administrative and other support services for the community facilities districts that have been formed by the City. These services include, but are not limited to, attempting to collect delinquent special taxes prior to the commencement of foreclosure proceedings by sending demand letters to property owners whose special taxes are delinquent advising them of the consequences of failing to pay the applicable special taxes. The City expects to levy Special Taxes within the District beginning in Fiscal Year 2016-17 and has covenanted in the Fiscal Agent Agreement to commence foreclosure proceedings against parcels with delinquent Special Taxes under certain circumstances described in this Official Statement. See "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales.*"

RISK FACTORS

The purchase of the Bonds involves significant investment risks and, therefore, the Bonds are not suitable investments for many investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth in this Official Statement, in evaluating the investment quality of the Bonds. The Bonds have not been rated by a rating agency. 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 in this section of this Official Statement 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 in this section of this Official Statement could adversely affect the value of the property in the District. See "— Land Values" and "— Limited Secondary Market" 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 and fiscal policies; and (iii) natural disasters (including, without limitation, earthquakes and floods), which may result in uninsured losses.

No assurance can be given that the individual homeowners will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See "RISK FACTORS — Bankruptcy and Foreclosure" below, for a discussion of certain limitations on the District's ability to pursue judicial proceedings with respect to delinquent parcels.

Limited Obligations

The Bonds and related interest are not payable from the general funds of the City. Except with respect to the Special Taxes, neither the credit nor the taxing power of the District or the City is pledged for the payment of principal or interest of the Bonds, and, except as provided in the Fiscal Agent Agreement, 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 District's property or upon any of the City's or District's income, receipts or revenues, except the Special Taxes and other amounts pledged under the Fiscal Agent Agreement.

Insufficiency of Special Taxes

Under the Rates and Method, as of March 1, 2016, all taxable property within the District was classified as Developed Property. The annual amount of Special Tax to be levied on each taxable parcel in the District will generally be based on the land use class to which a parcel of Developed Property is assigned. See APPENDIX A — “RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX” and “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Rates and Method of Apportionment of Special Tax.*”

The maximum Special Taxes that may be levied within the District are at least 110% of Maximum Annual Debt Service on the Bonds. Notwithstanding that the maximum Special Taxes that may be levied in the District exceeds debt service due on the Bonds, the Special Taxes collected could be inadequate to make timely payment of debt service either because of nonpayment or because property becomes exempt from taxation as permitted in the Rates and Method.

In order to pay debt service on the Bonds, it is necessary that the Special Taxes be paid in a timely manner. Should the Special Taxes not be paid on time, the City has established a Reserve Fund 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 Fund.” The City has covenanted to maintain in the Reserve Fund an amount equal to the Reserve Requirement subject, however, to the limitation that the City may not levy the Special Tax in the District in any Fiscal Year at a rate in excess of the maximum amounts permitted under the Rates and Method. As a result, if a significant number of delinquencies occurs, the District could be unable to replenish the Reserve Fund to the Reserve Requirement due to the limitations on the maximum Special Tax. If such defaults were to continue in successive years, the Reserve Fund could be depleted and a default on the Bonds could occur.

The City has covenanted that, under certain conditions, 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 City 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 Fund 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 City may adjust the future Special Tax levied on taxable parcels in the District, subject to the limitation on the maximum Special Tax, to provide an amount required to pay interest on, principal of, and redemption premiums, if any, on the Bonds, and the amount, if any, necessary to replenish the Reserve Fund 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 Fiscal Agent Agreement, even if the Special Tax is levied at the maximum Special Tax rates. See “Bankruptcy and Foreclosure” below for a discussion of potential delays in foreclosure actions.

The Rates and Method governing the levy of the Special Tax expressly exempts up to approximately nine acres of property owned by public agencies and other exempt entities in the District. See Section E of APPENDIX A — “RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX.” 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, another public agency or a religious organization, subject to the limitations of the maximum authorized rates, the Special Tax will be reallocated to the remaining taxable properties within the District. This would result in the owners of such property paying a greater amount of the Special Tax and

could have an adverse impact upon the ability and willingness of the owners of such property to pay the Special Tax when due.

The Rates and Method governing the levy of the Special Tax provides that, once a parcel is classified as taxable property, it will remain subject to a Special Tax levy even if subsequently it is acquired by a public agency. 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. Due to problems of collecting taxes from public agencies, if a substantial portion of land within the District was to become owned by public agencies, collection of the Special Tax might become more difficult and could result in collections of the Special Tax which might not be sufficient to pay principal of and interest on the Bonds when due and a default could occur with respect to the payment of such principal and interest.

Special Tax Delinquencies

Under provisions of the Act, the Special Taxes, from which funds necessary for the payment of principal of, and interest on, the Bonds are derived, are customarily billed to the properties within the District on the *ad valorem* property tax bills sent to owners of such properties. The Act currently provides that such Special Tax installments are due and payable, and bear the same penalties and interest for non-payment, as do *ad valorem* property tax installments.

See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” for a discussion of the provisions which apply, and procedures which the City is obligated to follow under the Fiscal Agent Agreement, in the event of delinquencies in the payment of Special Taxes. See “RISK FACTORS — FDIC/Federal Government Interests in Properties” below, for a discussion of the policy of the Federal Deposit Insurance Corporation (the “FDIC”) regarding the payment of special taxes and assessment and limitations on the City’s ability to foreclose on the lien of the Special Taxes in certain circumstances where property within the District is owned by the federal government, agencies of the federal government, or, possibly, government sponsored enterprises such as Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”).

The City has the authority and the obligation, subject to the Act and the maximum Special Tax rates set forth in the Rates and Method, to increase the levy of Special Taxes against non-delinquent property owners in the District in the event other owners in the District are delinquent. Pursuant to the Rates and Method, under no circumstances may the Special Tax levied against any parcel used for private residential purposes be increased as a consequence of delinquency or default by owner of any other parcel or parcels within the District by more than 10% in any Fiscal Year. Thus, the City may not be able to increase Special Tax levies in future Fiscal Years by enough to make up for delinquencies for prior Fiscal Years. This would result in draws on the Reserve Fund, and if delinquencies continue and in the aggregate exceed the Reserve Fund balance, defaults would occur in the payment of principal and interest on the Bonds.

Although the City has covenanted in the Fiscal Agent Agreement to commence and diligently pursue foreclosure under the circumstances described under the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*,” foreclosure delays may occur under the circumstances described under the caption “RISK FACTORS — Bankruptcy and Foreclosure.” Delinquencies may result as a consequence of many factors. See “RISK FACTORS,” generally, for discussions of certain potential causes of delinquencies.

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. According to the County, 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 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

The presence of hazardous substances on a parcel may result in a reduction in the value of a parcel. In general, the owners and operators of a parcel may be required by law to remedy conditions of the parcel relating to releases or threatened releases of hazardous substances. The Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator is obligated to remedy a hazardous substance condition of property whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the taxed parcels be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

Further, it is possible that liabilities may arise in the future with respect to any of the parcels resulting from the existence, currently, on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency and the willingness or ability of the owner of any parcel to pay the Special Tax Installments.

The value of the taxable property within the District, as set forth in the various tables in this Official Statement, does not reflect the presence of any hazardous substance or the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the property. The City has not independently verified, but is not aware, that any owner (or operator) of any of the parcels within the District has such a current liability with respect to any such parcel. However, it is possible that such liabilities do currently exist and that the District is not aware of them.

Parity Taxes and Special Assessments

Property within the District is subject to taxes imposed by public agencies also having jurisdiction over the land within the District. See “THE DISTRICT — Estimated Direct and Overlapping Indebtedness.”

The Special Taxes and any related penalties will constitute a lien against the lots and parcels of land on which they will be annually imposed until they are paid. Such lien is on a parity with all special taxes and special assessments levied by the City and other agencies and is co-equal to and independent of the lien for general property taxes regardless of when they are imposed upon the same property. The Special Taxes have priority over all existing and future private liens imposed on the property except, possibly, for liens or security interests held by the Federal Deposit Insurance Corporation. See “RISK FACTORS — Bankruptcy and Foreclosure” below.

The City has control over the ability of other entities and districts to issue indebtedness secured by special taxes, *ad valorem* taxes or assessments payable from all or a portion of the property within the District. In addition, the landowners within the District may, without the consent or knowledge of the City, petition other public agencies to issue public indebtedness secured by special taxes, *ad valorem* taxes or assessments. Any such special taxes, *ad valorem* taxes or assessments may have a lien on such property on a parity with the Special Taxes and could reduce the estimated value-to-lien ratios for property within the District described in this Official Statement. See “SOURCES OF PAYMENT FOR BONDS” and “THE DISTRICT — Estimated Direct and Overlapping Indebtedness.”

Disclosures to Future Purchasers

The willingness or ability of an owner of a parcel to pay the Special Tax even if the value of the parcel is sufficient may be affected by whether or not the owner was given due notice of the Special Tax authorization at the time the owner purchased the parcel, was informed of the amount of the Special Tax on the parcel should the Special Tax be levied at the maximum tax rate and the risk of such a levy, and, at the time of such a levy, has the ability to pay it as well as pay other expenses and obligations. The City has caused a notice of the Special Tax lien to be recorded in the Office of the Recorder for the County against each parcel. While title companies normally refer to such notices in title reports, there can be no guarantee that such reference will be made or, if made, that a prospective purchaser or lender will consider such Special Tax obligation in the purchase of a property within the District or lending of money thereon.

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

Non-Cash Payments of Special Taxes

Under the Act, the City Council as the legislative body of the District may reserve to itself the right and authority to allow the owner of any taxable parcel to tender a Bond in full or partial payment of any installment of the Special Taxes or the interest or penalties thereon. A Bond so tendered is to be accepted at par and credit is to be given for any interest accrued thereon to the date of the tender. Thus, if Bonds can be purchased in the secondary market at a discount, it may be to the advantage of an owner of a taxable parcel to pay the Special Taxes applicable thereto by tendering a Bond. Such a practice would decrease the cash flow available to the District to make payments with respect to other Bonds then outstanding; and, unless the practice was limited by the District, the Special Taxes paid in cash could be insufficient to pay the debt service due with respect to such other Bonds. In order to provide some protection against the potential adverse impact on cash flows which might be caused by the tender of Bonds in payment of Special Taxes, the Fiscal Agent Agreement includes a covenant pursuant to which the District will not authorize owners of taxable parcels to satisfy Special Tax obligations by the tender of Bonds unless the District shall have first obtained a report of

an Independent Financial Consultant certifying that doing so would not result in the District having insufficient Special Tax revenues to pay the principal of and interest on all Outstanding Bonds when due.

Payment of the Special Tax is not a Personal Obligation of the Owners

An owner of a taxable parcel is not personally obligated to pay the Special Tax. Rather, the Special Tax is 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 the Special Tax, the District has no recourse against the owner.

Concentration of Ownership

As of March 10, 2016, all 26 lots owned by D.R. Horton within the District were classified as Developed Property. Based on development and ownership status as of March 10, 2016, D.R. Horton is expected to be responsible for approximately 36.14% of the Fiscal Year 2016-17 Special Tax levy.

The timely payment of principal of and interest on the Bonds depends upon the willingness and ability of the current and future property owners in the District to pay the Special Taxes prior to delinquency. General and local economic conditions and governmental requirements or restrictions may affect the willingness of the current property owners, or any successor property owners, to pay the Special Taxes, and there is no assurance that the current property owners, or any successor property owners, will pay such Special Taxes even if financially able to do so. Due to the concentration of ownership of the property within the District, a failure by D.R. Horton or any successor property owner thereto to pay the Special Taxes may result in a default in the payment of debt service on the Bonds. See “THE DISTRICT – D.R. Horton.”

Land 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 continued 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 B — “APPRAISAL REPORT.”

The Appraiser has estimated, on the basis of certain definitions, assumptions and limiting conditions contained in the Appraisal Report, that as of January 15, 2016, the market value of the property within the District was \$30,208,677. See “THE DISTRICT — Appraisal Report.” The Appraisal Report indicates the Appraiser’s opinion as to the minimum 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 at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value, 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 B 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.*”

FDIC/Federal Government Interests in Properties

General. The ability of the District to foreclose the lien of delinquent unpaid Special Tax installments may be limited with regard to properties in which the Federal Deposit Insurance Corporation (the “FDIC”), the Drug Enforcement Agency, the Internal Revenue Service, or other federal agency has or obtains an interest.

The supremacy clause of the United States Constitution reads as follows: “This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the contrary notwithstanding.”

This means that, unless Congress has otherwise provided, if a federal governmental entity owns a parcel that is subject to Special Taxes within the District but does not pay taxes and assessments levied on the parcel (including Special Taxes), the applicable state and local governments cannot foreclose on the parcel to collect the delinquent taxes and assessments.

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the District wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. In Rust v. Johnson (9th Circuit; 1979) 597 F.2d 174, the United States Court of Appeal, Ninth Circuit held that the Federal National Mortgage Association (“FNMA”) is a federal instrumentality for purposes of this doctrine, and not a private entity, and that, as a result, an exercise of state power over a mortgage interest held by FNMA constitutes an exercise of state power over property of the United States.

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

FDIC. In the event that any financial institution making any loan which is secured by real property within the District is taken over by the FDIC, and prior thereto or thereafter the loan or loans go into default, resulting in ownership of the property by the FDIC, then the ability of the District to collect interest and penalties specified by State law and to foreclose the lien of delinquent unpaid Special Taxes may be limited. The FDIC’s policy statement regarding the payment of state and local real property taxes (the “Policy Statement”) provides that property owned by the FDIC is subject to state and local real property taxes only if those taxes are assessed according to the property’s value, and that the FDIC is immune from real property taxes assessed on any basis other than property value. According to the Policy Statement, the FDIC will pay its property tax obligations when they become due and payable and will pay claims for delinquent property taxes as promptly as is consistent with sound business practice and the orderly administration of the institution’s affairs, unless abandonment of the FDIC’s interest in the property is appropriate. The FDIC will pay claims for interest on delinquent property taxes owed at the rate provided under state law, to the extent the interest payment obligation is secured by a valid lien. The FDIC will not pay any amounts in the nature of fines or penalties and will not pay nor recognize liens for such amounts. If any property taxes (including interest) on FDIC-owned property are secured by a valid lien (in effect before the property became owned by the FDIC), the FDIC will pay those claims. The Policy Statement further provides that no property of the FDIC is subject to levy, attachment, garnishment, foreclosure or sale without the FDIC’s consent. In addition,

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

The Policy Statement states that the FDIC generally will not pay non-*ad valorem* taxes, including special assessments, on property in which it has a fee interest unless the amount of tax is fixed at the time that the FDIC acquires its fee interest in the property, nor will it recognize the validity of any lien to the extent it purports to secure the payment of any such amounts. Special taxes imposed under the Mello-Roos Act and a special tax formula which determines the special tax due each year are specifically identified in the Policy Statement as being imposed each year and therefore covered by the FDIC's federal immunity. The Ninth Circuit has issued a ruling on August 28, 2001 in which it determined that the FDIC, as a federal agency, is exempt from Mello-Roos special taxes.

The District is unable to predict what effect the application of the Policy Statement would have in the event of a delinquency in the payment of Special Taxes on a parcel within the District in which the FDIC has or obtains an interest, although prohibiting the lien of the Special Taxes to be foreclosed out at a judicial foreclosure sale could reduce or eliminate the number of persons willing to purchase a parcel at a foreclosure sale. Such an outcome could cause a draw on the Reserve Fund and perhaps, ultimately, if enough property were to become owned by the FDIC, a default in payment on the Bonds.

Bankruptcy and Foreclosure

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

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

Although a bankruptcy proceeding would not cause the Special Taxes to become extinguished, the amount of any Special Tax lien could be modified if the value of the property falls below the value of the lien. If the value of the property is less than the lien, such excess amount could be treated as an unsecured claim by the bankruptcy court. In addition, bankruptcy of a property owner could result in a delay in prosecuting Superior Court foreclosure proceedings. Such delay would increase the likelihood of a delay or default in payment of delinquent Special Tax installments and the possibility of delinquent Special Tax installments not being paid in full.

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

The Bankruptcy Reform Act of 1994 (the “Bankruptcy Reform Act”) included a provision which excepts from the Bankruptcy Code’s automatic stay provisions, “the creation of a statutory lien for an ad valorem property tax imposed by . . . a political subdivision of a state if such tax comes due after the filing of the petition [by a debtor in bankruptcy court].” This amendment effectively makes the Glasply holding inoperative as it relates to ad valorem real property taxes. However, it is possible that the original rationale of the Glasply ruling could still result in the treatment of post-petition special taxes as “administrative expenses,” rather than as tax liens secured by real property, at least during the pendency of bankruptcy proceedings.

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

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

The various legal opinions to be delivered concurrently with the delivery of the Bonds (including Bond Counsel’s approving legal opinion) will be qualified, as to the enforceability of the various legal instruments, by moratorium, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

No Acceleration Provision

The Bonds do not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the Bonds or the Fiscal Agent Agreement or in the event interest on the Bonds becomes included in gross income for federal income tax purposes. See “— Limitations on Remedies” below.

Loss of Tax Exemption

As discussed under the caption “LEGAL MATTERS — Tax Exemption,” the interest on the 2016A Bonds could become includable in gross income for federal income tax purposes retroactive to the date of issuance of the 2016A Bonds as a result of a failure of the District to comply with certain provisions of the Internal Revenue Code of 1986, as amended. Should such an event of taxability occur, the 2016A Bonds are not subject to early redemption and will remain outstanding to maturity or until redeemed under the redemption provisions of the Fiscal Agent Agreement.

Limitations on Remedies

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

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

Limited Secondary Market

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

Proposition 218

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

Among other things, Section 3 of Article XIII 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 rates and method of apportionment of an existing special tax. However, the Act prohibits a legislative body from adopting any resolution to reduce the rate of any special tax or terminate the levy of any special tax pledged to repay any debt incurred pursuant to the Act unless such legislative body determines that the reduction or termination of the special tax would not interfere with the timely retirement of that debt. On July 1, 1997, a bill was signed into law by the Governor of the State enacting Government Code Section 5854, which states that:

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

Accordingly, although the matter is not free from doubt, it is likely that the Initiative has not conferred on the voters the power to repeal or reduce the Special Taxes if such reduction would interfere with the timely retirement of the Bonds.

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. Furthermore, no assurance can be given with respect to the future levy of the Special Taxes in amounts greater than the amount necessary for the timely retirement of the Bonds. Therefore, no assurance can be given with respect to the levy of Special Taxes for Administrative Expenses. Nevertheless, to the maximum extent that the law permits it to do so, the City has covenanted that it will not initiate proceedings under the Act to reduce the maximum Special Tax rates on parcels within the District to an amount that is less than 110% of Maximum Annual Debt Service on the Outstanding Bonds and Parity Bonds in each future Bond

Year. In connection with the foregoing covenant, the City Council has made a legislative finding and determination that any elimination or reduction of Special Taxes below the foregoing level would interfere with the timely retirement of the Bonds. The City also has covenanted that, in the event an initiative is adopted which purports to alter the Rates 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.

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”). 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. 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 thousands of registered voters within the CCFD (viz., all of the registered voters in the City). The election held in the District had no registered voters within the District at the time of the election to authorize the Special Tax. 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 Special Tax election in the District. Moreover, Section 53341 of the Act provides that any “action or proceeding to attack, review, set aside, void or annul the levy of a special tax...shall be commenced within 30 days after the special tax is approved by the voters.” Similarly, Section 53359 of the 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 within the District approved the Special Tax and the issuance of bonds on July 22, 2014.

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

IRS Audit of Tax-Exempt Bond Issues

The Internal Revenue Service has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the 2016A Bonds will be selected for audit by the Internal Revenue Service. It is also possible that the market value of the 2016A Bonds might be affected as a result of such an audit of the 2016A Bonds (or by an audit of similar bonds).

Ballot Initiatives

Article XIII A, XIII B, XIII C and XIII D were adopted pursuant to measures qualified for the ballot pursuant to California's constitutional initiative process and the State Legislature has in the past enacted legislation which has altered the spending limitations or established minimum funding provisions for particular activities. On March 6, 1995 in the case of *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. From time to time, other initiative measures could be adopted by California voters. The adoption of any such initiative might place limitations on the ability of the State, the City, or local districts to increase revenues or to increase appropriations.

CONTINUING DISCLOSURE

General

Pursuant to a Continuing Disclosure Certificate (the "District Disclosure Certificate") the City, on behalf of the District, has agreed to provide, or cause to be provided, to the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found on the Internet at www.emma.msrb.org, on an annual basis certain financial information and operating data concerning the District. This covenant has been made by the City in order to assist the Underwriter in complying with Rule 15c2-12 adopted by the Securities and Exchange Commission (the "Rule"). Additionally, although the Underwriter does not consider D.R. Horton to be an obligated party under the Rule, pursuant to a Continuing Disclosure Certificate executed by D.R. Horton (the "Developer Disclosure Certificate," and, together with the District Disclosure Certificate, the "Disclosure Certificates") D.R. Horton has agreed to provide, or cause to be provided, to EMMA, on a semi-annual and annual basis certain information concerning D.R. Horton. The District and D.R. Horton have further agreed to provide notice to EMMA of certain listed events. The full text of the form of the Disclosure Certificates is set forth in Appendix E. Based on D.R. Horton's development projections, it is likely that D.R. Horton's reporting obligations under the Developer Disclosure Certificate will terminate prior to the date by which the first semi-annual report must be filed thereunder.

The City

In the past, to assist the City and its related governmental entities in meeting their continuing disclosure obligations, the City retained certain corporate trust banks to act as dissemination agent. The City and its related governmental entities have not, on a handful of occasions during the past five years, fully complied, in all material respects, with their disclosure undertakings. Specifically, the City failed to make a filing in 2012 and in 2013 with respect to an issue of pension obligation bond anticipation notes delivered by the City in 2011 and 2012 (the "2011/2012 Notes") due to a discrepancy in the continuing disclosure certificate. Though the continuing disclosure certificates for the City's pension obligation bond anticipation notes issued in prior years and issued subsequently included no requirement for an annual report to be filed, the continuing disclosure certificate related to the 2011/2012 Notes erroneously included an annual report filing requirement. The City and its bond counsel did not identify this error at the time of issuance of the 2011/2012 Notes, and therefore the City did not timely file an annual report for the 2011/2012 Notes. Upon realizing this oversight, the City immediately filed the required annual reports as soon as it had notice of the error in order to fully comply with the continuing disclosure certificate, although the annual reporting requirement was included in the certificate in error as the 2011/2012 Notes matured not later than one year after their issuance. The City has added a requirement to its continuing disclosure policy to review the final continuing disclosure certificate of each new bond issue at the time of closing to avoid a reoccurrence of this situation. In addition, in 2014 the City failed to timely file a material event notice within 10 business days in connection with the upgrade in rating of Assured Guaranty Municipal Corp., which insures certain of the City's bond issues. The City filed such notice on the 16th business day following such event and is currently compliant in all material respects with its continuing disclosure obligations.

The City and its affiliated governmental entities have made filings to correct all known instances of non-compliance during the last five years.

The City believes that it has established internal processes that will ensure that the City and its related governmental entities will meet all material obligations under their continuing disclosure undertakings. It also now handles its and its related governmental entities' continuing disclosure obligations internally, and no longer uses third-party dissemination agents for that purpose. The Underwriter does not consider the City to be an obligated party with respect to the Rule.

D.R. Horton

D.R. Horton's Southern California/Inland Empire Division is the division which will be responsible for complying with D.R. Horton obligations under the Developer Disclosure Certificate. D.R. Horton has represented to the District that, other than as described below, D.R. Horton has not failed to comply in any material respect with any previous continuing disclosure undertakings to provide annual reports, semiannual reports or notices of listed events in California in the last five years.

D.R. Horton's homebuilding operations in southern California were previously comprised of several operating divisions with various offices located throughout the southern California region. Over the past five years D.R. Horton experienced various division consolidations and office closures. Various employees previously responsible for certain continuing disclosure compliance are no longer with the company and files from past bond issuances are not in a centralized location. However, D.R. Horton's Southern California/Inland Empire Division, which currently operates out of one office in Corona, California, currently has a centralized process to determine its compliance with past continuing disclosure obligations.

A review of compliance with disclosure undertakings by D.R. Horton for filings since April 1, 2011 indicates that D.R. Horton may not have fully complied with its prior continuing disclosure undertakings. Identification of the below described events does not constitute a representation by D.R. Horton that any of such events were material.

In connection with the issuance of Community Facilities District No. 2005-1 of the City of Chino Improvement Area 1 2007 Special Tax Bonds (the "Chino CFD No. 2005-1 Bonds"), D.R. Horton was required to submit semiannual and annual reports in connection with its continuing disclosure undertaking with respect to the Chino CFD No. 2005-1 Bonds. Although D.R. Horton has a record of filing its December 31, 2012, annual report with respect to the Chino CFD No. 2005-1 Bonds, D.R. Horton's audited financial statements for its Fiscal Year ended September 30, 2012 were not attached to such annual report. However, such financial statements were filed with Securities and Exchange Commission and publicly available as part of D.R. Horton's Annual Report on Form 10-K for its Fiscal Year ended September 30, 2012. Additionally, D.R. Horton does not have any record of filing its December 31, 2010 annual report. D.R. Horton prepared a March 2011 notice of termination of reporting obligation but is unable to verify whether such filing was in fact transmitted to EMMA. D.R. Horton in October 2011 acquired additional property within Chino CFD No. 2005-1 and made required filings in December 2011, June 2012 and December 2012, and filed a notice of termination of reporting obligation in June 2013.

LEGAL MATTERS

Tax Exemption

In the opinion of Best Best & Krieger LLP, Riverside California, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, interest on the 2016A Bonds is excluded from gross income for federal income tax purposes. Interest on the 2016B Bonds is subject to all applicable federal income taxation. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that interest on the 2016A Bonds is not an item of tax

preference for purposes of calculating the federal alternative minimum tax imposed on individuals. Bond Counsel further notes, however, that with respect to corporations, such interest may be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of corporations.

Bond Counsel's opinion as to the exclusion from gross income for federal income tax purposes of interest on the 2016A Bonds is based upon certain representations of fact and certifications made by the City, on behalf of the District, the Underwriter and others and is subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations adopted pursuant to the Code (the "Treasury Regulations") that must be satisfied subsequent to the issuance of the 2016A Bonds to assure that interest on the 2016A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code and the Treasury Regulations might cause interest on the 2016A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the 2016A Bonds. The City has covenanted to comply with all such requirements.

Should the interest on the 2016A Bonds become includable in gross income for federal income tax purposes, the 2016A Bonds are not subject to early redemption as a result of such occurrence and will remain outstanding until maturity or until otherwise redeemed in accordance with the Fiscal Agent Agreement.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2016A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Bond Owners from realizing the full current benefit of the tax status of such interest. For example, legislative proposals are announced from time to time which generally would limit the exclusion from gross income of interest on obligations like the 2016A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the 2016A Bonds. The introduction or enactment of any such legislative proposals, clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2016A Bonds. Prospective purchasers of the 2016A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and regarding the impact of future legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Bond Counsel's opinion may be affected by action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the 2016A Bonds. Bond Counsel has not undertaken to determine, or to inform any person, whether any such action or events are taken or do occur, or whether such actions or events may adversely affect the value or tax treatment of a 2016A Bond, and Bond Counsel expresses no opinion with respect thereto.

The Internal Revenue Service (the "IRS") has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the 2016A Bonds will be selected for audit by the IRS. It is also possible that the market value of the 2016A Bonds might be affected as a result of such an audit (or by an audit of similar bonds).

Although Bond Counsel has rendered an opinion that interest on the 2016A Bonds is excluded from gross income for federal income tax purposes provided the City continues to comply with certain requirements of the Code, the accrual or receipt of interest on the Bonds may otherwise affect the tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status and other items of income or deductions. Bond Counsel expresses no opinion regarding any such consequences. Accordingly, all potential purchasers should consult their tax advisors before purchasing any of the Bonds.

A copy of the proposed form of Bond Counsel opinions is attached hereto as Appendix F.

Legal Opinions

The legal opinions of Best Best & Krieger LLP, Riverside, California, approving the validity of the Bonds in substantially the form set forth as Appendix F, will be made available to purchasers at the time of original delivery. A copy of the legal opinions for the Bonds will be provided with each definitive bond. Certain legal matters will be passed upon for the City and the District by the City Attorney's Office, and for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, as counsel to the Underwriter.

Litigation

No litigation is pending or threatened concerning the validity of the Bonds, the pledge of Special Taxes to repay the Bonds, the powers or authority of the District with respect to the Bonds, or seeking to restrain or enjoin development of the land within the District and a certificate of the District to that effect will be furnished to the Underwriter at the time of the original delivery of the Bonds.

No Rating

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

Underwriting

The 2016A Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the "Underwriter"). The Underwriter has agreed to purchase the 2016A Bonds at a price of \$1,717,584.06 (being \$1,800,000.00 aggregate principal amount thereof, less Underwriter's discount of \$39,833.99 and less net original issue discount of \$42,581.95). The purchase agreement relating to the 2016A Bonds provides that the Underwriter will purchase all of the 2016A Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The 2016B Bonds are being purchased by the Underwriter. The Underwriter has agreed to purchase the 2016B Bonds at a price of \$771,959.71 (being \$810,000.00 aggregate principal amount thereof, less Underwriter's discount of \$24,954.04 and less original issue discount of \$13,086.25). The purchase agreement relating to the 2016B Bonds provides that the Underwriter will purchase all of the 2016B Bonds if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such purchase agreement, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower or yields greater than the offering prices or yields stated on the inside cover page of this Official Statement. The offering prices or yields may be changed from time to time by the Underwriter.

Financial Advisor

The District has retained CSG Advisors Incorporated, San Francisco, California, as Financial Advisor for the sale of the Bonds. The Financial 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.

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

Financial Interests

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

Pending Legislation

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

Additional Information

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

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

CITY OF RIVERSIDE
ON BEHALF OF COMMUNITY FACILITIES
DISTRICT NO. 2014-2 (THE HIGHLANDS) OF
THE CITY OF RIVERSIDE

By: /s/ John A. Russo
City Manager

APPENDIX A

RATES AND METHOD OF APPORTIONMENT OF SPECIAL TAX FOR COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS) OF THE CITY OF RIVERSIDE

A Special Tax shall be levied on all Assessor's Parcels of Taxable Property within Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside (the "District" or the "CFD No. 2014-2") in each Fiscal Year, in an amount determined by the City Council of the City of Riverside (the "Council" or the "City") through the application of the appropriate Special Tax for Developed Property, Approved Property, Undeveloped Property, Taxable Association Property, or Taxable Public Property as provided below. All Assessor's Parcels within CFD No. 2014-2, unless exempted by law or by the provisions hereof, shall be taxed for the purposes, to the extent and in the manner herein provided.

A. DEFINITIONS

The terms hereinafter set forth have the following meanings:

"Acre or Acreage" means the land area of an Assessor's Parcel as shown on the 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, lot line adjustment, condominium plan, or other recorded parcel map.

"Act" means the Mello Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means the following actual or reasonably estimated costs directly related to the administration of the District: the costs of computing the Special Taxes and preparing the annual Special Tax levy schedules (whether by the City, the District, or an agent thereof); the costs of collecting the Special Taxes (whether by the City or otherwise); the costs of remitting the Special Taxes to the fiscal agent or trustee; the costs of the fiscal agent or trustee (including its legal counsel) in the discharge of the duties required of it under the Indenture; the costs to the City, the District or any agent thereof in complying with arbitrage rebate requirements; the costs to the City, the District or any agent thereof to provide continuing disclosure information; the costs associated with preparing Special Tax disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, the District or any agent thereof related to an appeal of the Special Tax. Administrative Expenses shall also include amounts advanced by the City or the District for any other administrative purposes of the District, including attorney's fees and other costs related to commencing and pursuing to completion any foreclosure proceedings for the collection of delinquent Special Taxes.

"Approved Property" means all Assessor's Parcels of Taxable Property: (i) that are included in a Final Subdivision 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 prior to the March 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.

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

“Association Property” means any property owned by or irrevocably offered or dedicated to or for which an easement for purposes of right of way has been granted to a property owners’ association, including any master or sub association.

“Assigned Special Tax” means the Assigned Special Tax for each Land Use Category of Developed Property, as specified in Table 1.

“Backup Special Tax” means the Backup Special Tax amount determined for an Assessor’s Parcel pursuant to Section C.

“Bonds” means any bonds or other indebtedness (as defined in the Act), whether issued in one or more series, secured by the levy of Special Taxes on Assessor’s Parcels of Taxable Property.

“Developed Property” means all Assessor’s Parcels within CFD No. 2014-2, exclusive of Association Property and Public Property, upon which completed Dwelling Units or non-residential buildings have been constructed or for which building permits have been issued as of March 1 of the Fiscal Year preceding the Fiscal Year for which Special Taxes are being levied.

“District Administrator” means the Finance Director / Treasurer of the City, or his or her designee, or any agent appointed by him or her, who shall be responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

“Dwelling Unit” or **“DU”** means a residential unit that is used or intended to be used as a domicile by one or more persons, as determined by the District Administrator.

“Exempt Property” means all Assessor’s Parcels within CFD No. 2014-2 designated as being exempt from the Special Tax as provided in Section E.

“Final Subdivision” 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 Section 1352 that creates individual lots for which building permits may be issued without further subdivision.

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

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

“Land Use Category” means for Assessor’s Parcels of Developed Property, the categories of Residential Property and Non-Residential Property identified in Table 1.

“Maximum Special Tax” means the Maximum Special Tax, determined as provided in Section C, which can be levied in any Fiscal Year on any Assessor’s Parcel of Taxable Property within CFD No. 2014-2.

“Non-Residential Property” means all Assessor’s Parcels of Developed Property upon which completed non-residential buildings have been constructed or for which building permits have been issued for construction of such buildings.

“Proportionately” means for Taxable Property that is (i) Developed Property, that the ratio of the actual Special Tax levy to the Assigned Special Tax is the same for all Assessor's Parcels of Developed Property, (ii) Approved Property, that the ratio of the actual Special Tax levy per Acre to the Maximum Special Tax per Acre is the same for all Assessor's Parcels of Approved Property, and (iii) Undeveloped Property, Taxable Public Property and Taxable Association Property, that the ratio of the actual Special Tax

levy per Acre to the Maximum Special Tax per Acre is the same for all Assessor's Parcels of Undeveloped Property, Taxable Public Property and Taxable Association Property.

“Public Property” means property owned by or irrevocably offered or dedicated to or for which an easement for purposes of public right of way has been granted to the federal government, the State of California, the County of Riverside, the City or any other local governmental or public agency; provided, however, that any property leased by a public agency to a private entity and subject to taxation under Section 53340.1 of the Act shall be classified and taxed according to its use.

“Residential Floor Area” for any Assessor’s Parcel of Residential Property means all of the square footage of living area within the perimeter of a residential structure, not including any carport, walkway, garage, overhang, patio, enclosed patio, or similar area. The determination of Residential Floor Area shall be made by reference to the original building permit(s) issued for each Assessor’s Parcel or if the Building Permit is not available by reference to a similar official document as selected by the District Administrator.

“Residential Property” means all Assessor’s Parcels of Developed Property upon which completed Dwelling Units have been constructed or for which building permits have been issued for purposes of constructing one or more Dwelling Units.

“Special Tax” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Taxable Property within CFD No. 2014-2 to fund the Special Tax Requirement.

“Special Tax Requirement” means the amounts required in any Fiscal Year to: (i) pay debt service on all outstanding Bonds (taking into consideration the amount of funds that may be available pursuant to the Indenture to pay such debt service); (ii) pay periodic costs for the Bonds, including, but not limited to, costs related to credit enhancement and rebate payments; (iii) pay Administrative Expenses; (iv) provide an amount equal to reasonably anticipated delinquencies in the collection of Special Taxes; (v) pay any amount required to replenish the reserve fund for the outstanding Bonds; (vi) to pay annually the allocable share of other obligations of the City relating to such facilities; and (vii) provide any amounts that the Council determines are necessary to pay the costs of the provision, construction and acquisition of public facilities and/or to accumulate funds therefor.

“Taxable Association Property” means all Assessor’s Parcels of Association Property within CFD No. 2014-2 which are not Exempt Property.

“Taxable Property” means all of the Assessor’s Parcels within CFD No. 2014-2 which are not Exempt Property.

“Taxable Public Property” means all Assessor’s Parcels of Public Property within CFD No. 2014-2 which are not Exempt Property.

“Undeveloped Property” means all Taxable Property within CFD No. 2014-2 not classified as Developed Property, Approved Property, Taxable Association Property or Taxable Public Property.

B. CLASSIFICATION AND LAND USE CATEGORIZATION

For each Fiscal Year, all Assessor’s Parcels of Taxable Property within CFD No. 2014-2 shall be classified as Developed Property, Approved Property, Undeveloped Property, Taxable Association Property, or Taxable Public Property and shall be subject to the levy of Special Taxes as determined pursuant to Sections C and D below. Assessor’s Parcels of Developed Property shall be classified as either Residential Property or Non-Residential Property.

For purposes of determining the applicable Assigned Special Tax for Assessor's Parcels of Developed Property which are classified as Residential Property, all such Assessor's Parcels shall be assigned to a Land Use Category based upon the square footage of the Residential Floor Area of the Dwelling Unit(s) constructed or to be constructed thereon as specified in or shown on the building permit(s) issued therefor.

C. ASSIGNED AND MAXIMUM SPECIAL TAXES

1. Developed Property

The Maximum Special Tax for each Assessor's Parcel classified as Developed Property shall be the greater of (i) the applicable Assigned Special Tax or (ii) the amount of the Backup Special Tax therefor.

a. Assigned Special Tax

The Assigned Special Tax amounts for all Land Use Categories of Developed Property are specified in Table 1 below.

TABLE 1

Assigned Special Taxes for Land Use Categories of Developed Property

Land Use Category	Taxable Unit	Residential Floor Area	Assigned Special Tax per DU or Acre
1. - Residential Property	DU	3,000 sq. ft or less	\$3,223
2. - Residential Property	DU	3,001 sq. ft. to 3,300 sq. ft.	\$3,255
3. - Residential Property	DU	3,301 sq. ft. to 3,600 sq. ft.	\$3,520
4. - Residential Property	DU	Greater than 3,601 sq. ft.	\$3,707
5. - Non Residential Property	Acre	N/A	\$10,394

b. Backup Special Tax

The Backup Special Tax for an Assessor's Parcel of Residential Property within a Final Subdivision shall be determined by multiplying the Maximum Special Tax per Acre for Undeveloped Property by the total Acreage of Taxable Property within the Final Subdivision which created such Assessor's Parcel, excluding the Acreage associated with Non-Residential Property, Taxable Association Property, and Taxable Public Property, and dividing such amount by the number of Assessor's Parcels within such Final Subdivision for which a building permit has been or is expected to be issued for Residential Property (i.e., the total number of residential lots with such Final Subdivision).

Notwithstanding the foregoing, if all or any portion of the Final Subdivision(s) described in the preceding paragraphs is subsequently changed or modified, then the Backup Special Tax for each Assessor's Parcel of Developed Property in such Final Subdivision area that is changed or modified shall be a rate per square foot of Acreage calculated as follows:

1. Determine the total Backup Special Taxes anticipated to apply to the changed or modified Final Subdivision area prior to the change or modification.
2. The result of paragraph 1 above shall be divided by the Acreage of Taxable Property which is ultimately expected to exist in such changed or modified Final Subdivision area, as reasonably determined by the District Administrator.

3. The result of paragraph 2 above shall be divided by 43,560. The result is the Backup Special Tax per square foot of Acreage which shall be applicable to Assessor's Parcels of Developed Property in such changed or modified Final Subdivision area for all remaining Fiscal Years in which the Special Tax may be levied.

The Backup Special Tax shall not apply to Non-Residential Property, Taxable Association Property, or Public Property.

2. Approved Property, Undeveloped Property, Taxable Association Property and Taxable Public Property

The Maximum Special Tax for Assessor's Parcels of Approved Property, Undeveloped Property, Taxable Association Property and Taxable Public Property shall be \$10,394 per Acre.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2014-15 and for each following Fiscal Year, the Council shall determine the Special Tax Requirement and shall levy the Special Tax on all Assessor's Parcels of Taxable Property until the aggregate amount of the Special Taxes equals the Special Tax Requirement. The Special Tax shall be levied for each Fiscal Year as follows:

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

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

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

Fourth: If additional moneys are needed to satisfy the Special Tax Requirement after the first three steps have been completed, the Special Tax to be levied on each Assessor's Parcel of Developed Property for which the Maximum Special Tax is the Backup Special Tax shall be increased Proportionately from the Assigned Special Tax up to the Maximum Special Tax for each such Assessor's Parcel;

Fifth: If additional moneys are needed to satisfy the Special Tax Requirement after the first four steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Association Property up to 100% of its Maximum Special Tax;

Sixth: If additional moneys are needed to satisfy the Special Tax Requirement after the first five steps have been completed, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property up to 100% of its Maximum Special Tax.

No Special Tax shall be levied on Assessor's Parcels of Undeveloped Property in CFD No. 2014-2 to provide any amounts that the Council determines are necessary to pay the costs of the provision, construction and acquisition of public facilities and/or to accumulate funds therefor, as described in clause (vii) of the definition of Special Tax Requirement.

Notwithstanding the above, under no circumstances will the Special Taxes levied in any Fiscal Year against any Assessor's Parcel of Residential Property as a result of a delinquency or default in the payment of

the Special Tax applicable to any other Assessor's Parcel be increased by more than ten percent (10%) above the amount that would have been levied in that Fiscal Year had there never been any such delinquency or default.

E. EXEMPTIONS

The District Administrator shall classify as Exempt Property Assessor's Parcels within CFD No. 2014-2 of (i) Public Property or (ii) Association Property; provided that such classification shall not reduce the Acreage of all Taxable Property within CFD No. 2014-2 to less than 23.73 Acres. The District Administrator shall not classify an Assessor's Parcel of Public Property or Association Property as Exempt Property if such classification would reduce the Acreage of all Assessor's Parcels of Taxable Property to less than 23.73 Acres. Such Assessor's Parcels that cannot be classified as Exempt Property because such classification would reduce the Acreage of all Assessor's Parcels of Taxable Property to less than 23.73 Acres will be classified as Taxable Association Property or Taxable Public Property, and will continue to be subject to the Special Tax. The District Administrator shall classify such Assessor's Parcels as Exempt Property in the chronological order in which property becomes Public Property or Association Property.

F. MANNER OF COLLECTION

The Special Tax shall be collected in the same manner and at the same time as ordinary ad valorem property taxes; provided, however, that the City may directly bill the Special Tax, may collect Special Taxes at a different time or in a different manner if necessary to meet its financial obligations, and may covenant to foreclose and may foreclose on Assessor's Parcels having delinquent Special Taxes as permitted by the Act.

G. TERM OF THE SPECIAL TAX

The Special Tax shall be levied each Fiscal Year on each Assessor's Parcels of Taxable Property within CFD No. 2014-2 as needed to satisfy the Special Tax Requirement. If any delinquent Special Taxes remain uncollected prior to or after all outstanding Bonds are retired, the Special Tax may be levied to the extent necessary, up to the applicable Maximum Special Tax, to make up the deficiency resulting from such delinquent Special Taxes, but not later than the 2053-54 Fiscal Year.

H. PREPAYMENT

As used in this Section H, the terms in quotes have the meanings given to them below:

"Bonded Discount Rate" means (i) prior to the issuance of Bonds, 6.50% and (ii) after the issuance of Bonds, the weighted average arbitrage yield on the Bonds.

"Bonded Present Value of Taxes" means the present value, based on the Bonded Discount Rate, of (i) the Bonded Special Tax applicable to an Assessor's Parcel in the current Fiscal Year not yet paid, plus (ii) the Bonded Special Tax applicable to such Assessor's Parcel in each remaining Fiscal Year until the Fiscal Year that is either (a) the first Fiscal Year in which no Bonds will remain outstanding if Bonds have been issued or (b) 30 years following the current Fiscal Year if Bonds have not been issued.

"Bonded Special Tax" means (i) the Assigned Special Tax minus the Non-Bonded Special Tax for an Assessor's Parcel for which a building permit has been issued or (ii) the Backup Special Tax minus the Non-Bonded Special Tax for an Assessor's Parcel for which a building permit has not been issued.

"Non-Bonded Discount Rate" means 4.05%.

"Non-Bonded Present Value of Taxes" means the present value, based on the Non-Bonded Discount Rate, of (i) the Non-Bonded Special Tax applicable to an Assessor's Parcel in the current Fiscal Year not yet paid, plus (ii) the Non-Bonded Special Tax applicable to such Assessor's Parcel in each remaining Fiscal Year

until the Fiscal Year that is either (a) the first Fiscal Year in which no Bonds will remain outstanding if Bonds have been issued or (b) 30 years following the current Fiscal Year if Bonds have not been issued.

“Non-Bonded Special Tax” means \$550.22.

“Partial Prepayment Amount” means the amount required to prepay a portion of the ongoing Special Tax obligation for an Assessor’s Parcel.

“Prepayment Administrative Fees” means the fees and expenses associated with the prepayment, including the costs of computation of the Prepayment Amount or Partial Prepayment Amount, costs of redeeming Bonds, and costs of recording any notices to evidence the prepayment of the Special Tax and redemption of Bonds.

“Prepayment Amount” means the amount required to prepay in full and terminate the ongoing Special Tax obligation for an Assessor’s Parcel.

“Reserve Fund Credit” means the amount equal to the lesser of (i) the reduction in the reserve requirement for the outstanding Bonds resulting from the redemption of the Bonds from the applicable Prepayment Amount or Partial Prepayment Amount or (ii) the amount calculated by subtracting the new reserve requirement after the redemption of Bonds as a result of the applicable prepayment from the balance in the reserve fund on the date of prepayment. In no event will this amount be less than zero.

“Special Tax Obligation” means the total amount of Special Taxes which could be levied on an Assessor’s Parcel in CFD No. 2014-2 based on the Maximum Special Tax for the Assessor’s Parcel through the date of final maturity of the Outstanding Bonds.

1. Prepayment in Full

The Special Tax Obligation may only be prepaid and permanently satisfied for an Assessor’s Parcel of Developed Property, an Assessor’s Parcel of Approved Property or Undeveloped Property for which a building permit has been issued, an Assessor’s Parcel of Approved Property for which a building permit has not been issued, or an Assessor’s Parcel of Taxable Association Property or Taxable Public Property. The Special Tax Obligation for an Assessor’s Parcel may be fully prepaid and the obligation of the Assessor’s Parcel to pay the Special Tax permanently satisfied as described herein; provided that a prepayment may be made only if there are no delinquent Special Taxes with respect to the Assessor’s Parcel at the time of prepayment. An owner of an Assessor’s Parcel intending to prepay the Special Tax Obligation for the Assessor’s Parcel shall provide the District Administrator with written notice of the owner’s intent to prepay, and within fifteen (15) days of receipt of such notice, the District Administrator shall notify such owner of the amount of a non-refundable deposit to cover the cost to be incurred by the City and the District in determining the Prepayment Amount or Partial Prepayment Amount for the Assessor’s Parcel. Within thirty (30) days of receipt of such non-refundable deposit, the District Administrator shall notify the owner of the Prepayment Amount for the Assessor’s Parcel.

The Prepayment Amount shall be calculated as follows:

	Bonded Present Value of Taxes
plus	Non-Bonded Present Value of Taxes
plus	Prepayment Administrative Fees
less	Reserve Fund Credit
equals	Prepayment Amount

The amount representing the Bonded Present Value of Taxes attributable to the prepayment less the Reserve Fund Credit attributable to the prepayment shall, (i) prior to the issuance of Bonds be deposited into a separate account held with the City to fund facilities authorized to be financed by the District and (ii) after the issuance of Bonds be deposited into the applicable account or fund established under the Indenture and used to redeem an aggregate principal amount of Bonds which is equally divisible by \$5,000 and, to the extent of any portion not so utilized, to pay interest on and principal of outstanding Bonds. The amount representing the Non-Bonded Present Value of Taxes and the amount representing the Prepayment Administrative Fees attributable to the prepayment shall be retained by the City.

With respect to any Assessor's Parcel for which the Special Tax Obligation has been prepaid, the District shall indicate in the records of CFD No. 2014-2 that there has been a prepayment of the Special Tax Obligation and shall cause a suitable notice to be recorded in compliance with the Act to indicate the prepayment of the Special Tax Obligation and the release of the Special Tax lien on such Assessor's Parcel and the obligation of to pay the Special Tax for such Assessor's Parcel shall cease.

Notwithstanding the foregoing, no prepayment shall be allowed for any Assessor's Parcel unless the total amount of the Maximum Special Taxes that may be levied on Taxable Property (excluding Assessor's Parcels of Taxable Association Property and Taxable Public Property), both before and after expected buildout of the property in CFD No. 2014-2, as then approved by the City, after the proposed prepayment would be at least equal to the sum of (i) an amount equal to 110 percent of maximum annual debt service on all outstanding Bonds, as determined by the District Administrator, a financial advisor or a special tax consultant, at the option of the District Administrator, plus (ii) Administrative Expenses in the amount of \$20,000 escalating at 2.00% per year beginning July 1, 2015.

2. Partial Prepayment

The Partial Prepayment Amount shall be calculated pursuant to Section H.1 as modified by the following formula:

$$PP = P_E \times F$$

These terms have the following meaning:

PP = the Partial Prepayment

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

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

The owner of an Assessor's Parcels who desires to partially prepay the Special Tax Obligation shall notify the District Administrator of (i) the owner's intent to partially prepay the Special Tax Obligation and, (ii) the percentage by which the Special Tax Obligation for such Assessor's Parcel will be prepaid, and within fifteen (15) days of receipt of such notice, the District Administrator shall notify such owner of the amount of a non-refundable deposit determined to cover the costs to be incurred by the City and the District in determining the amount of the Partial Prepayment for such Assessor's Parcel. Within thirty (30) days of receipt of such non-refundable deposit, the District Administrator shall notify the owner of the Partial Prepayment amount applicable such Assessor's Parcel. A Partial Prepayment must be paid not later than sixty (60) days prior to the redemption date for any Outstanding Bonds which will be redeemed with the Partial Prepayment.

Upon receipt of the Partial Prepayment Amount for an Assessor's Parcels, the District Administrator shall (i) allocate the Partial Prepayment Amount pursuant to Section H.1 and (ii) note on the records of the District that there has been a partial prepayment of the Special Tax Obligation for such Assessor's Parcels and that the amount of Special Taxes that shall continue to be levied on such Assessor's Parcels pursuant to Section D shall be reduced based on the remaining percentage (1.00 - F) of the Special Tax Obligation for such Assessor's Parcels.

Notwithstanding the foregoing, no partial prepayment shall be allowed for any Assessor's Parcel unless the total amount of the Maximum Special Taxes that may be levied on Taxable Property (excluding Assessor's Parcels of Taxable Association Property and Taxable Public Property), both before and after expected buildout of the property in District, as then approved by the City, after the proposed partial prepayment would be at least equal to the sum of (i) an amount equal to 110 percent of maximum annual debt service on all outstanding Bonds, as determined by the District Administrator, a financial advisor or a special tax consultant, at the option of the District Administrator, plus (ii) Administrative Expenses in the amount of \$20,000 escalating at 2.00% per year beginning July 1, 2015.

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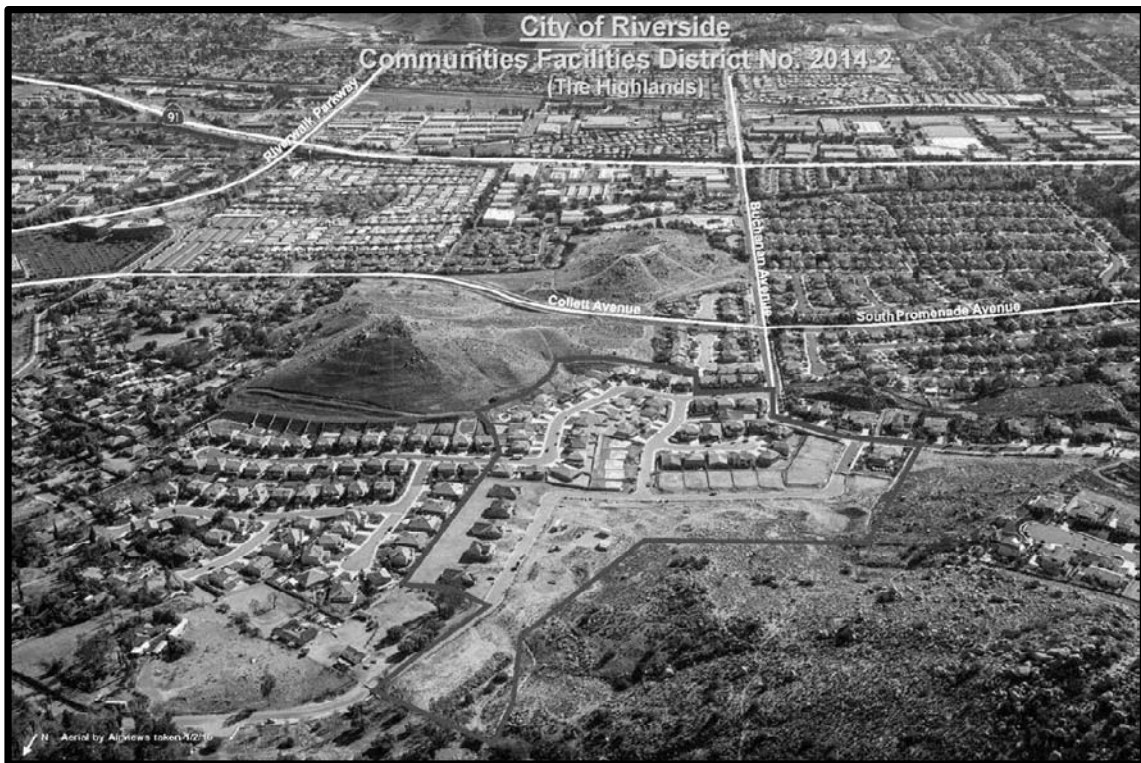
APPENDIX B
APPRAISAL REPORT

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APPRAISAL REPORT

COMMUNITY FACILITIES DISTRICT NO. 2014-2 OF THE CITY OF RIVERSIDE (Highlands by DR Horton)

City of Riverside, Riverside County, California
(Appraisers' File No. 2016-1127)



Prepared For
City of Riverside
3900 Main Street
Riverside, California 92522

Prepared By
Kitty Siino & Associates, Inc.
115 East Second Street, Suite 100
Tustin, California 92780

KITTY SIINO & ASSOCIATES, INC.
REAL ESTATE APPRAISERS & CONSULTANTS

March 11, 2016

Mr. Brent Mason, Director of Finance
City of Riverside
3900 Main Street
Riverside, California 92522

Reference: City of Riverside Community Facilities District No. 2014-2
(Highlands by DR Horton)
Riverside, California

Dear Mr. Mason:

At the request and authorization of the City of Riverside, we have completed an Appraisal Report for Community Facilities District No. 2014-2 of the City of Riverside ("City of Riverside CFD No. 2014-2") which encompasses a neighborhood currently being marketed by DR Horton known as The Highlands. The Highlands consists of 72 proposed homes. Within the neighborhood are three additional homes which were built prior to the recession, however are not included in the City of Riverside CFD No. 2014-2, thus are not included in this appraisal report. Within the 72 lots considered the subject property, 37 have closed escrow to individuals while the remainder range from completed models to homes under construction to finished lots.

The valuation method used in this report is the Sales Comparison Approach along with a mass appraisal technique as defined within this report. The fee simple estate of the subject property has been valued subject to the City of Riverside CFD No. 2014-2 special tax lien. This report is written with the hypothetical condition that the subject property is enhanced by the improvements and/or fee credits to be funded by the Special Tax Bonds of City of Riverside CFD No. 2014-2. As a result of our investigation, the concluded market value for the subject property is:

DR Horton Ownership	\$ 10,237,009
Individually Owned Homes	<u>\$ 19,971,668</u>
Aggregate Value for Riverside CFD No. 2014-2	<u>\$ 30,208,677</u>

The values are stated subject to the Assumptions and Limiting Conditions of this report, the Appraiser's Certification and as of January 15, 2016.

Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report.

Mr. Brent Mason
City of Riverside
March 11, 2016
Page Two

This Appraisal Report is intended to comply with both the Uniform Standards of Professional Appraisal Practice ("USPAP" 2016/2017) and with the Appraisal Standards of the California Debt and Investment Advisory Commission ("CDIAC"). The appraiser is not responsible for unauthorized use of this report.

This letter of transmittal is part of the attached report, which sets forth the data and analyses upon which our opinion of value is, in part, predicated.

Respectfully submitted,

KITTY SIINO & ASSOCIATES, INC.



Kitty S. Siino, MAI
California State Certified General
Real Estate Appraiser (AG004793)

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ADDENDA

City of Riverside CFD No. 2014-2 Boundary Map
Tract Map Nos. 31147 and 32741
Discounted Cash Flow Analysis
Land Sales Map and Summary Chart
Improved Residential Sales Map and Summary Chart
Appraiser's Qualifications

ASSUMPTIONS AND LIMITING CONDITIONS

1. This report might not include full discussions of the data, reasoning and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Some supporting documentation concerning the data, reasoning and analyses may be retained in the appraiser's files. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.
2. No responsibility is assumed for legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.
3. It is assumed that the subject property is subject to the special tax lien of City of Riverside CFD No. 2014-2.
4. Responsible ownership and competent property management are assumed unless otherwise stated in this report.
5. The information furnished by others is believed to be reliable; however, no warranty is given for its accuracy.
6. All engineering is assumed to be correct. Any plot plans and illustrative material used in this report are included only to assist the reader in visualizing the property and may not be to scale.
7. It is assumed that there are no hidden or unapparent conditions of either property, subsoil or structures that would render them more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.
8. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this report.
9. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined and considered in this appraisal report.
10. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.
11. Any sketch or photograph included in this report may show approximate dimensions and is included only to assist the reader in visualizing the properties. Maps, photographs and exhibits found in this report are provided for reader reference

purposes only. No guarantee regarding accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.

12. It is assumed that the utilization of the land and improvements (if any) are within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.
13. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert relating to asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials that may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.
14. Proposed improvements, if any, are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.
15. The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings, if any, must not be used in conjunction with any other appraisal and are invalid if so used.
16. The Americans with Disabilities Act ("ADA") became effective on January 26, 1992 and have been updated several times since then. The appraiser has made no specific compliance survey and analysis of the property to determine whether they conform to the various detailed requirements of the ADA, nor is the appraiser a qualified expert regarding the requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, a possible noncompliance with requirements of the ADA in estimating the value has not been considered.
17. It is assumed there are no environmental concerns that would slow or thwart development of the subject properties and that the soils are adequate to support the highest and best use conclusions.
18. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party

to whom it is addressed without the written consent of the appraiser, and in any event, only with proper qualification and only in its entirety. Permission is given for this appraisal to be published as a part of the Official Statement or similar document for the City of Riverside CFD No. 2014-2 Special Tax Bonds.

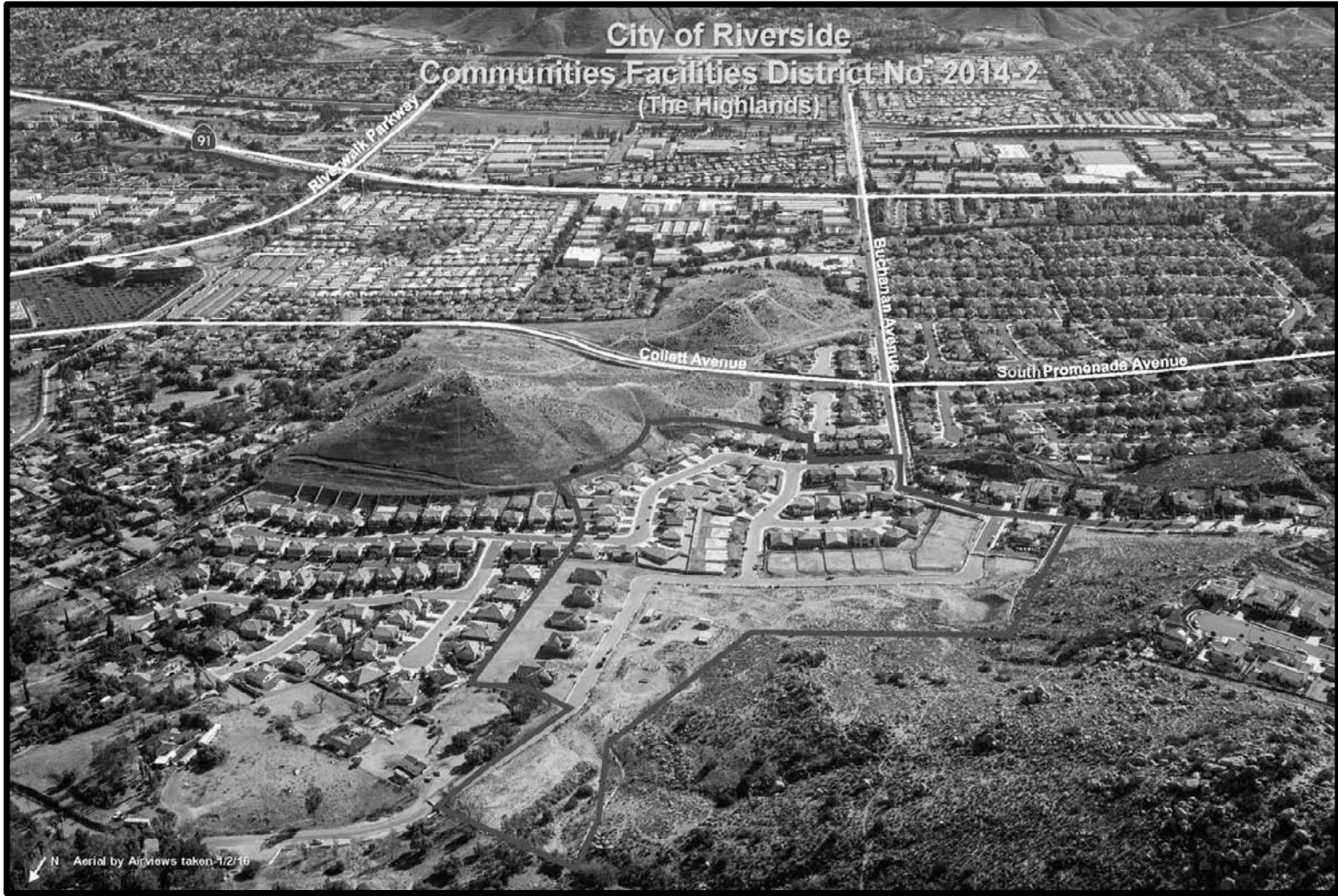
19. It is assumed that the information provided by DR Horton and/or their representatives on the home closings and remaining costs are correct. We have reviewed and analyzed the sales along with checking samples on various public record documents and the information appears to be correct.

HYPOTHETICAL CONDITION

1. It is assumed that all improvements and benefits to the subject properties, which are to be funded by the City of Riverside CFD No. 2014-2 Special Tax Bond proceeds are completed and in place.

EXTRAORDINARY ASSUMPTION

1. It is assumed that the Lots 1-3 and 58-59 of Tract 31147 are re-certified in a timely manner and that the recertification does not slow or thwart development of these lots. The construction is currently estimated to begin within two months with cost estimates included in the remaining \$837,000 costs projected by DR Horton.



PURPOSE OF THE APPRAISAL

The purpose of this appraisal report is to estimate the value of the fee simple interest of the subject property, subject to the special tax lien of the City of Riverside CFD No. 2014-2 Special Tax Bonds.

THE SUBJECT PROPERTY AND SALES HISTORY

The subject property consists of 72 single-family detached lots within the project known as The Highlands, a neighborhood being developed by DR Horton in the northern portion of the City of Riverside. The ownership and condition of the lands is detailed below.

Description	No. Lots	Ownership	Condition/Status
Lots 4-24, 43-44, 51-57 of Tract 31147 and Lots 6, 7 and 9-13 of Tract 32741	37	Individuals	Completed Houses / Closed
Lots 38 and 39 of Tract 31147	2	DR Horton	Model Homes
Lots 45-50 of Tract 31147 and Lot 8 of Tract 32741	7	DR Horton	Homes over 95% Complete (6 in escrow)
Lots 25-34 of Tract 31147 and 1-5 of Tract 32741	15	DR Horton	Homes Under Construction (5 in escrow)
Lots 1-3, 35-37, 40-42 and 58-59 of Tract 31147	11	DR Horton	Finished Lots
Total	72		

INTENDED USE OF THE REPORT

It is the appraiser's understanding that the client, the City of Riverside, will utilize this report in disclosure documents related to the sale of the Special Tax Bonds of the City of Riverside CFD No. 2014-2. This report may be included in the Official Statement or similar document to be distributed in connection with the marketing and offering of the bonds. It is the appraiser's understanding that there are no other intended uses of this report.

DEFINITIONS

Market Value

The term "Market Value" as used in this report is defined as:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1. buyer and seller are typically motivated;*
- 2. both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;*
- 3. a reasonable time is allowed for exposure in the open market;*
- 4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- 5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."¹*

Inherent in the Market Value definition is exposure time or the time the developer-owned property would have been exposed on the open market prior to the appraisal in order to sell at the concluded values. In the case at hand and considering current market conditions the exposure time for the developer-owned property is less than one year.

Minimum Market Value

The term "Minimum Market Value" as used in this report is defined as:

"The base market value of a new home. That is, most buyers purchase some upgrades, options and/or lot premiums when purchasing a new home. The sales price for the new home typically includes the base price for the plan, plus any upgrades, options or lot premiums, less concessions, if any, which were given or paid for by the builder. The concluded minimum market value is for the base value of the plan only, not taking into consideration any upgrades, options or premiums."

Mass Appraisal

The term "Mass Appraisal" as used in this report is defined as:

¹ The Appraisal of Real Estate, 13th Edition

“The process of valuing a universe of properties as of a given date using standard methodology employing common data and allowing for statistical testing”²

In the case at hand, the statistical testing included reviewing all original builder sales and reviewing the Multiple Listing Service (“MLS”) for any re-sales and/or listings within the subject neighborhood. In addition, we have determined the actual range of sales prices for each plan type which will be utilized in the valuation process.

Hypothetical Condition

The Term “Hypothetical Condition” is defined by USPAP as:

“That which is contrary to what exists but is supposed for the purpose of the analysis”

The Hypothetical Condition within this report is that subject property is enhanced by the improvements and/or fee credits to be funded by bonds issued by City of Riverside CFD No. 2014-2.

Extraordinary Assumption

The term “extraordinary assumption” is defined by USPAP as:

“An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusion”

The Extraordinary Assumption within this report is that Lots 1-3 and 58-59 of Tract 31147 are re-certified in a timely manner and within the estimated budget. Per DR Horton representatives the grading is anticipated to begin construction in two months with cost estimates included in the \$837,000 remaining development costs projected by DR Horton.

PROPERTY RIGHTS APPRAISED

The property rights being appraised are of a fee simple estate interest, subject to easements of record and subject to City of Riverside CFD No. 2014-2. The definition of “fee simple estate” is defined as:

² USPAP 2014-2015 Edition

“absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”³

EFFECTIVE DATE OF VALUE

The subject properties are valued as of January 15, 2016.

DATE OF REPORT

The date of this report is March 11, 2016.

SCOPE OF APPRAISAL

As previously stated, the purpose of this appraisal is to report the appraiser’s best estimate of the market value for the subject property which includes the new home neighborhood currently being marketed known as The Highlands by DR Horton. The property was originally graded and three homes were built prior to the recession, at which time construction stopped. DR Horton purchased the remaining 72 lots and is building out the development which is covered by the City of Riverside CFD No. 2014-2. All 72 lots have been developed with 37 homes closed to individuals, two model homes, seven homes over 95 percent complete (six in escrow), fifteen homes under construction (five in escrow) and 11 remaining finished lots. This appraisal will be presented in the following format:

- County of Riverside Description
- City of Riverside Description
- Immediate Surroundings Description
- Brief Description of City of Riverside CFD No. 2014-2
- Subject Property Description
- Riverside County Residential Market Analysis
- Highest and Best Use Analysis
- Valuation Procedure, Analyses and Conclusions
- Appraisal Report Summary

³ The Appraisal of Real Estate, 13th Edition

In valuing the subject property, the value estimates will be based upon the highest and best use conclusion using the Sales Comparison Approach. The Sales Comparison Approach to value is defined as:

"...a set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, then applying appropriate units of comparison and making adjustments to the sales prices of the comparables based on the elements of comparison. The Sales Comparison Approach may be used to value improved properties, vacant land or land being considered as though vacant; it is the most common and preferred method of land valuation when an adequate supply of comparables is available."⁴

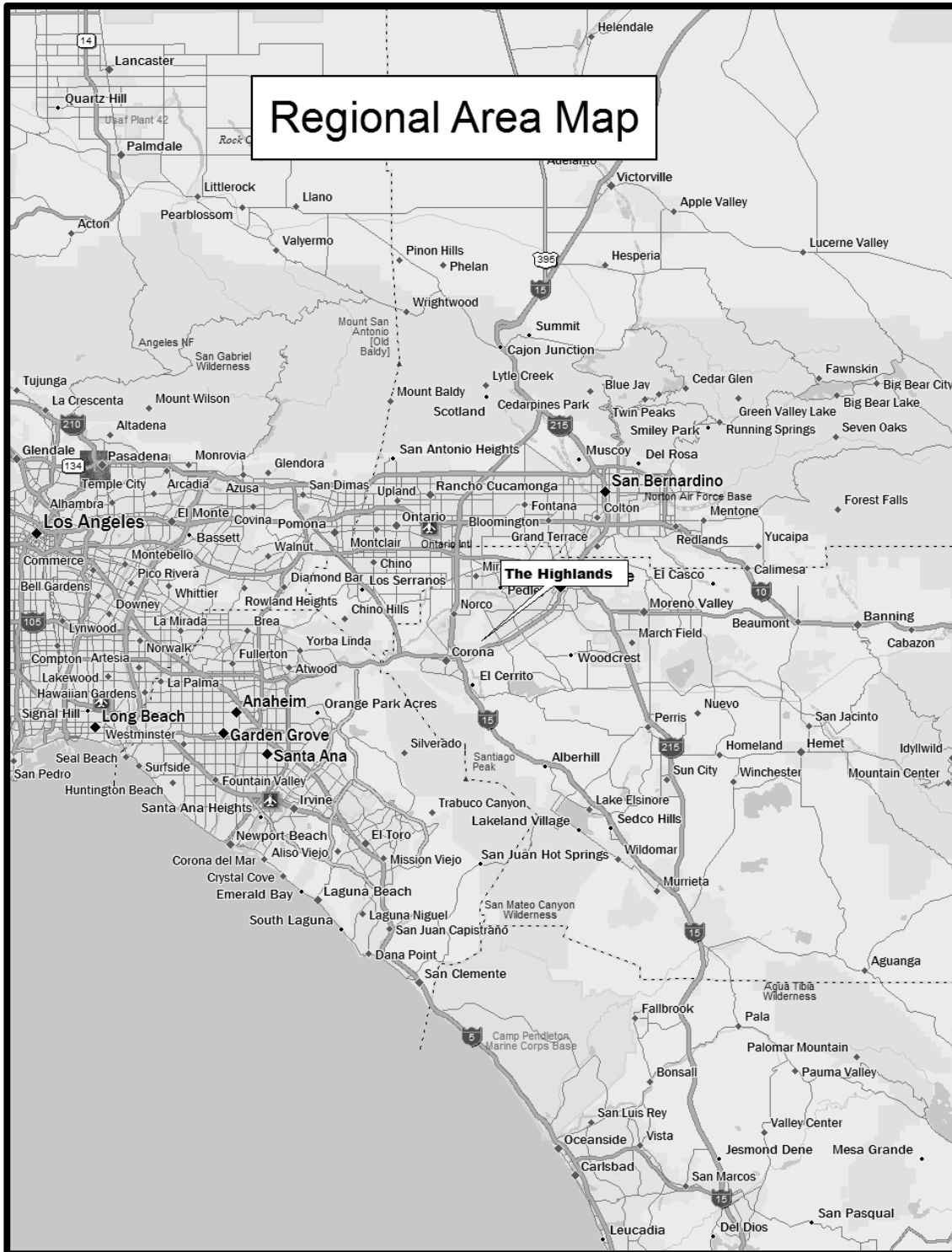
In the Sales Comparison Approach, market value is estimated by comparing properties similar to the subject property that have recently been sold, are listed for sale or are under contract. Neither a cost or income approach was utilized as they were not considered necessary to arrive at credible results. In addition, we have utilized a mass appraisal technique which included reviewing all builder sales, determining the prices for each plan type and analyzing this information.

The due diligence of this appraisal report included the following:

1. Compiled demographic information and related that data to the subject properties to perform a feasibility/demand analysis.
2. Gathered and analyzed information on the subject marketplace, reviewed several real estate brokerage publications on historical and projected growth in the subject market and researched the micro and macro-economic outlook within Riverside County and the City of Riverside area.
3. Inspected the subject property between December 2, 2015 and January 15, 2016.
4. Had the site flown by an aerial photographer on January 2, 2016.
5. Interviewed representatives and or consultants from DR Horton in order to obtain project information on The Highlands.
6. Reviewed two Title Reports on the subject property.
7. Reviewed a Geotechnical Report on the subject property.

⁴ Dictionary of Real Estate Appraisal, Fourth Edition, 2002

8. Searched the area for relevant comparable residential land sales, interviewed representatives from the buyer and/or seller when available in order to understand each transaction.
9. Searched the area for relevant comparable new home residential projects, including sales prices and concessions and interviewed representatives from each comparable project.
10. Reviewed sales brochures on the subject neighborhood.
11. Reviewed developer sales information on the subject neighborhood.
12. Reviewed Multiple Listing Service information to ascertain re-sales and listings (if any) of existing homes within The Highlands.



COUNTY OF RIVERSIDE AREA DESCRIPTION

Location

The subject property is located in the northwestern portion of Riverside County (the "County") in the City of Riverside, northeast of the 91 Freeway and Interstate 15 ("I-15") interchange and adjacent to the Corona city limits. The County encompasses approximately 7,300 square miles, and includes large expanses of undeveloped deserts, valleys, canyons and mountains. The County is a major recipient of outward urban pressure from Orange and Los Angeles Counties as well as growth from San Diego County to the south. Although located at the periphery of most urban activity in Southern California, Riverside County, particularly the western area, is perceived by most observers as a major growth area both now and well into the foreseeable future. Riverside and San Bernardino Counties are considered distinct from Los Angeles and Orange Counties and belong to the same Metropolitan Statistical Area ("MSA"). The MSA, consisting of San Bernardino and Riverside Counties, is commonly referred to as the Inland Empire.

Transportation

The subject property is situated approximately one-half mile north of the 91 Freeway and one mile east of I-15. Interstate 15 travels in a northerly/southerly direction and provides access to Barstow and Nevada to the north and San Diego to the south. The 91 Freeway travels in a northeasterly/westerly direction, provides access to Orange and Los Angeles Counties to the west and connects with the 60 Freeway and Interstate 215 ("I-215") to the north in San Bernardino County. State Highway 60 Freeway provides access to the west (Los Angeles) and to the east where it merges with Interstate 10 ("I-10") providing access to Arizona. Another major freeway in the County, Interstate 215, travels in a northerly/southerly direction within the County and generally parallels I-15 to the east.

The County is served by Amtrak and Metrolink as well as several rail freight lines. The Ontario International Airport provides regional air service and is located approximately ten miles northwest of the subject property while Riverside Municipal Airport is

approximately five miles northeast. In addition, the County has extensive trucking corridors along the previously referred to interstates, highways and state freeways.

Population

The County has experienced population growth for several decades and is anticipated to continue to do so in the foreseeable future. Per the California Department of Finance, the January 1, 2015 County population was 2,308,441. This represents a one-year increase of 1.2 percent and an average annual growth rate of approximately 2.6 percent for the previous fifteen-year period. Current County projections, suggest the population is anticipated to reach approximately 2.478 million by 2020 and 2.862 million by 2030, indicating an average annual increase of approximately 1.5 percent for the next five years and an average annual increase of approximately 1.48 over the next 15 years. The current growth of 1.2 percent is lower than the previous 15 years average likely due to the great recession. The future growth is predicted assuming a more stable market than was seen prior to the great recession.

Economy

As with the rest of the nation, the Inland Empire experienced a strong multi-year recession, now known as the Great Recession, beginning in 2007. The MSA, which had strong employment over the ten prior years saw unemployment rates increase significantly between 2007 and 2010. Unemployment has generally declined since that time. The seasonally adjusted unemployment rate for the MSA was estimated at 6.1 percent (per the November 2015 Employment Development Department) which reflects a significant increase from April 2007 (MSA unemployment rate was 4.8 percent); however, a significant decrease since July 2010 (MSA unemployment rate was 15.1 percent). As of November 2015, Riverside County had a 6.2 percent unemployment rate while San Bernardino County has a 5.9 percent rate. The current MSA unemployment rate of 6.1 percent is higher than both the California statewide unemployment rate (5.7 percent) and the November 2015 National unemployment rate of 5.0 percent. Below is a table comparing Riverside County's unemployment rates to the unemployment rates of the surrounding counties.

<u>Jurisdiction</u>	<u>As of</u>	<u>Unemployment Rate</u>
Los Angeles County	11/15	5.7%
Riverside County	11/15	6.2%
San Bernardino County	11/15	5.9%
Orange County	11/15	4.2%
San Diego County	11/15	4.8%

Source: State of California E.D.D.

Over the past 15 years, the Riverside County economy has had significant cycles with home prices almost doubling from 1995 to 2005, then falling by over 50 percent during the Great Recession taking prices back to 2002 levels. Home values appeared to hit bottom in 2009 then remained essentially flat for two to three years with the majority of the Riverside County housing market seeing an improvement beginning in mid-2012 with 2013 showing significant appreciation in both the number of sales and pricing. In 2014 and 2015 the Riverside County housing market saw a slowdown in the double digit growth seen in 2013 with sales of homes appearing to stabilize while prices of homes are still enjoying growth within the County, however at more normal rates.

The Federal government attempted to correct the struggling economy over the past few years by implementing several economic stimulus packages. In the latest effort the Federal Reserve purchased treasury bonds and mortgage backed securities in order to keep interest rates low to try to stimulate the economy which was known as Quantitative Easing Three (“QE3”). While QE3 appeared to work, most economists opine that the creation of jobs will be the real catalyst in re-charging the economy. The Federal Reserve Board (“Board”) tapered off the QE3 bond buying during 2014. The final stimulus in place refers to the Board keeping interest rates below normal. At the December 2015 Board meeting interest rates were raised one quarter of a percent for the first time in almost a decade. The Board dropped rates to zero in December 2008 and they had remained there since. The statements from the December meeting of the Board said “the stance of monetary policy remains accommodative after this increase thereby supporting further improvements in Labor Market conditions and a return to two percent inflation”. It is the appraiser’s understanding that the pace of the Fed rate increases will be gradual and dependent on the quality of current economic conditions. The economy is performing well and is expected to continue to do so. Future rate hikes will depend on how the U.S.

economy and global growth is occurring. Some concerns still expressed by the Board include weak pay growth and a still-high number of part-time workers who can't find full-time jobs. While the U.S. economy is growing, concerns of global weakness had stopped the Fed Board from raising interest rates prior to this small December increase. The European Central Bank began its own quantitative easing this summer while growth in China had been slowing with China's stock market falling 40 percent this past summer followed by a devaluation of their currency. In addition, oil prices plunged over the past year leaving Russia reeling from the lower oil prices. The Fed Board will take all of these factors into consideration in determining both the timing and amount of interest rate hikes.

California's labor markets make it easy to understand why the mid-2000s downturn is being called the Great Recession. After peaking at 15.454 million non-farm jobs in June 2007, the state shed over 1.33 million non-farm positions by February 2010. Since hitting bottom, California has added back 2.13 million jobs as of October 2015 per the California Employment Development Department, well surpassing the peak at 16.253 million non-farm jobs. However, as mentioned by the Fed, there is a high number of part-time jobs included in this number.

According to the most recent UCLA Anderson Forecast (*September 29, 2015*), the U.S. economy will have a healthy next two years with slim chance of a recession during that time and a slight chance of a surge in growth. The Forecast predicts the economy's expansion should continue for at least another two years. At the current 2-3 percent predicted rate of growth, the US unemployment rate should stay around 4.8 percent (currently 5.0 percent).

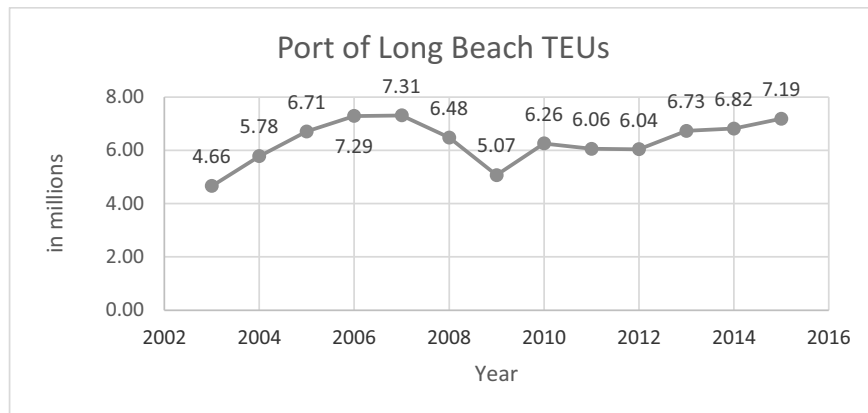
The UCLA Forecast for California, written by Senior Analyst Jerry Nickelsburg, estimates growth in the state at 2.7 percent for 2015, 2.2 percent for 2016 and 1.4 percent for 2017 with unemployment staying below six percent for 2016 and dropping to 4.8 percent in 2017. The California forecast is predicting real personal income growth to be 4.6 percent in 2015 (up from the June forecast of 4.5 percent) and 4.5 and 4.2 percent for 2016 and 2017 respectively. The forecast continues to predict that California's housing prices will continue to increase as the amount of building will not meet the demand.

Beacon Economics, a Southern California company providing research and economic analysis, completed a third quarter 2015 Regional Outlook for the Inland Empire. According to their study, the region led the state in job growth with a revised 3.7 percent growth rate in 2014 with 2015 currently sharing a 3.2 percent growth rate year over year (as of 3rd quarter). Single-family homes in the Inland Empire are relatively more affordable than in nearby Los Angeles, Orange and San Diego Counties. Prices have increased five percent year over year as population growth is outpacing growth in residential construction. Employment in the region was led by professional, scientific and technical services, leisure and hospitality, manufacturing and construction. While current unemployment is 6.1 percent for the region, Beacon Economics is forecasting a sustained 6.1 percent unemployment rate for the next year.

One of the main reasons the MSA has been slow to pull out of the recession relates to housing. Both Riverside and San Bernardino Counties saw a considerably steeper rise and then subsequent fall of housing prices than almost anywhere else in the state. Inland Empire median existing housing prices went from \$388,000 at the peak of the market in 2006 to \$155,100 in 2009. The November 2015 MSA median price is \$293,220 per the California Association of Realtors. Foreclosures and short sales, which constituted a large number of housing sales over the past five years, have decreased significantly to the point where they are no longer affecting prices. As of November 2015 in Southern California an estimated 3.8 percent of sales were foreclosure re-sales (compared to 4.6 percent one year earlier and 57.5 percent at the peak of the cycle in January 2009) while 3.4 percent were short sales (compared to 4.6 percent one year prior).

Commercial real estate hit bottom in 2010 with Inland Empire absorption levels subsequently returning to positive territory. Office vacancy rates have stabilized with rents showing an increase which is stronger in the most coveted markets. Retail vacancies have been declining as housing gains strength and consumer spending grows. Industrial vacancies and rates have now passed pre-recession peaks.

As a final indicator of overall economic activity for the region we have reviewed the rise or fall of TEUs (Twenty-foot Equivalent Units – i.e., containers) being processed in the local ports. This is especially important for the inland communities as it represents much of the growth in development of West Coast distribution centers and warehouses linked to supply-chain nodes in the Pacific Rim. The chart below shows TEU activity at the Port of Long Beach. The activity resulted in a flattening of TEUs during 2006 and 2007, decreases occurring in 2008 and 2009, and an increase in 2010 followed by stabilization until 2013 when an increase of 6 percent occurred followed by a 1.3 percent increase in 2014. The 2015 forecast is based on the average monthly 2015 numbers thru November and estimating through year-end. It is interesting to note that even with the last three year’s increases, the 2015 pace is between 2005 and 2006 levels and is not yet back to the pre-recession peaks.



Government

The County is overseen by a Board of Supervisors as the governing body of the County, certain County special districts and the County Housing Authority. The Board enacts ordinances and resolutions, adopts the annual budget, approves contracts and appropriates funds, determines land use zoning for unincorporated areas, appoints certain County officers and members of various boards and commissions. The Board of Supervisors are elected from five different districts within the County.

Education

The subject area is served by the Alvord Unified School District ("AUSD"). In 1908 the Riverside County Board of Trustees originally established the Alvord School District. As Alvord grew, the state encouraged the district to organize and combine into a unified school district which occurred in 1960. In 1964 the La Sierra area (which encompasses the AUSD) was annexed into the City of Riverside, however AUSD kept separate from the Riverside Unified School District, thus there are two unified school districts servicing the City of Riverside. The AUSD operates 14 elementary schools, four traditional middle schools, two comprehensive high schools and one continuation high school with adult education. Hillcrest High School which opened in the 2012/13 school year with a freshman class has added a new class each year with 2015/16 being the first total operating year. There are approximately 18,000 students enrolled within AUSD. The subject property is served by Phillip M. Stooke Elementary School (one-half mile east), Villegas Middle School (1 ½ miles southwest) and Hillcrest High School (1 ½ miles southeast).

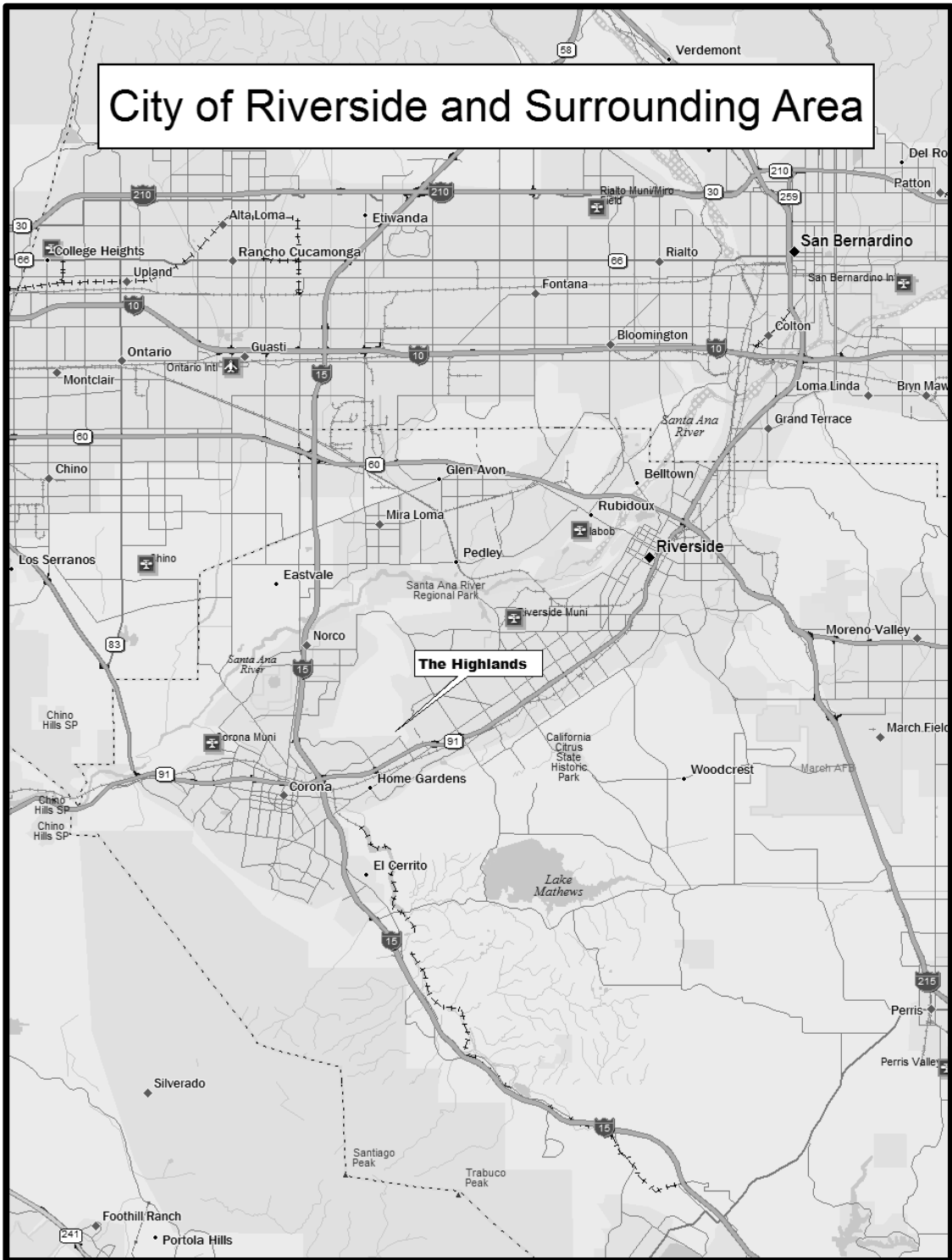
Higher education is available within an hour's drive at the University of California campuses at Riverside and Irvine or California State University campuses in San Bernardino, San Marcos, Fullerton, Long Beach and Pomona. In addition the area offers community colleges as well as many excellent private colleges.

Conclusion

Population in the County has increased over the past 30 years. Predictions are for continued population growth in the County through 2020. The nation's economy stalled starting in 2006 due to the housing downturn, unemployment and the credit crisis. The housing market saw a resurgence beginning the second half of 2012 with prices and sales increasing by double digits thru 2013 with both pricing and sales growth slowing in 2014 and 2015. This slowdown in price and sales growth may have been a benefit as most economists opine that double digit increases in housing prices are not sustainable. The economy typically has cycles and most signs are suggesting the U.S. economy is on an upswing. However, unlike previous recovering economies, slow growth is anticipated over the near term with projections for the U.S. economy to continue similar growth for

the next two years. In conclusion, the County is expected to continue to grow in population due to its Southern California location, the availability of land and the relatively lower land prices in comparison to adjacent Orange, Los Angeles and San Diego Counties.

City of Riverside and Surrounding Area



CITY OF RIVERSIDE

The subject property is located in the westernmost portion of the City of Riverside ("City"), one-half mile north of the 91 freeway and one mile east of I-15. The City incorporated on October 11, 1883 and is located 50 miles east of Los Angeles and 100 miles north of San Diego. Riverside is the 12th largest city in California, 6th in Southern California and the largest city in Riverside County with a present land area of approximately 81 square miles. Originally an agricultural (citrus) center, the City has evolved into a commercial and governmental center as the City is the County seat. Riverside is surrounded by the cities of Norco and Corona to the west, Jurupa Valley and unincorporated Riverside County to the north, the City of Moreno Valley and unincorporated areas of Riverside County to the east and unincorporated areas to the south. The City is made up of several neighborhoods with the subject being located in the neighborhood of La Sierra, known as the western gateway into the City.

Population

The City has an estimated population of 317,307 per the California Department of Finance as of January 1, 2015. The following chart depicts population growth in the City of Riverside.

Year	Population	Avg. Annual % Increase
1960	84,332	---
1970	140,089	5.2%
1980	170,876	2.0%
1990	209,700	2.1%
2000	262,744	2.3%
2010	303,871	1.5%
2015	317,307	0.9%

The slowdown in the past fifteen years is due to the essential build-out of the City coupled with the recession. The past five years of growth at 0.9 percent in the City compares to the County growth rate of 1.2 percent last year. The higher County rate is due to the better availability of land for development outside of the City limits.

Housing

Housing costs within the City have increased in the past three years as with the rest of Southern California and the nation. Residential housing costs within the City are still considered moderate in relation to some surrounding counties. Riverside formerly had abundant land, which created a lower housing cost in relationship to more intensely populated areas in Southern California especially when compared to the neighboring counties of Orange, Los Angeles and San Diego. However, the City has now essentially been built-out leaving little land for development. According to Zillow within the City of Riverside housing prices peaked in September 2006 at \$416,000, then fell 52 percent to a low of \$197,000 in January 2012 however the current median price is up 57 percent from the low to \$310,000. The current median price of \$310,000 is still 25 percent below the peak prior to the recession. Within the subject ZIP Code (92503) the median price is similar at \$309,000. There were 379 home sales within the City during October 2015 which is over 10 percent of the home sales within overall Riverside County.

Economy/Commercial Land Uses

The economy and labor force for Riverside have changed with growth. Historically hailed as the citrus capital of the world, Riverside has evolved into the business and industrial center of the Inland Empire. There are well over 100 manufacturing firms in the community. Leading group classes or products are aerospace and electronic components; mobile homes and RVs; printing, publishing and foam products. Additionally the City offers an impressive choice of industrial sites and buildings.

The labor force is divided generally between the manufacturing, retail, services, and construction trades, however the construction trade has slowed considerably along with the housing market slowdown. There are abundant skilled and semi-skilled workers in the local labor pool with a variety of skills. The City houses the County seat which creates a financial and professional center offering the support of numerous legal, accounting, brokerage, architectural, engineering and technology firms as well as banking institutions. Businesses in the City also benefit from the exceptional freeway system, rail access, high-speed fiberoptic telecommunications, city-owned electrical and water systems, and a corporate jet and general aviation airport.

Transportation

Riverside is well served by the California freeway system, being bisected by the Riverside Freeway ("91") and 60 Freeways and by Interstates 10 and 15. The 91 Freeway connects Riverside to Orange County on the southwest and to San Bernardino County on the northeast. The 91 is one of the area's busiest freeways with a substantial amount of congestion in the westbound direction during the morning hours and in the eastbound direction during the evening hours. This is due to the number of commuters living in Riverside County and employed in Orange and Los Angeles Counties. Two toll roads (the 91 express lane and 241) opened during the latter half of the 1990s that help alleviate the traffic congestion. I-15 connects Riverside to San Diego County to the south and San Bernardino County to the north. I-10 connects Riverside to Los Angeles County to the west.

The City is served by the Metrolink with northwest routes to Los Angeles Union Station, passing through Riverside County, Orange County and into Los Angeles, along with southern routes to Oceanside which pass through Riverside County, Orange County and into San Diego County. At both Union Station and Oceanside you can transfer to Amtrak which has routes throughout the United States. The Burlington-Santa Fe and the Union Pacific Railroads along with over 20 daily truck carriers serve Riverside. Ontario International Airport is 15 miles to the west and is served by most major airlines. The Riverside Municipal Airport serves general aviation and is located five miles from the subject.

Summary

In summary, the future growth of Riverside should parallel that of the County, albeit at a lower rate due to the limited availability of land for development within the City limits. The location along with being the County seat has established Riverside as a continuing and prospering City.

IMMEDIATE SURROUNDINGS

The subject property is located within the neighborhood of La Sierra which is known as the western gateway into the City of Riverside. The subject is along the western border of City of Riverside, adjacent to the City of Corona. The La Sierra neighborhood was annexed into the City of Riverside in 1964.

The neighborhood was originally formed around La Sierra University, a 7th Day Adventist Christian University established in 1922 which encompasses approximately 150 acres and currently houses 2300 students. The subject property is bounded to the north by mountainous lands beyond which is the Hidden Hills Golf Club with surrounding housing, to the east by existing housing developed within the past 20 years, to the south by open space hills beyond which is Collett Avenue and to the west by Buchanan Avenue beyond which are existing residential neighborhoods within the Corona Hills which was developed in the 1990s.

The La Sierra neighborhood also includes the master planned community of Riverwalk, the Galleria at Tyler, Kaiser Hospital, a Metrolink station and several parks and schools. Riverwalk is a master planned community developed in the 1990's and early 2000s which included over 1,000 single family homes, 500 luxury apartments, a premier business park and service retail and hotels along with open space trails and several parks. Riverwalk is within one mile west of the subject. The Galleria is a regional mall located three miles east of the subject anchored by Nordstrom's, Macy's and JC Penny. The La Sierra Metrolink station is in the neighborhood known as South La Sierra which is approximately two miles south of the subject property.

The subject property is served by the Alvord Unified School District including Phillip M Stokoe Elementary, Villegas Middle School and Hillcrest High School. Shopping is available within two miles at the intersection of the 91 Freeway and McKinley with shopping centers anchored by Walmart, Home Depot, Costco, Von's, Sears Outlet and

Petsmart. Additional shopping is at I-15 and Hidden Valley Parkway (which is known as McKinley in Riverside) approximately three miles west of the subject with centers anchored by Target, Albertson's, Hobby Lobby and McDonalds.

The subject property has good access from both the Riverside Freeway and I-15. The Riverside Freeway has on/off ramps at McKinley Avenue with the subject approximately ½ mile north to Promenade Avenue, west one mile to Buchanan Avenue with the subject located about ¼ mile north on Buchanan Avenue. From I-15 at Hidden Valley Road, the subject is southeast approximately two miles to Promenade Avenue and northeast about one mile to Buchanan Avenue and north to the subject site. Downtown Riverside, which houses the County seat is approximately nine miles northeast of the subject property.

CITY OF RIVERSIDE COMMUNITY FACILITIES DISTRICT No. 2014-2

City of Riverside CFD No. 2014-2 was formed in order to fund Public City Facilities and School Facilities related to the development of The Highlands by DR Horton. City of Riverside CFD No. 2014-2 was established on June 17, 2014 as Resolution No. 22700 of the City of Riverside. Resolution No. 22701 (also adopted June 17, 2014) determined the necessity for City of Riverside CFD No. 2014-2 to incur a bonded indebtedness in the aggregate principal amount not to exceed \$3,500,000. The types of public facilities proposed to be provided for and financed by the bonds from City of Riverside CFD 2014-2 include:

City Facilities - Street and road facilities, including street lights and traffic signals, storm water drainage facilities, water system facilities, including capacity in existing facilities, sewer system facilities including capacity in existing facilities and sewage treatment capacity, parks and park and recreation facilities, transportation facilities, and electric transmission and distribution facilities.

School District Facilities – Elementary school, middle school, high school facilities and facilities of the School District which support all School District operations, administrative facilities, transportation facilities, and food preparation and delivery facilities, and education services, including but not limited to library facilities.

Per the Sources and Uses of Funds dated January 20, 2016, City of Riverside CFD No. 2014-2 Special Tax Bonds are anticipated to fund a par amount of \$2,590,000 which includes \$2,172,250 in project funds (amounts subject to change). The difference between the par amount and the project funds includes debt service reserve fund, capitalized interest, costs of issuance and underwriter's discount. A copy of the CFD boundary map is located in the Addenda for your review.

SUBJECT PROPERTY DESCRIPTION

The subject property consists of the new residential project known as The Highlands being developed and marketed by DR Horton. The property is described below.

Location: East side of Buchanan Avenue generally between Baird Way and Napier Way, Riverside, California.

Legal Property Description: Lots 1-59 of Tract 31147 and Lots 1-13 of Tract 32741, all located in the City of Riverside, Riverside County.

Thomas Guide: Riverside County 744 1-A/B.

Property Owner: D.R. Horton Los Angeles Holding Company, Inc., a California Corporation as to 1-3, 25-42, 45-50 and 58-59 of Tract 31147 and Lots 1-5 and 8 of Tract 32741; individual homeowners as to Lots 4-24, 43-44 and 51-57 of Tract 31147 and Lots 6-7 and 9-13 of Tract 32741.

Assessors Parcel Nos.: 168-340-034 thru 038; 168-370-001 thru 012; 168-371-001 thru 014; 168-372-001 thru 024; 168-373-001 thru 004; 168-380-001 thru 011; and, 168-381-01 thru 02.

Property Taxes: We have reviewed the property taxes for a sample property located within The Highlands (APN 168-370-001). Per public record located on this parcel is a 3,109 square foot home (four bedroom, three bathrooms and two stories) on a 7,405 square foot lot. Per the Riverside County Tax Collector the assessed value for this property is \$568,000 and the total property taxes are \$6,761.26. Included is the basic property tax levy of \$6,701.60 and Special Assessments and Fixed Charges of \$59.66. The subject CFD is not included on the current tax bill for 2015/2016 per the Assessor's web site. Per the Notice of Special Tax Lien recorded July 24, 2014 the assigned special taxes for a home between 3,001 and 3,300 square feet is \$3,255 which suggests a total tax payment of \$10,016.26 for an overall rate of 1.763 percent based on the current assessed value which is typical for similar type property in the area.

Three-Year Sales History: The subject property closed to DR Horton with the selling entity Infinity Homes RV I, LLC, a Delaware limited liability company on November 5, 2013 per Document No. 2013-0525856. The sales price has been retained in our files for confidentiality purposes. The

property sold in physically finished condition. Thirty-seven homes have closed to individual homebuyers between August 28, 2014 and January 15, 2016.

Size and Shape: The subject property is irregular in shape and contains 31.93 acres per the recorded tract maps. Tract 31147 contains 27.09 acres and Tract 32741 contains 4.84 acres. The gross acreage for Tract 31147 includes 11.28 acres for lots 1-3 and 58-59. A good portion of these lots are undevelopable hillside lands. A copy of both Tract Map 31147 and 32741 are located in the Addenda for your review.

Zoning: Per the City of Riverside General Plan 2025 the subject is shown as MDR for Medium Density Residential. Per the City of Riverside Zoning Map the majority of the subject property is zoned R-1-7,000 which allows for a maximum density of 6.2 dwelling units per acre and a 7,000 square foot minimum lot size. The northern portion along the west side of Gilchrist Drive is designated R-C (Residential Conservation) with a minimum 2 acre residential lot size and the portion along the east side of Gilchrist Drive is zoned R-1-10,500 which allows for a minimum 10,500 square foot residential lot.

Entitlements: The subject property is covered by Tract Maps 31147 and 32741 which recorded May 6, 2014 and October 15, 2014 respectively. Tract Map 31147 divides 27.09 gross acres into 59 single-family detached lots and internal streets. There are 54 lots with a minimum lot size of 7,000 square feet (R-1-7,000 zoning) and five lots (Lots 1-3, 58-59) with a minimum two-acre lot size (R-1-1/2 zoning). Tract 32741 divides 4.84 acres into 13 single-family detached lots and internal streets. There are eight lots with a minimum lot size of 7,000 square feet (R-1-7000 zoning) and five lots with a minimum lot size of 10,500 square feet (R-1-10,500 zoning). The subject approved mapping is consistent with the current zoning designation on the property.

Topography: The subject property was originally hilly to sloping however has been graded. The site has been terraced and now has lots that are generally level at the surrounding streets of Buchanan Avenue, Baird Street and Napier Avenue. The site was graded and developed into 72 finished lots however it appears there is some additional grading to be completed on the northernmost five lots which are the minimum two acre lots. These lots were mass graded with a building pad prior to the recession, however some additional grading is currently planned that includes a detention basin being added. The drainage for the lots has been designed to flow into an engineered storm drainage system within existing streets.

Soils Condition: We have reviewed a Geotechnical Update Report for Tracts 31147 and 32741 prepared by Geotek, Inc. of Corona and dated November 21, 2013. The update report referenced reports on the project by Consolidated Geoscience, Inc. ("CGI") completed in 2003 thru 2007 for a preliminary geotechnical investigation, a geotechnical review of rough grading plans, supplemental geotechnical reports and as-graded compaction reports. The tracts were rough graded in 2005 under the observation and testing services of CGI. At time of the report there were 75 lots with three built-out and sold to individual homeowners. The tract street areas were constructed with respect to utilities and base course street pavement improvements with the exception of the final asphalt cap. The Geotek report concluded that, while they did not have plans for review, it was understood the proposed development was similar to the previous designed neighborhood. The report concludes that the proposed development is feasible from a geotechnical point of view provided the recommendations made in the report are incorporated into the design and construction of the project.

While the entire property was graded in 2005, some additional grading was needed due to the time elapse to remediate the effects of weathering. We have reviewed a precise grading plan for Tract 31147 lots 1-3 and 58-59 prepared by Adkan Engineers. The plan had not been signed off by the City of Riverside. It is an Extraordinary Assumption of this report that the re-grading and construction of the proposed detention basin is completed in a timely manner and does not slow or thwart development of the five lots and that the costs are included in DR Horton's projected remaining costs.

It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that all recommendations made within the reports were adhered to during construction. This is evidenced by City inspectors on site throughout construction as well as Certificates of Occupancy permits being obtained on site.

Seismic Information: Per the County of Riverside, the subject property is not located within an Alquist-Priolo Earthquake Study Zone.

Environmental Concerns: We have not reviewed any environmental reports on the subject property. It is an assumption of this report that the subject property is free and clear of any environmental issues which would slow or thwart development of the site. This is suggested by (1) the developer obtaining all required construction permits and (2) City inspectors on site throughout construction as well as Certificate of Occupancy permits being obtained.

Flood Information: Per County of Riverside the subject property does not require a flood plain review. The subject property is not located within a flood zone per County records.

Easements and Encumbrances: We have reviewed two Preliminary Title Reports, one for Tract 31147 and one for Tract 32741, both prepared by Lawyers Title of Riverside. The exceptions are as follows:

Report No. 05390505 dated June 6, 2014 covering Tract 31147

Item Nos. A and B pertain to property taxes. Item No. 1 refers to water rights and claims or title to water. Item No. 2 pertains to the reservation for roads, railroads and ditches along the township and section lines and along the quarter section lines which was recorded in 1904 and per the title company could not be located from the records. Item Nos. 3, 6 and 8 refer to easements for water, utilities and a recreational trail. Item No. 4 states the property is located within a Redevelopment area within the City of Riverside. Item No. 5 pertains to CC & R's recorded on the property. Item No. 7 is in regards to the dedication statement for Tract 31147 which dedicates easements for public utilities and a retention basin. Item Nos. 9 and 10 pertain to a recorded document named "Covenant and Agreement and Declaration of Restrictions for Acceptance of Drainage Waters and Easement". Item No. 11 refers to a deed of trust on the property.

Report No. 613660046 dated June 11, 2014 covering Tract 32741

Item Nos. A and B pertain to property taxes and special district liens. Item No. C states both installments of taxes for the fiscal year (2014-15) needed to be paid in full before the map could be recorded. Item Nos. D and E are in regards to the timing of the recording of the map in relationship to the payment of taxes with the possibility of a tax bond needed. Item No. 1 refers to water rights and claims or title to water. Item Nos. 2, 3, 4, 5, 6, 8, and 9 refer to easements. Item No. 7 states the property is located within a Redevelopment area within the City of Riverside. Item No. 10 pertains to CC & R's recorded on the property. Item No. 11 refers to a deed of trust on the property. Item No. 12 pertains to a Mineral Deed dated November 12, 2013 recorded on the property. Item No. 13 states the report was based upon the record title as of the date of report.

It is an assumption of this appraisal report that the subject lands are free and clear of any liens and/or encumbrances other than City of Riverside CFD No. 2014-2.

Utilities: All normal utilities are available to serve the subject site by the following companies:

Electrical: City of Riverside Public Utilities
Natural Gas: Gas Company
Water: City of Riverside Public Utilities
Sewer: City of Riverside Public Utilities
School District: Alvord Unified School District

Streets/Access: The subject property has access from the Riverside Freeway (91) via McKinley Street (becomes Hidden Valley Parkway north of Promenade), north ½ mile to S. Promenade Avenue, east one mile to Buchanan Avenue and north 700 feet to the subject property. Additional access is via I-15, exit Hidden Valley Parkway (becomes McKinley Street south of Promenade) and head east/southeast to S. Promenade Avenue, east one mile to Buchanan Street and north 700 feet to the subject.

Riverside Freeway (91) is a major east/west freeway providing access to Orange County and Los Angeles to the west with connections to I-10, I-215 and I-15 to the east.

McKinley Street/Hidden Valley Parkway is a main access arterial into the Corona Hills neighborhood of the City of Corona. North of S. Promenade, McKinley Street becomes Hidden Valley Parkway. At both the 91 and McKinley Street offramp and the I-15 and Hidden Valley offramp there are substantial amounts of retail land uses.

S. Promenade Avenue begins at Buchanan (it is known as Collett Avenue in the City of Riverside east of Buchanan) and winds west/southwest through the Corona Hills and through the industrial area of Corona south of the 91 Freeway where it merges with Magnolia.

Buchanan Avenue begins south of the 91 Freeway at Indiana Avenue at the community of Lakepoint in Riverside. Buchanan is an access street into the Riverwalk area of Riverside and into the Corona Hills. Buchanan Avenue is approximately 1 ½ miles in length. At the subject property Buchanan Avenue turns into Wycliff Street and continues to a loop road in the hills.

Access streets into the subject neighborhood from Buchanan Avenue include Napier Drive and Baird Way. Per Tract Map 31147 Internal streets include MacFar Lane, Gilchrist Drive, Briganti Lane, Caponera Court and Falconer Drive. There is an additional access point into the neighborhood off Falconer Drive which becomes Dewar Drive in the adjoining neighborhood to the east.

Current Condition: Tract 31147 has been developed into 59 single-family detached lots, the majority in the 7,000 to 9,000 square feet range and five each

with a minimum two acres. The five two-acre lots appear to need to be re-graded prior to constructing homes due to the time elapse since mass grading in 2005 on the home pads. Tract 32741 consists of 13 lots ranging from 7,000 to over 10,500 square feet with five of the lots having minimum 10,500 square feet. All lots have surrounding streets in place and utilities stubbed to the lots. Upon our physical inspection there are 37 completed houses owned by individuals, two completed model homes and seven production houses over 95 percent complete owned by the builder (six of which are in escrow), 15 homes under construction (under 95 percent complete) and 11 remaining finished lots. The structures appear to be in excellent condition with no structure depreciation visible.

Costs to Complete: Per DR Horton representatives there are \$837,000 in remaining land development costs for the project and \$62,125 in remaining development fees for the project suggesting the total remaining costs are \$899,125. This amount is to bring the remaining lots to a true finished condition and may include some lot improvements which are considered to be beyond a finished lot (flatwork, fencing, front yard and slope landscaping). The individually owned homeowners are not responsible for any of these costs, thus they will be spread between the remaining builder-owned lands. The hard costs of \$837,000 equates to \$23,914.28 per lot for the 35 remaining lots/homes that DR Horton owns. In addition for the five lots that do not have grading permits yet, each have \$12,425 remaining in development fees to be paid for a total of \$62,125. This equates to a per lot cost of \$23,914.28 for the completed homes (Lots 38, 39 45-50 of Tract 31147 and Lot 8 of Tract 32741) or a total cost for the nine lots of \$215,229. The remaining 21 lots with building permits pulled (Lots 25-37, 40-42 of Tract 31147 and Lots 1-5 of Tract 32741) also have remaining costs of \$23,914.28 per lot or \$502,200 for the total 21 lots. The final five remaining lots without building permits have a total of \$36,339.28 per lot (\$23,914.28 for remaining land development costs plus \$12,425 in remaining development fees). This equates to a total of \$181,696 of remaining costs for Lots 1-3 and 58-59 of Tract 31147.

The remaining costs are summarized as follows:

Costs for Lots 38-39 & 45-50/31147 & 8/32741	\$ 215,229
Costs for Lots 25-37 & 40-42/31147 & 1-5/32741	502,200
Costs for Lots 1-3 & 58-59/31147	<u>181,696</u>
Total Remaining Costs	<u>\$ 899,125</u>

**Improvement
Description:**

There are four plans within The Highlands, however three of the plans have optional square footage that can be added increasing the

number to seven total plans. The homes are of Traditional, Craftsman and Tuscan architectural style with sizes ranging from 2,798 to 3,929 square feet. Current base pricing from \$562,990 to \$613,990. Exterior features include concrete tile roofing, stucco exteriors, fully dry walled 3-4 car garages, insulated sectional garage doors with auto openers and solar pre-plumbing. Interiors include ceramic tiles entries, baths and laundry rooms, 5 1/4" baseboards, maple cabinetry, two panel interior doors, flush-mounted fire sprinklers, 50-gallon hot water heater, interior laundry room, bullnose drywall and recessed lighting. The master suites include walk-in closets, smooth surface countertops, frameless glass enclosure at shower, contemporary square tub with tile surround and separate shower. Kitchens include stained cabinets, granite countertops, pantries, stainless steel appliances, large entertaining islands, and both under cabinet and recessed lighting. All of the individually owned homes and the builder owned homes over 95 percent complete are on 7,000 minimum lot sizes. The plans are detailed below.

Plan	Room Count	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
1	4 / 3	1 / 3	2,798	10	3*
2	5 / 3	2 / 3	3,114	7	2
2X	5 / 4	2 / 3	3,175	2	0
3	5 / 3.5	2 / 4	3,639	3	0
3X	6 / 4.5	2 / 2+	3,929	6	1
4	6 / 3.5	2 / 3	3,794	2	1
4X	6 / 4.5	2 / 3	3,866	7	2*
Total				37	9

*One of each of these plans is a model home.

RIVERSIDE COUNTY HOUSING MARKET

In analyzing the area's housing market, population growth and economic conditions need to first be considered.

Population

The County population grew at a 1.2 percent increase over the past year. This compares to the 2.6 percent average annual percentage increase over the previous fourteen years. The slowdown in population growth is primarily due to the sluggish national economy. This slowdown is similar to other Southern California counties during this time period. Predictions are for the County to grow at an average annual rate of 1.5 percent over the next five years. This equates to an increase of approximately 35,000 residents per year.

Economic Conditions

Over the past twenty-five years the Inland Empire has seen various cycles in the housing market. The recession of the early 1990s impacted the Inland Empire significantly and resulted in a longer recovery period than in other areas of Southern California. The rise and then fall of housing prices in the Inland Empire between 2004 and 2009 was considerably steeper than almost anywhere in the state. Unfortunately, this means that the people who bought near the peak of the market likely faced significant negative equity. After essentially remaining flat for a few years, housing prices began to increase in late 2012. The significant 2012-2013 price appreciation followed by continued growth (albiet slower) in the housing market in 2014 and 2015 helped alleviate the negative equity situation in the Inland Empire.

Economic growth in the Inland Empire was strong between 2002 and 2007. Job losses occurred between 2007 and 2009, with a leveling out in 2010, a slight upturn in 2011, and generally increases since that time. The unemployment rate for the MSA was 6.2 percent in November 2015, significantly lower than the high of 15.1 percent in July 2010. The

current rate is slightly higher than the overall California unemployment rate of 5.7 percent, and also higher than the November 2015 National rate of 5.0 percent.

The housing market played a significant part in strengthening the impact of the Great Recession. Due to increased interest rates and rising home prices between June 2004 and mid-2006, the market reaction was to create non-conventional financing alternatives to artificially maintain the boom housing market of 2004 and 2005. In 2007 the housing market saw a shake-up due to the problems in the sub-prime and non-conventional mortgage markets. Non-conventional mortgages include home loans which were obtained for 100 percent of the sales price or which used teaser rates or buy-down rates. Sub-prime mortgages used these buy-down rates to qualify buyers that could not have qualified for a conventional mortgage or could not verify income. In March 2007 the Federal Government initiated efforts to stop or limit sub-prime mortgages. Unfortunately the damage had already been done with sub-prime mortgages playing a role in the 2008 shake out of Wall Street and contributing significantly to the economic downturn. Due to stricter income verification on new loans and the lack of available credit, coupled with job losses and declining home prices, sales of new homes slowed for the next few years. With the exception of a small increase in 2010 primarily due to government offered homebuyer credits, prices and sales essentially remained flat until mid-2012 when prices began a steady climb showing double-digit increases into 2013 with a slower, more normal appreciation seen in 2014 and 2015.

There were several factors adding to the recent price appreciation including limited supply, investor purchases and constrained lending. The main factor in prices rising is an imbalance in supply and demand. Near the bottom of this past real estate cycle it was not financially feasible to develop land and build a house to sell in many portions of Riverside County. Thus land development slowed significantly restricting supply. A second factor was the amount of investor purchases including foreign money, cash purchases and investment real estate. In 2012 an estimated 5.8 percent of new homes were purchased by investors for rentals while in 2013 this number was estimated at 14 percent. In 2014 investors began shying away from single-family rentals due to the higher home prices. Home ownership across the U.S. has declined to 63.5 percent from a high

of 69.2 percent in 2004. This downward trend in home ownership is anticipated to continue to decrease until stabilization which is estimated to occur at 63 percent.

The housing market in Riverside and San Bernardino had momentum in 2013 for the first time in over five years. However the amount of the late 2012-2013 price hikes caused concern that another “bubble” was forming. In 2014 appreciation appeared to level off to a more normal growth. It also appears the rapid appreciation in 2013 slowed sales. The share of builder’s offering increased incentives rose in 2014 with most projects offering some incentives in Riverside County. According to Lennar Chief Executive Stuart Miller, “as the market goes through minor gyrations and corrections on a road to a broader recovery, Lennar will be using incentives on a per-project need or a select basis”. Within the City of Riverside most new housing projects offer some form of incentives to boost absorption.

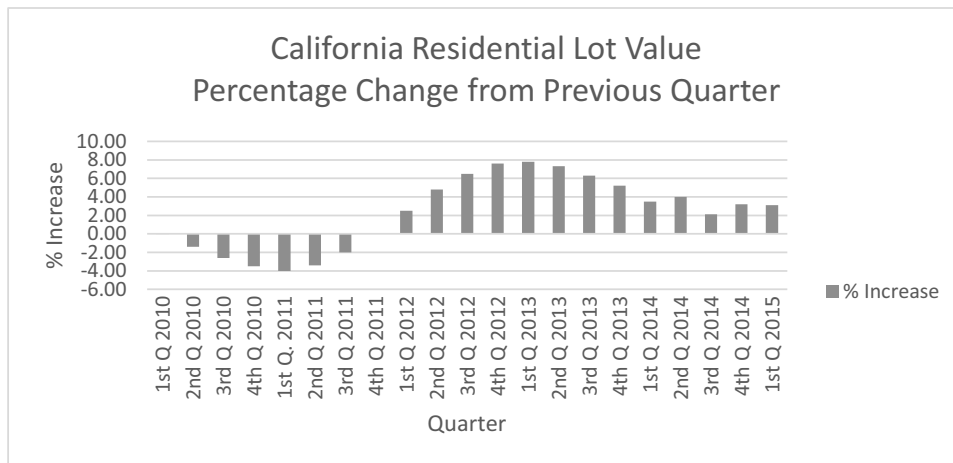
Home loan mortgage rates are playing a large part in the housing market. The Federal Reserve has held mortgage rates at all-time lows for the past few years in an attempt to assist the housing market. Thirty-year fixed rate mortgages were as low as 3.31 percent in November 2012 rose to 4.57 percent in September 2013 with current rates in the 4.2 percent range. The Federal Reserve kept rates low until the end of 2015 when they announced the first increase in almost a decade. They have made it clear to investors and consumers that the increases will be small and will be linked to specific economic markers such as global economy, national employment and national inflation. Mortgage rates saw a slight increase based on the Fed’s increase, however it is still too early to tell if this has affected homebuyers.

Residential Land Development

While there had been little land development going on in most of the Inland Empire during the years 2008-2011, the second half of 2012 saw a resurgence. This was clearly visible in pockets of development in the western portion of the Inland Empire such as Riverside, Eastvale, Rancho Cucamonga and Corona and more recently in further out areas such as Jurupa Valley, Southern Riverside County (Temecula, Murrieta and Menifee) Chino, and the New Model Colony area of Ontario. The increase in housing prices coupled with

the limited availability of supply made land development feasible once again for homebuilders. The subject property is an example of this with the developing beginning in 2005, stopped throughout the recession and was re-purchased in 2013 once the market recovered.

On a national front, it appears the slowdown in home sales may have curbed the growth of residential lot prices. Per the Lincoln Institute of Land Policy prices for residential lots in California began having a slower growth in 2nd quarter 2013 with a sort of stabilization occurring around 3 percent the past year. According to Larry Seay, chief financial officer of Meritage Homes Corp., “it is good for the industry to take a little breather, let the land market moderate and get to a more normal rate of growth and house-price appreciation” suggesting prices had been moving too fast to sustain. The California average of finished lot price increases (decreases) are shown on the chart below.



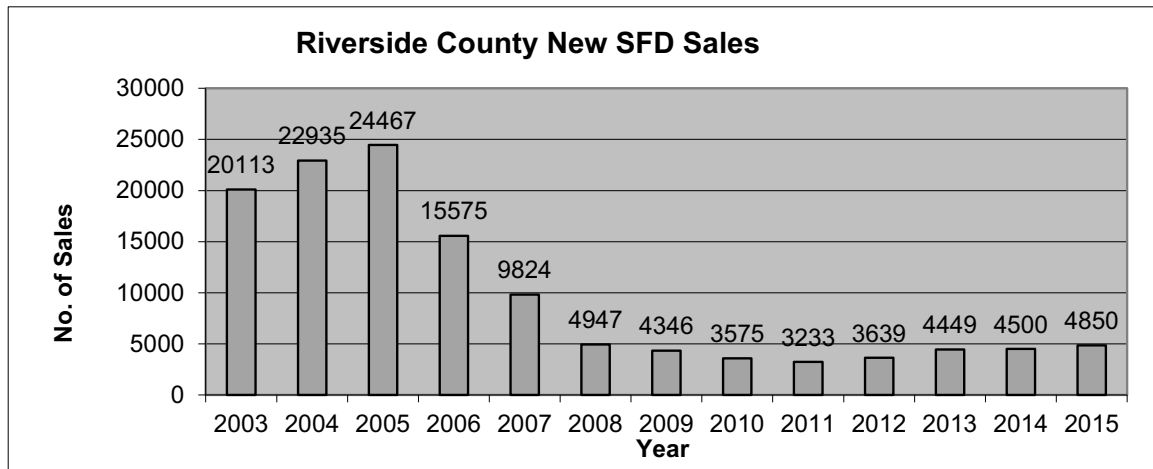
Source: Lincoln Institute of Land Policy

Within the subject market we found one escrow and ten land sales in late 2013 and 2014 which are considered to be comparable to the subject, the majority of which are now marketing homes.

New Home Sales and Pricing

Sales of new-detached homes within the County rose significantly beginning in 2000 until 2005, declined between 2005 and 2011 followed by increases beginning in 2012. Below is a graph showing Riverside County new home deed recordings over the past ten years.

While new detached home sales have increased, they are still well below the peak of the past cycle.



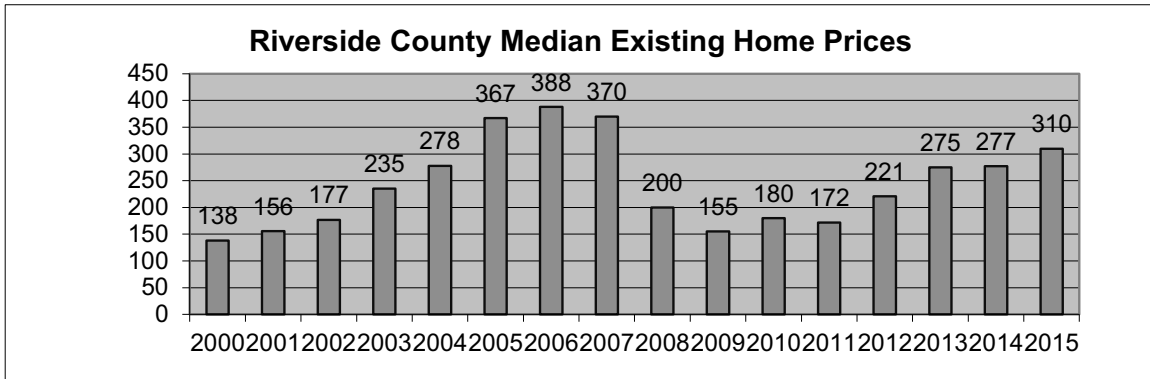
Source: John Husing Quarterly Reports

New single-family detached home pricing in Riverside County has also seen changes, however, not as drastic as the changes in sales numbers. The median new home price changed from \$520,152 in 3rd quarter 2006 to \$275,000 in 1st quarter 2009 (decrease of 47 percent) while the current new home median price is \$383,000, an increase of almost 40 percent from the bottom of the cycle. New home sales prices fluctuate based on the land value more than the cost of building the home. While finishes and sizes of homes can change, the basic costs on a per square foot basis do not fluctuate as much as land values.

Within Riverside County home square footage rose along with prices between 2002 and 2006. Originally a first-time buyer location with home sizes in the 1,500 to 2,500 square foot range, in 2005, 2006 and 2007 construction and sales of executive size homes over 3,000 square feet became typical. Between 2007 and 2010 new home construction in the County shifted to smaller square footage homes, however since 2010 home sizes in some areas have again been growing. It should be noted that typically, the larger and more expensive the home in the subject market, the slower absorption occurs.

Existing Home Sales and Pricing

The median existing home price in the Riverside County of \$310,000 is up 100 percent from the low in Second Quarter 2009 (\$155,100) and up 6.3 percent from the previous year (\$291,500). However, the median existing home price in the Riverside County is still down over 20 percent from the median price at the peak in 2006 (\$388,000). Thus, even though the housing market appears to be recovering, it is still below the previous cycle's peak as shown below.



According to Corelogic, within Southern California (Los Angeles, Riverside, San Diego, Ventura, San Bernardino and Orange counties) the median price paid for a home (both new and existing) in December 2015 (\$443,000) is up 6.7 percent from the previous year, however only slightly above the previous month. Such median existing home price is 12.3 percent below the peak in mid-2007 when the median price was \$505,000; however up 79 percent from the low point of the cycle which was a \$247,000 median price in April 2009. It should be noted however that the growth in sales prices was substantial in late 2012 and 2013 and slowed in 2014 and 2015 to a more normal rate of growth. Home sales in Southern California for December 2015 on a year over year basis all increased from 3.4 to 8.2 percent however on a month over month basis two counties (San Bernardino and Ventura) had price decreases from 2.5% to 3.7% while the remainder of the Southern California counties had increases from 0.5 percent to 2.2 percent. According to CoreLogic the December 2015 Southern California home sales (20,890 home sales) were significantly up from the previous month, however this was partially due to a new Federal mortgage rule which took effect in October and delayed closings for anywhere from a few days to weeks. The total number of sales reflected a 9.8 percent increase on a year to year basis and a 33 percent increase on a month to month basis. It should be noted however, that the December sales rate while inflated, was still 14

percent below the December average annual sales over the past quarter century. Shown below is a table comparing December 2014 to December 2015 for both new and existing home sales and pricing in Southern California by county and for Southern California as a whole.

Southern California (New and Used) Home Sales						
County	No. Sold Dec. 14	No. Sold Dec. 15	Percent Change	Median Dec. 14	Median Dec. 15	Percent Change
Los Angeles	6,649	7,196	8.2%	\$462,500	\$500,000	8.1%
Orange	2,817	3,206	13.8%	\$582,000	\$630,000	8.2%
Riverside	3,259	3,529	8.3%	\$300,000	\$320,000	6.7%
San Bernardino	2,166	2,413	11.4%	\$254,500	\$272,000	6.9%
San Diego	3,308	3,661	10.7%	\$440,000	\$475,000	8.0%
Ventura	820	883	7.9%	\$475,000	\$491,000	3.4%
SoCal	19,019	20,890	9.8%	\$415,000	\$443,000	6.7%

Source: CoreLogic

Based on December 2015 median new and existing homes prices, in comparison to the majority of the surrounding counties, Riverside County has a definite price advantage. The “Riverside County Advantage” (price difference between Riverside and surrounding counties) is \$155,000 as compared to San Diego County, \$171,000 as compared to Ventura County; \$180,000 as compared to Los Angeles County and \$310,000 as compared to Orange County. That is, in December 2015, the median priced home in Riverside County was \$310,000 or almost 50 percent less than the median priced home in Orange County. This “price advantage” had been growing in the past year which should create a larger homebuyer group in Riverside County as homebuyers are priced out of surrounding counties. It should also be noted that San Bernardino County has a \$48,000 price advantage over Riverside County.

In a separate attempt to capture the increase in home prices, the resale activity of existing homes in the subject area (per CoreLogic) has been reviewed. The number of sales and sale prices of existing homes within zip codes in the immediate area of the subject are shown in the table shown below.

Community Name	ZIP Code	Border To Subject	Sales of SFD Homes Dec. 2015	Dec. 2015 Price Median SFR	Dec. 2015 Median Price/ Sq. Ft.	Price % Change from Dec. 2014
Riverside	92503	Subject	64	\$330,000	\$216	5.3%
La Sierra Heights	92505	West	28	\$329,000	209	12.2%
Riverside	92504	Southeast	46	\$292,000	\$200	6.5%
Norco	92860	West	22	\$475,000	\$224	6.7%
Corona	92881	South	26	\$470,000	\$213	0.3%
Corona	92879	Southwest	43	\$393,000	\$215	1.9%

Source: CoreLogic

The table above depicts price changes over the past year on existing single-family detached homes. It should be noted that the subject are new homes which carry a premium in comparison to existing home sales. The subject's location in Riverside appears to suggest that prices are within the range of surrounding zip codes in Riverside County. The above price increases relate to CoreLogic's overall Riverside County increase of 6.7 percent year over year.

Summary

Riverside County saw a substantial increase in both sales and pricing between mid-2012 and late 2013. It appears the significant appreciation of homes slowed to a more normal sustainable rate in 2014 and 2015. New home sales, however, are still below the previous peak and also below historical averages but November showed year over year increases for the third year in a row, however sales have dropped the last three months. The subject zip code sales appear to be near a mid-point of surrounding housing prices and well received in the marketplace if the price points are in balance. While uncertainty is still clouding the 2016 housing market, most observers are in agreement that the housing market is still gaining strength and healthy population growth is still occurring in the County. It is believed that as population continues to increase, housing growth will continue.

HIGHEST AND BEST USE ANALYSIS

The highest and best use is a basic concept in real estate valuation due to the fact that it represents the underlying premise (i.e., land use) upon which the estimate of value is based. In this report, the highest and best use is defined as:

"the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value"⁵

Proper application of this analysis requires the subject properties to first be considered "As If Vacant" in order to identify the "ideal" improvements in terms of use, size and timing of development. The existing improvements (if any) are then compared to the "ideal" improvements to determine if the use should be continued, altered or demolished preparatory to redevelopment of the site with a more productive or ideal use.

"As If Vacant"

In the following analysis, we have considered the sites probable uses, or those uses which are physically possible; the legality of use, or those uses which are allowed by zoning or deed restrictions; the financially feasible uses, or those uses which generate a positive return on investment; and the maximally productive uses, or those probable permissible uses which combine to give the owner of the land the highest net return on value in the foreseeable future.

Physically Possible Uses

The subject property consists of a parcel of land totaling 31.93 acres located in the southwestern area of the City of Riverside adjacent to the border of Corona and near the City of Norco. The site is located in approximately ten miles southwest of downtown Riverside which is the County seat. The site's original topography was hilly, however the property has been graded into single family detached lots. The property has good access to both the 91 Freeway and I-15. The area is made up of single family residential use and older rural houses. There is shopping available at the 91 Freeway and McKinley,

⁵ The Appraisal of Real Estate, 11th Edition

within a couple miles of the subject property and an elementary school within one-half mile. The subject site began development prior to the recession when three homes were built before the project stopped development. The property is adjacent to the residential area developed in the 1990s known as Corona Hills. The site was originally sloping and rears to a steeper hill which separates the subject area from Norco. The property has been developed into 72 single family detached lots with internal streets and set-back areas from surrounding streets. Some lots have views but are mostly at street grade of internal streets. A soils report covering the property was reviewed with the report concluding that the property was considered suitable for residential development. We have not reviewed any environmental reports on the subject site. It is an assumption of this report that the soils are adequate to support the highest and best use conclusion and that there are no environmental issues which would slow or thwart development of the site. This is evidenced by City approvals along with City inspectors on site during construction. An engineered drainage system has been designed to alleviate any potential flooding problems and to control project water runoff. All standard utilities serve the subject property.

Based on the physical analysis, the size, access and topography make the subject property physically suited for numerous types of development; however, the grading and development that has occurred on the site suggests single-family residential use.

Legality of Use

The subject property is located within the City of Riverside, the entity responsible for regulating land use through the implementation of general plans and zoning ordinances. Per the City, the property has a general plan designation of MDR for medium density residential. Per the zoning map the majority of the site is zoned R-1-7,000 (allows for 7,000 minimum square foot lots) with a small portion zoned R-1-10,500 (10,500 minimum square foot lots) and the northern portion zoned R-1-1/2 acre (minimum ½ acre lots). Tract Maps 31147 and 32741 are recorded on the property. The maps subdivide the property into 62 single family detached lots with a minimum lot size of 7,000 square feet, five single family lots with a minimum lot size of 10,500 square foot and five lots with a

minimum two acre size. Both tracts are consistent with the General Plan and zoning designation on the property.

Based on the legality of use analysis, the types of development for which the subject property can be utilized are narrowed to residential use per the approved specific plan, the general plan and zoning designations along with the approved mapping on the property. Residential use is consistent with the findings of the physically possible uses.

Feasibility of Development

The third and fourth considerations in the highest and best use analysis are economic in nature, i.e., the use that can be expected to be most profitable. As discussed under the Riverside County Housing Market section earlier within this report, the market showed strong increases in pricing between mid-2012 and the end of 2013 with slower growth occurring in 2014 and 2015. Within City of Riverside CFD No. 2014-2 there have been 48 home sales and 37 home closings since the project began sales in June 2014. All structures appear to be in good to excellent condition with no physical depreciation apparent. Within the new home market in Riverside there are six new home projects in addition to new homes in Spring Mountain Ranch, a new master planned community located within the sphere of influence of the City. The City of Riverside is essentially built-out with the six new home projects being in-fill projects. Population growth is still occurring in the area and will continue to create the need for housing.

Based on the above analysis, the highest and best use for the subject property appears to be for single-family detached residential development.

Maximum Productivity

The current housing market is giving some mixed messages. Market conditions of a sluggish economy, lower FHA limits and limited credit availability suggest that demand for residential development is low. However the limited availability of homes for sale creating higher prices, population growth and low interest rates all point to demand for new housing in the subject area. Based on the current active projects in the area coupled

with population growth projected in the subject marketplace, it is our opinion that the subject property is feasible for residential development.

Highest and Best Use Conclusion – “As If Vacant”

The final determinant of highest and best use, as vacant, is the interaction of the previously discussed factors (i.e., physical, legal, financial feasibility and maximum productivity considerations). Based upon the foregoing analysis, it is our opinion that the highest and best use for the subject property “As if Vacant” is for residential development.

Highest and Best Use – “As Improved”

The subject property consists of the neighborhood known as The Highlands by DR Horton. Sales began in June 2014 with 48 of the 72 homes sold to date and 37 closed. The homes range in size from 2,798 to 3,929 square feet with sales prices generally from \$500,000 to \$600,000. The sales suggest an average sales rate of 2.66 homes per month which is considered good for larger sized (move up) homes in Riverside. The Improved Residential Market Data (located in Addenda) has average sales rates ranging from 1.1 to 3.8 sales per month with sales prices generally from \$500,000 to \$800,000. The highest absorption rate is within Estancia West, a move up project located in Eastvale. The subject absorption rates are considered to be good in the subject market at the current price points. The homes appear in excellent condition with no physical depreciation visually apparent.

All of the homes are of good design and appear to be of good quality workmanship. Based on the subject neighborhood’s sales rates, it is our conclusion that the highest and best use for the subject property is for the continued use, as improved.

VALUATION ANALYSIS AND CONCLUSION

The Sales Comparison Approach will be used to value the subject property. This approach compares similar properties that have recently sold or are in escrow. In determining the value for the property, a unit of comparison needs to be addressed. For single-family detached lots, the lots are typically sold on a finished lot basis. That is, the sales price is determined by a finished lot value and then the remaining costs to develop the property to a finished lot condition are taken into account in the sales price. Therefore, in determining a current market value for the lands, the current condition of the lots will be considered. In the case of the existing home valuations, a single new-home sale is the unit of comparison. Our search will include all new home projects within the City of Riverside market area to find comparable new homes for sale. In determining the value for each house, a base value will be concluded for each plan which will be considered a minimum market value as most buyers typically purchase some premiums, upgrades or options which increase the price of the home.

The valuation will be presented as follows. First, a discussion of the single-family detached lot market data will be given. Each of the comparable market data (finished lot basis) will be detailed along with a comparison discussion of their relationship to the subject property. The remaining construction costs, if any, and development fees will be taken into consideration. This analysis will be followed by a finished lot value conclusion. Houses which are under construction (under 95 percent complete) will be valued on the basis of a finished lot rather than attribute value to a partially complete improvement. In the case of the completed (over 95 percent complete) builder owned models and production units, the homes will be valued using the Sales Comparison Approach to value to conclude on a retail value for each plan, followed by a Discounted Cash Flow ("DCF") Analysis due to the single ownership. The DCF will take into account the fair market value of the completed homes (utilizing the Sales Comparison Approach), any remaining development costs, the marketing and carrying costs associated with selling off the homes, a profit due to the developer of the homes, and a discount rate reflecting both the risk associated with selling off the homes along with the time value of money during the estimated absorption period. In the case of the individually owned homes, a concluded

base value will be used for each plan and a mass appraisal technique will be addressed. In determining the concluded base value, new home sales in the area will be reviewed and compared with sales of the subject completed homes using standard methodology and statistical testing. All of the value conclusions will take into consideration improvements funded by the City of Riverside CFD No. 2014-2 Special Tax Bonds and their lien. A summary of the final value conclusions will be reported at the end of this valuation section.

Market Data Discussion – Detached Residential Lots

Within The Highlands there are eleven remaining lots plus fifteen homes under construction that are under 95 percent complete. The homes under construction will be valued on the basis of a finished lot rather than attribute value to a partially completed home, therefore 26 lots will be valued. Five of the lots (Lots 1-3 and 58-59 of Tract 31147) are two-acre minimum lots with projected pads in the 9,000 to 20,000 square foot range. Five additional lots (Lots 1-5 of Tract 32741) are 10,500 square foot minimum lot size with the remaining 16 lots (Lots 25-37 and 40-42 of Tract 31147) are minimum 7,000 square foot lots.

We have searched the area and found the eleven transactions summarized in the Addenda to be most comparable to the subject property. There have been few land sales in 2015 due to the slow new home sales resulting from builder's delaying escrow closings on land. In addition, the City of Riverside is generally built-out with few remaining easily developable sites. The comparable sales are reported both on a purchase price basis (when available) and on a finished lot basis. The actual purchase price is typically less, depending on the condition of the land (lots) at the time the property was acquired. Although some sales refer to "finished lots", they are typically physically finished lots with some fees remaining to be paid in order to be considered true finished lots. Below are the details of each of the comparable land sales along with a discussion of comparing each transaction to the subject lands.

Land Sale No. 1 refers to the current escrow of 237 lots with a minimum lot size of 9,000 square feet located approximately seven miles west of the subject in Corona. Foremost Communities is selling the property known as Sierra Bella. The property is in a raw land condition. The site was formerly in escrow to a public homebuilder in early 2015 but was dropped due to development costs while in the due diligence phase. The current escrow is based on a \$340,000 finished lot. This parcel is a hilly site on the edge of development in west Corona with significant development costs. The buyer's name has been retained in our files due to the confidentiality of the current escrow. There is no guarantee this transaction will close. In comparison to the subject property this location is considered to be slightly superior (closer in for commuters) and superior in date of sale as this is an escrow only and not a closed sale. However, this transaction is considered to be inferior in comparison to the subject in condition. That is, the majority of the subject property are finished lots with the streets in place while this transaction is raw. While the costs are taken into consideration, there is still development risk with the raw parcel.

Land Sale No. 2 pertains to the August 2014 closing of 32 lots located south of La Sierra Avenue and Orchard View Lane in Riverside approximately four miles southeast from the subject site. These lots have a minimum lot size of 15,000 square feet and were purchased on the basis of a \$260,000 finished lot. An entity related to Griffin Homes purchased the site from Ashby Financial. The property had been mass graded into lots prior to sale. Griffin Homes is now advertising their new gated neighborhood of Bella Vista Estates as "coming soon". Each home site will have a view. In comparison to the subject property this location is considered to be slightly inferior (further from shopping and freeways) with the view potential considered superior to the subject lots.

Land Sale No. 3 pertains to the June 2014 closing of an infill project located approximately two miles northeast of the subject on La Sierra Avenue north of Campbell Avenue. This location is considered to be inferior in surroundings due to the age of the surrounding homes compared to the subject Corona Hills and Riverwalk surrounding neighborhoods. Meritage Homes purchased the site from Pinnacle Communities based on a reported finished lot price of \$240,000. The site was mapped for 76 lots with a minimum lot size of 5,000 square feet. Meritage Homes is currently selling their Tesoro at La Sierra product on the site with pricing starting at \$390,000. In comparison to the

subject property these lots are slightly inferior in location as they are surrounded by older, existing housing.

Land Sale No. 4 refers to the purchase of 31 lots with a one-acre minimum lot size in May 2014. Diversified Pacific purchased the lots in May 2014 based on a \$243,000 finished lot. The lands were in a raw condition with an approved tentative tract map at time of closing. The site is located in the Woodcrest area of Riverside approximately ten miles southeast of the subject. The area is zoned for minimum one-acre lots and surrounded by older existing homes along with some vacant lands, older storage and manufacturing buildings and an elementary school. This location is considered to be inferior to the subject property as it is further out for commuters.

Land Sale No. 5 pertains to the purchase of the property known as Citrus Heights located approximately four miles southeast of the subject property. Lennar Homes purchased the site from CV Communities in a bulk purchase an entire portfolio. Reportedly Lennar paid \$33,767,029 for the property which is based on a blended finished lot price of \$255,000. Per brokers familiar with the sales price was based on finished lot values of \$220,000 for the 8,000 square foot lots; \$250,000 for the 10,000 square foot lots and \$295,000 for the 12,000 square foot lots. In comparison to the subject property this transaction is considered to be inferior in location and due to the bulk purchase of a portfolio which typically would have included a discount.

Land Sale Nos. 6, 7 and 8 pertain to the three land sales within the master planned community of Riverwalk Vista, located approximately two miles southeast of the subject site. Data No. 6 and 7 refer to the Richmond American sites of Paseo and Fallbrook. Paseo, (Data No. 6) consists of 52 lots with a minimum lot size of 4,125 square feet which sold on the basis of a \$195,000 finished lot in December 2013. Fallbrook (Data No. 7) consists of 111 lots with a minimum lots size of 3,285 which sold on the basis of a \$185,000 finished lot in December 2013. Data No. 8 refers to the Tripointe Homes purchase of 49 lots with a minimum lot size of 6,825 which were purchased on the basis of a \$225,000 finished lot in September 2013. The lots were purchased in a blue top condition or mass graded with streets cut in. Data Nos. 6 and 7 are considered to be inferior in lot size when compared to the subject lots.

Land Sale No. 9 refers to the sale of 90 single family detached lots with a 10,000 square foot minimum size. The lots are located in the Woodcrest area of Riverside approximately eight miles east of the subject property south of Van Buren and west of Alessandro Boulevard. William Lyon Homes purchased the site in a raw condition with approved mapping in August 2013. They continued their Bridalcreek product on this site however the product is called Skyridge. This site is located within a CFD considered to be comparable to the subject. The lots were purchased for \$7,700,000 (or \$85,556 per lot) based on an estimated finished lot of \$210,000. In comparison to the subject property the size of these lots (10,000 minimum) is considered to be superior to the majority of the subject lots while the location is considered to be inferior (further out for commuters).

Land Sale No. 10 is in regards to the sale of a portion of Stellan Ridge, northeast of Overlook Parkway and Kingdom Drive in Riverside approximately 10 miles east of the subject site. The Overlook Parkway area is made up of hillside homes many with views on large lots. The 48 lots were sold in various condition with 14 being finished, 14 blue-topped and 20 unimproved at time of sale. Warmington Homes purchased the property from the Pacific Land Company in June 2013 based on a finished lot price of \$285,000. Warmington is now selling their Warmington Homes at Stellan Ridge project with plans from 3,400 to 4,131 square feet starting in the low \$800,000s. In comparison to the subject property this area is further out for commuters which is considered to be inferior in location however the lot sizes are considered superior.

Land Sale No. 11 pertains to the sale of 14 lots with a minimum size of 20,000 square feet located about seven miles southwest of the subject in the foothills of south Corona. Harmony Homes purchased the lots in June 2013 from Amberhill Highlands on the basis of a \$309,000 finished lot. The lots were in an essential superpad condition at time of sale with an approved tentative tract map. Amber Ridge Estates is currently marketing executive homes with sizes beginning at 4,293 square feet. The neighborhood is on the edge of established executive homes in the foothills. In comparison to the subject property this is considered to be superior in location and lot size, however these lots do not have any view potential while some of the subject lots do.

The following chart summarizes the considerations used in adjusting the market data to the subject property.

Data No.	Location	Date of Sale	Lot Size	Finished Lot Price	Comparison to Subject
1	Sierra Bella / Corona	Curr.Esc.	9,000	\$340,000	Superior – Location & Escrow only Inferior – Condition
2	La Sierra & Orchard View	8/29/14	15,000	\$260,000	Inferior – Location Superior – View Potential
3	La Sierra/Arlington	6/14	5,000	\$240,000	Inferior – Location
4	Woodcrest / Riverside	5/28/14	1-Acre	\$243,000	Inferior – Location and surroundings
5	McAllister & Sierra Hieghts	1/14/14	8,000	\$255,000	Inferior – Location & Bulk Sale
6	Riverwalk Vista	12/13	4,125	\$195,000	Inferior – Lot Size
7	Riverwalk Vista	12/13	3,285	\$185,000	Inferior – Lot Size
8	Riverwalk Vista	9/13	6,825	\$225,000	Similar
9	Krameria	8/13	10,000	\$210,000	Inferior – Location Superior – Lot Size
10	Overlook Parkway, Riverside	6/26/13	1-acre	\$285,000	Inferior – location Superior – Lot Size
11	Jasper & Fletcher / Corona	6/7/13	20,000	\$309,000	Superior – Location & Lot Size Inferior – View potential

The new housing market is seeing an interesting cycle with home price increases however lot sales staying slow. This has created a slight downturn in residential lot prices while sellers are trying to close deals. The market data has an overall finished lot range of \$185,000 to \$340,000. Data Nos. 6 and 7, at the lowest end of the range refer to smaller sized lots. Data No. 3 appears to be reported high as the lot cost to home price ratio is over 60 percent when typically it is in the 40-50 percent range. Less emphasis is placed on this sale due to this factor. Data No. 1 at the highest end of the range refers to an escrow only with no guarantee of closing. The remaining market data has a finished lot price range from \$210,000 to \$309,000.

The subject property sold in late 2013 in a generally finished condition on the basis of an average \$280,000 finished lot. This included an average of the 7,000 square foot lots, the 10,500 square foot lots and the 2-acre lots. The market appears to have softened a bit since the end of 2013. While home prices rose in double digits in 2012 and 2013, the extreme growth has slowed to a more normal rate in 2014 and 2015. This appeared to

slow the residential land market also as builders slowed escrows down. Our extensive search found no land closings within the City of Riverside in 2015. While there are no recent sales, the above market data is considered to be good. Based on our market data, it is our conclusion that the subject lots have the following finished lot values.

7,000 sf lots	\$260,000
10,500 sf lots	\$280,000
2-acre lots	\$310,000

As a further analysis of the price difference in the 7,000 square foot lots and the 10,500 square foot lots we have reviewed lot premiums obtained on four escrows of these five lots. The lot premiums range from \$25,000 to \$38,000. This is considered a retail premium paid by the homeowner once the home is complete, however the majority of this lot premium is attributed to the land and not due to the structure. This further substantiates our conclusion of a \$20,000 difference in the 7,000 square foot lots and the 10,500 square foot lots.

While all of the subject lots appear to be in a finished condition there are still \$837,000 in remaining development costs and \$62,125 in remaining development fees per DR Horton representatives. The remaining costs and fees are discussed and applied to lots under the Remaining Costs in the Property Description Section earlier within this report.

Value Conclusion – Finished Lots

The remaining lots consist of 16 lots with a 7,000 square foot minimum lot size (Lots 25-37 and 40-42 of Tract 31147) ten of which are currently under construction (Lots 25-34 of Tract 31147); five lots with a minimum size of 10,500 square feet (Lots 1-5 of Tract 32741) all which are under construction; and, five lots with a minimum size of two acres with graded pads in the 7,600 to 13,000 square foot range however proposed to be re-graded with pads between 9,300 to 19,000 square foot size range. The two acre lots refer to lots 1-3 and 58 and 59 of Tract 31147. The value conclusions are as shown on the following page.

16 lots x \$260,000	\$4,160,000	
Less Remaining Costs (\$23,914.28 x 16)	(382,629)	
Subtotal		\$ 3,777,371
5 lots x \$280,000	\$1,400,000	
Less Remaining Costs (\$23,914.28 x 5)	(119,571)	
Subtotal		1,280,429
5 lots x \$320,000	\$1,600,000	
Less Remaining Costs (36,339.28 x 5)	(181,696)	
Subtotal		<u>1,418,304</u>
Total "As Is" Lot Value		\$ 6,476,104

Retail House Valuation

The Highlands consists of 37 completed individually owned homes, two models, seven production homes over 95 percent complete (six in escrow), 15 homes under construction and 11 finished lots. Due to the builder ownership of nine homes over 95 percent (two models and seven production homes), a Discounted Cash Flow ("DCF") analysis is needed in order to arrive at a bulk value for the homes. First, a retail value for each plan will be concluded. Next, a DCF will be conducted which will take into account the absorption time to sell off the builder owned houses, the costs associated with selling off the homes and any remaining costs owed by the builder. The resulting revenue will be discounted using an appropriate rate to determine the builder owned bulk value. This DCF analysis will be followed by a reporting of the concluded values for the individually owned homes using the concluded base retail value for each plan with a separate check of the analysis utilizing a mass appraisal technique. All of the builder owned homes are located on minimum 7,000 square foot lots. On the following page is a summary of the floor plans within The Highlands. A listing of the improved residential comparable properties is located in the Addenda of this report. The improved residential comparable properties are all located within the subject market area in Riverside and are considered to be good.

Plan	Room Count	Floors/ Parking	Sq. Ft.	Ind. Owned	Bldr. Owned
1	4 / 3	1 / 3	2,798	10	3*
2	5 / 3	2 / 3	3,114	7	2
2X	5 / 4	2 / 3	3,175	2	0
3	5 / 3.5	2 / 4	3,639	3	0
3X	6 / 4.5	2 / 2+	3,929	6	1
4	6 / 3.5	2 / 3	3,794	2	1
4X	6 / 4.5	2 / 3	3,866	7	2*
Total				37	9

*One of each of these plans is a model home.

The most appropriate new home comparable data for Plan 1 are:

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	1	4 / 3	1 / 3	2,798	--
3	1	4 / 2.5	1 / 2	2,567	\$206.03
4	1	3 / 2.5	1 / 3	2,575	\$200.77
5	1	3 / 2.5	1 / 2	2,726	\$207.82

Our search included the subject Riverside area and expanded into Eastvale approximately four miles north of the subject. All homes are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, total square footage, room count, garage space and other amenities. The market data has a base price sales range of \$200.77 to \$207.82. The subject has a current base asking price of \$217.65 per square foot. There have been 10 sales of Plan 1 with prices ranging from \$184.06 to \$212.80 per square foot. There are three current escrows of Plan 1 with sales prices ranging from \$194.06 to \$216.56 per square foot. It should be noted that the reported sales prices include upgrades and premiums as well as concessions. The average incentive, allowances and concessions for the closed homes was over \$37,000 however the average premium and option revenue over the base price averaged over \$30,000 per home. All of the homes appear to be in excellent condition with no physical depreciation visible. It has been concluded that Plan 1 has a base current market value of \$190.00 per square foot. This calculates as follows:

$$2,798 \text{ sf} \times \$190.00 = \$531,620$$

The most appropriate new home comparable data for Plan 2 are:

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	2	5 / 3	2 / 3	3,114	--
2	3	4 / 3	2 / 2	2,736	\$149.48
3	2	5 / 3	2 / 2+	3,426	\$149.71
4	2	5 / 3.5	2 / 3	3,426	\$153.52
5	3	5 / 3	2 / 3	3,615	\$192.56
6	2	4 / 3	2 / 2	3,264	\$193.63

Our search included the subject Riverside area and expanded into Eastvale approximately four miles north of the subject. All homes are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, total square footage, room count, garage space and other amenities. The market data has a base price sales range of \$149.48 to \$193.63. Data No. 2 has smaller lots and is located in an inferior location. The subject has a current base asking price of \$179.19 per square foot. There have been seven sales of Plan 2 with prices ranging from \$157.35 to \$182.90 per square foot. There is one current escrows of a Plan 2 with a sales price in the \$175.00 per square foot range. It should be noted that the reported sales prices include upgrades and premiums as well as concessions. The average incentive, allowances and concessions for the closed homes was over \$37,000 however the average premium and option revenue over the base price averaged over \$30,000 per home. All of the homes appear to be in excellent condition with no physical depreciation visible. It has been concluded that Plan 2 has a base current market value of \$165.00 per square foot. This calculates as follows:

$$3,114 \text{ sf} \times \$165.00 = \$513,810$$

Plan 2x is the same as Plan 2 with the addition of a fourth bathroom which adds 61 square feet. There have been two sales of Plan 2x with sales prices ranging from \$166.24 to \$168.96 per square foot. All of the homes appear to be in excellent condition with no physical depreciation visible. It has been concluded that Plan 2x has the same base current market value of \$165.00 per square foot. This calculates as follows:

$$3,175 \text{ sf} \times \$165.00 = \$523,875$$

The most appropriate new home comparable data for Plan 3 are:

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	3	5 / 3.5	2 / 4	3,639	--
1	4	6 / 3.5	2 / 3	3,794	\$160.51
3	3	6 / 3	2 / 2+	3,773	\$141.77
4	2	5 / 3.5	2 / 3	3,426	\$153.52
4	3	5 / 4.5	2 / 3	3,803	\$143.57
5	3	5 / 3	2 / 3	3,615	\$192.56
6	3	5 / 3	2 / 2	3,823	\$169.03

Our search included the subject Riverside area and expanded into Eastvale, located four miles north of the subject. All homes are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, total square footage, room count, garage space and other amenities. The market data has a base price sales range of \$141.77 to \$192.56. Data Nos. 5 and 6 are located along with Santa Ana River with trail access to the open space area. The subject has a current base asking price of \$158.01 per square foot. There have been three closings of Plan 3 with prices ranging from \$140.15 to \$154.98 per square foot. It should be noted that the reported sales prices include upgrades and premiums as well as concessions. The average incentive, allowances and concessions for the closed homes was over \$37,000 however the average premium and option revenue over the base price averaged over \$30,000 per home. All of the homes appear to be in excellent condition with no physical depreciation visible. It has been concluded that Plan 3 has a base current market value of \$148.00 per square foot. This calculates as follows:

$$3,639 \text{ sf} \times \$148.00 = \$538,572$$

Plan 3X adds a junior suite which increases the square footage by 290 square feet. Due to the significant square footage difference, we are valuing the Plan 3X separately.

The most appropriate new home comparable data for Plan 3X are:

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	3X	6 / 4.5	2 / 2+	3,929	--
1	4	6 / 3.5	2 / 3	3,794	\$160.51
3	3	6 / 3	2 / 2+	3,773	\$141.77
4	3	5 / 4.5	2 / 3	3,803	\$143.57
5	3	5 / 3	2 / 3	3,615	\$192.56
5	4	5 / 3.5	2 / 3	4,644	\$169.36
6	3	5 / 3	2 / 2	3,823	\$169.03

Our search included the subject Riverside area and expanded into Eastvale, four miles north of the subject. All homes are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, total square footage, room count, garage space and other amenities. The market data has a base price sales range of \$141.77 to \$192.56. Data Nos. 5 and 6 are located along with Santa Ana River with trail access to the open space area. The subject Plan 3 has a current base asking price of \$158.01 per square foot (no base price for a Plan 3X). There have been six closings of Plan 3X with prices ranging from \$141.26 to \$156.77 per square foot with the lowest price a quick close by year end. There are three current escrows of a Plan 3X with a sales price range from \$141.16 to \$158.01 per square foot. The lowest price was for a previous phase which was known as a "quick move in" which typically received higher concessions. That is, a builder will offer additional concessions on a home that is complete, or nearly complete in order not to carry the home as standing inventory. The remaining two escrows have a sales price range from \$152.26 - \$158.02. It should be noted that the reported sales prices include upgrades and premiums as well as concessions. The average incentive, allowances and concessions for the closed homes was over \$37,000 however the average premium and option revenue over the base price averaged over \$30,000 per home. All of the homes appear to be in excellent condition with no physical depreciation visible. It has been concluded that Plan 3X has a base current market value of \$143.00 per square foot. This calculates as follows:

$$3,929 \text{ sf} \times \$143.00 = \$561,847$$

The most appropriate new home comparable data for Plan 4 are:

Data	Model	Rm. Ct.	Flrs/Pkg.	Sq. Ft.	Price/SF
Subj	4	6 / 3.5	2 / 3	3,794	--
1	3	5 / 3.5	2 / 4	3,639	\$158.01
3	3	6 / 3	2 / 2+	3,773	\$141.77
4	2	5 / 3.5	2 / 3	3,426	\$153.52
4	3	5 / 4.5	2 / 3	3,803	\$143.57
5	3	5 / 3	2 / 3	3,615	\$192.56
6	3	5 / 3	2 / 2	3,823	\$169.03

Our search included the subject Riverside area and expanded into Eastvale, four miles north of the subject. All homes are of similar quality, design and appeal. Adjustments were considered (when applicable) for location, lot size, stories, sales concessions, CFD taxes, total square footage, room count, garage space and other amenities. The market data has a base price sales range of \$141.77 to \$192.56. Data Nos. 5 and 6 are located along with Santa Ana River with trail access to the open space area. The subject has a current base asking price of \$160.51 per square foot. There have been two closings of Plan 4 with prices ranging from \$159.65 to \$160.57 per square foot. There is one escrow of Plan 4 with a sales price in the \$147.00 per square foot range. It should be noted that the reported sales prices include upgrades and premiums as well as concessions. The average incentive, allowances and concessions for the closed homes was over \$37,000 however the average premium and option revenue over the base price averaged over \$30,000 per home. All of the homes appear to be in excellent condition with no physical depreciation visible. It has been concluded that Plan 4 has a base current market value of \$145.00 per square foot. This calculates as follows:

$$3,794 \text{ sf} \times \$145.00 = \$550,130$$

Plan 4X is the same as Plan 4 with the addition of a fourth bathroom which adds 72 square feet. There have been seven sales of Plan 4x with sales prices ranging from \$132.95 to \$163.94 per square foot. The home that sold for \$132.95 received significant concessions that appeared to have been available for a year-end closing offer. The remainder of the sales with within a price range of \$142.27 to \$163.94 per square foot. All of the homes appear to be in excellent condition with no physical depreciation visible. It has been concluded that Plan 4x has the same base current market value as the Plan 4 of \$145.00 per square foot. This calculates as follows:

$$3,866 \text{ sf} \times \$145.00 = \$560,570$$

Builder Owned Retail Value

Within the subject property there are two builder-owned model homes and seven builder-owned production homes over 95 percent complete. Per interviews with builders, upgrades and landscape/hardscape of up to \$100,000 are installed in the model homes, however, the builders generally consider this a marketing cost and do not anticipate recovering this investment on a dollar for dollar basis. Based on historical information, home sizes and fixtures, actual model home sales within the subject area and the current real estate market, a consideration of a \$35,000 premium has been included for each of the model homes. The retail base value conclusions for the builder-owned homes within the subject property are calculated as follows:

Plan 1 (3 x \$531,620)	\$ 1,594,860
Plan 2 (2 x \$513,810)	1,027,620
Plan 2X (0 x \$523,875)	0
Plan 3 (0 x \$538,572)	0
Plan 3X (1 x \$561,847)	561,847
Plan 4 (1 x \$550,130)	550,130
Plan 4X (2 x \$560,570)	1,121,140
Model Home Upgrades	<u>70,000</u>
Total Retail Value	<u>\$4,925,597</u>

Absorption Period

In order to arrive at an absorption period for the builder-owned homes, the absorption rates for the subject and surrounding developments have been reviewed. As discussed under the Highest and Best Use section earlier within this report, there is an overall average closing rate for the subject of 2.6 homes per month. The sales comparables within Riverside have absorptions rates from 1.1 to 2.5 sales per month. The subject is at the high end of the range of the Riverside comparables. There are a total of nine homes owned by the builder with six of these homes in escrow and due to close within the next few months. Based on the above sales rates, and taking into consideration the current escrows along with the current market dynamics, it has been concluded that the nine builder owned homes will be absorbed within a three month time period at the concluded values.

Remaining Costs

The remaining costs have been detailed under the Property Description Section earlier in this report. The Costs to Complete associated with the nine lots over 95 percent complete (including two model homes and seven production homes) total \$215,229. For purposes of this analysis we are considering the costs spread evenly over the three month absorption period.

Expenses

In determining an expense rate, several builders in the subject area have been interviewed as to their expenses on selling existing inventory. Expenses include marketing and general administrative costs. These costs typically range from six to ten percent depending on varying factors such as absorption period, intensity of marketing, etc. Six percent has been estimated for marketing expenses and two percent for general and administrative costs for a total of eight percent in expenses for this analysis.

Profit

Several interviews with merchant builders in the area were conducted in order to determine an appropriate profit percentage for the subject properties. In the early 2000s, developers typically attempted to achieve a 10 to 12 percent profit based on gross sales proceeds. During the early 1990s recession this range was lowered considerably to six to 10 percent with some builders drastically lowering their profit potential in order to maintain their work force. As the market improved, so did the profits. This appears to be occurring once again as prices have increased in the past year. A ten percent profit is considered appropriate in the analysis for this project.

Discount Rate

In selecting a discount rate, the following was completed:

1. Interviews with merchant builders in the Riverside area
2. Review of current market conditions including current market rates as well as yields reflected in other markets (i.e., municipal bonds, corporate bonds, etc.)
3. The quality, construction, historical sales and product on the subject properties

The homes within the subject property have been well received in the marketplace with a good absorption rate for the Inland Empire. Due to the good sales rate and the limited

amount of product remaining, a 10 percent discount rate is considered appropriate for this analysis.

Discounted Cash Flow Summary

The discounted revenue (see DCF Analysis in addenda) for the builder owned homes is **\$3,760,905.**

Builder-Owned Property Summary

DR Horton owns two models, seven production homes (all over 95 percent complete), 15 homes under construction (under 95 percent complete) and 11 remaining lots within The Highlands. The final value conclusion for the builder owned property is shown below.

26 Lots	\$ 6,476,104
9 Houses	<u>3,760,905</u>
Total Builder owned	<u>\$10,237,009</u>

Individual Owners Value Conclusion

In determining the value for the individually owned homes, we have considered the concluded base price value for the homes which is considered a minimum market value. This is due to homebuyers typically purchasing some addition upgrades, options or pay some premiums for the lot. The concluded values are as follows:

Plan 1 (10 x \$531,620)	\$ 5,316,200
Plan 2 (7 x \$513,810)	3,596,670
Plan 2X (2 x \$523,875)	1,047,750
Plan 3 (3 x \$538,572)	1,615,716
Plan 3X (6 x \$561,847)	3,371,082
Plan 4 (2 x \$550,130)	1,100,260
Plan 4X (7 x \$560,570)	<u>3,923,990</u>
Total Minimum Market Value	<u>\$19,971,668</u>

In an additional review, we have reviewed the original builder sales prices for the homes. Closings occurred within The Highlands between August 2014 and January 15, 2016. The builder's reported closing prices for the individually owned homes total \$20,615,258. The concluded current minimum market values equates to three percent below the actual prices. The reported sales prices include upgrades, options and premiums along with concessions given to the homebuyer. Most homes within The Highlands have premiums

and option revenue. The average premium on the 37 closed homes was approximately \$6,500 and the average option revenue was about \$25,000. Offsetting these increases were the concessions and allowances which averaged about \$37,500 per lot. There have been steady base price increases on various plans ranging from .02 to 4.8 percent between the first closings in later half of 2014 to the current escrows. In addition we inspected the subject neighborhood and reviewed the Multiple Listing Service and found one home currently listed as a re-sale of a home within the neighborhood. The asking price on the home is \$587,500. The asking price was originally \$599,000 and has been reduced down twice to \$587,000. This is approximately 3 ½ percent above the original sales price (which included premiums, options and incentives) and is ten percent above the concluded base price value. It is our conclusion that the original builder sales prices along with recent market conditions further substantiate the concluded minimum market value for the individually owned homes.

APPRAISAL REPORT SUMMARY

The appraisal assignment was to value the subject property within City of Riverside CFD No. 2014-2 which includes 72 proposed single-family homes being developed by DR Horton as The Highlands. The Highlands is located in the western most portion of the City of Riverside north of the 91 Freeway and east of I-15. Out of the 72 proposed homes, 48 have sold and 37 have closed to individuals. The builder owns nine completed homes (six in escrow), fifteen homes under construction (five in escrow) and eleven remaining lots. The project has enjoyed a good sales rate since opening in summer of 2014. All structures appear to be in excellent condition with no visible depreciation.

The subject property was valued utilizing the Sales Comparison Approach to value and a mass appraisal technique for the individually owned homes. A minimum value was determined by concluding at a base value for the homes. The valuation took into account the improvements/benefits to be funded by City of Riverside CFD No. 2014-2 bond proceeds along with the City of Riverside CFD No. 2014-2 special tax lien. The concluded aggregate value for the subject properties, subject to their respective special tax lien, is:

DR Horton Ownership	\$ 10,237,009
Individually Owned Homes	<u>\$ 19,971,668</u>
Aggregate Value for Riverside CFD No. 2014-2	<u>\$ 30,208,677</u>

The above values are stated as of said date of value and subject to the attached Assumptions and Limiting Conditions and Appraiser's Certification.

APPRAISER'S CERTIFICATION

The appraiser certifies that to the best of his knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased, professional analyses, opinions and conclusions.
3. The appraiser has no present or prospective interest in the property that is the subject of this report, and no personal interest or bias with respect to the parties involved.
4. The appraiser's compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result or the occurrence of a subsequent event.
5. This appraisal was not based on a requested minimum valuation, a specific valuation or the approval of a loan.
6. The analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. Kitty Siino has made a personal inspection of the property that is the subject of this report.
8. Kitty Siino has not performed any appraisal services on the subject property in the past three years.
9. No other appraisers have provided significant professional assistance to the persons signing this report.
10. The reported analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
11. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, Kitty Siino has completed the requirements of the continuing education program of the Appraisal Institute.



Kitty S. Siino, MAI
State Certified General
Real Estate Appraiser (AG004793)

ADDENDA

CITY OF RIVERSIDE CFD NO. 2014-2
BOUNDARY MAP

I HEREBY CERTIFY THAT THE WITHIN MAP SHOWING PROPOSED BOUNDARIES OF COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS), CITY OF RIVERSIDE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, WAS APPROVED BY THE CITY COUNCIL OF THE CITY OF RIVERSIDE AT A REGULAR MEETING THEREOF, HELD ON 17th DAY OF JULY, 2014, BY RESOLUTION NO. 79780

[Signature]
CITY CLERK
CITY OF RIVERSIDE

FILED IN THE OFFICE OF THE CITY CLERK, CITY OF RIVERSIDE, THIS 18th DAY OF JULY, 2014

[Signature]
CITY CLERK
CITY OF RIVERSIDE

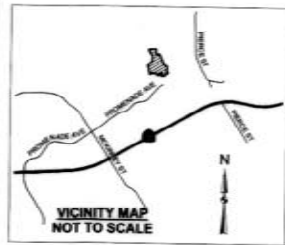
PROPOSED BOUNDARY MAP
COMMUNITY FACILITIES DISTRICT NO. 2014-2 (THE HIGHLANDS)
CITY OF RIVERSIDE

COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

RECORDED THIS 1st DAY OF JULY, 2014
AT THE HOUR OF 1:45 O'CLOCK P.M. IN BOOK 77
PAGE 22 OF MAPS OF ASSESSMENT AND COMMUNITY
FACILITIES DISTRICTS IN THE OFFICE OF THE COUNTY
RECORDER, IN THE COUNTY OF RIVERSIDE, STATE OF
CALIFORNIA.

FEES: \$10.00 NO: 2014-0244961
LARRY W. WARD, ASSESSOR, COUNTY CLERK, RECORDER

BY: *[Signature]*
DEPUTY



LEGEND

- CFD BOUNDARY
- PARCEL LINE
- XXX-XXX-XXX ASSESSOR PARCEL NUMBER

ALBERT A. WEBB ASSOCIATES
ENGINEERING CONSULTANTS

THIS BOUNDARY MAP CORRECTLY SHOWS THE BOUNDARIES OF THE COMMUNITY FACILITIES DISTRICT. FOR DETAILS CONCERNING THE LINES AND DIMENSIONS OF LOTS OR PARCELS REFER TO THE COUNTY ASSESSOR'S MAPS FOR FISCAL YEAR 2013-2014.

TRACT MAPS 31147 and 36323

TRACT NO. 31147

SHEET 3 OF 9 SHEETS

IN THE CITY OF RIVERSIDE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA.
 BEING A SUBDIVISION OF REMAINDER PARCEL OF TRACT NO. 31147-1 PER M.B. 432/32-37, IN A PORTION OF RANCHO LA SIERRA PER M.B. 6/70 AND RANCHO EL SOBRANTE DE SAN JACINTO PER M.B. 7/10 S.B. IN SECTIONS 15, 16, 21 & 22, T35, R6W, SDH & ASSOCIATES INC., RIVERSIDE, CALIFORNIA JANUARY 2014

SURVEYOR'S NOTES

- INDICATES SET 1" IR, TAGGED "LS 7891"
- INDICATES SET 2" IR, SPIKE AND WASHER OR LEAD AND TACK TAGGED "LS 7891" AT ALL TRACT BOUNDARY CORNERS.
- INDICATES SET 1" IR, TAGGED "LS 7891"
- △ INDICATES SET SPIKE AND WASHER TAGGED "LS 7891"
- SET 2" IR, SPIKE AND WASHER OR LEAD AND TACK TAGGED "LS 7891" AT ALL TRACT BOUNDARY CORNERS.
- SET NAIL AND TAG "LS 7891" IN TOP OF CURB, ON THE PROLONGATION OF "SIDE LOT LINES, IN LIEU OF FRONT LOT CORNERS.
- SET 1" IR TAGGED "LS 7891" AT ALL REAR LOT CORNERS, WHERE APPLICABLE. SET NAIL AND TAG "LS 7891" IN WALL FACE OR TOP OF WALL, IN LIEU OF REAR LOT CORNERS, WHERE APPLICABLE.
- R1 INDICATES RECORD PER R.S. 76/12
- R2 INDICATES RECORD PER R.S. 95/25
- R3 INDICATES RECORD PER R.S. 83/45
- R4 INDICATES RECORD PER R.S. 72/1-15 AND TRACT NO. 21656, M.B. 167/19-24
- R5 INDICATES RECORD PER TRACT NO. 31927, M.B. 395/41-64
- R6 INDICATES RECORD PER TRACT NO. 33402, M.B. 425/93-95
- CFR INDICATES CALCULATED FROM RECORD
- MAR INDICATES MEASURED & RECORD
- () INDICATES RECORD DATA PER R#
- [] INDICATES MEASURED DATA, ALSO RECORD DATA PER TRACT 31147-1 M.B. 432/32-37, UNLESS OTHERWISE NOTED



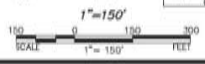
DATA FOR THIS PAGE ONLY

CURVE	BEARING	LENGTH
C1	N21°59'55\"	158.02'
C2	N82°08'19\"	158.02'
C3	N42°12'12\"	158.05'
C4	N14°17'30\"	138.91'
C5	N21°59'55\"	158.02'
C6	N82°08'19\"	158.02'
C7	N42°12'12\"	158.05'
C8	N14°17'30\"	138.91'

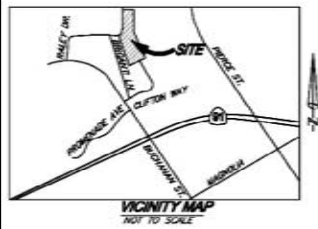
DATA FOR THIS PAGE ONLY

LINE	BEARING	LENGTH
L1	N86°21'05\"	84.16'
L2	N87°12'45\"	85.18'
L3	N72°0'24\"	41.57'
L4	N18°33'17\"	90.61'
L5	N89°29'12\"	91.29'
L6	N86°25'36\"	84.16'
L7	N33°17'36\"	78.34'
L8	N38°54'51\"	4.22'
L9	N14°21'52\"	62.98'
L10	N33°19'16\"	88.81'
L11	N23°30'13\"	808.22'

NOTES:
 1. △ INDICATES EASEMENT PER EASEMENT LEGEND ON SHEET 4.
 2. NWLY LINE OF LAND DECEDED TO DOUGLAS PER 821/308 O.R. AND 1052/67 O.R.



IN THE CITY RIVERSIDE, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA
TRACT NO. 32741
BEING A PORTION OF SECTION 16, TOWNSHIP 3 SOUTH, RANGE 6 WEST, S.B.B.M.
SDH & ASSOCIATES, INC.
FEBRUARY 2005



- ENGINEER'S NOTES**
- INDICATES FOUND MONUMENT AS NOTED.
 - INDICATES SET 1" I.P. AND PLASTIC PLUG STAMPED "I.C.E. 21884" FLUSH, UNLESS OTHERWISE NOTED.
 - ALL FRONT LOT CORNERS TO BE SET WITH A LEAD AND TAG STAMPED "I.C.E. 21884", SET IN TOP OF CURB ON THE PROLONGATION OF THE SIDE LOT LINE.
 - ALL REAR PROPERTY CORNERS SET WITH A 1" I.P. AND PLASTIC PLUG STAMPED "I.C.E. 21884" FLUSH.
 - ALL REAR LOT LINES WITH BLOCK WALL ADJACENT A LEAD AND TAG STAMPED "I.C.E. 21884" TO BE SET 1' FT. DOWN FROM THE TOP OF WALL ON THE PROLONGATION OF THE SIDE LOTLINE.
 - (/) INDICATES RECORD INFORMATION PER R/S
 - ([]) INDICATES RECORD INFORMATION PER



SEE SHEET 3

BASIS OF BEARING



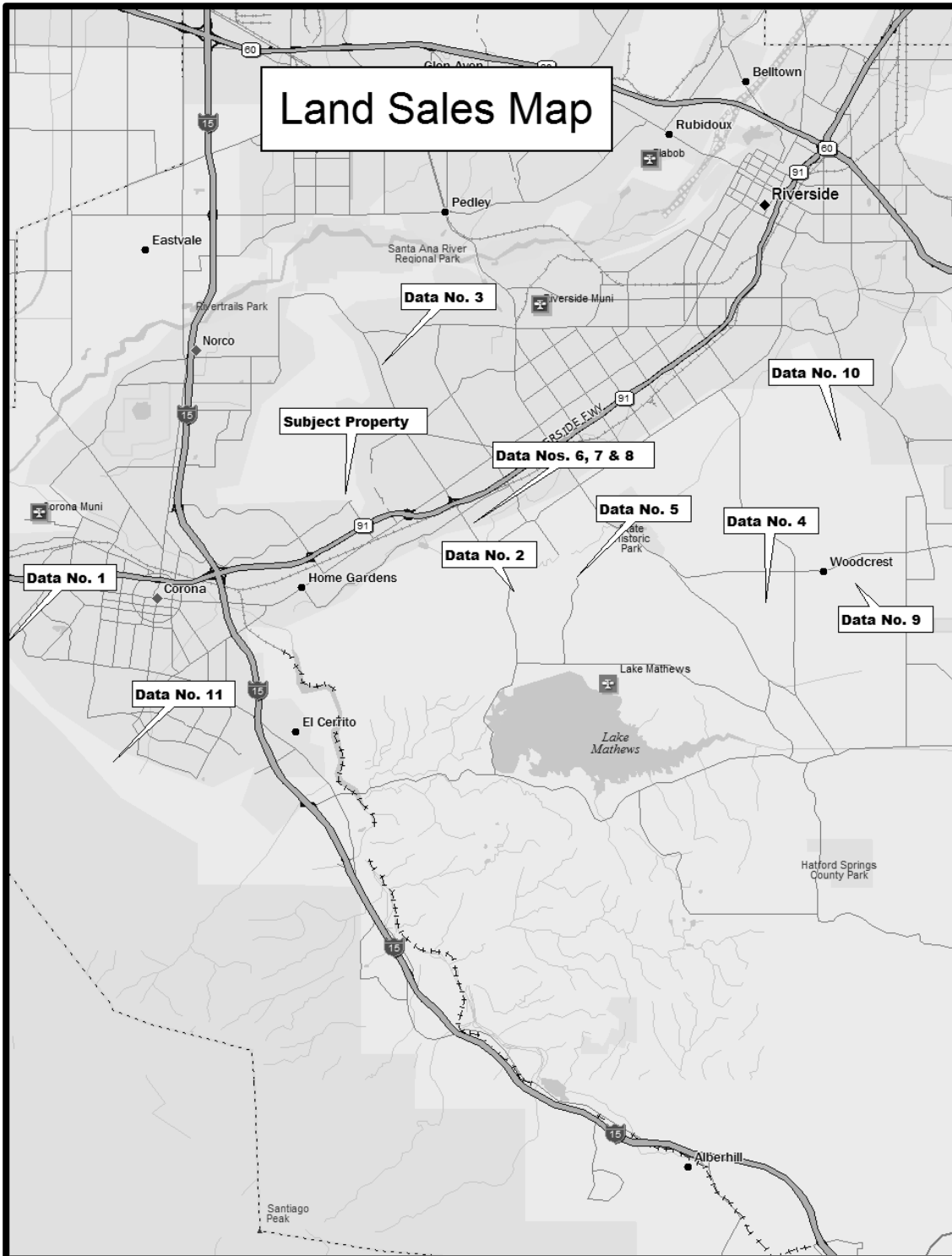
DISCOUNTED CASH FLOW ANALYSIS

The Highlands by DR Horton - City of Riverside CFD 2014-2

MONTH	<u>MONTH 1</u>	<u>MONTH 2</u>	<u>MONTH 3</u>	<u>TOTAL</u>
INCOME:				
Retail Sales	\$1,641,866	\$1,641,866	\$1,641,866	\$4,925,597
TOTAL INCOME	<u>\$1,641,866</u>	<u>\$1,641,866</u>	<u>\$1,641,866</u>	<u>\$4,925,597</u>
EXPENSES:				
Remaining Costs	(\$71,743)	(\$71,743)	(\$71,743)	(\$215,229)
Marketing & Carrying Expenses	(\$131,349)	(\$131,349)	(\$131,349)	(\$394,048)
Profit	<u>(\$164,187)</u>	<u>(\$164,187)</u>	<u>(\$164,187)</u>	<u>(\$492,560)</u>
TOTAL EXPENSES	<u>(\$367,279)</u>	<u>(\$367,279)</u>	<u>(\$367,279)</u>	<u>(\$1,101,836)</u>
NET CASH FLOW	\$1,274,587	\$1,274,587	\$1,274,587	\$3,823,761
Discount Factor	<u>0.9917</u>	<u>0.9835</u>	<u>0.9754</u>	
DISCOUNTED CASH FLOW	\$1,264,053	\$1,253,606	\$1,243,246	\$3,760,905
CUMULATIVE DISCOUNTED CASH FLOW	<u>\$1,264,053</u>	<u>\$2,517,659</u>	<u>\$3,760,905</u>	<u>\$3,760,905</u>

FINISHED LOT LAND SALES MAP
& SUMMARY CHART

Land Sales Map



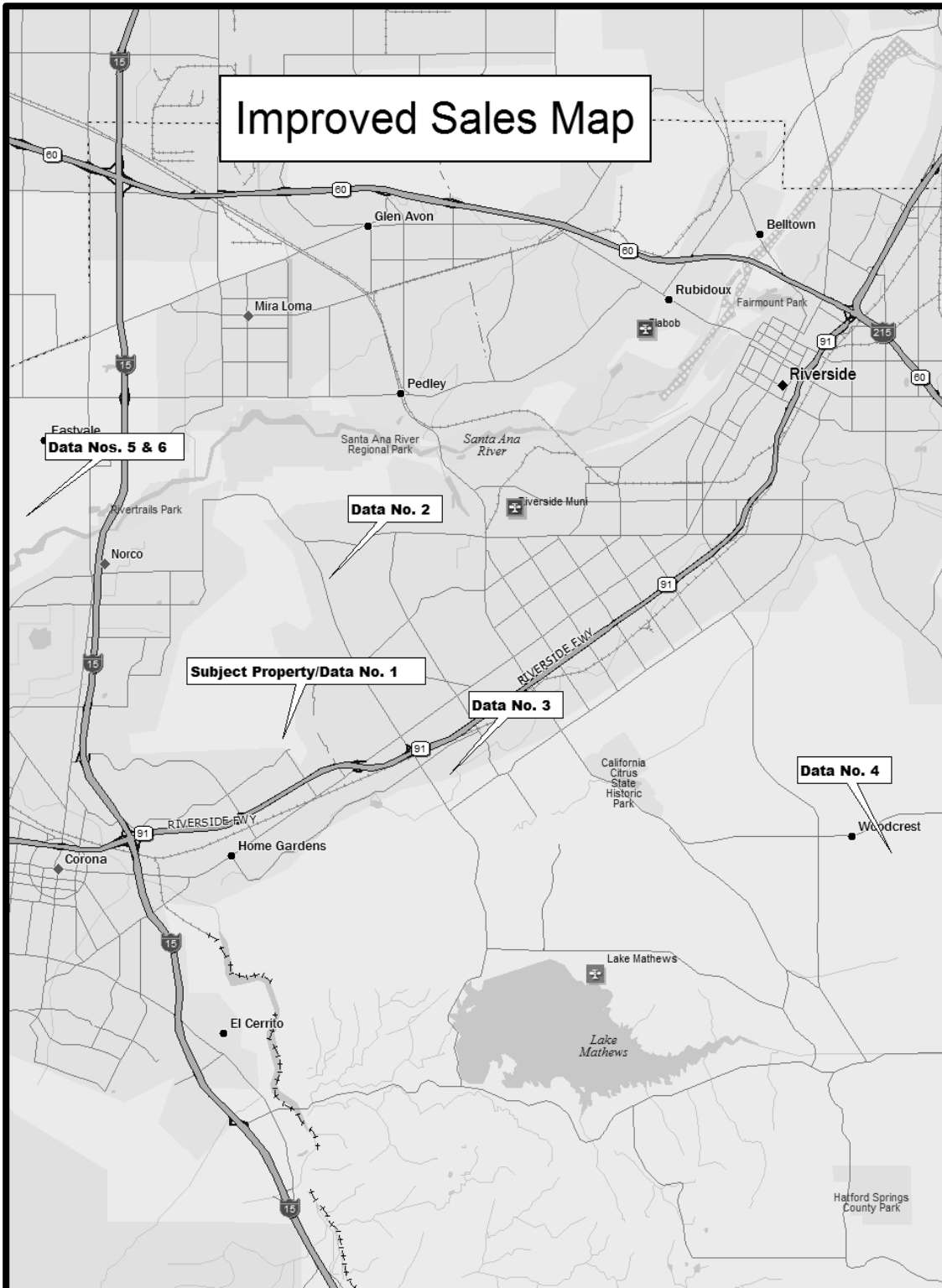
FINISHED LOT LAND SALES SUMMARY CHART

Data No.	Location/APN / Buyer / Seller	Sales Date	# Lots	Lot Size	Sales Price / Price per Lot	Est. Finished Lot Price	Comments
1	Sierra Bella, Southwest of Paseo Grande & Green River Road, Corona / 101-220-003, 102-320-016, 102-380-047, 102-390-037, 275-020-005 / Confidential / Foremost Communities	Current Escrow	237	9,000	Unknown	\$340,000	Was in escrow with CalAtlantic, but dropped due to development costs. New buyer still in due diligence phase.
2	Bella Vista Estates, Southeast of La Sierra Avenue & Orchard View Lane, Riverside / 136-120-002, 269-350-001 & -002 / Griffin Residential / Ashby Financial	8/29/14	32	15,000	\$4,000,000 / \$125,000	\$260,000	Lots were purchased with an approved tentative tract map and in rough graded condition. Product not yet for sale but coming soon per website.
3	Tesoro, E/S La Sierra between Campbell and Arlington, Riverside / 149-190-43, 44 & 46 (new APNs 149-440-various) / Meritage Homes / Pinnacle Communities	6/14/14	76	5,000	\$8,000,000 / \$105,263	\$240,000	Meritage purchased the 9.5 acre site in June 2014, developed the site and is now selling their Tesoro at La sierra with homes in the 2,220 to 2,736 SF size range.
4	The Estate Collection at Woodcrest, Southwest of Ponderosa Lane & King Avenue / 273-200-049 / Diversified Pacific / Gerald Spina	5/28/14	31	1 Acre	\$2,250,000 / \$72,581	\$243,000	Closed with an approved tentative tract map. Older Riverside neighborhood. Originally called Ponderosa Ranch. Now selling homes in 3,284 to 4,283 square foot range.
5	Citrus Heights, Northeast of McAllister Parkway & Sierra Heights Drive, Riverside / 269-060-various / Lennar Homes / CV Communities	1/14/14	355	8,000	\$33,767,029 / \$95,118	\$255,000	Lennar purchased this deal as part of a portfolio deal with CV Communities. Finished lot value is a blend of three product lines of 8,000 sf (\$220,000 FLV), 10,000 sf (\$250,000 FLV), and 12,000 sf (\$295,000 FLV)
6	Paseo, E/S Grande Vista Way at Rio Grande Lane, Riverwalk Vista, Riverside / 138-13 various / Richmond American / Foremost	12/30/13	52	4,125	\$6,348,330 / \$122,085	\$195,000	Within gated master planned community of Riverwalk Vista. Purchased in a blue-top condition. Now selling Paseo.
7	Fallbrook, S/S Grande Vista Parkway at Eldwood Circle, Riverwalk Vista, Riverside / 138-49 & 50 various / Richmond American / Foremost	12/30/13	111	3,285	\$13,251,560 / \$119,383	\$185,000	Within gated master planned community of Riverwalk Vista. Purchased in blue-top condition. Now selling Fallbrook

Data No.	Location/APN / Buyer / Seller	Sales Date	# Lots	Lot Size	Sales Price / Price per Lot	Est. Finished Lot Price	Comments
8	Topaz Ridge, Southeast of Grande Vista Way and Portofino Lane, Riverwalk Vista, Riverside / 138-48 various / Tripointe / Foremost	9/30/13	49	6,825	\$6,000,00 / \$122,449	\$225,000	Currently closing out Tripointe's Topazridge II project, a continuation of their Topazridge project in first phase of Riverwalk Vista. Used original model homes for this project.
9	Sky Ridge, SEC Krameria & Roosevelt, Woodcrest, Riverside / 266-69 various / William Lyon Homes / Everest	8/8/13	90	9,500	\$7,700,000 / \$85,556	\$210,000	Currently selling Skyridge. Within CFD similar to subject property. In Woodcrest area of Riverside. Purchased in raw condition with approved map.
10	Stellan Ridge, Northeast of Overlook Parkway & Kingdom Drive, Riverside / 243-200-various / Warmington Homes / Mission Pacific Land Company	6/26/13	48	1 Acre	\$7,713,058 / \$160,689	\$285,000	Closed on 48 lots with 14 finished lots, 14 blue-topped lots, and 20 unimproved lots. Now selling homes from 3,400 to 4,131 square feet from the low \$800,000s.
11	Amber Ridge Estates, Southeast of Jasper Drive & Fletcher Drive / 114-060-033 / Harmony Homes / Amberhill Highlands	6/7/13	14	20,000	\$1,315,000 / \$93,929	\$309,000	Purchased with an approved tentative tract map in superpad condition. At foothills of South Corona. No views. Neighborhood of established executive homes. Proposed home sizes in the 4,293 to 5,305 square foot range.

IMPROVED RESIDENTIAL SALES MAP

Improved Sales Map



IMPROVED RESIDENTIAL SALES SUMMARY CHART

Data No.	Project Name Location/Developer	Plan	Room Count	Floors/ Parking	Size (SF)	Lot Size	Base Sales Price	Absorp Rate/Mo	Incentives / Concessions	Price less Incentives	Price/SF After Incentives
1	Highlands, Buchanan & Napier, Riverside / DR Horton	1	4 / 3	1 / 3	2,798	7,200	613,990	1.9	\$5,000 towards closing with lender	\$608,990	\$217.65
		2	5 / 3	2 / 3	3,114		\$562,990			\$179.19	
		3	5 / 3.5	2 / 4	3,639		\$579,990			\$158.01	
		4	6 / 3.5	2 / 3	3,794		\$608,990			\$160.51	
2	Tesoro at La Sierra, E/S La Sierra between Campbell & Cypress, Riverside / Meritage Homes	1	4 / 3	2 / 2	2,220	5,000	\$395,990	2	\$10,000 towards closing costs with preferred lender	\$385,990	\$173.87
		2	4 / 3	2 / 2	2,425		\$405,990			\$163.29	
		3	4 / 3	2 / 2	2,736		\$418,990			\$149.48	
3	Topazridge II, Portofino Lane, Riverwalk Vista, Riverside / Tri Pointe Homes	1	4 / 2.5	1 / 2	2,567	6,825	\$538,900	2.5	One model left. \$10,000 towards closing with preferred lender	\$528,900	\$206.03
		2	5 / 3	2 / 2+	3,426		\$522,900			\$149.71	
		3	6 / 3	2 / 2+	3,773		\$544,900			\$141.77	
4	Skyridge, Krameria & Roosevelt, Woodcrest, Riverside / William Lyon	1	3 / 2.5	1 / 3	2,575	10,000	\$526,990	1.1	Up to \$10,000 towards closing with preferred lender	\$516,990	\$200.77
		2	5 / 3.5	2 / 3	3,426		\$535,990			\$153.52	
		3	5 / 4.5	2 / 3	3,803		\$555,990			\$143.57	
5	Estancia East; SWO Citrus St & Hamner Ave. Eastvale Lennar	1	3 / 2.5	2,726	1 / 2	8,500	\$576,516	3.16	\$10,000 towards closing costs with preferred lender	\$566,516	\$207.82
		2	4 / 2.5	2,832	1 / 3		\$668,490			\$232.52	
		3	5 / 3	3,615	2 / 3		\$706,107			\$192.56	
		4	5 / 3.5	4,644	2 / 3		\$796,500			\$169.36	
6	Estancia West; SWO Citrus St & Hamner Ave. Eastvale Lennar	1	4 / 3	2,809	2 / 2	7,500	\$599,103	3.83	\$8,000 towards closing costs with preferred lender	\$591,103	\$210.43
		2	4 / 3	3,264	2 / 2		\$640,000			\$193.63	
		3	5 / 3	3,823	2 / 2		\$654,200			\$169.03	

APPRAISER'S QUALIFICATIONS

QUALIFICATIONS OF KITTY S. SIINO, MAI

Education

Bachelor of Arts in Business Administration, Financial Investments, California State University, Long Beach, California (1980)

Post-Graduate Study, Real Estate Development, University of California, Irvine, California

Appraisal Institute Classes: Uniform Standards of Professional Appraisal Practice, A & B; Appraisal Principles; Appraisal Procedures; Basic Income Capitalization; Advanced Income Capitalization; Narrative Report Writing; Advanced Applications, Case Studies. Successfully completed all classes in addition to successfully completing the writing of a Demonstration Report and taking the Comprehensive Exam. Became a Member of the Appraisal Institute in December 1996. Have completed over 100 hours of continuing education through the Appraisal Institute every five years.

Employment

1988 - Present:

Self-Employed Real Estate Appraiser. Duties include the appraisal of various types of properties such as commercial, retail, industrial and vacant land. More complex assignments include easements, right-of-ways and special assessment districts. From 1996 to present, specialized in special assessment districts and community facilities districts appraisals for public entities, including Jurupa Community Services District, Corona Norco Unified School District, City of Corona, City of Chula Vista, City of San Marcos and City of Moreno Valley.

1986-1988:

Project Manager of Development for Ferguson Partners, Irvine, California. Duties included land acquisitions; review of fee appraisals and valuations; analysis of proposed development; planning and design; and management of development, construction and lease-up. The types of properties developed were commercial and industrial. Duties ranged from raw, vacant site development through property management of recently developed projects.

1981 - 1986

Manager of Finance, Construction for Community Development Division, The Irvine Company, Irvine, California. Duties included originating and managing a newly formed division of finance to bridge between the accounting functions and project management functions. Worked with analysis and budgets for Community Development Division. Coordinated with cities in forming new Assessment Districts and Community Facilities Districts to finance major infrastructure improvements. Types of properties were apartments and single-family residential lots on a for sale basis to apartment and homebuilders.

1980 - 1981

Investment Counselor, Newport Equity Funds, Newport Beach, California. Duties included obtaining private financing for residential properties, working with appraisals of properties and analyzing the investments.

Licenses

Real Estate Sales Person, State of California, 1980
Certified General Appraiser, State of California (#AG004793)

Organizations

MAI #11145 - The Appraisal Institute

Public Financing

CASTOFF Meetings, 2006, 2007, 2008, 2009, 2010, 2011, 2013, 2014 and 2015

Speaker, Mello-Roos & Special Assessment Financing, UCLA Extension Public Policy Program, February 2009 and March 2011

APPENDIX C

**SUPPLEMENTAL INFORMATION CONCERNING
CITY AND COUNTY OF RIVERSIDE**

The Bonds will not be secured by any pledge of ad valorem taxes or City General Fund revenues but will be payable solely from Special Taxes to levied on and collected from the owners of certain taxable land within the District. The information set forth below is included in the Official Statement for background purposes only.

General Description and Background

Incorporated in October 11, 1883, the City of Riverside is a charter city that now functions under a Council/Manager form of government. A seven member City Council is elected by Council ward. The Mayor is elected at large. The City Manager is appointed by the City Council.

Riverside County, which encompasses 7,303 square miles, was organized in 1893 from territory in San Bernardino and San Diego Counties. Located in the southeastern portion of California, Riverside County is bordered on the north by San Bernardino County, on the east by the State of Arizona, on the South by San Diego and Imperial Counties and on the west by Orange and Los Angeles Counties. There are 28 incorporated cities in Riverside County.

Riverside County’s varying topology includes desert, valley and mountain areas as well as gently rolling terrain. Three distinct geographical areas characterize Riverside County: the western valley area, the higher elevations of the mountains, and the deserts. The western valley, the San Jacinto Mountains and the Cleveland National Forest experience the mild climate typical of Southern California. The eastern desert areas experience warmer and dryer weather conditions. Riverside County is the site for famous resorts, such as Palm Springs, as well as a leading area for inland water recreation. Nearly 20 lakes in Riverside County are open to the public. The dry summers and moderate to cool winters make it possible to enjoy these and other recreational and cultural facilities on a year-round basis.

Population

The following sets forth the City, the County and the State population estimates as of January 1, for the years 2011 to 2015:

**CITY OF RIVERSIDE, RIVERSIDE COUNTY AND STATE OF CALIFORNIA
Estimated Population**

<i>Year (January 1)</i>	<i>City of Riverside</i>	<i>Riverside County</i>	<i>State of California</i>
2011	306,064	2,205,731	37,427,946
2012	308,797	2,229,467	37,680,593
2013	311,827	2,253,516	38,030,609
2014	314,221	2,280,191	38,357,121
2015	317,307	2,308,441	38,714,725

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

Commerce

A summary of historic taxable sales within the City during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2013 in the City were reported to be \$4,612,948,000, an 8.82% increase over the total taxable sales of \$4,238,975,000 reported during calendar year 2012.

CITY OF RIVERSIDE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)

	<i>Retail Stores</i>		<i>Total All Outlets</i>	
	<i>Number of Permits</i>	<i>Taxable Transactions</i>	<i>Number of Permits</i>	<i>Taxable Transactions</i>
2010	5,690	\$2,889,292	7,907	\$3,692,302
2011	5,764	3,144,537	8,066	4,019,127
2012	6,196	3,348,220	8,484	4,238,975
2013	5,436	3,580,926	7,673	4,612,948
2014 ⁽²⁾	5,782	2,867,890	8,051	3,737,857

⁽¹⁾ Retail stores data not comparable to prior years.

⁽²⁾ Through the third quarter of 2014.

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

A summary of historic taxable sales within the County during the past five years in which data is available is shown in the following table. Total taxable sales during calendar year 2013 in the County were reported to be \$30,065,467,000, a 7.01% increase over the total taxable sales of \$28,096,009,000 reported during calendar year 2012.

COUNTY OF RIVERSIDE
Taxable Retail Sales
Number of Permits and Valuation of Taxable Transactions
(Dollars in thousands)

	<i>Retail Stores</i>		<i>Total All Outlets</i>	
	<i>Number of Permits</i>	<i>Taxable Transactions</i>	<i>Number of Permits</i>	<i>Taxable Transactions</i>
2010	32,534	\$16,919,500	45,688	\$23,152,780
2011	33,398	18,576,285	46,886	25,641,497
2012	34,683	20,016,668	48,316	28,096,009
2013	33,391	21,306,774	46,805	30,065,467
2014 ⁽²⁾	34,910	16,609,524	48,453	23,479,455

⁽¹⁾ Retail stores data not comparable to prior years.

⁽²⁾ Through the third quarter of 2014.

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

Employment and Industry

The City is included in the Riverside-San Bernardino-Ontario labor market area. The unemployment rate in the Riverside-San Bernardino-Ontario MSA was 8.2% in 2014, down from 9.8% in 2013. This compares with an unadjusted unemployment rate of 7.5% for California and 6.2% for the nation during the same period. The unemployment rate was 8.2% in Riverside County, and 8.1% in San Bernardino County.

The following table shows the average annual estimated numbers of wage and salary workers by industry. The table does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons in labor management disputes.

RIVERSIDE-SAN BERNARDINO-ONTARIO METROPOLITAN STATISTICAL AREA (RIVERSIDE COUNTY) Civilian Labor Force, Employment and Unemployment (Annual Averages)

	2010	2011	2012	2013	2014
Civilian Labor Force	1,865,800	1,866,200	1,882,900	1,897,000	1,919,900
Civilian Employment	1,610,200	1,623,100	1,665,600	1,710,500	1,763,300
Civilian Unemployment	255,500	243,100	217,300	186,500	156,600
Civilian Unemployment Rate	13.7%	13.0%	11.5%	9.8%	8.2%
Total Farm	15,000	14,900	15,000	14,500	14,300
Total Nonfarm	1,144,700	1,148,000	1,180,300	1,231,900	1,285,100
Total Private	910,400	920,600	955,700	1,006,700	1,056,400
Goods Producing	145,900	145,200	150,500	158,600	168,500
Natural Resources and Mining	1,000	1,000	1,200	1,200	1,300
Construction	59,700	59,100	62,600	70,000	77,000
Manufacturing	85,200	85,100	86,700	87,300	90,200
Service Providing	998,900	1,002,800	1,029,800	1,073,300	1,116,700
Trade, Transportation and Utilities	270,900	276,500	288,500	300,600	315,000
Wholesale Trade	48,700	49,200	52,200	56,400	59,000
Retail Trade	155,500	158,500	162,400	164,800	168,700
Transportation, Warehousing and Utilities	66,600	68,800	73,900	79,400	87,300
Information	14,000	12,200	11,700	11,500	11,200
Financial Activities	41,000	39,900	40,900	42,200	42,700
Professional and Business Services	123,600	126,000	127,500	132,400	137,800
Educational and Health Services	154,100	157,600	167,200	184,500	193,600
Leisure and Hospitality	122,800	124,000	129,400	135,900	144,300
Other Services	38,200	39,100	40,100	41,100	43,200
Government	234,300	227,500	224,600	225,200	228,800
Total, All Industries	<u>1,159,700</u>	<u>1,162,900</u>	<u>1,195,300</u>	<u>1,246,400</u>	<u>1,299,500</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.

Source: State of California, Employment Development Department, March 2014 Benchmark.

Major Employers

The table below shows the 10 largest employers in the City.

**CITY OF RIVERSIDE
LARGEST EMPLOYERS
(As of June 30, 2014)**

<i>Employer</i>	<i>Number of Employees</i>	<i>% of Total City Employment ⁽¹⁾</i>
County of Riverside	11,187	7.6
University of California	7,218	4.9
Riverside Unified School District	3,461	2.4
Kaiser	3,156	2.1
City of Riverside	2,476	1.7
Riverside Community Hospital	1,880	1.3
Riverside County Office of Education	1,765	1.2
Alvord Unified School District	1,445	1.0
Parkview Community Hospital	1,350	0.9
Riverside Community College District	<u>1,061</u>	<u>0.7</u>
Total	34,999	23.8

Source: City of Riverside, Finance Department (as presented in the City's 2014 Comprehensive Annual Financial Report).

The table below shows the 10 largest employers in the County.

**LARGEST EMPLOYERS
County of Riverside
(As of June 30, 2014)**

<i>Rank</i>	<i>Name of Business</i>	<i>Employees</i>	<i>Type of Business</i>
1.	County of Riverside	19,916	County Government
2.	March Air Reserve Base	8,500	Military Reserve Base
3.	Stater Bros. Markets	6,900	Supermarkets
4.	University of California, Riverside	5,514	University
5.	Kaiser Permanente Riverside Medical Center	5,270	Medical Center
6.	Pechanga Resort & Casino	4,500	Casino & Resort
7.	Corona-Norco Unified School District	4,300	School District
8.	Walmart	4,068	Super Store
9.	Riverside Unified School District	4,000	School District
10.	Hemet Unified School District	3,572	School District

Source: County of Riverside 'Comprehensive Annual Financial Report' for the year ending June 30, 2014.

Construction Activity

The following is a five-year summary of the valuation of building permits issued in the City.

CITY OF RIVERSIDE Building Permit Valuations (Valuation in Thousands of Dollars)

	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Valuation (\$000):					
Residential	\$58,764	\$43,492	\$73,345	\$30,646	\$80,367
Non-residential	<u>87,269</u>	<u>89,925</u>	<u>53,007</u>	<u>115,561</u>	<u>70,046</u>
Total*	\$146,033	\$133,417	\$126,352	\$146,207	\$150,413
Residential Units:					
Single family	107	43	193	70	230
Multiple family	<u>266</u>	<u>236</u>	<u>168</u>	<u>51</u>	<u>85</u>
Total	373	279	361	121	309

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

The following is a five-year summary of the valuation of building permits issued in the County.

COUNTY OF RIVERSIDE Building Permit Valuations (Valuation in Thousands of Dollars)

	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>
Valuation (\$000):					
Residential	\$1,079,637	\$873,411	\$1,079,405	\$1,375,593	\$1,621,751
Non-residential	<u>539,379</u>	<u>559,398</u>	<u>657,596</u>	<u>790,000</u>	<u>814,990</u>
Total*	\$1,619,016	\$1,432,809	\$1,737,001	\$2,165,593	\$2,436,741
Residential Units:					
Single family	4,031	2,659	3,720	4,716	5,007
Multiple family	<u>526</u>	<u>1,061</u>	<u>909</u>	<u>1,427</u>	<u>1,931</u>
Total	4,557	3,720	4,629	6,143	6,938

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

Education

The City is included within the boundaries of the Riverside Unified School District and the Alvord Unified School District, which also serves the County area southwest of the City. These two districts include 64 elementary and middle schools and high schools. There are also about 48 private or parochial schools for kindergarten through twelfth grade. Higher education is available at four institutions: Riverside Community College, University of California at Riverside, California Baptist University and La Sierra University at Riverside. Also located in the City are the California School for the Deaf and the Sherman Indian High School, a federally-run school for Native Americans.

Transportation

The City is served by a variety of land and air transportation facilities. Light rail commuter service is provided by Metrolink to Los Angeles and Orange Counties. Interstate bus service is available via Greyhound, and local bus service is provided by the Riverside Transit Agency. Most major trucking firms serve the City in addition to numerous local carriers. Overnight delivery can be scheduled to San Francisco, Los Angeles, San Diego and Sacramento.

Freight rail service to the City is provided by two major transcontinental railroads: the Santa Fe and Union Pacific. Amtrak-operated passenger train service is available at San Bernardino, approximately 15 miles north of the City.

Scheduled air transportation is available from the Ontario International Airport, approximately 18 miles to the west. The City-operated Riverside Municipal Airport is a general aviation facility.

The City is served by the Riverside Freeway (State Route 91), which provides access to Orange County; Interstate 215, which connects the City to San Diego, San Bernardino and points beyond; and the Pomona Freeway (U.S. Highway 60), an east-west route.

APPENDIX D

SUMMARY OF FISCAL AGENT AGREEMENT

The following is a summary of certain provisions of the Fiscal Agent Agreement (the "Agreement") not otherwise described in the text of this Official Statement. This summary is not intended to be definitive, and reference is made to the text of the Fiscal Agent Agreement (the "Agreement") for the complete provisions thereof.

DEFINITIONS

Unless the context otherwise requires, the terms defined herein shall, for all purposes of the Agreement, of any Supplemental Agreement, and of any certificate, opinion or other document herein mentioned, have the meanings herein specified. All references herein to "Articles," "Sections" and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Agreement, and the words "herein," "hereof," "hereunder" and other words of similar import refer to the Agreement as a whole and not to any particular Article, Section or subdivision hereof.

"Act" means the Mello-Roos Community Facilities Act of 1982, as amended, Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the California Government Code.

"Administrative Expenses" means any or all of the following: the fees and expenses of the Fiscal Agent (including any fees or expenses of its counsel), the expenses of the City in carrying out its duties under the Agreement (including, but not limited to, the computation of, levy and collection of the Special Taxes) including the fees and expenses of its counsel, an allocable share of the salaries of City staff directly related thereto and a proportionate amount of City general administrative overhead related thereto, any amounts paid by the City from its general funds pursuant to the Agreement, and all other costs and expenses of the City or the Fiscal Agent incurred in connection with the discharge of their respective duties hereunder and, in the case of the City, in any way related to the administration of the District, including the costs of providing continuing disclosures and complying with the requirements of applicable Federal Securities Law.

"Administrative Expense Fund" means the fund by that name established by the Agreement.

"Agreement" means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement adopted pursuant to the provisions of the Agreement.

"Annual Debt Service" means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds and in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the Outstanding Bonds scheduled to be paid.

"Auditor" means the Auditor-Controller of the County of Riverside.

"Authorized Officer" means any officer or employee of the City authorized by the City Council or by an Authorized Officer to undertake the action referenced in the Agreement as required to be undertaken by an Authorized Officer.

"Bond Counsel" means any attorney or firm of attorneys acceptable to the City and nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

"Bond Fund" means the fund by that name established by the Agreement.

“Bond Year” means the period beginning on the Closing Date and ending on September 1, 2016 and thereafter the period beginning on each September 2 and ending on the following September 1.

“Bonds” means collectively the Series 2016A Bonds and the Series 2016B Bonds, unless otherwise expressly provided, authorized by and at any time Outstanding pursuant to the Act and the Agreement.

“Business Day” means any day other than (i) a Saturday or a Sunday or (ii) a day on which banking institutions in the State of California or in any state in which the Fiscal Agent has its Principal Office are authorized or obligated by law or executive order to be closed.

“City” means the City of Riverside.

“City Council” means the City Council of the City.

“City Facilities Account” means the account by that name established in the Improvement Fund by the Agreement.

“Closing Date” means the date upon which there is an exchange of the Bonds for the proceeds representing payment of the purchase price of the Bonds by the Original Purchaser.

“Code” means the Internal Revenue Code of 1986, as amended.

“Continuing Disclosure Certificate” means the Continuing Disclosure Certificate executed by the City, dated as of the Closing Date, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

“Costs of Issuance” means items of expense payable or reimbursable directly or indirectly by the City and related to the authorization, sale and issuance of the Bonds, which items of expense shall include, but not be limited to, printing costs, costs of reproducing and binding documents, including but not limited to the preliminary official statement and official statement regarding the Bonds, closing costs, filing and recording fees, initial fees and charges of the Fiscal Agent including its first annual administration fee and the fees of its counsel, expenses incurred by the City in connection with the issuance of the Bonds and the formation of the District, Bond (underwriter’s) discount, legal fees and charges, including the fees of Bond Counsel and counsel to the Underwriter, appraiser’s fees and costs, Tax Consultant’s fees and costs, charges for authentication, transportation and safekeeping of the Bonds and other costs, charges and fees in connection with the foregoing.

“Costs of Issuance Fund” means the fund by that name established by the Agreement.

“Debt Service” means the amount of interest and principal payable on the Bonds scheduled to be paid during the period of computation, excluding amounts payable during such period which relate to principal of the Bonds which are scheduled to be retired and paid before the beginning of such period.

“Defeasance Securities” means, for purposes of the Agreement, the following:

(i) United States Treasury Certificates, Notes and Bonds (including State and Local Government Series - “SLGs”);

(ii) Direct obligations of the United States Treasury which have been stripped by the Treasury itself, CATS, TIGRS and similar securities;

(iii) Resolution Funding Corporation (REFCORP) obligations; provided that only the interest component of REFCORP strips which have been stripped by request of the Federal Reserve Bank of New York in book-entry form are acceptable;

(iv) Pre-refunded municipal bonds rated “Aaa” by Moody’s and “AAA” by Standard & Poor’s; provided, however, that if the issue is only rated by Standard & Poor’s (i.e., there is no Moody’s rating), then the pre-refunded bonds must have been pre-refunded with cash, direct United States or United States guaranteed obligations, or “AAA” rated pre-refunded municipal bonds; and

(v) Obligations issued by the following agencies which are backed by the full faith and credit of the United States of America:

- (a) U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership
- (b) Federal Financing Bank
- (c) General Services Administration
Participation certificates
- (d) United States Maritime Administration
Guaranteed Title XI financing
- (e) United States Department of Housing and Urban Development
Project notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
United States Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds.

“Developed Property” means, except as otherwise specifically provided, all Assessor’s Parcels within the District, exclusive of Association Property and Public Property, upon which completed Dwelling Units or non-residential buildings have been constructed or for which building permits have been issued as of March 1 of the Fiscal Year preceding the Fiscal Year for which Special Taxes are being levied. (The words with initial letters capitalized are defined in the Rates and Method of Apportionment of Special Tax.)

“District” means Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside, County of Riverside, State of California.

“Federal Securities” means any of the following which at the time of investment are legal investments under the laws of the State of California for the moneys proposed to be invested therein:

- (i) Cash; and
- (ii) Direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America and CATS and TIGRS), or obligations, the payment of principal of and interest on which is unconditionally guaranteed by the United States of America.

“Fiscal Agent” means U.S. Bank National Association, the Fiscal Agent appointed by the City, acting as an independent fiscal agent with the duties and powers provided in the Agreement, its successors and assigns, and any other corporation or association which may at any time be substituted in its place, as provided in the Agreement.

“Fiscal Year” means the twelve-month period extending from July 1 in a calendar year to June 30 of the succeeding year, both dates inclusive.

“Improvement Fund” means the fund by that name established by the Agreement.

“Independent Financial Consultant” means a firm of certified public accountants, a financial consulting firm, a consulting engineering firm or engineer which is not an employee of, or otherwise controlled by, the City.

“Information Services” means the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board at www.emma.msrb.org; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other services providing information with respect to called bonds as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Interest Account” means the account by that name established in the Bond Fund by the Agreement.

“Interest Payment Dates” means March 1 and September 1 of each year, commencing September 1, 2016, until the maturity or redemption of all Outstanding Bonds.

“Investment Earnings” means all interest earned and any gains and losses on the investment of moneys in any fund or account created by the Agreement, excluding interest earned and gains and losses on the investment of moneys in the Rebate Fund.

“Joint Community Facilities Agreement” means the Joint Community Facilities Agreement Between the City of Riverside and Alvord Unified School District Community Facilities District No. 2014-2 (The Highlands), dated as of July 17, 2014, by and between the City and the School District.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Moody’s” shall mean Moody’s Investors Service, a national rating service with offices in New York, New York.

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

“Ordinance” means any ordinance of the City or resolution of the City Council levying the Special Taxes.

“Original Purchaser” means the first purchaser of the Bonds from the City.

“Outstanding,” when used as of any particular time with reference to the Bonds means (subject to the provisions of the Agreement) all Bonds except:

- (i) Bonds theretofore canceled by the Fiscal Agent or surrendered to the Fiscal Agent for cancellation;
- (ii) Bonds called for redemption which, for the reasons specified in the Agreement, are no longer entitled to any benefit under the Agreement other than the right to receive payment of the redemption price therefor;
- (iii) Bonds paid or deemed to have been paid within the meaning of the Agreement; and

(iv) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City and authenticated by the Fiscal Agent pursuant to the Agreement or any Supplemental Agreement.

“Owner” means any person who shall be the registered owner of any Outstanding Bond.

“Parity Bonds” means bonds issued by the District that would be secured by a pledge of and lien upon the Special Tax Revenues and funds pledged for the payment of the Outstanding Bonds hereunder on a parity with the pledge of and lien upon the Special Tax Revenues and such funds that secure payment of the principal of and interest on the Outstanding Bonds.

“Permitted Investments” means:

(i) Federal Securities;

(ii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

(a) U.S. Export-Import Bank
Direct obligations or fully guaranteed certificates of beneficial ownership

(b) Federal Financing Bank

(c) Federal Housing Administration Debentures

(d) General Services Administration
Participation certificates

(e) Government National Mortgage Association (GNMA)
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations

(f) U.S. Maritime Administration
Guaranteed Title XI financing

(g) U.S. Department of Housing and Urban Development
Project Notes
Local Authority Bonds
New Communities Debentures - United States government guaranteed debentures
U.S. Public Housing Notes and Bonds - United States government guaranteed public housing notes and bonds;

(iii) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit United States government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

(a) Federal Home Loan Bank System
Senior debt obligations

- (b) Federal Home Loan Mortgage Corporation
Participation Certificates
Senior debt obligations
- (c) Federal National Mortgage Association
Mortgage-backed securities and senior debt obligations
- (d) Student Loan Marketing Association
Senior debt obligations
- (e) Resolution Funding Corporation
(REFCORP) obligations
- (f) Farm Credit System
Consolidated systemwide bonds and notes;

(iv) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Standard & Poor's of "AAAm-G," "AAA-m" or "AA-m" and, if rated by Moody's, rated "Aaa," "Aa1" or "Aa2" by Moody's, including funds for which the Fiscal Agent, its parent holding company, if any, or any affiliates or subsidiaries of the Fiscal Agent or such holding company provide investment management or other management services;

(v) Investment agreements, including guaranteed investment contracts (GIC's), with providers rated, or guaranteed by guarantors rated, at the time of investment in the top three categories (without regard to modifiers) by any two or more Rating Agencies.

(vi) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and "A-1" or better by Standard & Poor's;

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

(viii) Unsecured certificates of deposit, time deposits and bankers' acceptance (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated on the date of purchase "A-1+" or better by Standard & Poor's and "P-1" by Moody's or certificates of deposit (including those of the Fiscal Agent, its parent and its affiliates) secured at all times by collateral that may be used by a national bank for purposes of satisfying its obligations to collateralize pursuant to federal law which are issued by commercial banks, savings and loan associations or mutual savings bank whose short-term obligations are rated on the date of purchase "A-1" or better by Standard & Poor's, Moody's and Fitch.

(ix) Repurchase agreements which satisfy the following criteria:

(a) Repurchase agreements must be between the City or the Fiscal Agent and an entity which is:

(1) A primary dealer on the Federal Reserve reporting dealer list which is rated in the top three rating categories by any two Rating Agencies, or

(2) A bank rated in the top three rating categories by any two Rating Agencies; or

(3) A corporation the long-term debt or claims paying ability of which, or in the case of a guaranteed corporation, the long-term debt of the guarantor, or, in the case of a monoline financial guaranty insurance company, the claims paying ability or financial strength of the guarantor, is rated in the top three rating categories by any two Rating Agencies; or

(4) Any other financial institution with ratings in the top three rating categories by any two Rating Agencies.

(b) The written agreement must include the following:

(1) Securities which are acceptable for transfer are:

(A) direct obligations of the United States government, or

(B) obligations of federal agencies backed by the full faith and credit of the United States of America (or the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC)),

(2) The collateral must be delivered to the City or the Fiscal Agent (if the Fiscal Agent is not supplying the collateral) or a third party acting as agent for the Fiscal Agent (if the Fiscal Agent is supplying the collateral) before or simultaneous with payment (perfection by possession of certificated securities),

(3) (A) The securities must be valued weekly, marked-to-market at current market price plus accrued interest, and

(B) The value of the collateral must be at least equal to one hundred four percent (104%) of the amount of money transferred by the Fiscal Agent to the dealer, bank or corporation under the agreement plus accrued interest. If the value of the securities held as collateral is reduced below one hundred four percent (104%) of the value of the amount of money transferred by the Fiscal Agent, then additional acceptable securities and/or cash must be provided as collateral to bring the value of the collateral to one hundred four percent (104%); provided, however, that if the securities used as collateral are those of FNMA or FHLMC, then the value of the collateral must equal to one hundred five percent (105%) of the amount of money transferred by the Fiscal Agent;

(x) Forward delivery agreements (FDA) or forward purchase and sale agreements (FPSA) having as the underlying investment property investments of the type which are identified in clauses (i), (ii), (iii) or (viii) of this Section; and

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

“Principal Account” means the account by that name established in the Bond Fund by the Agreement.

“Principal Office” means the principal corporate trust office of the Fiscal Agent in St. Paul, Minnesota or at such other addresses may be specified in writing by the Fiscal Agent; provided, however, that for purposes of the transfer, registration, exchange, payment and surrender of Bonds “Principal Office” means the

office or agency of the Fiscal Agent at which, at any time, its corporate trust agency business shall be conducted or such other office or address as may be specified in writing by the Fiscal Agent.

“Proceeds,” when used with reference to the Bonds, means the aggregate principal amount of the Bonds, plus accrued interest and premium, if any, less original issue discount, if any.

“Project” means the public facilities which are to be financed with the proceeds of the sale of the Bonds and Parity Bonds, if any, as described in Resolution No. 22729 adopted by the City Council on July 22, 2014.

“Rates and Method of Apportionment of Special Tax” means the Rates and Method of Apportionment of Special Tax for the District which is attached as Exhibit “A” to Resolution No. 22729 adopted by the City Council on July 22, 2014.

“Rating Agency” means each of Moody’s, Standard & Poor’s and Fitch and/or such other nationally recognized rating agency selected by the City

“Rebate Certificate” means the certificate delivered by the City upon the delivery of the Series 2016A Bonds relating to Section 148 of the Code, or any functionally similar replacement certificate.

“Rebate Fund” means the fund by that name established by the Agreement.

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

“Regulations” means the temporary and permanent regulations of the United States Department of the Treasury promulgated under the Code.

“Representation Letter” means the representation letter which the City has delivered to The Depository Trust Company (“DTC”) with respect to the utilization of the book-entry system maintained by DTC for the issuance and registration of bonds.

“Reserve Fund” means the fund by that name established by the Agreement.

“Reserve Requirement” means, as of the date of calculation, the lesser of (i) ten percent (10%) of the proceeds of the sale of the Bonds and any Parity Bonds, (ii) Maximum Annual Debt Service on the Bonds and any Parity Bonds or (iii) 125 percent of average Annual Debt Service on the Bonds and any Parity Bonds, as determined by the City.

“Resolution” means Resolution No. 22984, adopted by the City Council on April 5, 2016.

“Securities Depositories” means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York, 10041-0099, Call Notification Department, Fax (212) 855-7232, and, in accordance with then current guidelines of the Securities and Exchange Commission, such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Series” mean the Series 2016A Bonds or the Series 2016B Bonds.

“Series 2016A Bonds” means the Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Special Tax Bonds, Series 2016A, issued in the original principal amount of \$1,800,000.

“Series 2016B Bonds” means the Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Taxable Special Tax Bonds, Series 2016B, issued in the original principal amount of \$810,000.

“Series 2016A City Facilities Sub-Account” means the sub-account by that name established in the City Facilities Account in the Improvement Fund by the Agreement.

“Series 2016B City Facilities Sub-Account” means the sub-account by that name established in the City Facilities Account in the Improvement Fund by the Agreement.

“Series 2016A Reserve Account” means the account by that name established in the Reserve Fund by the Agreement.

“Series 2016B Reserve Account” means the account by that name established in the Reserve Fund by the Agreement.

“School District” means Alvord Unified School District.

“School District Facilities Account” means the account by that name established in the Improvement Fund by the Agreement.

“School District Certificate” means a certificate signed by the Superintendent or an Assistant Superintendent of the School District requesting the disbursement of funds from the School District Facilities Account pursuant to the Agreement.

“Special Taxes” or “Special Tax” means the special taxes levied by the City Council on parcels of taxable property within the District pursuant to the Act and the Agreement.

“Special Tax Fund” means the fund by that name established by the Agreement.

“Special Tax Prepayments” means amounts received by the City as prepayments of all or a portion of the Special Tax obligation of a parcel of property in the District.

“Special Tax Prepayments Account” means the account by that name established by the Fiscal Agent in the Bond Fund pursuant to the Agreement.

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including any scheduled payments, receipts of sale of delinquencies, interest and penalties thereon and proceeds of the redemption or sale of property sold as a result of foreclosure of the lien of the Special Taxes in the amount of said lien and interest and penalties thereon.

“Standard & Poor’s” shall mean Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc., a national rating service with offices in New York, New York.

“Supplemental Agreement” means an agreement entered into by and between the City and the Fiscal Agent amending and supplementing the Agreement as permitted by the Agreement.

“Surplus Account” means the account by that name established in the Special Tax Fund by the Agreement.

“Tax Consultant” means an engineer or financial consultant or other such person or firm with expertise in the apportionment and levy of special taxes in community facilities districts which is employed by the City to assist the City in levying the Special Taxes.

**ISSUANCE OF BONDS; APPLICATION OF PROCEEDS; IMPROVEMENT
FUND; SPECIAL TAX FUND; ADMINISTRATIVE EXPENSE FUND;
COSTS OF ISSUANCE FUND**

Issuance and Delivery of Bonds. At any time after the execution of the Agreement, the City may issue the Bonds for the District in the aggregate principal amounts set forth in the Agreement and deliver the Bonds to the Original Purchaser. The Authorized Officers of the City are authorized and directed to deliver any and all documents and instruments necessary to cause the issuance of the Bonds in accordance with the provisions of the Act, the Resolution and the Agreement, to authorize the payment of Costs of Issuance by the Fiscal Agent from the proceeds of the Bonds, and to do and cause to be done any and all acts and things necessary or convenient for delivery of the Bonds to the Original Purchaser.

Improvement Fund.

(A) Creation of Improvement Fund. The Agreement establishes, as a separate fund to be held by the Fiscal Agent, the “Community Facilities District No. 2014-2 of the City of Riverside Special Tax Bonds Improvement Fund.” The Agreement establishes as separate accounts in the Improvement Fund, to be held by the Fiscal Agent, the “City Facilities Account” and the “School District Facilities Account” to the credit of which deposits shall be made as required by the Agreement. The Agreement also establishes in the City Facilities Account, separate sub-accounts to be held by the Fiscal Agent, the “Series 2016A City Facilities Sub-Account” to the credit of which a deposit shall be made as required by the Agreement and the “Series 2016B City Facilities Sub-Account” to the credit of which a deposit shall be made as required by the Agreement. Moneys in the Improvement Fund and all accounts therein shall be held by the Fiscal Agent for the benefit of the City and the School District, as hereinafter provided, and shall be disbursed, except as otherwise provided in the Agreement, for the payment or reimbursement of the costs of the design, acquisition and construction of the Project.

(B) Procedure for Disbursement.

(1) City Facilities Account. Disbursements from the City Facilities Account shall be made by the Fiscal Agent upon receipt of an Officer’s Certificate which shall:

(a) be identified as a payment requisition and be sequentially numbered, i.e., “Requisition No. __,” except that no numbering shall be required if the Officer’s Certificate is a requisition for the full amount on deposit in the City Facilities Account;

(b) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid; and

(c) certify that no portion of the amount then being requested to be disbursed was set forth in any Officer’s Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the City Facilities Account.

(2) School District Facilities Account. Disbursements from the School District Facilities Account shall be made by the Fiscal Agent upon receipt of a School District Certificate or an Officer’s Certificate which shall:

(a) be identified as a payment requisition and be sequentially numbered, i.e., “Requisition No. __,” except that no numbering shall be required if the School District Certificate is a requisition for the full amount on deposit in the School District Facilities Account;

(b) set forth the amount required to be disbursed, the purpose for which the disbursement is to be made and the person to which the disbursement is to be paid;

(c) certify that the amount required to be disbursed is for payment of costs related to the construction and acquisition of the School District Facilities as described in the Joint Community Facilities Agreement; and

(d) certify that no portion of the amount then being requested to be disbursed was set forth in any School District Certificate or Officer's Certificate previously filed with the Fiscal Agent requesting disbursement, and that the amount being requested is an appropriate disbursement from the School District Facilities Account.

If any amount on deposit in the School District Facilities Account will not be disbursed for payment of the costs of the construction and acquisition of the School District Facilities, the Fiscal Agent shall, upon receipt of written direction from the City (upon which the Fiscal Agent may conclusively rely) transfer such amount to the City Facilities Account.

(C) Investment. Moneys in the Improvement Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings with respect to the City Facilities Account shall be retained by the Fiscal Agent in such account to be used for the purposes of such account. Investment Earnings with respect to the School District Facilities Account shall be retained by the Fiscal Agent in such account to be used for the purposes of such account.

(D) Closing of Fund. Upon the filing of an Officer's Certificate stating that the construction and acquisition of the Project has been completed and that all costs of the Project have been paid or are not required to be paid from the Improvement Fund, and further stating that moneys on deposit in the Improvement Fund are not needed to complete the Project or reimburse the cost thereof, the Fiscal Agent shall transfer the amount, if any, remaining in the Improvement Fund to the Principal Account of the Bond Fund to be used to pay the principal of the Bonds, and the Improvement Fund shall be closed. Notwithstanding the preceding provisions of this subsection, the Improvement Fund shall be closed if all amounts on deposit therein are disbursed pursuant to Subsection (B) above.

(E) Officer's Certificate. Upon receipt of an Officer's Certificate delivered pursuant to the Agreement, the Fiscal Agent is authorized to act thereon without further inquiry and shall not be responsible for the accuracy of the statements made in such Officer's Certificate or the application of the funds disbursed pursuant thereto, and shall be absolutely protected and incur no liability in relying on such Officer's Certificate.

Special Tax Fund.

(A) Creation of Special Tax Fund. the Agreement establishes, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2014-2 of the City of Riverside Special Tax Bonds Special Tax Fund" to the credit of which the City shall deposit, as hereinafter provided, not later than ten (10) Business Days after receipt, all Special Tax Revenues received by the City. The Agreement also establishes in the Special Tax Fund as a separate account, to be held by the Fiscal Agent, the "Surplus Account" to the credit of which amounts shall be deposited as provided in the Agreement. Moneys in the Special Tax Fund, and the Surplus Account therein, shall be held by the Fiscal Agent for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

Notwithstanding the foregoing, any amounts received by the City which constitute Special Tax Prepayments shall be transferred by the City not later than ten (10) Business Days after receipt to the Fiscal

Agent for deposit by the Fiscal Agent in the Special Tax Prepayments Account established pursuant to the Agreement.

(B) Disbursements. As soon as practicable after the receipt from the City of any Special Tax Revenues, but no later than ten (10) Business Days after such receipt, the Fiscal Agent shall withdraw from the Special Tax Fund and deposit in the Administrative Expense Fund, an amount which is estimated by the City, in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely) to be sufficient, together with the amount then on deposit in the Administrative Expense Fund, to pay the Administrative Expenses during the current Fiscal Year; provided, however, that the amount deposited in the Administrative Expense Fund prior to the deposits to the Interest Account and the Principal Account of the Bond Fund, as provided below, shall not exceed \$30,000 for any Fiscal Year. From the amount then remaining on deposit in the Special Tax Fund, the Fiscal Agent shall, as soon as the amount on deposit in the Special Tax Fund is sufficient, deposit in the Reserve Fund, pro rata among Annual Debt Service by Series, the amount, if any, which the City shall direct in a written communication from an Authorized Officer delivered to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), to be withdrawn from the Special Tax Fund and deposited in the Reserve Fund to make the amount on deposit therein equal to the Reserve Requirement. Thereafter, on or before each Interest Payment Date, the Fiscal Agent shall deposit in the Interest Account and the Principal Account of the Bond Fund the amounts required for payment of interest on or interest on and principal of the Bonds, as provided in the Agreement.

Notwithstanding the preceding provisions of this subsection, if prior to the September 1 Interest Payment Date in any Bond Year the City determines that Special Tax Revenues will be sufficient to enable the Fiscal Agent to deposit in the Reserve Fund the amount, if any, which is necessary to make the amount on deposit therein equal to the Reserve Requirement and deposit in the Bond Fund the full amount required for deposit to the Interest Account and the Principal Account to pay the interest on and principal of the Bonds on such Interest Payment Date, the City may instruct the Fiscal Agent in an Officer's Certificate, upon which the Fiscal Agent may conclusively rely, to deposit an additional amount in the Administrative Expense Fund before making the required deposits to the Interest Account and the Principal Account of the Bond Fund, and the Fiscal Agent shall deposit such additional amount in the Administrative Expense Fund before depositing any amount to the Reserve Fund or the Interest Account and the Principal Account of the Bond Fund.

On or before the March 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account of the Bond Fund in an amount not to exceed the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer to and deposit in the Interest Account to pay the full amount of the interest on the Bonds which is due and payable on such Interest Payment Date. On or before the September 1 Interest Payment Date in each Bond Year, if the amount of other moneys which is on deposit in the Special Tax Fund is less than the amount of the interest on and principal of the Bonds which is due on such Interest Payment Date, the Fiscal Agent shall transfer moneys from the Surplus Account, to the extent of moneys on deposit therein and available for transfer, to and deposit such moneys in the Interest Account and the Principal Account in amounts not to exceed the amount of the deficiency in the amount of other moneys which are on deposit in the Special Tax Fund, and available for transfer, to pay the full amount of the interest on and principal of the Bonds which is due and payable on such Interest Payment Date. On or before May 30 of each year, commencing on May 30, 2016 the Fiscal Agent shall notify the City of the amount which is then on deposit in the Surplus Account and of the aggregate amount of the principal of and interest on the Bonds which will become due and payable on March 1 and September 1 of the following calendar year.

On September 2 of each year, beginning on September 2, 2016, the amount, if any, on deposit in the Special Tax Fund (including the amount on deposit in the Surplus Account), together with the amount then on deposit in the in the Principal Account of the Bond Fund (but not including, however, the amounts, if any, then on deposit Interest Account or the Special Tax Prepayments Account), as determined by the City, shall not

exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, exceeds the maximum amount allowable pursuant to the preceding sentence, as determined by the City and communicated in writing by an Authorized Officer to the Fiscal Agent (upon which the Fiscal Agent may conclusively rely), the excess amount shall be transferred from the Special Tax Fund to and deposited in the Reserve Fund pro rata among Annual Debt Service by Series to the extent that the amount on deposit therein is less than the Reserve Requirement. Any such excess remaining in the Special Tax Fund after any such amount is transferred from the Special Tax Fund to the Reserve Fund shall be transferred from the Special Tax Fund to and deposited in the Administrative Expense Fund. On September 2 of each year, after any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Special Tax Fund (including the Surplus Account), together with the amount then on deposit in the Principal Account, shall not exceed in the aggregate the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(C) Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained in the Special Tax Fund to be used for the purposes of such fund.

Administrative Expense Fund.

(A) Creation of Administrative Expense Fund. The Agreement establishes, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2014-2 of the City of Riverside Special Tax Bonds Administrative Expense Fund" to the credit of which deposits shall be made as required by the Agreement. Moneys in the Administrative Expense Fund shall be held by the Fiscal Agent for the benefit of the City, and shall be disbursed as provided below.

(B) Disbursement. Amounts in the Administrative Expense Fund shall be withdrawn by the Fiscal Agent and paid to the City or its order upon receipt by the Fiscal Agent of an Officer's Certificate stating the amount to be withdrawn, that such amount is to be used to pay an Administrative Expense and the nature of such Administrative Expense.

Annually, not later than the last day of each Fiscal Year, the Fiscal Agent shall withdraw any amount then remaining in the Administrative Expense Fund that has not been allocated by an Officer's Certificate received by the Fiscal Agent from the City to pay Administrative Expenses which are expected to be incurred in the succeeding Fiscal Year prior to the receipt by the City of Special Tax Revenues for such succeeding Fiscal Year and transfer such amount to the Surplus Account.

(C) Investment. Moneys in the Administrative Expense Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Administrative Expense Fund to be used for the purposes of such fund.

Costs of Issuance Fund.

(A) Creation of Costs of Issuance Fund. The Agreement established, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2014-2 of the City of Riverside Special Tax Bonds Costs of Issuance Fund" to the credit of which a deposit shall be made as required by the Agreement. Moneys in the Costs of Issuance Fund shall be held by the Fiscal Agent and shall be disbursed as provided in subsection (B) below for the payment or reimbursement of Costs of Issuance.

(B) Disbursement. Amounts in the Costs of Issuance Fund shall be disbursed to pay Costs of Issuance, as set forth in a requisition containing respective amounts to be paid to the designated payees, signed

by an Authorized Officer and delivered to the Fiscal Agent concurrently with the delivery of the Bonds. The Fiscal Agent shall pay all Costs of Issuance upon receipt of an invoice from any such payee which requests payment in an amount which is less than or equal to the amount set forth with respect to such payee in such requisition, or upon receipt of an Officer's Certificate requesting payment of a Cost of Issuance not listed on the initial requisition delivered to the Fiscal Agent on the Closing Date. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of ninety (90) days from the Closing Date and shall then transfer and deposit any moneys remaining therein, including any Investment Earnings thereon, in the City Facilities Account of the Improvement Fund.

(C) Investment. Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained by the Fiscal Agent in the Costs of Issuance Fund to be used for the purposes of such fund.

SPECIAL TAX REVENUES; BOND FUND; RESERVE FUND

Pledge of Special Tax Revenues.

The Bonds shall be secured by a pledge of and lien upon (which shall be perfected in the manner and to the extent provided in the Agreement) all of the Special Tax Revenues (except the initial amount, not to exceed \$30,000, which will be deposited in the Administrative Expense Fund for each Fiscal Year pursuant to the Agreement) and all moneys on deposit in the Bond Fund and all moneys on deposit in the Reserve Fund. The Bonds that may be issued shall be equally secured by a pledge of and lien upon the Special Tax Revenues and such moneys without priority for number, date of Bond, date of execution or date of delivery; and the payment of the interest on and principal of the Bonds and any premium upon the redemption of any thereof shall be and is secured by a pledge of and lien upon the Special Tax Revenues and such moneys. The Special Tax Revenues and all moneys deposited into such funds are dedicated in their entirety to the payment of the principal of the Bonds, and interest and any premium on the Bonds, as provided in the Agreement and in the Act, until all of the Bonds have been paid and retired or until moneys or Defeasance Securities have been set aside irrevocably for that purpose in accordance with the Agreement.

Bond Fund.

(A) Deposits. The Agreement established, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2014-2 of the City of Riverside Special Tax Bonds Bond Fund" to the credit of which deposits shall be made as required by the Agreement and any other provision of the Agreement or the Act. The Agreement establishes in the Bond Fund, as separate accounts to be held by the Fiscal Agent, the "Interest Account" and the "Principal Account." The Agreement establishes in the Bond Fund, as a separate account to be held by the Fiscal Agent, the "Special Tax Prepayments Account" to the credit of which deposits shall be made as required by the Agreement. Moneys in the Bond Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(B) Disbursements. On or before each Interest Payment Date, the Fiscal Agent shall transfer from the Special Tax Fund (including the Surplus Account) and deposit into the following respective accounts in the Bond Fund, the following amounts in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account resulting from lack of Special Tax Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

(1) Interest Account. On or before each Interest Payment Date the Fiscal Agent shall deposit in the Interest Account an amount required to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on the Bonds of each

Series on such date. No deposit need be made into the Interest Account on any Interest Payment Date if the amount on deposit therein is at least equal to the interest becoming due and payable on the Bonds on such date. All moneys in the Interest Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of paying the interest on the Bonds as it shall become due and payable (including accrued interest on any Bonds redeemed prior to maturity). In the event funds are insufficient to cause the aggregate amount on deposit in the Interest Account to equal the amount of interest becoming due and payable on the Bonds of each Series on such date, moneys will be split pro rata among Series based upon Annual Debt Service for each Series in such Bond Year. All amounts on deposit in the Interest Account on the first day of any Bond Year, to the extent not required to pay any interest then having become due and payable on the Outstanding Bonds shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

(2) Principal Account. On or before each Interest Payment Date that occurs on September 1, the Fiscal Agent shall deposit in the Principal Account an amount required to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds of each Series becoming due and payable on such date pursuant to the Agreement, or the redemption price of the Bonds (consisting of the principal amount thereof and any applicable redemption premium) required to be redeemed on such date. In the event funds are insufficient to cause the aggregate amount on deposit in the Principal Account to equal the principal amount of the Bonds of each Series becoming due and payable on such date, moneys will be split pro rata among Series based upon Annual Debt Service for each Series in such Bond Year. Except as hereinafter provided, all moneys in the Principal Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of (i) paying the principal of the Bonds at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Bonds upon the redemption thereof pursuant to the Agreement. All amounts on deposit in the Principal Account on the first day of any Bond Year, to the extent not required to pay the principal of any Outstanding Bonds then having become due and payable, shall be withdrawn therefrom by the Fiscal Agent and transferred to the Surplus Account.

In the event that moneys on deposit in the Special Tax Fund, including moneys on deposit in the Surplus Account, will be insufficient on any Interest Payment Date for the Fiscal Agent to deposit the required amounts in the Interest Account and the Principal Account, as provided above, the Fiscal Agent shall deposit the available funds first to the Interest Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount of interest becoming due and payable on the Bonds on the Interest Payment Date, and shall then deposit the remaining available funds in the Special Tax Fund to the Principal Account up to the full amount required to cause the aggregate amount on deposit therein to equal the amount, if any, of principal becoming due and payable on the Bonds on the Interest Payment Date. If, after making such deposits to the Interest Account and the Principal Account, and after transferring moneys from the Reserve Fund to such accounts, as provided in the Agreement, the amount on deposit in the Principal Account is insufficient to pay the full amount of the principal of each of the Bonds which is to be redeemed on the Interest Payment Date, the Fiscal Agent shall make a prorated payment of the principal of each of such Bonds as specified in an Officer's Certificate provided to the Fiscal Agent.

On September 2 of each year, beginning on September 2, 2016 the amount, if any, on deposit in the Principal Account (but not including, however, the amounts, if any, on deposit in the Interest Account and the Special Tax Prepayments Account), as determined by the City, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year's earnings on such amounts, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. If on September 2 of any year the amount on deposit in the Principal Account, together with the amounts then on deposit in the Special Tax Fund (including the Surplus Account), exceeds the maximum amount allowable pursuant to the preceding sentence, the excess shall be transferred by the Fiscal Agent, as directed in writing by the City (upon which the Fiscal Agent may conclusively rely), to the Reserve Fund to the extent that the amount on deposit therein is less than the Reserve Requirement, and any such excess remaining thereafter shall be transferred by the Fiscal Agent to the Administrative Expense Fund. On September 2 of each year, after

any such excess amount has been transferred as hereinabove provided, the amount on deposit in the Principal Account, together with the amount then on deposit in the Special Tax Fund (including the Surplus Account), shall not exceed the greater of (i) one year's earnings thereon, or (ii) one-twelfth (1/12th) of Annual Debt Service for the then current Bond Year. The Fiscal Agent shall have no obligation to monitor the City's obligations as set forth in this paragraph.

(C) Special Tax Prepayments Account Deposits and Disbursements. Within ten (10) Business Days after receiving a Special Tax Prepayment, the City shall deliver the amount thereof to the Fiscal Agent, together with an Officer's Certificate notifying the Fiscal Agent that the amount being delivered is a Special Tax Prepayment which is to be deposited in the Special Tax Prepayments Account. Upon receiving a Special Tax Prepayment from the City and such an Officer's Certificate, the Fiscal Agent shall deposit the amount of the Special Tax Prepayment in the Special Tax Prepayments Account. Such an Officer's Certificate may be combined with the Officer's Certificate which the City is required to deliver to the Fiscal Agent pursuant the Agreement. A portion of the moneys on deposit in the Special Tax Prepayments Account shall be transferred by the Fiscal Agent, upon receipt of an Officer's Certificate directing such transfer and specifying the amount to be transferred (upon which the Fiscal Agent may conclusively rely), to the Principal Account on the next date for which notice of the redemption of the Bonds can timely be given under the Agreement, and shall be used to redeem the Bonds on the redemption date selected in accordance with the Agreement. The portion of the moneys on deposit in the Special Tax Prepayments Account representing funded interest on a portion of the Outstanding Bonds shall be transferred by the Fiscal Agent, upon receipt of an Officer's Certificate directing such transfer and specifying the amount to be transferred (upon which the Fiscal Agent may conclusively rely), to the Interest Account on or before each Interest Payment Date prior to and including the Interest Payment Date on which the redemption of such Bonds will occur. Pending such transfers, the moneys on deposit in the Special Tax Prepayments Account shall be invested in Permitted Investments of the type and at such yield as Bond Counsel shall determine is necessary to preserve the exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Investment earnings on the moneys on deposit in the Special Tax Prepayments Account shall be retained in such account.

(D) Investment. Except as provided in subsection (C) above, moneys in the Bond Fund, including all accounts therein, shall be invested and deposited in accordance with the Agreement. Investment Earnings shall be retained in the Bond Fund, except to the extent they are required to be deposited by the Fiscal Agent in the Rebate Fund in accordance with the Agreement.

Amounts in the Bond Fund, including all accounts therein, shall also be withdrawn and deposited in the Rebate Fund as provided in the Agreement.

Reserve Fund.

(A) Creation of Fund. The Agreement establishes, as a separate fund to be held by the Fiscal Agent, the "Community Facilities District No. 2014-2 of the City of Riverside Special Tax Bonds Reserve Fund." The Agreement also establishes as separate accounts in the Reserve Fund, to be held by the Fiscal Agent, the "Series 2016A Reserve Account" and the "Series 2016B Reserve Account" to the credit of which deposits shall be made as required by the Agreement, which deposits are equal to the Reserve Requirement, and to which deposits shall be made as provided in the Agreement. Moneys in the Reserve Fund shall be held by the Fiscal Agent for the benefit of the Owners of the Bonds as a reserve for the payment of the principal of and interest and any premium on the Bonds and shall be subject to a lien in favor of the Owners of the Bonds.

(B) Use of Fund. Except as otherwise provided in this Section, all amounts on deposit in the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Interest Account and the Principal Account of the Bond Fund in the event of any deficiency at any time in either of such accounts of the amount then required for payment of the principal of and interest and any premium on the Bonds or, in accordance with the provisions of the Agreement, for the purpose of redeeming Bonds.

(C) Transfer Due to Deficiency in Interest and Principal Accounts. Whenever transfer is made from the Reserve Fund to the Interest Account or the Principal Account due to a deficiency in either such account, the Fiscal Agent shall provide written notice thereof to the City.

(D) Transfer of Excess of Reserve Requirement. Whenever, on any September 2, the amount in the Reserve Fund, less Investment Earnings resulting from the investment of the funds therein which pursuant to the Agreement must be rebated to the United States, exceeds the Reserve Requirement, the Fiscal Agent shall provide written notice to the City of the amount of the excess. The Fiscal Agent shall, subject to the requirements of the Agreement, transfer an amount from the Reserve Fund which will reduce the amount on deposit therein to an amount equal to the Reserve Requirement to the Interest Account and the Principal Account, in the priority specified in the Agreement, to be used for the payment of the interest on and principal of the Bonds on the next succeeding Interest Payment Date in accordance with the Agreement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in the Reserve Fund is equal to or exceeds the amount required to redeem or pay the Outstanding Bonds of such Series, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, the Fiscal Agent shall, upon receiving written direction from an Authorized Officer (upon which the Fiscal Agent may conclusively rely), transfer the amount in the Reserve Fund to the Interest Account and the Principal Account, in the priority specified in the Agreement, to be applied, on the next succeeding Interest Payment Date, to the payment and redemption, in accordance with the Agreement of all of the Outstanding Bonds. In the event that the amount available to be so transferred from the Reserve Fund to the Interest Account and the Principal Account exceeds the amount required to pay and redeem the Outstanding Bonds, the excess shall be transferred to the City to be used for any lawful purpose of the City.

(F) Transfers on Payment of Special Tax Obligations. Whenever the City receives a Special Tax Prepayment, the City shall by an Officer's Certificate notify the Fiscal Agent thereof and of the amount by which the Reserve Fund is to be reduced pro rata among Annual Debt Service by Series and which is transferable from the Reserve Fund to the Principal Account of the Bond Fund, which amount shall be specified in the Officer's Certificate. Each such Officer's Certificate shall be accompanied by a report of an Independent Financial Consultant verifying the accuracy of the calculation of the amount to be transferred from the Reserve Fund to the Principal Account ("Verification"). Upon receipt of each such Officer's Certificate and Verification, upon which the Fiscal Agent may conclusively rely, the Fiscal Agent shall at such time as the amount of such Special Tax Prepayment will be used to redeem Bonds, as provided in the Agreement, transfer the amount specified in such Officer's Certificate to the Principal Account and use such amount, together with the amount of such Special Tax Prepayment, to redeem Bonds, as provided in the Agreement. Notwithstanding the preceding provisions of this subsection, no amount shall be transferred from the Reserve Fund to the Principal Account if the amount on deposit in the Reserve Fund is, or as a result of such transfer would be, less than the Reserve Requirement.

(G) Investment. Moneys on deposit in the Reserve Fund shall be invested in Permitted Investments which do not have maturities extending beyond five (5) years; provided, however, if the Reserve Fund is invested in an investment agreement (as defined in clause (vii) of the definition of Permitted Investments the Agreement) or a repurchase agreement (as defined in clause (xi) of such definition) such agreement may have a maturity longer than five (5) years if the Fiscal Agent is authorized by the provisions of such agreement to draw the full amount thereof, without penalty, if required for the purposes of the Reserve Fund. The City shall cause the Permitted Investments, other than such investment agreements, in which moneys on deposit in the Reserve Fund are invested to be valued at fair market value and marked-to-market at least once in each Fiscal Year.

OTHER COVENANTS OF THE CITY

Punctual Payment. The City will punctually pay or cause to be paid the principal of and interest and any premium on the Bonds when and as due in strict conformity with the terms of the Agreement and any

Supplemental Agreement to the extent that the Special Tax Revenues are available therefor, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Agreement and all Supplemental Agreements and of the Bonds.

Special Obligation. The Bonds are special obligations of the City and the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Bond Fund, the Reserve Fund and the Special Tax Fund.

Extension of Time for Payment. In order to prevent any accumulation of claims for interest after maturity, the City shall not, directly or indirectly, extend or consent to the extension of the time for the payment of any claim for interest on any of the Bonds and shall not, directly or indirectly, be a party to the approval of any such arrangement by purchasing or funding said claims for interest or in any other manner. In case any such claim for interest shall be extended or funded, whether or not with the consent of the City, such claim for interest so extended or funded shall not be entitled, in case of default hereunder, to the benefits of the Agreement, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest which shall not have been so extended or funded.

Against Encumbrances. The City shall not encumber, pledge or place any charge or lien upon any of the Special Tax Revenues or other amounts pledged to the Bonds superior to or on a parity with the pledge and lien created in the Agreement for the benefit of the Bonds, except as permitted by the Agreement.

Books and Accounts. The City shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the City in which complete and correct entries shall be made of all transactions relating to the expenditure of amounts disbursed from the Administrative Expense Fund. Such books of record and accounts shall at all times during business hours, upon reasonable notice, be subject to the inspection of the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

Protection of Security and Rights of Owners. The City will preserve and protect the security of the Bonds and the rights of the Owners, and will warrant and defend their rights against all claims and demands of all persons. From and after the delivery of any of the Bonds by the City, the Bonds shall be incontestable by the City.

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act, including the enactment of necessary Ordinances, so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of the payment or collection of delinquent Special Taxes.

The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Act by August 10 of each year (or such later date as may be authorized by the Act or any amendment thereof) that the Bonds are Outstanding, such that the computation of the levy is complete before the final date on which the Auditor will accept the transmission of the Special Tax amounts for the parcels within the District for inclusion on the tax roll for the Fiscal Year then beginning. Upon the completion of the computation of the amounts of the levy of the Special Taxes, the City shall prepare or cause to be prepared, and shall transmit to the Auditor, such data as the Auditor requires to include the levy of the Special Taxes on the tax roll. Notwithstanding the preceding provisions of this paragraph, the City Council may elect, as permitted by the Act, to collect the Special Taxes to be levied for any Fiscal Year directly from the owners of the parcels of taxable property upon which the Special Taxes are levied rather than by transmitting the Special Taxes to the Auditor for collection on the tax roll; provided that, in such event, the City shall otherwise comply with the provisions of the Agreement.

The City shall fix and levy the amount of Special Taxes within the District required for the payment of the principal of and interest on any Outstanding Bonds becoming due and payable during the ensuing calendar

year, including any necessary replenishment or expenditure of the Reserve Fund, and the amount estimated to be sufficient to pay the Administrative Expenses during such calendar year. The Special Taxes so levied shall not exceed the authorized amounts for the District as provided in the Rates and Method of Apportionment of Special Tax.

The Special Taxes shall be payable and be collected (except in the event of judicial foreclosure proceedings pursuant to the Agreement) in the same manner and at the same time and in the same installments as the general taxes on real property are payable, and have the same priority, become delinquent at the same times and in the same proportionate amounts and bear the same proportionate penalties and interest after delinquency as do the general taxes on real property.

The City will not, in collecting the Special Taxes or in processing any such judicial foreclosure proceedings, exercise any authority which it has pursuant to Sections 53340, 53344.1, 53356.1 and 53356.8 of the California Government Code in any manner which would materially and adversely affect the interests of the Bondowners and, in particular, will not permit the tender of Bonds in full or partial payment of any Special Taxes except upon receipt of a certificate of an Independent Financial Consultant that to accept such tender will not result in the City having insufficient Special Tax Revenues in any Bond Year to pay the principal of and interest on the Bonds remaining Outstanding following such tender.

Levy of Special Taxes for Administrative Expenses. The City covenants that, (a) to the extent that it is legally permitted to do so, it will levy the Special Taxes for the payment of the Administrative Expenses which are expected to be incurred in each Fiscal Year, and (b) it will not initiate proceedings under the Act to reduce the Maximum Special Tax rates for Developed Property (the “Maximum Rates”) below the amounts which are necessary to provide Special Tax Revenues in an amount equal to one hundred ten percent (110%) of Maximum Annual Debt Service on the Outstanding Bonds plus estimated Administrative Expenses for the then current Fiscal Year.

The City further covenants that in the event an ordinance is adopted by initiative pursuant to Section 3 of Article XIII C of the California Constitution, which purports to reduce or otherwise alter the Maximum Rates, it will commence and pursue legal action seeking to preserve its ability to comply with its covenant contained in the preceding paragraph.

Further Assurances. The City will adopt, make, execute and deliver any and all such further ordinances, resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Agreement, and for better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Agreement.

Tax Covenants. The City covenants that:

(A) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of the initial issuance and delivery of the Series 2016A Bonds, would have caused any of the Series 2016A Bonds to be “arbitrage bonds” within the meaning of Section 103(b) and Section 148 of the Code;

(B) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Series 2016A Bonds, would result in loss of exclusion from gross income for purposes of federal income taxation under Section 103(a) of the Code of interest paid with respect to the Series 2016A Bonds;

(C) It will not take any action or omit to take any action, which action or omission, if reasonably expected on the date of initial issuance and delivery of the Series 2016A Bonds, would have caused any of the Series 2016A Bonds to be “private activity bonds” within the meaning of Section 141 of the Code;

(D) It will comply with the Rebate Certificate as a source of guidance for achieving compliance with the Code; and

(E) In order to maintain the exclusion from gross income for purposes of federal income taxation of interest paid with respect to the Series 2016A Bonds, it will comply with each applicable requirement of Section 103 and Sections 141 through 150 of the Code.

The covenants of the City contained in this Section 5.10 shall survive the payment, redemption or defeasance of the Series 2016A Bonds pursuant the Agreement.

Covenant to Foreclose. The City covenants with and for the benefit of the Owners of the Bonds (i) that it will order, and cause to be commenced, judicial foreclosure proceedings against properties with delinquent Special Taxes in excess of \$5,000 by the October 1 following the close of the Fiscal Year in which such Special Taxes were due, and (ii) that it will commence judicial foreclosure proceedings against all properties 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 ninety-five percent (95%) of the total Special Taxes levied, and diligently pursue to completion such foreclosure proceedings; provided that the City shall not be required to order, and cause to be commenced, judicial foreclosure proceedings against any such properties if the City determines that the amount of the delinquent Special Taxes for such properties is so small that the cost of foreclosure is not warranted.

Prepayment of Special Taxes. The City shall cause all applications of owners of property in the District to prepay and satisfy the Special Tax obligation for their property to be reviewed by the Tax Consultant and shall not accept any such prepayment unless such consultant certifies in writing that following the acceptance of the proposed prepayment by the City and the redemption of Bonds with such prepayment, that the ratio of (i) the maximum amount of the Special Taxes that may be levied on all Developed Property in the District which following such prepayment will be subject to the levy of the Special Taxes to (ii) Maximum Annual Debt Service on the Bonds which will remain Outstanding following such redemption (e.g., 1.10 to 1.0) plus estimated Administrative Expenses will not be less than such ratio as it existed prior to such prepayment.

Calculation of Prepayments. The City will cause all Special Tax Prepayments to be calculated to include the amount of the premium on the Outstanding Bonds that will be redeemed with the Special Tax Prepayment and negative arbitrage on the investment of the Special Tax Prepayment from the date of receipt until the Interest Payment Date upon which the Special Tax Prepayment and the amount to be transferred from the Reserve Fund to the Principal Account pursuant to the Agreement will be used to redeem Outstanding Bonds pursuant to the Agreement. The City will not include in any calculation of the amount of any Special Tax Prepayment for any parcel of taxable property in the District a proportionate amount of the amount then on deposit in the Reserve Fund, if at the time of such calculation the amount on deposit in the Reserve Fund is less than the Reserve Requirement.

Continuing Disclosure. The City covenants that it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate.

Accountability Measures. The City shall comply with the requirements of Section 53410 of the California Government Code with respect to the deposit and expenditure of the Proceeds of the sale of the Bonds and shall cause the appropriate officer of the City to file a report with the City Council at least once in each calendar year, beginning in 2017, which shall contain the information required by Section 53411 of the California Government Code with respect to the expenditure of the Proceeds and the status of the construction and acquisition of the Project.

Parity Bonds. The City shall not issue Parity Bonds for any purpose other than paying and discharging a portion of the indebtedness of the Outstanding Bonds pursuant to the Agreement.

**INVESTMENTS; DISPOSITION OF INVESTMENT PROCEEDS;
LIABILITY OF THE CITY**

Deposit and Investment of Moneys in Funds. Subject in all respects to the provisions of the Agreement, moneys in any fund or account created or established by the Agreement and held by the Fiscal Agent shall be invested by the Fiscal Agent in Permitted Investments, as directed pursuant to an Officer's Certificate filed with the Fiscal Agent at least two (2) Business Days in advance of the making of such investments. In the absence of any such Officer's Certificate, the Fiscal Agent shall invest any such moneys in Permitted Investments described in clause (iv) of the definition of Permitted Investments. The Fiscal Agent shall not have any responsibility for determining the legality of any Permitted Investments. The Fiscal Agent shall have no obligation to pay additional interest or maximize investment income on any funds held by it. Neither the City nor the Owners of the Bonds shall have any claim of any kind against the Fiscal Agent in connection with investments properly made pursuant to the Agreement. Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account, subject, however, to the requirements of the Agreement for transfer of Investment Earnings in funds and accounts.

The Fiscal Agent and its affiliates may act as sponsor, advisor, depository, principal or agent in the holding, acquisition or disposition of any investment. The Fiscal Agent shall not incur any liability for losses arising from any investments made pursuant to the Agreement. For purposes of determining the amount on deposit in any fund or account held hereunder, all Permitted Investments or investments credited to such fund or account shall be valued at the cost thereof (excluding accrued interest and brokerage commissions, if any).

Subject in all respects to the provisions of the Agreement, investments in any and all funds and accounts may be commingled in a single fund for purposes of making, holding and disposing of investments, notwithstanding provisions in the Agreement for transfer to or holding in or to the credit of particular funds or accounts of amounts received or held by the Fiscal Agent hereunder, provided that the Fiscal Agent shall at all times account for such investments strictly in accordance with the funds and accounts to which they are credited and otherwise as provided in the Agreement.

The Fiscal Agent shall sell or present for redemption, any investment security whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such investment security is credited, and the Fiscal Agent shall not be liable or responsible for any loss resulting from the acquisition or disposition of any such investment security in accordance herewith.

The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the City or the District the right to receive brokerage confirmations of securities transactions as they occur, the City for itself and the District specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent shall furnish the City periodic cash transaction statements which shall include detail for all investment transactions made by the Fiscal Agent hereunder.

The Fiscal Agent may make any investments hereunder through its own bond or investment department or trust investment department, or those of its parent or any affiliate.

Rebate Fund; Rebate to the United States. The Agreement creates, to be held by the Fiscal Agent, as a separate fund distinct from all other funds and accounts held by the Fiscal Agent under the Agreement, the Rebate Fund. The Fiscal Agent shall, in accordance with written directions received from an Authorized Officer, deposit into the Rebate Fund moneys transferred by the City to the Fiscal Agent pursuant to the Rebate Certificate or moneys transferred by the Fiscal Agent from the Reserve Fund. The Rebate Fund shall be held either uninvested or invested only in Federal Securities at the written direction of the City. Moneys on deposit in the Rebate Fund shall be applied only to payments made to the United States, to the extent such payments are required by the Rebate Certificate. The Fiscal Agent shall, upon written request and direction of the City, make such payments to the United States.

The Fiscal Agent may rely conclusively upon the City's determinations, calculations and certifications required by this Section. The Fiscal Agent shall have no responsibility to independently make any calculation or determination or to review the City's calculations hereunder. The Fiscal Agent's sole responsibilities under the Agreement are to follow the written instructions of the City pertaining hereto. The City shall be responsible for any fees and expenses incurred by the Fiscal Agent pursuant to the Agreement.

The Fiscal Agent shall, upon written request and direction from the City, transfer to or upon the order of the City any moneys on deposit in the Rebate Fund in excess of the amount, if any, required to be maintained or held therein in accordance with the Rebate Certificate.

Liability of City. The City shall not incur any responsibility in respect of the Bonds or the Agreement other than in connection with the duties or obligations explicitly in the Agreement or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful default. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements of the Fiscal Agent in the Agreement or of any of the documents executed by the Fiscal Agent in connection with the Bonds.

In the absence of bad faith, the City may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of the Agreement. The City shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of the Agreement shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Special Tax Revenues) in the performance of any of its obligations hereunder, or in the exercise of and of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The City may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel, who may be counsel to the City, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under the Agreement the City shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be specifically prescribed in the Agreement) may, in the absence of willful misconduct on the part of the City, be deemed to be conclusively proved and established by a certificate of the Fiscal Agent, and such certificate shall be full warranty to the City for any action taken or suffered under the provisions of the Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the City may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Employment of Agents by City. In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations and directions of such persons or entities.

THE FISCAL AGENT

Appointment of Fiscal Agent. U.S. Bank National Association is appointed Fiscal Agent, registrar and paying agent for the Bonds pursuant to the Agreement. The Fiscal Agent undertakes to perform such duties, and only such duties, as are specifically set forth in the Agreement, and no implied covenants or obligations shall be read into the Agreement against the Fiscal Agent.

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

The City may remove the Fiscal Agent initially appointed, and any successor thereto, and may appoint a successor or successors thereto, but any such successor shall be a bank, corporation or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least \$75,000,000, and subject to supervision or examination by federal or state authority. If such bank, corporation or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Agreement, combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

The Fiscal Agent may at any time resign by giving written notice to the City and by giving to the Owners notice by mail of such resignation. Upon receiving notice of such resignation, the City shall promptly appoint a successor Fiscal Agent by an instrument in writing. Any resignation or removal of the Fiscal Agent shall become effective upon acceptance of appointment by the successor Fiscal Agent.

If no appointment of a successor Fiscal Agent shall be made pursuant to the foregoing provisions of the Agreement within forty-five (45) days after the Fiscal Agent shall have given to the City written notice or after a vacancy in the office of the Fiscal Agent shall have occurred by reason of its inability to act, the Fiscal Agent, at the expense of the City, or any Owner may apply to any court of competent jurisdiction to appoint a successor Fiscal Agent. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Fiscal Agent.

Liability of Fiscal Agent. The recitals of facts, covenants and agreements in the Agreement and in the Bonds contained shall be taken as statements, covenants and agreements of the City and the District, and the Fiscal Agent assumes no responsibility for the correctness of the same, nor makes any representations as to the validity or sufficiency of the Agreement or of the Bonds, nor shall the Fiscal Agent incur any responsibility in respect thereof, other than in connection with the duties or obligations in the Agreement or in the Bonds assigned to or imposed upon it. The Fiscal Agent shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Fiscal Agent assumes no responsibility or liability for any information, statement or recital in any offering memorandum or other disclosure material prepared or distributed with respect to the issuance of the Bonds.

In the absence of bad faith, the Fiscal Agent may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Fiscal Agent and conforming to the requirements of the Agreement. Except as provided above in this paragraph, the Fiscal Agent shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith, reasonably and in accordance with the terms of the Agreement, upon any resolution, order, notice, request, consent or waiver, certificate, statement, affidavit, or other paper or document which it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper person or to have been prepared and furnished pursuant to any provision of the Agreement, and the Fiscal Agent shall

not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument.

The Fiscal Agent shall not be liable for any error of judgment made in good faith by the Fiscal Agent unless it shall be proved that the Fiscal Agent was negligent in ascertaining the pertinent facts.

No provision of the Agreement shall require the Fiscal Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers.

The Fiscal Agent shall not be responsible for accounting for, or paying to, any party to the Agreement, including, but not limited to the City and the Owners, any returns on or benefit from funds held for payment of unredeemed Bonds or outstanding checks and no calculation of the same shall affect, or result in any offset against, fees due to the Fiscal Agent under the Agreement.

The Fiscal Agent shall be under no obligation to exercise any of the rights or powers vested in it by the Agreement at the request or direction of any of the Owners pursuant to the Agreement unless such Owners shall have offered to the Fiscal Agent reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

The Fiscal Agent may become the owner of the Bonds with the same rights it would have if it were not the Fiscal Agent.

All indemnification and releases from liability granted in the Agreement to the Fiscal Agent shall extend to the directors, officers and employees of the Fiscal Agent.

The Fiscal Agent may rely upon a facsimile transmission with regard to any instruction for any transfer, disbursement or investment of funds held by the Fiscal Agent. The City shall confirm such transmission promptly in writing by mail.

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

Information. The Fiscal Agent shall provide to the City such information relating to the Bonds and the funds and accounts maintained by the Fiscal Agent hereunder as the City shall reasonably request, including, but not limited to, quarterly statements reporting funds held and transactions by the Fiscal Agent.

Notice to Fiscal Agent. The Fiscal Agent may rely and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, Bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The Fiscal Agent may consult with counsel, who may be counsel to the City, with regard to legal questions, and the advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by the Fiscal Agent hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under the Agreement the Fiscal Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be specifically prescribed in the Agreement) may, in the absence of willful misconduct on the part of the Fiscal Agent, be deemed to be conclusively proved and established by a certificate of the City, and such certificate shall be full warranty to the Fiscal Agent for any action taken or suffered under the provisions of the Agreement or any Supplemental Agreement upon the faith thereof, but in its discretion the Fiscal Agent may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Compensation, Indemnification. The City shall pay to the Fiscal Agent from time to time reasonable compensation for all services rendered as Fiscal Agent under the Agreement, and also all reasonable expenses, charges, fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under the Agreement, and the Fiscal Agent shall have a first priority lien therefor on any funds at any time held by it in the Administrative Expense Fund, and the Fiscal Agent shall pay and reimburse all expenses, charges, fees and other disbursements, including those of its attorneys, agents and employees, incurred in connection therewith from the funds held by it in the Administrative Expense Fund. The City further agrees, to the extent permitted by applicable law, to indemnify and save the Fiscal Agent, its officers, employees, directors and agents, harmless against any liabilities, costs, claims, expenses or charges of any kind whatsoever (including fees and expenses of its attorneys) which it may incur in the exercise and performance of its powers and duties hereunder which are not due to its negligence or willful misconduct. The obligation of the City under this Section 7.05 shall survive resignation or removal of the Fiscal Agent under the Agreement and payment of the Bonds and discharge of the Agreement.

Books and Accounts. The Fiscal Agent shall keep, or cause to be kept, proper books of record and accounts, separate from all other records and accounts of the Fiscal Agent, in which complete and correct entries shall be made of all transactions made by it to the expenditure of amounts disbursed from the Bond Fund, the Special Tax Fund, the Administrative Expense Fund, the Reserve Fund and the Costs of Issuance Fund. Such books of record and accounts shall, upon reasonable notice, at all times during business hours be subject to the inspection of the City and the Owners of not less than ten percent (10%) of the aggregate principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

MODIFICATION OR AMENDMENT OF THE AGREEMENT

Amendments Permitted.

(A) The Agreement and the rights and obligations of the District and the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Agreement pursuant to the affirmative vote at a meeting of the Owners, or with the written consent, without a meeting, of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding, exclusive of Bonds disqualified as provided in the Agreement. No such modification or amendment shall (i) extend the maturity of any Bond or the time for paying interest thereon, or otherwise alter or impair the obligation of the City on behalf of the District to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation of any pledge of or lien upon the Special Tax Revenues, or the moneys on deposit in the Special Tax Fund, the Bond Fund or the Reserve Fund, superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by the Act, the laws of the State of California or the Agreement), (iii) reduce the percentage of Bonds required for the amendment hereof, or (iv) reduce the principal amount of or redemption premium on any Bond or reduce the interest rate thereon. Any such amendment may not modify any of the rights or obligations of the Fiscal Agent without its written consent. The Fiscal Agent shall be furnished an opinion of counsel that any such Supplemental Agreement entered into by the City and the Fiscal Agent complies with the provisions of the Agreement and the Fiscal Agent may conclusively rely on such opinion.

(B) The Agreement and the rights and obligations of the District and the City and the Owners may also be modified or amended at any time by a Supplemental Agreement, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

- (1) to add to the covenants and agreements of the City in the Agreement contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power reserved to or conferred upon the City in the Agreement;
- (2) to make modifications not adversely affecting any Outstanding series of Bonds of the District in any material respect;
- (3) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provisions of the Agreement, or in regard to questions arising under the Agreement, as the City and the Fiscal Agent may deem necessary or desirable and not inconsistent with the Agreement, and which shall not adversely affect the rights of the Owners;
- (4) to make such additions, deletions or modifications as may be necessary or desirable to assure compliance with Section 148 of the Code relating to required rebate of moneys to the United States or otherwise as may be necessary to assure exclusion from gross income for federal income tax purposes of interest on the Bonds or to conform with the Regulations; or
- (5) to pay and discharge the indebtedness of a portion of the Outstanding Bonds (a “Partial Discharge”) pursuant the Agreement.

Owners’ Meetings. The City may at any time call a meeting of the Owners. In such event, the City is authorized to fix the time and place of any such meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of the meeting.

Procedure for Amendment with Written Consent of Owners. The City and the Fiscal Agent may at any time enter into a Supplemental Agreement amending the provisions of the Bonds or of the Agreement or any Supplemental Agreement, to the extent that such amendment is permitted by the Agreement, to take effect when and as provided in the Agreement. A copy of the Supplemental Agreement, together with a request to Owners for their consent thereto, shall be mailed by first class mail, postage prepaid, by the Fiscal Agent to each Owner of Bonds Outstanding, but failure to mail copies of the Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in this Section provided.

Such a Supplemental Agreement shall not become effective unless there shall be filed with the Fiscal Agent the written consents of the Owners of at least sixty percent (60%) in aggregate principal amount of the Bonds then Outstanding (exclusive of Bonds disqualified as provided in the Agreement) and a notice shall have been mailed as herein below provided for. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by the Agreement. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Fiscal Agent prior to the date when the notice herein below provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Agreement, the City shall mail a notice to the Owners in the manner hereinbefore provided for the mailing of the Supplemental Agreement, stating in substance that the Supplemental Agreement has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Agreement or consents thereto). Proof of the mailing of such notice shall be filed with the Fiscal Agent. A record, consisting of the documents required by this Section 8.03 to be filed with the Fiscal Agent, shall be proof of

the matters therein stated until the contrary is proved. The Supplemental Agreement shall become effective upon the filing with the Fiscal Agent of the proof of mailing of such notice, and the Supplemental Agreement shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in the Agreement) upon the City, the District and the Owners of all Bonds then Outstanding at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty (60)-day period.

Disqualified Bonds. Bonds owned or held for the account of the City, excepting any pension or retirement fund, shall not be deemed Outstanding for the purpose of any vote, consent or other action or any calculation of Outstanding Bonds provided for in the Agreement, and shall not be entitled to vote upon, consent to, or participate in any action provided for in the Agreement. Upon request of the Fiscal Agent, the City shall specify to the Fiscal Agent those Bonds disqualified pursuant to this Section and the Fiscal Agent may conclusively rely on such certificate.

Effect of Supplemental Agreement. From and after the time any Supplemental Agreement becomes effective pursuant to the Agreement, the Agreement shall be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Agreement of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Agreement shall be deemed to be part of the terms and conditions of the Agreement for any and all purposes.

Endorsement or Replacement of Bonds Issued After Amendments. The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in the Agreement shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and upon presentation of his Bond for that purpose at the Principal Office of the Fiscal Agent or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new Bonds, so modified as in the opinion of the City is necessary to conform to such action, shall be prepared, executed and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the Principal Office of the Fiscal Agent without cost to any Owner, for like Bonds then Outstanding, upon surrender of such Bonds.

Amendatory Endorsement of Bonds. The provisions of the Agreement shall not prevent any Owner from accepting any amendment as to the particular Bonds held by him, provided that due notation thereof is made on such Bonds.

Discharge of Agreement.

If the City shall pay and discharge the indebtedness on all or a portion (a "Partial Discharge") of the Outstanding Bonds in any one or more of the following ways:

(A) by well and truly paying or causing to be paid the principal of and interest and any premium on such Bonds, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent, at or before maturity, an amount of money which, together with the amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent Financial Consultant, is fully sufficient to pay such Bonds, including all principal, interest and redemption premiums, if any; or

(C) by irrevocably depositing with the Fiscal Agent, cash or non-callable Defeasance Securities in such amount as the City shall determine, as confirmed by an Independent Financial Consultant, will, together with the interest to accrue thereon and amounts then on deposit in the Bond Fund (including all accounts therein), the Special Tax Fund (including the Surplus Account) and the Reserve Fund, or in the event of a Partial Discharge, the appropriate portion of such amounts, as determined by the City and confirmed by an Independent Financial Consultant, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums) at or before their respective maturity dates;

and if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Agreement provided or provision satisfactory to the Fiscal Agent shall have been made for the giving of such notice, then, at the election of the City, and notwithstanding that any such Bonds shall not have been surrendered for payment, the pledge of the Special Tax Revenues and other funds provided for in the Agreement and all other obligations of the City and the District under the Agreement with respect to such Bonds shall cease and terminate, except the obligation of the City to pay or cause to be paid to the Owners of such Bonds not so surrendered and paid all sums due thereon, the obligation of the City to pay all amounts owing to the Fiscal Agent pursuant to the Agreement, and the obligations of the City pursuant to the covenants contained the Agreement; and thereafter Special Taxes shall not be payable to the Fiscal Agent. Notice of such election shall be filed with the Fiscal Agent. The satisfaction and discharge of the Agreement as to all of the Outstanding Bonds shall be without prejudice to the rights of the Fiscal Agent to charge and be reimbursed by the City for the expenses which it shall thereafter incur in connection herewith.

Any funds held by the Fiscal Agent to pay and discharge the indebtedness on such Bonds, upon payment of all fees and expenses of the Fiscal Agent, which are not required for such purpose, shall be paid over to the City.

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATES OF THE CITY AND D.R. HORTON

CONTINUING DISCLOSURE CERTIFICATE OF THE CITY

This Continuing Disclosure Certificate dated April 28, 2016 (the “Disclosure Certificate”) is executed and delivered by the City of Riverside (the “Issuer”), on behalf of Community Facilities District No. 2014-2 (The Highlands) (the “District”), in connection with the issuance and delivery by the Issuer of its Special Tax Bonds, Series 2016A, and Taxable Special Tax Bonds, Series 2016B (collectively, the “Bonds”). The Bonds are being issued pursuant to a Fiscal Agent Agreement dated as of April 1, 2016 (the “Fiscal Agent Agreement”) by and between the Issuer and U.S. Bank National Association, as fiscal agent thereto (the “Fiscal Agent”). The Issuer covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer, on behalf of the District, for the benefit of the Owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter in complying with the Rule (as defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries); or (b) is treated as the owner of any Bonds for federal income purposes.

“Disclosure Representative” shall mean the City Manager of the Issuer, the Finance Director of the Issuer or his or her designee, or such other officer or employee as the Issuer shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, the Issuer, or any successor Dissemination Agent designated in writing by the Issuer which has filed with the then current Dissemination Agent a written acceptance of such designation.

“District” shall mean Community Facilities District No. 2014-2 (The Highlands) established by the Issuer.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Issuer” shall mean the City of Riverside, California, on behalf of the District.

“Listed Events” shall mean any of the events listed in Section 5(a) and (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board and any successor entity designated under the Rule as the repository for filings made pursuant to the Rule.

“Official Statement” means the Official Statement for the Bonds dated April 14, 2016.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated.

“Rate and Method of Apportionment” shall mean the Rate and Method of Apportionment of Special Tax for Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside attached as Appendix A to the Official Statement, as such Rate and Method of Apportionment may be amended from time to time.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent by written direction to such Dissemination Agent to, not later than 270 days after the end of the Issuer’s fiscal year (which currently ends on June 30), commencing with the report for the fiscal year ending June 30, 2016, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from and later than the balance of the Annual Report if they are not available by the date required above for the filing of the Annual Report.

An Annual Report shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The Issuer’s fiscal year is currently effective from July 1 to the immediately succeeding June 30 of the following year. The Issuer will promptly notify the Repository of a change in the fiscal year dates.

(b) In the event that the Dissemination Agent is an entity other than the Issuer, then the provisions of this Section 3(b) shall apply. Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report, the Issuer shall provide the Annual Report to the Dissemination Agent. If by fifteen (15) Business Days prior to the due date for an Annual Report the Dissemination Agent has not received a copy of the Annual Report, the Dissemination Agent shall contact the Issuer to determine if the Issuer will be filing the Annual Report in compliance with subsection (a). The Issuer shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the Issuer and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is other than the Issuer and if the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice in a timely manner to the Repository, in the form required by the Repository.

(d) If the Dissemination Agent is other than the Issuer, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of the Repository if other than the MSRB; and

(ii) promptly after receipt of the Annual Report, file a report with the Issuer certifying that the Annual Report has been provided to the Repository and the date it was provided.

(e) Notwithstanding any other provision of this Disclosure Certificate, all filings shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Reports.

(a) The Annual Report shall consist of the financial statements described in (b) below and the financial and operating data described in (c) below.

(b) Financial Statements. The audited financial statements of the Issuer for the most recent fiscal year then ended shall be provided in the Annual Report. If the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain any unaudited financial statements of the Issuer in a format similar to the financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. Audited financial statements of the Issuer shall be audited by such auditor as shall then be required or permitted by State law and shall be prepared in accordance with generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board; provided, however, that the Issuer may from time to time, if required by federal or state legal requirements, modify the basis upon which its financial statements are prepared. In the event that the Issuer shall modify the basis upon which its financial statements are prepared, the Issuer shall provide the information referenced in Section 8(d) below.

(c) Financial and Operating Data. In addition to the financial statements, the Annual Report shall contain or incorporate by reference the following information:

(i) the principal amount of Bonds outstanding as of the September 2 preceding the filing of the Annual Report;

(ii) the balance in each fund under the Fiscal Agent Agreement as of the September 2 preceding the filing of the Annual Report;

(iii) any changes to the Rate and Method of Apportionment approved or submitted to the electors for approval prior to the filing of the Annual Report;

(iv) the status of any foreclosure actions being pursued by the District with respect to delinquent Special Taxes levied on parcels therein;

(v) the identity of any property owner whose delinquent special taxes represent more than 5% of the amount levied and the number of lots, assessed value, delinquency amount value-to-lien ratios, prior delinquencies and foreclosure status of the applicable properties;

(vi) an update of the value-to-lien information in Table 4 calculated using the assessed property values applicable for the next succeeding fiscal year;

(vii) information in tabular form regarding the percentage of delinquency, if any, in the collection of special taxes levied on property in the District for the Fiscal Year preceding the Annual Report date, the number of parcels delinquent, amount delinquent compared to the total levy and the assessed value of each delinquent parcel; and

(viii) any information not already included under (i) through (vii) above that the Issuer is required to file in its annual report to the California Debt and Investment Advisory Commission pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended.

In addition to any of the information expressly required to be provided under paragraphs (a) or (b) of this Section, the Issuer shall provide such further information, if any, as may be necessary to make the specifically required statements set forth in clauses (i) to (vii), in the light of the circumstances under which they were made, not misleading.

(c) Any or all of the items listed in (a) or (b) above may be included by specific reference to other documents, including official statements of debt issues of the Issuer or related public entities, which have been submitted to the Repository. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not more than ten (10) business days after the event:

1. principal and interest payment delinquencies;
2. unscheduled draws on debt service reserves reflecting financial difficulties;
3. unscheduled draws on credit enhancements reflecting financial difficulties;
4. substitution of credit or liquidity providers, or their failure to perform;
5. adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability or of a Notice of Proposed Issue (IRS Form 5701-TEB);
6. tender offers;
7. defeasances;
8. ratings changes; and
9. bankruptcy, insolvency, receivership or similar proceedings.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. unless described in paragraph 5(a)(5) above, notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. the consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;
3. appointment of a successor or additional trustee or the change of the name of a trustee;
4. nonpayment related defaults;
5. modifications to the rights of Owners of the Bonds;
6. bond calls; and
7. release, substitution or sale of property securing repayment of the Bonds.

(c) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event under Section 5(b) above, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Issuer determines that knowledge of the occurrence of a Listed Event under Section 5(b) would be material under applicable federal securities laws, the Issuer shall file a notice of such occurrence with the Repository in a timely manner not more than 10 business days after the event.

(e) The Issuer hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the Issuer and that the Dissemination Agent shall not be responsible for determining whether the Issuer's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the Issuer and the Dissemination Agent under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Issuer. The Dissemination Agent may resign by providing (i) thirty days written notice to the Issuer, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment.

(a) This Disclosure Certificate may be amended, by written agreement of the parties, without the consent of the Owners, if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law, or a change in the identity, nature or status of the Issuer or the type of business conducted thereby; (ii) this Disclosure Certificate as so amended would have complied with the requirements of the Rule as of the date of this Disclosure Certificate, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) the Issuer shall have delivered to the Dissemination Agent an opinion of a nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the same effect as set forth in clause (ii) above; (iv) the Issuer shall have

delivered to the Dissemination Agent an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the Issuer, to the effect that the amendment does not materially impair the interests of the Owners or Beneficial Owners; and (v) the Issuer shall have delivered copies of such opinion and amendment to the Repository.

(b) This Disclosure Certificate also may be amended by written agreement of the parties upon obtaining consent of Owners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of the Owners of the Bonds; provided that the conditions set forth in Section 8(a)(i), (ii), (iii) and (v) have been satisfied.

(c) To the extent any amendment to this Disclosure Certificate results in a change in the type of financial information or operating data provided pursuant to this Disclosure Certificate, the first Annual Report provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

(d) If an amendment is made to the basis on which financial statements are prepared, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a quantitative and, to the extent reasonably feasible, qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer and/or the Dissemination Agent to comply with their respective obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. Where an entity other than the Issuer is acting as the Dissemination Agent, the Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent other than the Issuer shall be paid (i) compensation by the Issuer for its services provided hereunder in accordance with a schedule of fees to be mutually agreed to; and (ii) all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it by the Issuer pursuant to this Disclosure Certificate. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds. No person shall have any right

to commence any action against the Dissemination Agent seeking any remedy other than to compel specific performance of this Disclosure Certificate. The Dissemination Agent shall not be liable under any circumstances for monetary damages to any person for any breach under this Disclosure Certificate.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Notices. Notices with respect to this Disclosure Certificate should be sent in writing to:

Disclosure Representative: City of Riverside
92522 Main Street
Riverside, California 92522
Attention: Finance Director

IN WITNESS WHEREOF, this Certificate is executed as of the date and year first set forth above.

CITY OF RIVERSIDE on behalf of COMMUNITY
FACILITIES DISTRICT NO. 2014-2 (THE
HIGHLANDS)

By: _____
Disclosure Representative

CONTINUING DISCLOSURE CERTIFICATE OF D.R. HORTON

This Continuing Disclosure Certificate of D.R. Horton (the “Disclosure Certificate”), dated April 28, 2016, is executed and delivered by D.R. Horton Los Angeles Holdings Company, Inc., a California corporation (the “Developer”), in connection with the execution and delivery by the City of Riverside of its Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Special Tax Bonds, Series 2016A, and Taxable Special Tax Bonds, Series 2016B (collectively, the “Bonds”). The Bonds are being executed and delivered pursuant to a Fiscal Agent Agreement by and between the City of Riverside, for and on behalf of the District, and U.S. Bank National Association, as fiscal agent (the “Fiscal Agent”), dated as of April 1, 2016 (the “Fiscal Agent Agreement”). The Developer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Developer for the benefit of the Bondowners and Beneficial Owners of the Bonds.

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Affiliate” shall mean any Person presently directly (or indirectly through one or more intermediaries) currently under managerial control of the Developer, and about whom information could be material to potential investors in their investment decision regarding the Bonds (including, without limitation, information relevant to the proposed development of the Property which the Developer owns or the Developer’s ability to pay the Special Taxes related to the Property which the Developer owns).

“Annual Report” shall mean any Annual Report provided by the Developer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of the Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” means Albert A. Webb Associates, or any successor Dissemination Agent designated in writing by the Developer, with the written consent of the District, and which has filed with the Developer, the District and the Fiscal Agent a written acceptance of such designation, and which is experienced in providing dissemination agent services such as those required under this Disclosure Certificate.

“EMMA” shall mean the Electronic Municipal Market Access system of the MSRB.

“Fiscal Year” shall mean the period beginning on July 1 of each year and ending on the next succeeding June 30.

“Listed Event” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Official Statement” shall mean the Official Statement, dated April 14, 2016, relating to the Bonds.

“Participating Underwriter” shall mean the original underwriter of the Bonds required to comply with the Rule in connection with offering of the Bonds, which is Stifel Nicolaus & Company, Incorporated, whose address for purposes of this Disclosure Certificate is One Montgomery Street, 35th Floor, San Francisco, California 94104.

“Person” shall mean any natural person, corporation, partnership, firm, association, Government Authority or any other Person whether acting in an individual fiduciary, or other capacity.

“Property” means the real property within the boundaries of the District owned by the Developer or any Affiliate.

“Repository” shall mean the MSRB or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Unless otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Semiannual Report” shall mean any report to be provided by the Developer on or prior to October 1 of each year pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Special Taxes” shall mean the special taxes levied within the District.

“State” shall mean the State of California.

SECTION 3. Provision of Annual Reports.

(a) The Developer shall, or, upon written direction of the Developer, the Dissemination Agent shall, not later than April 1 of each year, commencing April 1, 2017, provide to the Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If, in any year, April 1 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent’s offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent’s offices are open for business. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate. In addition, the Developer shall, or, upon written direction of the Developer, the Dissemination Agent shall, not later than October 1 of each year, commencing October 1, 2016, provide to the Repository a Semiannual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If, in any year, October 1 falls on a Saturday, Sunday or a holiday on which the Dissemination Agent’s offices are closed for business, such deadline shall be extended to the next following day on which the Dissemination Agent’s offices are open for business.

(b) Not later than fifteen (15) Calendar Days prior to the date specified in subsection (a) for providing the Annual Report and Semiannual Report to the Repository, the Developer shall provide the Annual Report or the Semiannual Report, as applicable, to the Dissemination Agent or shall provide notification to the Dissemination Agent that the Developer is preparing, or causing to be prepared, the Annual Report or the Semiannual Report, as applicable, and the date which the Annual Report or the Semiannual Report, as applicable, is expected to be available. If by such date, the Dissemination Agent has not received a copy of the Annual Report or the Semiannual Report, as applicable, or notification as described in the preceding sentence, the Dissemination Agent shall notify the Developer of such failure to receive the report.

(c) If the Dissemination Agent is unable to provide an Annual Report or Semiannual Report to the Repository by the date required in subsection (a) or to verify that an Annual Report or Semiannual Report has been provided to the Repository by the date required in subsection (a), the Dissemination Agent shall send a notice to the Repository in the form required by the Repository.

(d) The Developer shall, or the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report and the Semiannual Report the name and address of the Repository; and

(ii) promptly after filing the Annual Report or Semiannual Report, provide notice the District certifying that the Annual Report or the Semiannual Report, as applicable, has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the Repository.

(d) Notwithstanding any other provision of this Disclosure Certificate, any of the required filings hereunder shall be made in accordance with the MSRB's EMMA system or in another manner approved under the Rule.

SECTION 4. Content of Annual Report and Semiannual Report.

(a) The Developer's Annual Report and Semiannual Report shall contain or include by reference the information which is available within thirty (30) days of the filing of the Annual Report or the Semiannual Report, as applicable, relating to the following:

1. A discussion of the sources of funds to finance development of the Property, and whether any material defaults exist under any loan arrangement related to such financing.

2. A summary of the development activity with respect to the Property, including the number of parcels for which building permits have been issued, the number of home closings, the number of homes under construction, the number of homes under contract to be sold to individuals, and the expected build out of the Property.

3. Status of completion of the development of the Property being undertaken by the Developer and its Affiliates, and any major legislative, administrative and judicial challenges known to the Developer affecting the development of the Property or the time for construction of any public or private improvements to the Property to be made by the Developer or any Affiliate (the "Developer Improvements").

4. A statement as to whether or not the Developer or any Affiliate owning any Property is current on the payment of Special Taxes levied on the Property and if such Developer or any such Affiliate is delinquent in the payment of such Special Taxes, a statement identifying each entity that is so delinquent, specifying the amount of each such delinquency and describing any plans to resolve such delinquency.

5. Any sale by the Developer or any Affiliate of the Developer of the Property or any portion thereof to another Person, other than to buyers of completed homes, including a description of the property sold (acreage, number of lots, etc.) and the identity of the Person that so purchased the property.

(b) In addition to any of the information expressly required to be provided under paragraph (a) above, the Developer shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(c) Any and all of the items listed above may be included by specific reference to other documents, including official statements of debt issues which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB. The Developer shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Developer shall give notice of the occurrence of any of the following events with respect to the Bonds, if material under clauses (b) and (c) as soon as practicable after the occurrence of any of the following events:

1. Failure to pay any real property taxes, special taxes or assessments levied on the Property;
2. Damage to or destruction of any of the Developer Improvements which has a material adverse effect on the value of the Property;
3. Material default by the Developer or any Affiliate that continues to exist beyond the applicable notice and cure periods on any loan with respect to the construction or permanent financing of the Developer Improvements;
4. Material default by the Developer or any Affiliate that continues to exist beyond the applicable notice and cure periods on any loan secured by all or any portion of the Property;
5. Payment default by the Developer or any Affiliate that continues to exist beyond the applicable notice and cure periods on any loan of the Developer or any Affiliate (whether or not such loan is secured by property within the District);
6. The filing of any proceedings with respect to the Developer, in which the Developer may be adjudicated as bankrupt or discharged from any or all of their respective debts or obligations or granted an extension of time to pay debts or a reorganization or readjustment of debts; and
7. The filing of any lawsuit against the Developer or any of its Affiliates which, in the reasonable judgment of the Developer, will adversely affect the completion of the Developer Improvements or the development of the Property, or litigation which if decided against the Developer or any of its Affiliates, in the reasonable judgment of the Developer, would materially adversely affect the financial condition of the Developer.

(b) Whenever the Developer obtains knowledge of the occurrence of a Listed Event, the Developer shall as soon as possible determine if such event would be material under applicable federal securities laws. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

(c) If the Developer determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Developer shall promptly file a notice of such occurrence with the Dissemination Agent, which shall then promptly distribute such notice to the Repository, with a copy to the District.

SECTION 6. Termination of Reporting Obligation. The Developer's obligations under this Disclosure Certificate shall terminate upon the following events:

- (a) the legal defeasance, prior redemption or payment in full of all of the Bonds,
- (b) if, at any time, the Developer and its Affiliates own Property within the District which is responsible for less than twenty percent (20%) of the Special Taxes levied in the current Fiscal Year, or
- (c) upon the delivery by the Developer to the District of an opinion of nationally recognized bond counsel to the effect that the information required by this Disclosure Certificate is no longer required.

Such opinion shall be based on information publicly provided by the Securities and Exchange Commission or a private letter ruling obtained by the Developer or a private letter ruling obtained by a similar entity to the Developer.

If such termination occurs prior to the final maturity of the Bonds, the Developer shall give notice of such termination in the same manner as for an Annual Report or Semiannual Report hereunder.

SECTION 7. Dissemination. The Developer may from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. If the Dissemination Agent is not the Developer, the Dissemination Agent shall not be responsible in any manner for the form or content of any notice or report prepared by the Developer pursuant to this Disclosure Certificate. The Dissemination Agent may resign by providing (i) thirty days written notice to the Developer, the District and the Fiscal Agent, and (ii) upon appointment of a new Dissemination Agent hereunder.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Developer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied (provided, however, that the Dissemination Agent shall not be obligated under any such amendment that modifies or increases its duties or obligations hereunder without its written consent thereto):

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Developer, or the type of business conducted;

(b) The amendment or waiver either (i) is approved by the Bondowners in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Bondowners, or (ii) does not, in the opinion of nationally recognized bond counsel addressed to the District and the Fiscal Agent, materially impair the interests of the Bondowners or Beneficial Owners of the Bonds; and

(c) The Developer, or the Dissemination Agent, shall have delivered copies of the amendment and any opinions delivered under (b) above.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Developer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report, Semiannual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Developer chooses to include any information in any Annual Report, Semiannual Report, or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Developer shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report, Semiannual Report, or notice of occurrence of a Listed Event.

The Developer acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the Developer, and that under some circumstances compliance with this Disclosure Certificate, without additional disclosures or other action, may not fully discharge all duties and obligations of the Developer under such laws.

SECTION 10. Default. In the event of a failure of the Developer to comply with any provision of this Disclosure Certificate, the Participating Underwriter or any Bondowner or Beneficial Owner of the Bonds may, take such actions as may be necessary and appropriate, including seeking mandate or specific

performance by court order, to cause the Developer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Fiscal Agent Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Developer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate and the Developer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct or failure to perform its duties hereunder. The Dissemination Agent shall be paid compensation for its services provided hereunder from the Administrative Expense Fund established under the Fiscal Agent Agreement in accordance with the Dissemination Agent's schedule of fees as amended from time to time, which schedule, as amended, shall be reasonably acceptable, and all reasonable expenses, reasonable legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent shall have no duty or obligation to review any information provided to it hereunder and shall not be deemed to be acting in any fiduciary capacity for the District, the Developer, the Fiscal Agent, the Bond Owners, or any other party. The obligations of the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Reporting Obligation of Developer's Transferees. The Developer shall, in connection with any sale or transfer of ownership of land within the District which will result in the transferee (which term shall include any successors and assigns of the Developer) becoming responsible for the payment of more than 20 percent of the Special Taxes levied on property within the District in the Fiscal Year following such transfer, cause such transferee to enter into a disclosure certificate with terms substantially similar to the terms of this Disclosure Certificate, whereby such transferee agrees to provide the information of the type described in Sections 4 and 5 of this Disclosure Certificate; provided that such transferee's obligations under such disclosure certificate shall terminate upon the land owned by the transferee becoming responsible for the payment of less than twenty (20) percent of the annual Special Taxes.

SECTION 13. Developer as Independent Contractor. In performing under this Disclosure Certificate, it is understood that the Developer is an independent contractor and not an agent of the District.

SECTION 14. Notices. Notices should be sent in writing to the following addresses. The following information may be conclusively relied upon until changed in writing.

Developer:	D.R. Horton Los Angeles Holding Company, Inc. South Coast/Inland Empire Division 2280 Wardlow Circle, Suite 110 Corona, CA 92880 Attn: Barbara Murakami, Forward Planning Manager Telephone: (951) 272-9000
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With Copies To: D.R. Horton, America's Builder
501 West Boradway, Suite 1200
San Diego, California 92101
Attn: Jason Frank and William E. Mayer
Telephone: (619) 849-4947

D.R. Horton, Inc.
301 Commerce Street, Suite 500
Fort Worth, Texas 76102
Attn: Ted I. Harbour and Thomas Montano
Telephone: (817) 390-8200

Dissemination Agent: Albert A Webb Associates
3788 McCray Street
Riverside, CA 92506

Fiscal Agent: U.S. Bank National Association
633 West Fifth Street, 24th Floor
Los Angeles, CA 90071
Attn: Corporate Trust Services

Participating Underwriter: Stifel Nicolaus & Company, Incorporated
One Montgomery Street, 35th Floor
San Francisco, California 94104
Attn: Municipal Bond Division

District: Community Facilities District No. 2014-2 (The Highlands)
of the City of Riverside
3900 Main Street
Riverside, CA 92522

SECTION 15. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Developer, the District, the Dissemination Agent, the Fiscal Agent, the Participating Underwriter and Bondowners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 17. Counterparts. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

D.R. HORTON LOS ANGELES HOLDING COMPANY,
INC., a California corporation

By: _____
Barbara Murakami,
Vice President

AGREED AND ACCEPTED:
ALBERT A. WEBB ASSOCIATES,
as Dissemination Agent

By: _____
Name: _____
Title: _____

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APPENDIX F

PROPOSED FORM OF BOND COUNSEL OPINIONS

[Closing Date]

City of Riverside
3900 Main Street
Riverside, CA 92522

Re: \$1,800,000 Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Special Tax Bonds, Series 2016A

Ladies and Gentlemen:

We have reviewed the Constitution and laws of the State of California and certain proceedings taken by the City of Riverside (the “City”) and Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside (the “District”) in connection with the issuance by the by the District of \$1,800,000 Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Special Tax Bonds, Series 2016A (the “Bonds”), pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Act”), a resolution adopted by the City on April 5, 2016 (the “Resolution”), and a Fiscal Agent Agreement, dated as of April 1, 2016 (the “Fiscal Agent Agreement”) by and between the City and U.S. Bank National Association, as fiscal agent (the “Fiscal Agent”).

In such connection, we have reviewed the Fiscal Agent Agreement, the tax certificate of the City for the Bonds dated the date hereof (the “Tax Certificate”), certificates of the City and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other events come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Fiscal Agent Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to ensure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Fiscal Agent Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance,

moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities and their subordinate entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based upon the foregoing, we are of the opinion, under existing law, that:

1. The District is a community facilities district duly organized and validly existing under the laws of the State of California, with power to enter into the Fiscal Agent Agreement, to perform the agreements on its part contained therein and to issue the Bonds;

2. The Bonds constitute the valid and legally binding special obligations of the District enforceable in accordance with their terms and payable solely from the sources provided therefor in the Fiscal Agent Agreement;

3. The Fiscal Agent Agreement has been duly approved by the City and constitutes the valid and legally binding obligation of the City enforceable against the City in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, moratorium, transfer or conveyance, or other laws affecting creditor's rights generally, or the exercise of judicial discretion in accordance with general principals of equity or otherwise in appropriate cases; provided, however, we express no opinion with respect to any indemnification, contribution, choice of law or waiver provisions contained therein;

4. The Fiscal Agent Agreement establishes a lien on and pledge of the Special Tax Revenues (as such term is defined in the Fiscal Agent Agreement) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Fiscal Agent Agreement;

5. Interest on the Bonds is exempt from California personal income taxation; and

6. Under existing statutes, regulations, rulings and court decisions, the interest on the Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum tax provisions of the Code; it should be further noted, however, that, with respect to corporations, such interest will be included in adjusted current earnings when calculating corporate alternative minimum taxable income. Although the interest on the Bonds is excluded from gross income for purposes of federal income taxation, the accrual or receipt of interest on the Bonds, or any portion thereof, may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend on the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

Our opinions, expressed herein, may be affected by action taken (or not taken) on events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur.

Respectfully submitted,

[Closing Date]

City of Riverside
3900 Main Street
Riverside, CA 92522

Re: \$810,000 Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Taxable Special Tax Bonds, Series 2016B

Ladies and Gentlemen:

We have reviewed the Constitution and laws of the State of California and certain proceedings taken by the City of Riverside (the “City”) and Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside (the “District”) in connection with the issuance by the by the District of \$810,000 Community Facilities District No. 2014-2 (The Highlands) of the City of Riverside Taxable Special Tax Bonds, Series 2016B (the “Bonds”), pursuant to the provisions of the Mello-Roos Community Facilities Act of 1982, as amended, being Chapter 2.5 (commencing with Section 53311) of Part 1 of Division 2 of Title 5 of the Government Code of the State of California (the “Act”), a resolution adopted by the City on April 5, 2016 (the “Resolution”), and a Fiscal Agent Agreement, dated as of April 1, 2016 (the “Fiscal Agent Agreement”) by and between the City and U.S. Bank National Association, as fiscal agent (the “Fiscal Agent”).

In such connection, we have reviewed the Fiscal Agent Agreement, certificates of the City and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other events come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Fiscal Agent Agreement. We call attention to the fact that the rights and obligations under the Bonds and the Fiscal Agent Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against cities and their subordinate entities in the State of California. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the documents mentioned in the preceding sentence. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering materials relating to the Bonds and express no opinion with respect thereto.

Based upon the foregoing, we are of the opinion, under existing law, that:

1. The District is a community facilities district duly organized and validly existing under the laws of the State of California, with power to enter into the Fiscal Agent Agreement, to perform the agreements on its part contained therein and to issue the Bonds;
2. The Bonds constitute the valid and legally binding special obligations of the District enforceable in accordance with their terms and payable solely from the sources provided therefor in the Fiscal Agent Agreement;
3. The Fiscal Agent Agreement has been duly approved by the City and constitutes the valid and legally binding obligation of the City enforceable against the City in accordance with its terms except as such enforcement may be limited by bankruptcy, insolvency, moratorium, transfer or conveyance, or other laws affecting creditor's rights generally, or the exercise of judicial discretion in accordance with general principals of equity or otherwise in appropriate cases; provided, however, we express no opinion with respect to any indemnification, contribution, choice of law or waiver provisions contained therein;
4. The Fiscal Agent Agreement establishes a lien on and pledge of the Special Tax Revenues (as such term is defined in the Fiscal Agent Agreement) and other funds pledged thereby for the security of the Bonds, in accordance with the terms of the Fiscal Agent Agreement;
5. Interest on the Bonds is exempt from California personal income taxation.

To ensure compliance with requirements imposed by the Internal Revenue Service, we inform you that any U.S. federal tax advice contained herein is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or matter addressed herein.

Our opinions, expressed herein, may be affected by action taken (or not taken) on events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or occur.

Respectfully submitted,

APPENDIX G

INFORMATION CONCERNING DTC

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the District believes to be reliable, but the District takes no 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 to the District which the District believes to be reliable, but the District and the Underwriter do not and cannot make any independent representations concerning these matters and do not take responsibility for the accuracy or completeness thereof. Neither the DTC, Direct Participants, Indirect Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

The Depository Trust Company ("DTC"), New York, New York, 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 maturity, and will be deposited through the facilities of 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 3.6 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.

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 Bonds representing their ownership interests in 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 affect 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 prepayments, 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 prepaid, 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.

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