

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds described herein is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption “TAX EXEMPTION” with respect to tax consequences relating to the Bonds, including with respect to the alternative minimum tax imposed on certain large corporations for tax years beginning after December 31, 2022.

\$1,970,000
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
IMPROVEMENT AREA 1 SPECIAL TAX BONDS, SERIES 2023

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

The City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Bonds, Series 2023 (the “Bonds”) are being issued by the City of Desert Hot Springs (the “City”) with respect to Improvement Area 1 (“Improvement Area 1”) of the City of Desert Hot Springs Community Facilities District No. 2006-1 (the “District”) to: (i) finance certain public improvements to be owned by the City; (ii) fund a reserve account for the Bonds; and (iii) pay costs of issuance for the Bonds. Improvement Area 1 is located within the District. The Bonds are authorized to be issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the “Act”), and pursuant to that certain Fiscal Agent Agreement dated as of February 1, 2020 (the “Original Fiscal Agent Agreement”), as supplemented and amended by the First Supplement to Fiscal Agent Agreement, dated as of December 1, 2023 (the “First Supplement” and together with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”), each by and between the City and Wilmington Trust, National Association, as fiscal agent.

The Bonds are secured by Special Tax Revenues (as defined herein) consisting primarily of a certain annual Special Tax (as defined herein) to be levied on taxable parcels within Improvement Area 1 of the District and from certain other funds pledged under the Fiscal Agent Agreement, all as further described herein. The Special Tax is to be levied according to a rate and method of apportionment approved by the City Council of the City and the qualified electors within Improvement Area 1 of the District. The Bonds are secured by the Special Tax Revenues on a parity with the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Refunding Bonds, Series 2020 (the “2020 Bonds”) outstanding in the principal amount of \$1,687,857, which were issued on a private placement basis. Special taxes levied in any other improvement area of the District are not available to pay debt service on the Bonds. See the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes” and Appendix A — “RATE AND METHOD OF APPORTIONMENT.”

The Bonds will be issued in fully registered form and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases of the Bonds may be made in principal amounts of \$5,000 and integral multiples thereof and will be in book-entry form only. Purchasers of the Bonds will not receive certificates representing their beneficial ownership of the Bonds but will receive credit balances on the books of their respective nominees. The Bonds will not be transferable or exchangeable except for transfer to another nominee of DTC or as otherwise described herein. Interest on the Bonds will be payable on each March 1 and September 1, commencing March 1, 2024. Principal of and interest on the Bonds will be paid by the Fiscal Agent to DTC for subsequent disbursement to DTC Participants, who will remit such payments to the Beneficial Owners of the Bonds.

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

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

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

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

MATURITY SCHEDULE
(See Inside Cover Page)

The Bonds are offered when, as and if issued and accepted by the Underwriter, subject to approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, and subject to certain other conditions. Certain legal matters will be passed on for the City by Stream Kim Hicks Wrage & Alfaro, PC, Riverside, California, City Attorney, and for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel, for the Underwriter by Kutak Rock LLP, Irvine, California, and for the Fiscal Agent by its counsel. It is anticipated that the Bonds in book-entry form will be available for delivery on or about December 21, 2023.

STIFEL

Dated: December 13, 2023.

\$1,970,000
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
IMPROVEMENT AREA 1 SPECIAL TAX BONDS, SERIES 2023

MATURITY SCHEDULE

BASE CUSIP®† 25041U

\$1,135,000 Serial Bonds

<i>Maturity Date (September 1)</i>	<i>Principal Amount</i>	<i>Interest Rate</i>	<i>Yield</i>	<i>Price</i>	<i>CUSIP No.†</i>
2024	\$ 70,000	5.00%	3.06%	101.318	AU5
2025	95,000	5.00	3.12	103.074	AV3
2026	100,000	5.00	3.15	104.738	AW1
2027	105,000	5.00	3.18	106.292	AX9
2028	110,000	5.00	3.35	107.107	AY7
2029	120,000	5.00	3.49	107.732	AZ4
2030	125,000	5.00	3.65	107.948	BA8
2031	130,000	5.00	3.74	108.351	BB6
2032	135,000	5.00	3.76	109.118	BC4
2033	145,000	5.00	3.76	109.611 ^C	BD2

\$835,000 5.00% Term Bonds due September 1, 2038 Yield: 4.29% Price: 105.576^{CC} CUSIP No.† BE0

^C Priced to the optional redemption date of September 1, 2030 at 103%.

^{CC} Priced to the optional redemption date of September 1, 2033 at par.

[†] CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright© 2023 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the Underwriter or their agents or counsel assume responsibility for the accuracy of such numbers.

**CITY OF DESERT HOT SPRINGS
COUNTY OF RIVERSIDE, CALIFORNIA**

CITY COUNCIL

Scott Matas, *Mayor*
Roger Nuñez, *Mayor Pro Tem*
Russell Betts, *Councilmember*
Gary Gardner, *Councilmember*
Jan Pye, *Councilmember*

CITY ADMINISTRATORS

Frank Luckino, *City Manager*
Doria Wilms, *Deputy City Manager*
Daniel Porras, *Assistant City Manager*
Geoffrey Buchheim, *Administrative Services Director*
Jerryl Soriano, CMC, *City Clerk*
Jennifer Mizrahi, *City Attorney*

BOND AND DISCLOSURE COUNSEL

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Newport Beach, California

MUNICIPAL ADVISOR

Urban Futures, Inc.
Walnut Creek, California

SPECIAL TAX CONSULTANT

Webb Municipal Finance, LLC
Riverside, California

APPRAISER

Integra Realty Resources
Rocklin, California

TRUSTEE

Wilmington Trust, National Association
Costa Mesa, California

Except where otherwise indicated, all information contained in this Official Statement has been provided by the City. No dealer, broker, salesperson or other person has been authorized by the City 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 herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the City, 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 herein, are intended solely as such and are not to be construed as representations of fact.

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

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

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described herein since the date hereof. 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 hereby made to such documents on file with the City for further information in connection therewith.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as a “plan,” “expect,” “estimate,” “project,” “budget,” or similar words. Such forward-looking statements include, but are not limited to certain statements contained in the information under the captions “IMPROVEMENT AREA 1” and “PROPERTY OWNERSHIP AND THE DEVELOPMENT.”

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 EVALUATING SUCH STATEMENTS, POTENTIAL INVESTORS SHOULD SPECIFICALLY CONSIDER THE VARIOUS FACTORS WHICH COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY SUCH FORWARD-LOOKING STATEMENTS.

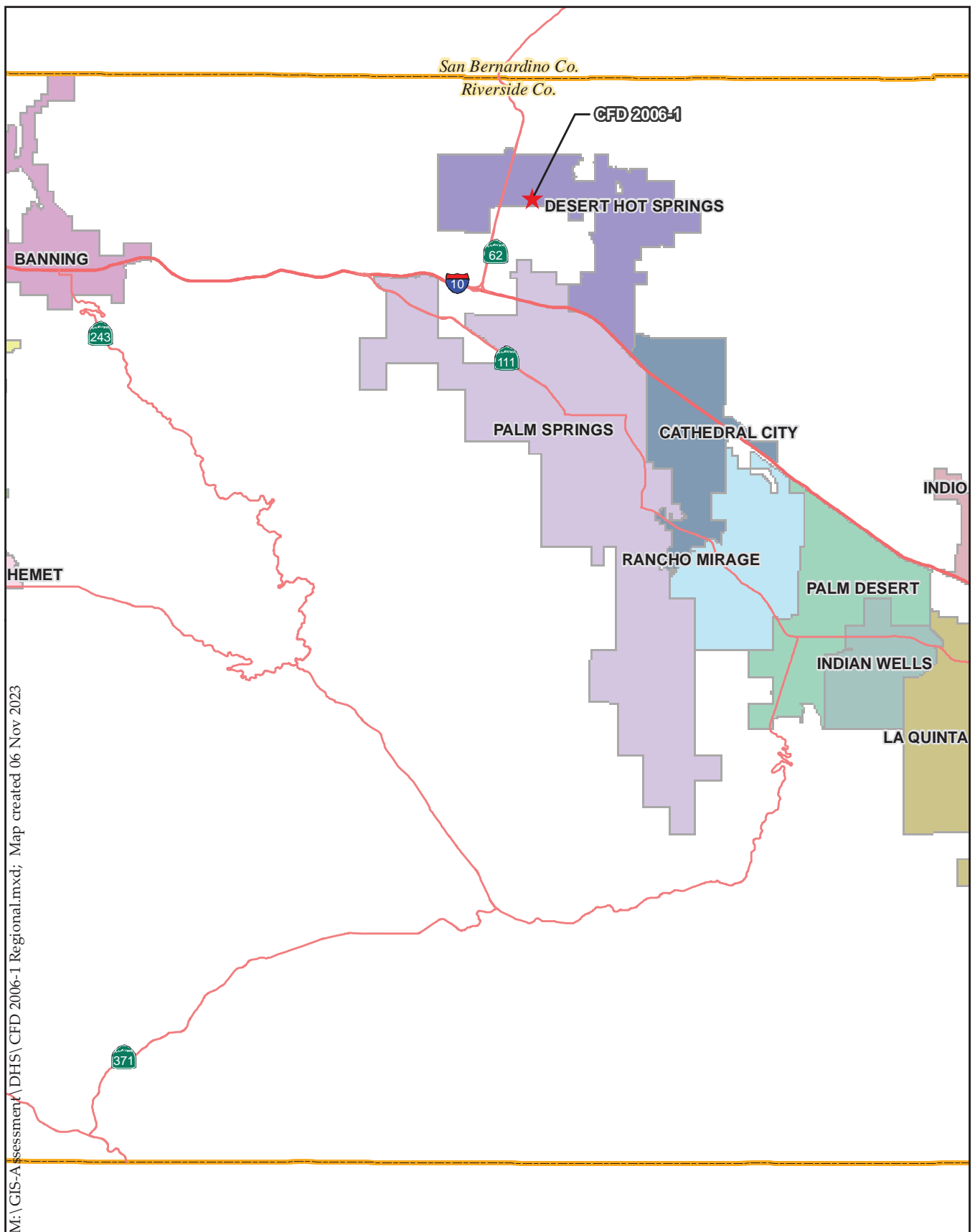
The City maintains a website. However, the information presented on such website is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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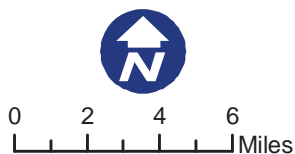


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Sources: Riverside Co. GIS, 2023; San Bernardino Co. GIS, 2023; National Elevation Dataset

REGIONAL MAP

Community Facilities District No. 2006-1



CFD No 2006-1 City of Desert Hot Springs

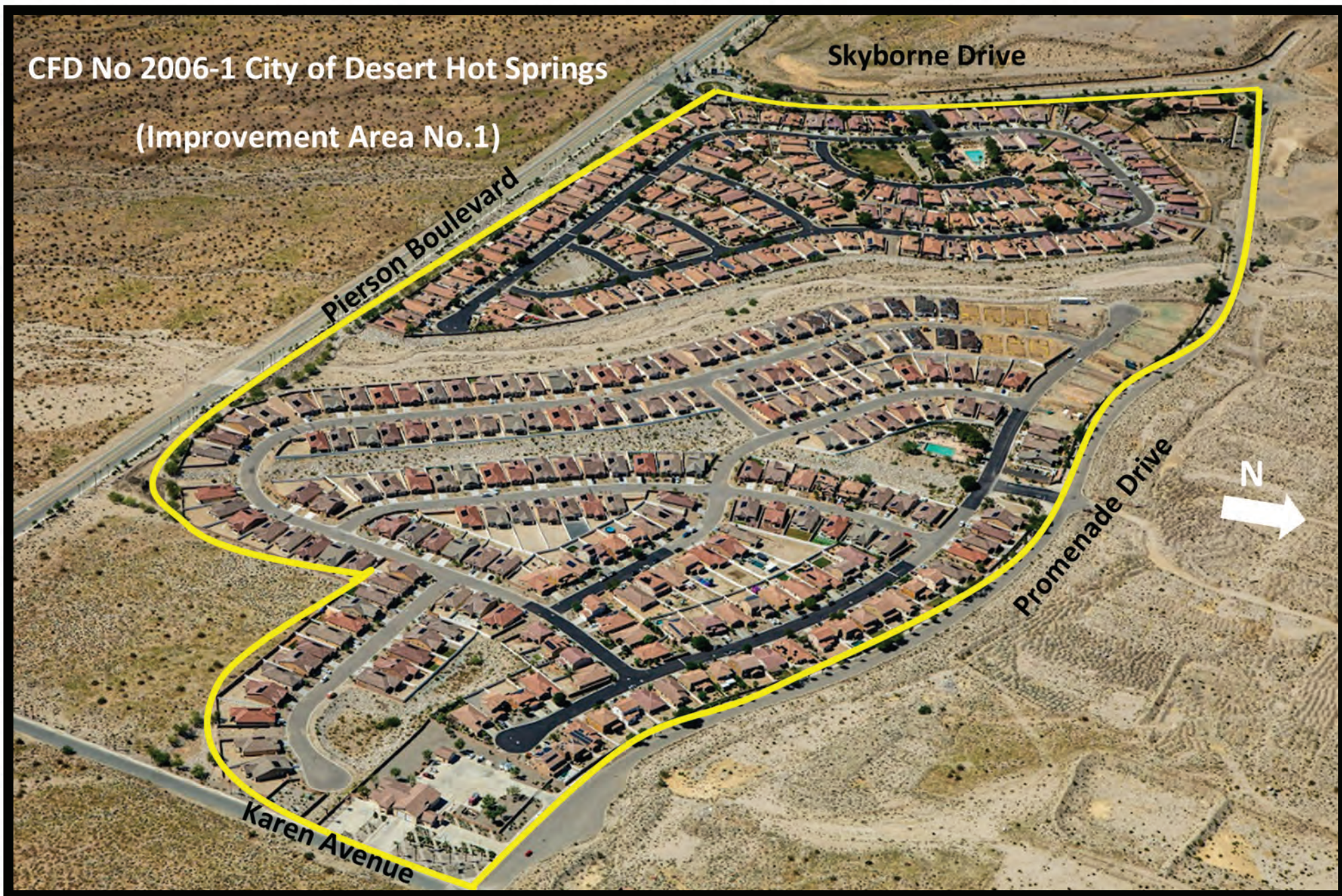
(Improvement Area No.1)

Pierson Boulevard

Skyborne Drive

Promenade Drive

Karen Avenue



\$1,970,000
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
IMPROVEMENT AREA 1 SPECIAL TAX BONDS, SERIES 2023

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the table of contents and the attached appendices (collectively, the “Official Statement”), is to provide certain information concerning the issuance by the City of Desert Hot Springs (the “City”) of the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Bonds, Series 2023 in the aggregate principal amount of \$1,970,000 (the “Bonds”). The City of Desert Hot Springs Community Facilities District No. 2006-1 (the “District”) and Improvement Area 1 (“Improvement Area 1”) therein have been formed by the City pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (Section 53311 *et seq.* of the Government Code of the State of California) (the “Act”). The proceeds of the Bonds will be used to: (i) finance certain public improvements to be owned by the City; (ii) fund a reserve account for the Bonds; and (iii) pay costs of issuance for the Bonds.

The Bonds are authorized to be issued pursuant to the Act and a Fiscal Agent Agreement dated as of February 1, 2020 (the “Original Fiscal Agent Agreement”), as supplemented and amended by the First Supplement to Fiscal Agent Agreement, dated as of December 1, 2023 (the “First Supplement” and together with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”), each by and between the City and Wilmington Trust, National Association, as fiscal agent (the “Fiscal Agent”). The Bonds are secured under the Fiscal Agent Agreement by a pledge of and lien upon Special Tax Revenues (as such term is defined herein) and all moneys in the Bond Fund and the Special Tax Fund as described in the Fiscal Agent Agreement. The Bonds are secured by the Special Tax Revenues on a parity with the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Refunding Bonds, Series 2020 (the “2020 Bonds”) outstanding in the principal amount of \$1,687,857, which were issued on a private placement basis.

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

Changes Since the Date of the Preliminary Official Statement

Changes have been made in this Official Statement since the Preliminary Official Statement dated December 7, 2023 under the caption “SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Rate and Method of Apportionment of Special Tax*” to reflect that, in Fiscal Year 2023-24, the City levied the Special Tax (as defined herein) on 337 parcels of Developed Property (as defined herein) in the amount of \$315,371.88.

The City, District and Improvement Area 1

General. The City is located in the County of Riverside (the “County”), California (the “State”), approximately 110 miles east of the City of Los Angeles. The District comprises a portion of a master-planned community that has been marketed as “Skyborne at Desert Hot Springs” (“Skyborne”). Skyborne is located to the southeast of Mission Lakes Boulevard and Worsley Road.

The District includes five Improvement Areas in two non-contiguous areas in the City. Improvement Areas 1 through 4 are located in the eastern portion of the City, to the southeast of Mission Lakes Boulevard

and Worsley Road, and consists of approximately 608 acres. Improvement Areas 1 through 4 are included in Skyborne. Skyborne is planned to include 10 villages with approximately 2,000 homes at buildout. Improvement Area 5 is unrelated to the Skyborne project. The Bonds will only be secured by property in Improvement Area 1.

Development of Skyborne commenced in 2006 and the original developer of Skyborne was Western Pacific Housing, Inc. (dba D.R. Horton America's Builder) ("D.R. Horton"). Development of Skyborne was delayed due to the severe economic recession in the late 2000's. In 2008, D.R. Horton sold substantially all of its interest in the Skyborne development to Skyborne Ventures, LLC, a Delaware limited liability corporation ("Skyborne Ventures"), who is the current master developer of Skyborne.

Improvement Area 1. Villages I and II of Skyborne are included within Improvement Area 1 and are planned to include 394 single family homes at buildout. Improvement Area 1 is located to the northwest of Karen Avenue and Pierson Boulevard. As of the September 15, 2023, date of value of the Appraisal Report (as defined below), 351 of the 394 homes planned within Improvement Area 1 had been conveyed to individual homeowners. As of such date, the property for the remaining 43 homes was owned by Lennar Homes of California, LLC ("Lennar") or Lennar's landbank (as described herein) and consisted of eight completed homes (including three model homes), 21 homes under construction and 14 finished lots. Development has progressed since the date of value of the Appraisal Report. As of November 27, 2023, a total of 362 homes within Improvement Area No. 1 had been completed and conveyed to individual homeowners. As of such date, Lennar owned three completed model homes, one completed production home (in escrow), 21 homes under construction (four in escrow), and 7 finished lots (none in escrow).

The backbone infrastructure necessary to complete development in Improvement Area 1 is complete. Remaining infrastructure to be completed consists of final finishing of certain in-tract streets and landscaping. See the captions "IMPROVEMENT AREA 1" and "PROPERTY OWNERSHIP AND THE DEVELOPMENT" for further information with respect to the development within Improvement Area 1 and Lennar.

Formation Proceedings. The District was formed on January 16, 2007 pursuant to the Act. The Act was enacted to provide an alternative method of financing certain public capital facilities and services, especially in developing areas of the State. Any local agency (as defined in the Act) may establish a community facilities district to provide for and finance the cost of eligible public facilities and services. Generally, the legislative body of the local agency which forms a community facilities district acts on behalf of such district as its legislative body. Subject to approval by two-thirds of the votes cast at an election and compliance with the other provisions of the Act, a legislative body of a local agency may issue bonds for a community facilities district or improvement area therein and may levy and collect a special tax within such district or improvement area to repay such indebtedness.

Pursuant to the Act, on November 21, 2006, the City Council adopted Resolution No. 2006-107, stating its intention to form the District, designate five improvement areas therein, and authorize the levy of special taxes on the taxable property within the District. Subsequent to a noticed public hearing on January 16, 2007, the City Council adopted Resolution Nos. 2007-13, 2007-14 and 2007-15 on January 16, 2007, which established the District and designated five improvement areas therein.

At a special election held on January 16, 2007, within Improvement Area 1, the qualified electors within Improvement Area 1 (i) authorized the City to incur bonded indebtedness in an amount not to exceed \$8,000,000 for Improvement Area 1 of the District, (ii) approved the levy of a Special Tax (as defined below) within Improvement Area 1 pursuant to the Rate and Method of Apportionment of Special Taxes for Improvement Area 1 attached hereto as Appendix A (the "Rate and Method"), and (iii) approved an appropriations limit for the District.

A Notice of Special Tax Lien for Improvement Area 1 of the District was recorded in the office of the County Recorder on January 31, 2007 as Document No. 2007-0073276. On August 7, 2007, the City Council adopted Ordinance No. 2007-13 (the "Ordinance") which authorizes the levy of the Special Tax pursuant to the Rate and Method approved at the January 16, 2007 election, a copy of which is attached hereto as Appendix A.

Prior Bonds Issued for Improvement Area No. 1 of the District. The City has previously issued bonds for Improvement Area 1 of the District to finance certain public facilities and to refund such prior bonds. Currently, the only remaining bonds previously issued outstanding are the 2020 Bonds. The Bonds will be secured by Special Tax Revenues on a parity with the outstanding 2020 Bonds and any Additional Bonds (as defined herein), which may only be issued to refund outstanding 2020 Bonds, Bonds and any Additional Bonds.

Sources of Payment for the Bonds

Special Taxes. As used in this Official Statement, the term "Special Tax" means the annual Special Tax which has been authorized pursuant to the Act to be levied in accordance with the Rate and Method upon taxable property within Improvement Area 1 of the District. See the caption "SOURCES OF PAYMENT FOR THE BONDS — Special Taxes" and Appendix A — "RATE AND METHOD OF APPORTIONMENT." See the caption "IMPROVEMENT AREA 1."

Under the Fiscal Agent Agreement, the City has pledged to repay the Bonds and any Additional Bonds from the "Special Tax Revenues" and from other amounts in the Bond Fund and the Special Tax Fund established under the Fiscal Agent Agreement. The Bonds are also secured by amounts in the 2023 Reserve Account established under the Fiscal Agent Agreement. The term "Special Tax Revenues" is defined in the Fiscal Agent Agreement to mean the proceeds of the Special Taxes received by the City, including all scheduled payments and delinquent payments thereof, 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, net of the administration charge of the County (currently 1%).

The Special Taxes are the primary source of security for the repayment of the Bonds, the 2020 Bonds and any Additional 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 Bond Fund, the Special Tax Fund and the 2023 Reserve Account, to the limited extent described in the Fiscal Agent Agreement. See the caption "SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund."

Foreclosure Proceeds. The City has covenanted in the Fiscal Agent Agreement that it will annually on or before September 1 of each year review the public records of the County relating to the collection of the Special Tax in order to determine the amount of the Special Tax collected in the prior Fiscal Year, and if the City determines on the basis of such review that the amount so collected is deficient by more than five percent (5%) of the total amount of the Special Tax levied in such Fiscal Year, it will within thirty (30) days thereafter institute foreclosure proceedings as authorized by the Act in order to enforce the lien of the delinquent installment of the Special Tax against each separate lot or parcel of land in Improvement Area 1 for which such installment of the Special Tax is delinquent, and will diligently prosecute and pursue such foreclosure proceedings to judgment and sale; provided, that if the City determines on the basis of such review that (a) the amount so collected is deficient by less than 5% of the total amount of the Special Tax levied in the Improvement Area 1 in such Fiscal Year, but that property owned by any single property owner in the Improvement Area 1 is delinquent by more than \$5,000 with respect to the Special Tax due and payable by such property owner in such Fiscal Year, or (b) that property owned by any single property owner in the Improvement Area 1 (i) is delinquent cumulatively by more than \$3,000 with respect to the current and past Special Tax due (irrespective of the total delinquencies in the Improvement Area 1) or (ii) delinquent for 3 years or more, then the City will institute, prosecute and pursue such foreclosure proceedings in the time and manner provided herein against each such property owner. The Finance Director shall notify the City Attorney

of any such delinquency of which it is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

See the caption “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — Proceeds of Foreclosure Sales.” There is no assurance that the property within Improvement Area 1 can be sold for the appraised or assessed values described herein, or for a price sufficient to pay the principal of and interest on the Bonds in the event of a default in payment of Special Taxes by the current or future landowners within Improvement Area 1. See the caption “SPECIAL RISK FACTORS — Property Values.”

EXCEPT FOR THE SPECIAL TAX REVENUES, NO OTHER TAXES ARE PLEDGED TO THE PAYMENT OF THE BONDS. THE BONDS ARE NOT GENERAL OR SPECIAL OBLIGATIONS OF THE CITY OR GENERAL OBLIGATIONS OF THE CITY, BUT ARE LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM SPECIAL TAX REVENUES AND AMOUNTS HELD UNDER THE FISCAL AGENT AGREEMENT, AS MORE FULLY DESCRIBED HEREIN.

Appraisal Report

Integra Realty Resources (the “Appraiser”) has conducted an appraisal (the “Appraisal Report”) with a date of value of September 15, 2023 (the “Date of Value”) of the Taxable Property within Improvement Area 1 to provide an estimate of the market value of the such Taxable Property. The Appraisal Report provides an estimate of the approximate market value of the Taxable Property in Improvement Area 1 in its current condition, assuming that development of the property as currently planned will consist of 394 single-family detached residential units.

To arrive at the estimated value of the Taxable Property within Improvement Area 1, the Appraiser applied the following methodology: (i) for 297 completed single family homes owned by individual homeowners as shown on the County Assessor’s as of January 1, 2023, the Appraiser used the Fiscal Year 2023-24 assessed values assigned by the County (totaling \$94,248,523); and (ii) for the property relating to the remaining 97 planned homes in Improvement Area 1, the Appraiser appraised such property using the methodology as described under “IMPROVEMENT AREA 1 — Appraisal Report.” The property described in part (ii) of the foregoing sentence is referred to in this Official Statement as the “Appraised Property.” Based on the assumptions and limiting conditions in the Appraisal Report, the Appraiser concluded that the minimum market value of the Appraised Property was \$27,240,770 as of the Date of Value. The total estimated value of the property based on the foregoing assessed and appraised values is \$121,489,293.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in Appendix D. The City makes no representation as to the accuracy of the Appraisal Report. See “IMPROVEMENT AREA 1 — Appraisal Report” and “— Estimated Appraised Value-to-Lien Ratios.” There is no assurance that property within Improvement Area 1 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 property owner. See “IMPROVEMENT AREA 1,” “SPECIAL RISK FACTORS — Property Values” herein and Appendix D.

Description of the Bonds

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

respect to the Bonds, the Bonds will be registered and transferred in accordance with the Fiscal Agent Agreement. See Appendix G — “BOOK-ENTRY ONLY SYSTEM.”

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

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

Tax Exemption

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds described herein is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See the caption “TAX EXEMPTION” with respect to tax consequences relating to the Bonds, including with respect to the alternative minimum tax imposed on certain large corporations for tax years beginning after December 31, 2022.

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

Professionals Involved in the Offering

Wilmington Trust, National Association, Costa Mesa, California, will act as Fiscal Agent under the Fiscal Agent Agreement. Stifel, Nicolaus & Company, Incorporated (the “Underwriter”) is the Underwriter of the Bonds. Certain proceedings in connection with the issuance and delivery of the Bonds are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel and Disclosure Counsel to the City in connection with the issuance of the Bonds. Certain legal matters will be passed on for the City by Stream Kim Hicks Wrage & Alfaro, PC, Riverside, California, City Attorney, for the Underwriter by Kutak Rock LLP, Irvine, California, and for the Fiscal Agent by its counsel. Other professional services have been performed by Webb Municipal Finance, LLC, Temecula, California, as Special Tax Consultant (the “Special Tax Consultant”), Urban Futures, Inc., Walnut Creek, California, as Municipal Advisor and by Integra Realty Resources, Rocklin, California, as Appraiser.

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

Continuing Disclosure

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

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

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

Additional Bonds for Refunding Purposes Only

The City will covenant in the Fiscal Agent Agreement not to issue additional indebtedness secured by the Special Tax Revenues on a parity with the Bonds and the 2020 Bonds (“Additional Bonds”) other than for refunding all or a portion of the Bonds, the 2020 Bonds or Additional Bonds. See the caption “SOURCES OF PAYMENT FOR THE BONDS — Additional Bonds for Refunding Purposes Only.” Other taxes and/or special assessments with liens equal in priority to the continuing lien of the Special Taxes may also be levied in the future on the property within Improvement Area 1 of the District, which could adversely affect the willingness of the property owners to pay the Special Taxes when due. See the captions “IMPROVEMENT AREA 1 — Direct and Overlapping Debt” and “SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness.”

Bond Owners’ Risks

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

Other Information

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

Brief descriptions of the Bonds and the Fiscal Agent Agreement are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. All references herein 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. Capitalized terms not otherwise defined in this Official Statement have the meanings set forth in Appendix E.

Copies of the Fiscal Agent Agreement and other documents and information are available for inspection and copies may be obtained from the City, 11999 Palm Drive, Desert Hot Springs, CA 92240, Attention: City Clerk.

FINANCING PLAN

Estimated Sources and Uses of Funds

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

Sources of Funds

Principal Amount of Bonds	\$ 1,970,000.00
Plus Original Issue Premium	<u>125,879.75</u>
Total Sources	<u>\$ 2,095,879.75</u>

Uses of Funds:

Improvement Fund	\$ 1,663,727.35
Costs of Issuance ⁽¹⁾	237,652.40
2023 Reserve Account ⁽²⁾	<u>194,500.00</u>
Total Uses	<u>\$ 2,095,879.75</u>

(1) To pay costs of issuance of the Bonds, including legal fees, Underwriter's discount, printing costs, and fees of the Appraiser, Special Tax Consultant and the Fiscal Agent.

(2) Equal to the Reserve Requirement for the Bonds. The reserve account established in connection with the 2020 Bonds only secures the 2020 Bonds and does not secure the Bonds.

THE BONDS

General Provisions

The Bonds will be dated their date of delivery and will bear interest at the rates per annum set forth on the inside cover page hereof, payable semiannually on each March 1 and September 1, commencing March 1, 2024 (each, an "Interest Payment Date"), and will mature in the amounts and on the dates set forth on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof.

Interest will be calculated on the basis of a 360-day year comprised of twelve 30-day months. Interest on any Bond will be payable from the Interest Payment Date next preceding the date of authentication of that Bond, unless: (i) such date of authentication is an Interest Payment Date, in which event interest will be payable from such date of authentication; (ii) the date of authentication is after the fifteenth day of the month preceding an Interest Payment Date, regardless of whether such day is a Business Day (each, a "Record Date") but prior to the immediately succeeding Interest Payment Date, in which event interest will be payable from the Interest Payment Date immediately succeeding the date of authentication; or (iii) the date of authentication is prior to the close of business on the first Record Date, in which event interest will be payable from the dated date of the Bonds; provided, however, that if at the time of authentication of a Bond, interest is in default, interest on such Bond will be payable from the last Interest Payment Date to which the interest has been paid or made available for payment, or, if no interest has been paid or made available for payment on such Bond, interest on such Bond will be payable from its dated date.

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

The Bonds will be issued as fully registered bonds and will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository of the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 and any integral multiple thereof. So long as DTC is the securities depository all payments of principal and interest on the Bonds will be made to

DTC and will be paid to the Beneficial Owners in accordance with DTC's procedures and the procedures of DTC's Participants. See Appendix G — "BOOK-ENTRY-ONLY SYSTEM."

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

Debt Service Schedule

The following table presents the annual debt service on the Bonds and the 2020 Bonds (including sinking fund redemptions), assuming that there are no optional or special mandatory redemptions. See the caption "—Redemption" below.

<i>Bond Year Ending September 1</i>	<i>2020 Bonds Debt Service</i>	<i>2023 Bonds Principal</i>	<i>2023 Bonds Interest</i>	<i>Total 2023 Bonds Debt Service</i>	<i>Total Debt Service</i>
2024	\$145,300	\$70,000	\$68,402.78	\$138,402.78	\$283,702.78
2025	145,300	95,000	95,000.00	190,000.00	335,300.00
2026	145,300	100,000	90,250.00	190,250.00	335,550.00
2027	145,300	105,000	85,250.00	190,250.00	335,550.00
2028	145,300	110,000	80,000.00	190,000.00	335,300.00
2029	145,300	120,000	74,500.00	194,500.00	339,800.00
2030	145,300	125,000	68,500.00	193,500.00	338,800.00
2031	145,300	130,000	62,250.00	192,250.00	337,550.00
2032	145,300	135,000	55,750.00	190,750.00	336,050.00
2033	145,300	145,000	49,000.00	194,000.00	339,300.00
2034	145,300	150,000	41,750.00	191,750.00	337,050.00
2035	145,300	160,000	34,250.00	194,250.00	339,550.00
2036	145,300	165,000	26,250.00	191,250.00	336,550.00
2037	145,300	175,000	18,000.00	193,000.00	338,300.00
2038	<u>145,300</u>	<u>185,000</u>	<u>9,250.00</u>	<u>194,250.00</u>	<u>339,550.00</u>
Totals	\$2,179,506	\$1,970,000	\$858,402.78	\$2,828,402.78	\$5,007,908.78

Source: Underwriter.

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Redemption

Optional Redemption. The Bonds may be redeemed, at the option of the City, from any source of funds, other than Special Tax Prepayments, on any Interest Payment Date on or after September 1, 2030, in whole, or in part (in such amounts and maturities as may be designated by the City, with the particular Bonds of such maturities to be selected by the Fiscal Agent by lot), at the following redemption prices expressed as a percentage of the principal amount to be redeemed, together with accrued interest to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
September 1, 2030 and March 1, 2031	103%
September 1, 2031 and March 1, 2032	102
September 1, 2032 and March 1, 2033	101
September 1, 2033 and any Interest Payment Date Thereafter	100

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1, 2038 (the “2038 Term Bonds”) shall be called before maturity and redeemed from sinking fund payments on September 1, 2034, and on each September 1 thereafter prior to maturity, in accordance with the schedule of sinking fund payments set forth below. The 2038 Term Bonds so called for redemption shall be selected by the Fiscal Agent by lot and shall be redeemed at a redemption price for each redeemed 2038 Term Bond equal to the principal amount thereof, plus accrued interest to the redemption date, without premium, as follows:

Term Bonds Maturing September 1, 2038

<i>Sinking Fund Redemption Date (September 1)</i>	<i>Sinking Payments</i>
2034	\$ 150,000
2035	160,000
2036	165,000
2037	175,000
2038 [†]	185,000

[†] Maturity.

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

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

Special Mandatory Redemption from Special Tax Prepayments. The Bonds are subject to redemption as a whole, or in part on a pro rata basis among maturities, on any Interest Payment Date on and after March 1, 2024 from the proceeds of the Prepayment of the Special Taxes deposited in the Prepayment Account pursuant to the Fiscal Agent Agreement and amounts transferred from the 2023 Reserve Account in connection with such Prepayment. Such extraordinary mandatory redemption of the Bonds shall be at the following redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed), together with accrued interest thereon to the date of redemption:

<i>Redemption Date</i>	<i>Redemption Price</i>
March 1, 2024 through and including March 1, 2031	103%
September 1, 2031 and March 1, 2032	102
September 1, 2032 and March 1, 2033	101
September 1, 2033 and any Interest Payment Date Thereafter	100

Prepayments of the Special Tax by property owners will be allocated to the payment at maturity and redemption of Bonds, 2020 Bonds and any Additional Bonds as nearly as practicable on a proportionate basis based on the outstanding principal amount of the bonds of each Series and such amounts shall be applied to redeem bonds as nearly as practicable on a pro rata basis among maturities in increments of \$5,000; provided, however, that, for Prepayments of less than \$50,000, the City may specify in an Officer's Certificate that Prepayments be applied to one or more maturities of the bonds of each Series so long as there is delivered to the Fiscal Agent a certificate of the Independent Financial Consultant that, following such application of the Prepayments, the maximum Special Taxes that may be levied in each Fiscal Year on taxable property in Improvement Area 1 is not less than 110% of Annual Debt Service in the Bond Year that begins in such Fiscal Year.

See the caption "SPECIAL RISK FACTORS—Potential Early Redemption of Bonds from Prepayments or Community Facilities District Bond Proceeds" for a discussion of the potential for a lower than expected yield on the Bonds as a result of a special mandatory redemption from prepayment of Special Taxes or from bond proceeds of other community facilities districts.

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

The Fiscal Agent will give notice, in the name of the City, of the redemption of Bonds. Such notice of redemption will: (i) specify the CUSIP numbers (if any), the bond numbers and the maturity date or dates of the Bonds selected for redemption, except that where all of the Bonds are subject to redemption, or all of the Bonds of one maturity are to be redeemed, the bond numbers of such issue need not be specified; (ii) state the date fixed for redemption and surrender of the Bonds to be redeemed; (iii) state the redemption price; (iv) state the place or places where the Bonds are to be redeemed; (v) in the case of Bonds to be redeemed only in part, state the portion of such Bond which is to be redeemed; (vi) state the date of issue of the Bonds as originally issued; (vii) state the rate of interest borne by each Bond being redeemed; and (viii) state any other descriptive information needed to identify accurately the Bonds being redeemed as specified by the Fiscal Agent. Such notice will further state that on the date fixed for redemption, there will become due and payable on each Bond, or portion thereof called for redemption, the principal thereof, together with any premium, and interest accrued to the redemption date, and that from and after such date, interest thereon will cease to accrue and be payable. At least 30 days but no more than 45 days prior to the redemption date, the Fiscal Agent will mail a copy of such notice of redemption, by first class mail, postage prepaid, to the respective Owners thereof at their addresses appearing on the Bond Register, and to the original purchaser of any Bonds; provided, however, so long as the Bonds are registered in the name of the Nominee, such notice shall be given in such manner as complies with the requirements of the Depository. The actual receipt by the Owner of any Bond of

notice of such redemption is not a condition precedent to redemption, and neither the failure to receive nor any defect in such notice will affect the validity of the proceedings for the redemption of such Bonds, or the cessation of interest on the redemption date. A certificate by the Fiscal Agent that notice of such redemption has been given as provided in the Fiscal Agent Agreement will be conclusive as against all parties and the Owner is not entitled to show that he or she failed to receive notice of such redemption.

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

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

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

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

Selection of Bonds for Redemption. If less than all of the Bonds Outstanding are to be redeemed, the portion of any Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or an integral multiple thereof. In selecting portions of such Bonds for redemption, the Fiscal Agent will treat such Bonds, as applicable, as representing that number of Bonds of \$5,000 denominations which is obtained by dividing the principal amount of such Bonds to be redeemed in part by \$5,000. The Fiscal Agent will promptly notify the City in writing of the Bonds, or portions thereof, selected for redemption.

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

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

payment of the redemption price and interest accrued to the redemption date from the amounts so made available.

Registration, Transfer and Exchange

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

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

SOURCES OF PAYMENT FOR THE BONDS

Limited Obligations

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

The Special Taxes are the primary source of security for the repayment of the Bonds. Under the Fiscal Agent Agreement, the City has pledged to repay the Bonds from the Special Tax Revenues and from amounts held in the Bond Fund, the Special Tax Fund and the 2023 Reserve Account. The term "Special Tax Revenues" is defined in the Fiscal Agent Agreement to mean the proceeds of the Special Taxes received by the City, including all scheduled payments and delinquent payments thereof, 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, net of the administration charge of the County (currently 1%).

In the event that the Special Taxes 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 Bond Fund, the Special Tax Fund and the 2023 Reserve Account.

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

Special Taxes

Authorization and Pledge. In accordance with the provisions of the Act, the City established the District on January 16, 2007 for the purpose of financing of various public improvements required in connection with the proposed development within the District. On January 16, 2007, the City designated Improvement Area 1 in the District. At a special election held on January 16, 2007 the qualified electors within Improvement Area 1 at the time of such election, authorized the City to incur indebtedness in an amount not to exceed \$8,000,000 for Improvement Area 1 of the District, and to levy of the Special Taxes on property within Improvement Area 1, as applicable, to repay such bonds and to finance the Facilities (as defined below).

The Bonds will be repaid only from annual Special Taxes derived from the levy and collection of Special Taxes pursuant to the Rate and Method. The Rate and Method permits the prepayment of Special Taxes for an Assessor's Parcel, and any such Prepayments will be applied to redeem Bonds, 2020 Bonds and Additional Bonds, if any. The annual Special Tax levy and the proceeds of any Prepayment have been pledged under the Fiscal Agent Agreement to the repayment of the Bonds, the 2020 Bonds and Additional Bonds.

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

Rate and Method of Apportionment of Special Tax. The Rate and Method applicable to Improvement Area 1 is contained in Appendix A — “RATE AND METHOD OF APPORTIONMENT.” The meaning of the defined terms used in this section are as set forth in Appendix A.

In general, the Rate and Method imposes a different Maximum Special Tax on Taxable Property within Improvement Area 1 depending upon whether such Taxable Property is classified as: (i) “Developed Property” (in general, Taxable Property, 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), (ii) “Approved Property” (in general, parcels of Taxable Property included in a final map recorded prior to the January 1 preceding the Fiscal Year in which the Special Tax is being levied but for which no building permit was issued before March 1 preceding such Fiscal Year), (iii) “Taxable Association Property” (in general, parcels of Association Property which are not Exempt Property), (iv) “Taxable Public Property” (in general, parcels of Public Property which are not Exempt Property), or (v) “Undeveloped Property” (in general, all Taxable Property not classified as Developed Property or Approved Property, exclusive of Taxable Association Property or Taxable Public Property).

Pursuant to the Rate and Method, the City is required to determine the “Special Tax Requirement” for each Fiscal Year. The Special Tax Requirement for Improvement Area 1 of the District is the amount required in any Fiscal Year to: (i) pay debt service on all Outstanding Bonds, 2020 Bonds and Additional Bonds due in the calendar year commencing in such Fiscal Year, (ii) pay period costs on the Bonds, the 2020 Bonds and Additional Bonds, including but not limited to, credit enhancement and rebate payments on the Bonds, the 2020 Bonds and Additional Bonds due in the calendar year commencing in such Fiscal Year, (iii) pay Administrative Expenses, (iv) pay for reasonably anticipated delinquencies in the collection of Special Taxes, (v) pay any amounts required to establish or replenish any reserve funds for all Outstanding Bonds, 2020 Bonds and Additional Bonds, less (vi) a credit for funds available pursuant to the Fiscal Agent Agreement to pay debt service on outstanding Bonds, 2020 Bonds and any Additional Bonds.

The Special Tax Requirement for Improvement Area 1 of the District is to be satisfied first by levying the Special Tax on each Assessor's Parcel of Developed Property in an amount equal to 100% of the applicable Assigned Special Tax. If additional moneys are needed to satisfy the Special Tax Requirement, 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. If additional moneys are still needed to satisfy the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Undeveloped Property at up to 100% of the Maximum Special Tax for Undeveloped Property. If additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax shall be levied on each Assessor's Parcel of Developed Property whose Maximum Special Tax is derived by the application of the Backup Special Tax shall be increased in equal percentages from the Assigned Special Tax up to the Maximum Special Tax. If additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Association Property at up to 100% of the Maximum Special Tax for Taxable Association Property. Finally, if additional moneys are needed to satisfy the Special Tax Requirement, the Special Tax shall be levied Proportionately on each Assessor's Parcel of Taxable Public Property at up to 100% of the Maximum Special Tax for Taxable Public Property. Notwithstanding the above, under no circumstances will the Special Tax levied against any Assessor's Parcel of Residential Property be increased by more than 10% per Fiscal Year as a consequence of delinquency or default by the owner of any other Assessor's Parcel within Improvement Area 1 of the District.

In Fiscal Year 2023-24, the City levied Special Taxes on 337 parcels of Developed Property within Improvement Area 1 in the amount of \$315,371.88. As of December 1, 2023, building permits for all 394 planned homes within Improvement Area 1 have been issued and such parcels will be classified as Developed Property for the Fiscal Year 2024-25 Special Tax levy in accordance with the Rate and Method.

The Assigned Special Tax rates for Developed Property within Improvement Area 1 that is classified as Residential Property under the Rate and Method range from \$1,086 per taxable unit with a Residential Floor Area less than 1,549 square feet to \$1,562 per taxable unit with a Residential Floor Area of 2,550 square feet or greater. In connection with the issuance of the 2020 Bonds, the City covenanted in the Original Fiscal Agent Agreement that the increase in the Special Tax Requirement as a result of the issuance of any Additional Bonds (e.g. the Bonds), shall not result in the Special Tax levy on any Developed Property exceeding the percentage of the Assigned Special Tax rate then being levied for any Land Use Category. Therefore, the Bonds have been sized based on the percentage of the Assigned Special Tax rate levied in Fiscal Year 2023-24 (which was 75.9% of the Assigned Special Tax rates) for each Land Use Category. The foregoing restriction is only applicable for purposes of issuing the Bonds and does not affect or limit the City's ability to increase the Special Tax levy in the future in accordance with the Rate and Method and the Act for any other purpose (including as a result of Special Tax delinquencies).

Annual Debt Service for the Bonds has been structured so that Developed Property, based on building permits issued for all 394 planned homes within Improvement Area No. 1 as of December 1, 2023, levied at the Fiscal Year 2024-25 amounts shown in Table 1 below, assuming no delinquencies, will generate in each Fiscal Year not less than 110% of debt service payable with respect to the Bonds and the 2020 Bonds in the calendar year that begins in that Fiscal Year, assuming that Special Taxes are levied and collected on such Developed Property pursuant to the Rate and Method.

Table 1 below sets forth the Assigned Special Tax for Developed Property, the projected Fiscal Year 2024-25 Special Tax levy and the percent of such levy based on land use type.

TABLE 1
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
ASSIGNED SPECIAL TAX RATES FOR FISCAL YEAR 2024-25

<i>Tax Class</i>	<i>Land Use</i>	<i>Residential Floor Area</i>	<i>No. of Units</i>	<i>Assigned Special Tax Per Unit/Maximum Special Tax Per Acre</i>	<i>Projected Fiscal Year 2024-25 Special Tax Per Parcel⁽¹⁾</i>	<i>Total Projected Fiscal Year 2024-25 Special Tax Levy⁽¹⁾</i>	<i>Percent of Total</i>
D1	Residential	Less than 1,549 sq. ft.	22	\$1,086	\$824	\$ 18,132	4.96%
D2	Residential	1,550 sq. ft. to 1,799 sq. ft.	147	1,104	838	123,164	33.72
D3	Residential	1,800 sq. ft. to 2,049 sq. ft.	140	1,246	946	132,387	36.24
D4	Residential	2,050 sq. ft. to 2,299 sq. ft.	75	1,411	1,071	80,313	21.99
D5	Residential	2,300 sq. ft. to 2,549 sq. ft.	6	1,441	1,094	6,562	1.80
D6	Residential	2,550 sq. ft. or Greater	4	1,562	1,185	4,742	1.30
Total			394			\$ 365,300	100.00%

⁽¹⁾ Reflects 75.9% of the Assigned Special Tax rates for Developed Property. Includes Administrative Expenses of \$30,000.
Source: Webb Municipal Finance, LLC.

Backup Special Tax Rates. The Backup Special Tax attributable to a Final Subdivision will equal \$9,103, multiplied by the Acreage of all Taxable Property, exclusive of any Taxable Association Property and Taxable Public Property. The Backup Special Tax for each Assessor's Parcel of Residential Property shall be computed by dividing the Backup Special Tax attributable to the applicable Final Subdivision by the number of Dwelling Units within such Final Subdivision and multiplying the result by the number of Dwelling Units on such Assessor's Parcel. The Backup Special Tax for each Assessor's Parcel of Non-Residential Property shall equal \$9,103 multiplied by the Acreage of such Assessor's Parcel.

If a Final Subdivision includes Assessor's Parcels of Residential Property and Non-Residential Property, the total amount of the Backup Special Tax for such Assessor's Parcel of Residential Property shall be based only on the Acreage of those Assessor's Parcels.

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 shall be recalculated so that the total amount of the Backup Special Tax for such Assessor's Parcels after such change will be equal to the aggregate amount of the Backup Special Tax for such Assessor's Parcels before such change occurred.

Prepayment of Special Taxes. The Maximum Special Tax obligation for an Assessor's Parcel of Developed Property, Approved Property and/or Undeveloped Property for which a building permit has been issued, and Public Property and/or Association Property that is not Exempt Property may be prepaid in full, provided that the terms set forth under the Rate and Method are satisfied. The Maximum Special Tax obligation of Developed Property, Approved Property and/or Undeveloped Property for which a building permit has been issued may also be prepaid in part.

The Prepayment amount is calculated based on the sum of the Bond Redemption Amount, the Redemption Premium, the Future Facilities Amount, the Defeasance Amount, Administrative Fees and Expenses and less a credit for the resulting reduction in the Reserve Requirement for the any outstanding bonds issued for Improvement Area 1 (if any), all as specified in Section H of the Rate and Method attached as Appendix A. Prepayments of Special Taxes will be applied to effect an extraordinary redemption of Bonds, 2020 Bonds and Additional Bonds. See "THE BONDS — Redemption — *Special Mandatory Redemption from Special Tax Prepayments*" and "SPECIAL RISK FACTORS— Potential Early Redemption of Bonds from Prepayments or Community Facilities District Bond Proceeds."

Estimated Debt Service Coverage. In connection with the issuance of the 2020 Bonds, the City covenanted in the Original Fiscal Agent Agreement that the increase in the Special Tax Requirement as a result of the issuance of any Additional Bonds (e.g. the Bonds), shall not result in the Special Tax levy on any Developed Property exceeding the percentage of the Assigned Special Tax rate then being levied for any Land Use Category. As such, annual debt service on the Bonds has been sized based on the percentage of the Assigned Special Tax rate levied in Fiscal Year 2023-24 (75.9% of the Assigned Special Tax rates) for each Land Use Category as shown in Table 1. The foregoing restriction is only applicable for purposes of issuing the Bonds and does not affect or limit the City's ability to increase the Special Tax levy in the future in accordance with the Rate and Method and the Act for any other purpose (including as a result of Special Tax delinquencies). Neither the Assigned Special Tax nor the Administrative Expense escalate over time.

In connection with the issuance of the Bonds, the Special Tax Consultant will certify that the Maximum Special Tax that may be levied in each Fiscal Year on Assessor's Parcels within Improvement Area 1 classified as Taxable Property will be at least equal to the sum of: (i) 110% of Maximum Annual Debt Service on the Bonds and the 2020 Bonds; plus (ii) the Administrative Expenses. Actual collections of the Special Tax will depend on the amount of Special Tax delinquencies.

Limitation on Special Tax Levy and Potential Impact on Coverage. Pursuant to Section 53321(d) of the Government Code, the special tax levied against any assessor's parcel for which an occupancy permit for private residential use has been issued shall not be increased as a consequence of delinquency or default by the owner of any other assessor's parcel within Improvement Area 1 by more than 10% above the amount that would have been levied in that fiscal year had there never been any such delinquencies or defaults. As a result, it is possible that the City may not be able to increase the tax levy to the Maximum Special Tax rates in all years.

Levy, Collection and Application of Special Taxes. The Special Taxes are levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes, although it is possible that the City could elect to provide handbills to property owners within Improvement Area 1.

The City has covenanted in the Fiscal Agent Agreement to fix and levy the amount of Special Taxes within Improvement Area 1 required for the payment of principal of and interest on the outstanding 2020 Bonds, the Bonds and any Additional Bonds becoming due and payable during the ensuing Bond Year, including any necessary replenishment or expenditure of the Reserve Fund and an amount estimated to be sufficient to pay the Administrative Expenses during such year, all in accordance with the Rate and Method. See Appendix E under the caption "OTHER COVENANTS OF THE CITY."

Although the Special Taxes constitute liens on taxed parcels within Improvement Area 1, they do not constitute a personal indebtedness of the owners of property within Improvement Area 1. Moreover, other liens for taxes and assessments already exist on the property located within Improvement Area 1 and others could come into existence in the future in certain situations without the consent or knowledge of the City or the landowners in Improvement Area 1. See the captions "IMPROVEMENT AREA 1 — Direct and Overlapping Debt" and "SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness." There is no assurance that property owners will be financially able to pay the annual Special Taxes or that they will pay such taxes even if financially able to do so, all as more fully described under the caption "SPECIAL RISK FACTORS."

Proceeds of Foreclosure Sales. The net proceeds received following a judicial foreclosure sale of property within Improvement Area 1 resulting from a property owner'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, the 2020 Bonds and any Additional 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 City of Special Taxes in an amount which is less than the Special Taxes levied, the City

Council, as the legislative body of the District, may order that Special Taxes be collected by a Superior Court action to foreclose the lien within specified time limits. In such an action, the real property subject to the unpaid amount may be sold at a judicial foreclosure sale. Under the Act, the commencement of judicial foreclosure following the nonpayment of a Special Tax is not mandatory. However, the City has covenanted in the Fiscal Agent Agreement that it will annually on or before September 1 of each year review the public records of the County relating to the collection of the Special Tax in order to determine the amount of the Special Tax collected in the prior Fiscal Year, and if the City determines on the basis of such review that the amount so collected is deficient by more than five percent (5%) of the total amount of the Special Tax levied in such Fiscal Year, it will within thirty (30) days thereafter institute foreclosure proceedings as authorized by the Act in order to enforce the lien of the delinquent installment of the Special Tax against each separate lot or parcel of land in Improvement Area 1 for which such installment of the Special Tax is delinquent, and will diligently prosecute and pursue such foreclosure proceedings to judgment and sale; provided, that if the City determines on the basis of such review that (a) the amount so collected is deficient by less than 5% of the total amount of the Special Tax levied in the Improvement Area 1 in such Fiscal Year, but that property owned by any single property owner in the Improvement Area 1 is delinquent by more than \$5,000 with respect to the Special Tax due and payable by such property owner in such Fiscal Year, or (b) that property owned by any single property owner in the Improvement Area 1 (i) is delinquent cumulatively by more than \$3,000 with respect to the current and past Special Tax due (irrespective of the total delinquencies in the Improvement Area 1) or (ii) delinquent for 3 years or more, then the City will institute, prosecute and pursue such foreclosure proceedings in the time and manner provided herein against each such property owner. The Finance Director shall notify the City Attorney of any such delinquency of which it is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

The City has covenanted in the Fiscal Agent Agreement that it will deposit the net proceeds of any foreclosure in the Special Tax Fund and will apply such proceeds to make current payments of principal and interest on the Bonds, the 2020 Bonds and any Additional Bonds, to bring the amount on deposit in the accounts of the Reserve Fund up to the applicable Reserve Requirement and to pay any delinquent installments of principal or interest due on the Bonds, the 2020 Bonds and any Additional Bonds.

If foreclosure is necessary and other funds (including amounts in the 2023 Reserve Account) have been exhausted, debt service payments on the Bonds could be delayed unless the foreclosure proceedings produce sufficient net foreclosure sale proceeds. Judicial foreclosure actions are subject to the normal delays associated with court cases and may be further slowed by bankruptcy actions, involvement by agencies of the federal government and other factors beyond the control of the City. See the caption "SPECIAL RISK FACTORS — Enforcement Delays – Bankruptcy." Moreover, no assurances can be given that the real property subject to foreclosure and sale at a judicial foreclosure sale will be sold or, if sold, that the net proceeds of such sale will be sufficient to pay any delinquent Special Tax installment. See the caption "SPECIAL RISK FACTORS — Property Values." Although the Act authorizes the City to cause such an action to be commenced and diligently pursued to completion, the Act does not impose on the City any obligation to purchase or acquire any lot or parcel of property sold at a foreclosure sale if there is no other purchaser at such sale. The Act provides that, in the case of a delinquency, the Special Tax will have the same lien priority as is provided for *ad valorem* taxes.

Collection of Special Taxes and Flow of Funds. The Special Taxes will be levied and collected by the Treasurer-Tax Collector of the County in the same manner and at the same time as *ad valorem* property taxes, although it is possible that the City could elect to provide handbills to property owners within Improvement Area 1. The City shall deposit, immediately upon receipt, all Special Tax Revenues received by the City (other than as a result of Prepayments) into the Special Tax Fund held by the City, and into the Surplus Account, surplus Special Tax Revenues described below. Moneys in the Special Tax Fund shall be held in trust by the City for the benefit of the City and the Owners of the Bonds, the 2020 Bonds and any Additional Bonds, shall be disbursed as provided below and, pending any disbursement, shall be subject to a lien in favor of the Owners of the Bonds, the 2020 Bonds and any Additional Bonds.

As soon as practicable after the receipt by the City of any Special Tax Revenues, other than as a result of Prepayments, or the transfer of amounts to the Special Tax Fund pursuant to the terms of the Fiscal Agent Agreement, but no later than ten (10) Business Days after such receipt or transfer, the Finance Director shall withdraw from the Special Tax Fund and transfer to the Fiscal Agent for deposit:

(i) in the Bond Fund, an amount, taking into account any amounts then on deposit in the Bond Fund, such that the amount in the Bond Fund equals the principal, premium, if any, and interest due on the Bonds, the 2020 Bonds and any Additional Bonds during the then-current Bond Year;

(ii) in the Reserve Fund, an amount, taking into account amounts then on deposit in each reserve account within the Reserve Fund, so that the amount in the reserve accounts of the Reserve Fund equals the Reserve Requirement with respect to the Bonds, the 2020 Bonds and any Additional Bonds.

In the event of any shortfall in disbursement amounts needed for the Bonds, the 2020 Bonds and any Additional Bonds, allocations of available moneys shall be made to each Series on a pro rata basis according to principal amounts outstanding. After the transfers described under (i) and (ii) above have been made, the City may, on or after September 2nd of each year transfer to the Surplus Account the amount remaining in the Special Tax Fund, whereupon such moneys transferred shall be free of the pledge for payment of the Bonds, the 2020 Bonds and any Additional Bonds.

The Fiscal Agent Agreement has established the Bond Fund as a separate fund held by the Fiscal Agent, to the credit of which deposits shall be made as required as described above. Moneys in the Bond Fund shall be held in trust by the Fiscal Agent for the benefit of the Owners of the Bonds, the 2020 Bonds and any Additional Bonds, shall be disbursed for the payment of the principal of, and interest and any premium on, the Bonds, the 2020 Bonds and any Additional Bonds as provided below, and, pending such disbursement, shall be subject to a lien in favor of the Owners of the Bonds, the 2020 Bonds and any Additional Bonds.

On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds, the 2020 Bonds and any Additional Bonds the principal of, and interest and any premium, then due and payable on the Bonds, the 2020 Bonds and any Additional Bonds, including any amounts due as a result of an optional redemption.

In the event that amounts in the Bond Fund are insufficient to pay regularly scheduled payments of principal of and interest on the Bonds, the Fiscal Agent shall withdraw from the 2023 Reserve Account within the Reserve Fund established for the Bonds, to the extent of any funds therein, the amount of such insufficiency. Amounts so withdrawn from the 2023 Reserve Account shall be deposited in the Bond Fund.

If, after the foregoing transfer, there are insufficient funds in the Bond Fund to make the payments provided for to pay regularly scheduled payments of principal of and interest on the Bonds, the 2020 Bonds and any Additional Bonds, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, the 2020 Bonds and any Additional Bonds, then to the payment of principal due on the Bonds, the 2020 Bonds and any Additional Bonds, other than by reason of sinking payments, and then to payment of principal due on the Bonds, the 2020 Bonds and any Additional Bonds by reason of sinking payments. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

Within the Bond Fund there is established the Prepayment Account, which shall be used exclusively for the administration of any prepayments of Special Taxes to assure the timely redemption of the Bonds, the 2020 Bonds and any Additional Bonds. Monies in the Prepayment Account shall be used to redeem Bonds, 2020 Bonds and any Additional Bonds on the redemption date specified in the notice to the Fiscal Agent given pursuant to the Fiscal Agent Agreement.

2023 Reserve Account

The Fiscal Agent Agreement established as a separate fund to be held by the Fiscal Agent, the Reserve Fund, and within the Reserve Fund there is established a “2023 Reserve Account.” Except as otherwise provided in the Fiscal Agent Agreement, all amounts deposited in the 2023 Reserve Account shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency within five days prior to any Interest Payment Date in the Bond Fund of the amount required for payment of the principal of, and interest on, the Bonds on such Interest Payment Date.

Whenever, on the Business Day prior to any Interest Payment Date, the amount in the 2023 Reserve Account within the Reserve Fund exceeds the Reserve Requirement for the Bonds, the Fiscal Agent shall provide written notice to the Finance Director of the City of the amount of the excess. The Finance Director shall advise the Fiscal Agent in writing of the amount, if any, of any required transfer to the federal government to comply with the rebate requirements under the Code, and otherwise direct the Fiscal Agent to transfer an amount equal of the excess to the Bond Fund to be used for the payment of the principal of and interest on the Outstanding Bonds; provided, however, that to the extent that such excess results from the prepayment of Special Taxes and redemption of Bonds, such amount shall be transferred to the Prepayment Account and applied to the corresponding redemption of Bonds.

The Reserve Requirement with respect to the 2023 Reserve Account is defined in the Fiscal Agent Agreement, as of any date of calculation, a sum that is equal to of the least of (i) 10% of the initial principal amount of the Bonds, (ii) Maximum Annual Debt Service on the then Outstanding Bonds, or (iii) 125% of average Annual Debt Service on the then Outstanding Bonds; provided, however, that the Reserve Requirement shall not exceed \$194,500.00, the Reserve Requirement calculated at the time of delivery of the Bonds. On the date of delivery of the Bonds, \$194,500.00 from proceeds of the Bonds will be deposited into the 2023 Reserve Account to satisfy the Reserve Requirement.

Whenever the balance in the 2023 Reserve Account exceeds the amount required to redeem or pay the Outstanding Bonds, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, and after making any required transfers to the federal government to comply with the rebate requirements under the Code, and upon receipt of an Officer’s Certificate directing it to do so, the Fiscal Agent shall transfer the amount in the 2023 Reserve Account to the Bond Fund to be applied, on the next succeeding Interest Payment Date to the payment or redemption, as applicable, of all the Outstanding Bonds. In the event that the amount so transferred to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds, the balance in such reserve account shall be transferred to the City, after payment of any amounts due the Fiscal Agent under the Fiscal Agent Agreement, to be used for any lawful purpose of the City.

In connection with the issuance of the 2020 Bonds, the 2020 Reserve Account of the Reserve Fund was established for the 2020 Bonds. For each Series of Additional Bonds, if any, the Fiscal Agent shall establish a separate reserve account for each such Series. Moneys in each reserve account shall be held in trust by the Fiscal Agent for the benefit of the Owners of the respective Series of bonds as a reserve for the payment of principal of, and interest on, the respective Series of bonds and shall be subject to a lien in favor of the Owners of such Series. That is, no amounts in any reserve account of the Reserve Fund, other than the 2023 Reserve Account, secures the Bonds.

See Appendix E under the caption “SPECIAL TAX REVENUES; BOND FUND AND RESERVE FUND — Reserve Fund.”

No Teeter Plan

Although the Riverside County Board of Supervisors has adopted the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”) which allows each

entity levying secured property taxes in the County to draw on the amount of property taxes levied rather than the amount actually collected, as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code, the District and Improvement Area 1 are not included in the County Teeter Plan. Consequently, the City may not draw on the County Tax Loss Reserve Fund in the event of delinquencies in Special Tax payments within Improvement Area 1.

Additional Bonds for Refunding Purposes Only

The City will covenant in the Fiscal Agent Agreement not to issue Additional Bonds except as provided in the Fiscal Agent Agreement and only for the purposes of refunding all or a portion of the Bonds, the 2020 Bonds and any Additional Bonds. See Appendix E under the caption “OTHER COVENANTS OF THE CITY — Additional Bonds.”

IMPROVEMENT AREA 1

General Description of the District and Improvement Area 1

The District includes five Improvement Areas in two non-contiguous areas in the City. Improvement Areas 1 through 4 are located in the eastern portion of the City, to the southeast of Mission Lakes Boulevard and Worsley Road, and consists of approximately 608 acres. Improvement Areas 1 through 4 are included in Skyborne, a planned residential community planned to include 10 villages with approximately 2,000 homes at buildout. Improvement Area 5 is unrelated to the Skyborne project.

Improvement Area 1 includes Villages I and II which are the first phases of the Skyborne development. Improvement Area 1 is located to the northwest of Karen Avenue and Pierson Boulevard. Improvement Area 1 is planned to include 394 single family homes at buildout. As of the September 15, 2023, Date of Value of the Appraisal Report, 351 of the 394 homes planned within Improvement Area 1 had been conveyed to individual homeowners. As of such date, the property for the remaining 43 homes was owned by Lennar or Lennar’s landbank (as described herein) and consisted of eight completed homes (including three model homes), 21 homes under construction and 14 finished lots. Development has progressed since the Date of Value of the Appraisal Report. As of November 27, 2023, a total of 362 homes within Improvement Area No. 1 had been completed and conveyed to individual homeowners. As of such date, Lennar owned three completed model homes, one completed production home (in escrow), 21 homes under construction (four in escrow), and 7 finished lots (none in escrow). Building permits have been issued for all 394 planned homes in Improvement Area No. 1.

The backbone infrastructure necessary to complete development in Improvement Area 1 is complete. Remaining infrastructure to be completed consists of final finishing of certain in-tract streets and landscaping. Lennar expects to complete construction of the in-tract improvements associated with the remaining lots that it owns within Improvement Area 1 as home construction on such lots is completed.

Certain backbone infrastructure remains to be completed by Skyborne Ventures to achieve full buildout of Skyborne, however, completion of such infrastructure is not a condition to complete the development in Improvement Area 1.

See the caption “PROPERTY OWNERSHIP AND THE DEVELOPMENT” for further information with respect to the development within Improvement Area 1 and Lennar.

Water and sewer service to the property within Improvement Area 1 is currently supplied by the Mission Springs Water District. Electricity is currently supplied by Southern California Edison and gas by Southern California Gas Company. Public education instruction is provided by the Palm Springs Unified School District.

The property within Improvement Area 1 of the District is not located in an Alquist-Priolo Earthquake Study Zone but is located within one-half mile of an earthquake fault zone. Additionally, Improvement Area 1 is not located in a flood plain area or in an area which the Department of Forestry and Fire Protection of the State of California has designated as a high fire hazard severity zone. Notwithstanding the foregoing, the property in Improvement Area 1 may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. See “SPECIAL RISK FACTORS — Natural Disasters.”

A map showing the location of the District and Improvement Area 1, and an aerial photograph thereof appear following the Table of Contents.

Authorized Uses of Bond Proceeds

Proceeds of the Bonds are authorized to be used to pay for the costs of construction of City facilities, including but not limited to streets, streetscape, park and recreation facilities, storm drain, other City facilities, and related costs including designs, inspections, professional fees, annexation fees, connection fees and acquisition costs (collectively, the “Facilities”).

Property Values and the Appraisal

General. The extent to which the Special Tax provides security for the Bonds is, at least in part, a function of the value of each parcel of land within Improvement Area 1 that is subject to the Special Tax because, in the event that a property owner defaults in the payment of the applicable Special Tax, such property owner will not have any personal liability for the payment of the Special Tax, and the principal remedy available to the City will be to take foreclosure proceedings with respect to the subject property.

Assessed Value. The assessed value of the property within Improvement Area 1 represents the secured assessed valuation established by the County Assessor. Assessed values do not necessarily represent market values. Article XIII A of the California Constitution (Proposition 13) defines “full cash value” to mean “the County assessor’s valuation of real property as shown on the 1975/76 roll under ‘full cash value’, or, thereafter, the appraised value of real property when purchased or newly constructed or when a change in ownership has occurred after the 1975 assessment,” subject to exemptions in certain circumstances of property transfer or reconstruction. The “full cash value” is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors. Because of the general limitation to 2% per year in increases in full cash value of properties which remain in the same ownership, the County tax roll does not reflect values uniformly proportional to actual market values. There can be no assurance that the assessed valuations of the properties within Improvement Area 1 accurately reflect their respective market values, and the future fair market values of those properties may be lower than their current assessed valuations.

The table below sets forth historic secured assessed values of the parcels of Taxable Property within Improvement Area 1 from Fiscal Years 2019-20 through 2023-24.

TABLE 2
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
ASSESSED VALUATION HISTORY
FISCAL YEARS 2019-20 THROUGH 2023-24

<i>Fiscal Year</i>	<i>Total Parcels</i>	<i>Parcels with Structure Value</i>	<i>Land Assessed Value</i>	<i>Improvement Assessed Value</i>	<i>Total Assessed Valuation⁽¹⁾</i>
2019-20	394	178	\$9,897,821	\$29,652,836	\$ 39,550,657
2020-21	394	178	10,996,839	30,859,071	41,855,910
2021-22	394	179	16,161,912	36,226,033	52,387,945
2022-23	394	198	19,303,456	39,229,907	58,533,363
2023-24	394	326	27,358,865	82,235,342	109,594,207

⁽¹⁾ As of January 1 of each year as shown on the County Assessor's Rolls. Total Assessed Value is calculated as the sum of Land Assessed Value and Improvement Assessed Value.

⁽²⁾ Parcels with structure value shown differs from the Appraisal Report because the County assigns value to partially improved structures.

Source: Webb Municipal Finance, LLC.

Appraised Value. A property's assessed value is not necessarily indicative of its market value. In order to provide information with respect to the value of the taxable property within Improvement Area 1, the City engaged the Appraiser to prepare the Appraisal Report. The Appraiser has an "MAI" designation from the Appraisal Institute and has prepared numerous appraisals for the sale of land-secured municipal bonds. The Appraiser was selected by the City and has no material relationships with the City or the owners of the land within Improvement Area 1 other than the relationship represented by the engagement to prepare the Appraisal Report. The City instructed the Appraiser to prepare its analysis and report in conformity with City-approved guidelines and the Appraisal Standards for Land Secured Financings published in 1994 and revised in 2004 by the California Debt and Investment Advisory Commission. A copy of the Appraisal Report is included as Appendix D — "APPRAISAL REPORT" to this Official Statement.

The purpose of the Appraisal Report was to estimate the market value of the property within Improvement Area 1 subject to the lien of the Special Taxes. With respect to 297 completed single family homes owned by individual homeowners as shown on the County Assessor's as of January 1, 2023, the Appraiser used the Fiscal Year 2023-24 assessed values assigned by the County (totaling \$94,248,523). In valuing the Appraised Property relating to the remaining 97 planned homes in Improvement Area 1, the Appraiser used a sales comparison approach and an extraction analysis that takes into account home prices, direct and indirect construction costs, accrued depreciation and developer's incentive in order to arrive at an estimate of improved lot value.

Subject to the assumptions and limiting conditions set forth in the Appraisal Report, the Appraiser concluded that, as of the Date of Value (September 15, 2023), the estimated market value of the Taxable Property within Improvement Area 1 was \$121,489,293, consisting of \$94,248,523 of the 297 homes with improvement value shown on the Fiscal Year 2023-24 County Assessor's roll, and \$27,240,770 of the appraised value of the Appraised Property relating to the remaining 97 homes.

The Appraisal Report is based upon a variety of assumptions and limiting conditions that are described in Appendix D. The City and the Underwriter make no representation as to the accuracy of the Appraisal Report. There is no assurance that the property within Improvement Area 1 of the District can be sold for the prices set forth in the Appraisal Report or that any parcel can be sold for a price sufficient to pay

the Special Tax for that parcel in the event of a default in payment of Special Taxes by the landowner. See “SPECIAL RISK FACTORS — Property Values” and Appendix D — “APPRAISAL REPORT.”

Estimated Value-to-Lien Ratios

The aggregate estimated value of property within Improvement Area 1 as set forth in the Appraisal Report is \$121,489,293. Dividing the aggregate estimate of value by the principal amount of the Bonds and the 2020 Bonds results in value to lien ratio of 33.2-to-1 for Improvement Area 1. There is currently no overlapping land-secured debt on the property in Improvement Area 1. See Table 5 below and “SPECIAL RISK FACTORS — Direct and Overlapping Indebtedness.”

Based on ownership status as of September 15, 2023, individual homeowners and Lennar are expected to be responsible for approximately 88.85% and 11.15%, respectively, of the projected Fiscal Year 2024-25 Special Tax levy.

Table 3 below sets forth the appraised value-to-lien ratio of the Taxable Property within Improvement Area 1 based on the estimated values set forth in the Appraisal Report and the principal amount of the Bonds and the 2020 Bonds. Table 4 below sets forth the estimated value-to-lien ratios for Developed Property within Improvement Area 1 by various ranges based upon the principal amount of the Bonds and the 2020 Bonds. The allocation of the principal amount of the Bonds and the 2020 Bonds in Tables 3 and 4 is based on the estimated Fiscal Year 2024-25 Special Tax levy.

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TABLE 3
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
ESTIMATED VALUE-TO-LIEN RATIOS
ALLOCATED BY PROPERTY OWNER

<i>Property Owner⁽¹⁾</i>	<i>No. of Parcels</i>	<i>Projected Fiscal Year 2024-25 Special Tax Levy⁽²⁾</i>	<i>Percent of Projected Fiscal Year 2024-25 Levy</i>	<i>Projected Fiscal Year 2024-25 Maximum Special Tax</i>	<i>Percent of Projected Total Maximum Special Tax</i>	<i>Assessed/Appraised Value⁽³⁾</i>	<i>Percent of Appraised Value</i>	<i>Allocation of CFD 2006-1 IA 1 Bonds⁽⁴⁾</i>	<i>Aggregate Value-to- Lien Ratio⁽⁵⁾</i>
Developed Property									
Individual	351	\$ 324,574	88.85%	\$ 493,741	89.25%	\$ 115,888,523	95.39%	\$3,250,054	35.66:1
Lennar	<u>43</u>	<u>40,726</u>	<u>11.15</u>	<u>59,466</u>	<u>10.75</u>	<u>5,600,770</u>	<u>4.61</u>	<u>407,803</u>	<u>13.73:1</u>
Subtotal Developed	394	\$ 365,300	100.00%	\$ 553,206	100.00%	\$ 121,489,293	100.00%	\$3,657,857	33.21:1

⁽¹⁾ Ownership status is based on information from Appraisal Report as of September 15, 2023. Development has progressed since the Date of Value of the Appraisal Report. See "PROPERTY OWNERSHIP AND THE DEVELOPMENT."

⁽²⁾ Reflects 75.9% of the Assigned Special Tax rates for Developed Property. Includes Administrative Expenses of \$30,000.

⁽³⁾ Based on the aggregate assessed/appraised value set forth in the Appraisal Report as of the September 15, 2023, Date of Value.

⁽⁴⁾ Includes the outstanding 2020 Bonds and the Bonds. Allocated based on the estimated Fiscal Year 2024-25 Special Tax levy.

⁽⁵⁾ Excludes direct and overlapping debt shown in Table 5.

Source: Webb Municipal Finance, LLC.

TABLE 4
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
VALUE-TO-LIEN STRATA FOR DEVELOPED PROPERTY

<i>Appraised Value-to-Lien</i>	<i>No. of Parcels</i>	<i>Percent of Total Parcels</i>	<i>Projected Fiscal Year 2024-25 Special Tax Levy⁽¹⁾</i>	<i>Percent of Fiscal Year 2024-25 Levy</i>	<i>Projected Fiscal Year 2024-25 Maximum Special Tax</i>	<i>Percent of Projected Total Special Tax</i>	<i>Assessed/Appraised Value⁽²⁾</i>	<i>Percent of Appraised Value</i>	<i>Allocation of CFD 2006-1 IA 1 Bonds⁽³⁾</i>	<i>Aggregate Value-to-Lien</i>
Less than 20.00:1 ⁽⁴⁾	69	17.51%	\$ 64,166	17.57%	\$ 96,463	17.44%	\$ 7,465,652	6.15%	\$ 642,516	11.62:1
20.00: to 29.99:1	78	19.80	72,207	19.77	110,976	20.06	18,587,673	15.30	723,031	25.71:1
30.00:1 to 39.99:1	90	22.84	86,630	23.71	127,703	23.08	31,993,735	26.33	867,449	36.88:1
39.99:1 to 49.99:1	148	37.56	134,770	36.89	205,728	37.19	59,528,192	49.00	1,349,490	44.11:1
Greater than 49.99:1 ⁽⁵⁾	<u>9</u>	<u>2.28</u>	<u>7,527</u>	<u>2.06</u>	<u>12,337</u>	<u>2.23</u>	<u>3,914,041</u>	<u>3.22</u>	<u>75,370</u>	<u>51.93:1</u>
Total	394	100.00%	\$ 365,300	100.00%	\$ 553,206	100.00%	\$ 121,489,293	100.00%	\$3,657,857	33.21:1

⁽¹⁾ Reflects 75.9% of the Assigned Special Tax rates for Developed Property. Includes Administrative Expenses of \$30,000.

⁽²⁾ Based on the aggregate assessed/appraised value set forth in the Appraisal Report as of the September 15, 2023, Date of Value.

⁽³⁾ Includes the outstanding 2020 Bonds and the Bonds.

⁽⁴⁾ Minimum estimated assessed/appraised value-to-lien is 6.53:1.

⁽⁵⁾ Highest estimated assessed/appraised value-to-lien is 53.87:1.

Source: Webb Municipal Finance, LLC.

Direct and Overlapping Debt

Improvement Area 1 is included within the boundaries of overlapping local agencies providing governmental services. Some of these local agencies have outstanding bonds, and/or the authority to issue bonds, payable from taxes or assessments. The existing and authorized indebtedness payable from taxes and assessments that may be levied upon the property within Improvement Area 1 is shown in Table 5 below. In addition to current debt, new community facilities districts and/or special assessment districts could be formed in the future encompassing all or a portion of the property within Improvement Area 1; and such districts or the agencies that formed them could issue more bonds and levy additional special taxes or assessments.

TABLE 5
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
DIRECT AND OVERLAPPING DEBT

I. Assessed/Appraisal Value							
Assessed/Appraised Valuation ⁽¹⁾							\$ 121,489,293
II. Land Secured Bond Indebtedness							
<i>Outstanding Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>% Applicable</i>	<i>Total Parcels Levied</i>	<i>Amount Applicable</i>	
City of Desert Hot Springs CFD No. 2006-1 IA No. 1	CFD	\$4,185,000	\$3,657,857 ⁽²⁾	100.00%	394	\$ 3,657,857*	
TOTAL OUTSTANDING LAND SECURED BONDED DEBT⁽³⁾							\$ 3,657,857*
<i>Authorized and Unissued Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Authorized</i>	<i>Unissued</i>	<i>% Applicable</i>	<i>Total Parcels Levied</i>	<i>Amount Applicable</i>	
City of Desert Hot Springs CFD No. 2006-1 IA No. 1	CFD	\$8,000,000	\$0 ⁽²⁾	100.00%	394	\$ 0*	
TOTAL UNISSUED LAND SECURED INDEBTEDNESS⁽³⁾							\$ 0*
TOTAL OUTSTANDING AND UNISSUED LAND SECURED INDEBTEDNESS							\$ 3,652,857*
III. General Obligation Bond Indebtedness							
<i>Outstanding Direct and Overlapping Bonded Debt</i>	<i>Type</i>	<i>Issued</i>	<i>Outstanding</i>	<i>% Applicable</i>	<i>Total Parcels Levied⁽⁴⁾</i>	<i>Amount Applicable</i>	
Palm Springs Unified School District GO Bonds (0.14493%)	GO	\$662,500,000	\$382,765,000	0.260612%	394	\$ 997,533	
Desert Community College GO Bonds (0.03950%)	GO	566,498,444	466,562,129	0.100590	394	469,314	
TOTAL OUTSTANDING GENERAL OBLIGATION BONDED DEBT⁽³⁾							\$ 1,466,847
<i>Authorized and Unissued Direct and Overlapping Indebtedness</i>	<i>Type</i>	<i>Authorized</i>	<i>Unissued</i>	<i>% Applicable</i>	<i>Total Parcels Levied⁽⁴⁾</i>	<i>Amount Applicable</i>	
Palm Springs Unified School District GO Bonds (0.0100%)	GO	\$996,960,000	\$334,460,000	0.260612%	394	\$ 871,644	
Desert Community College GO Bonds (0.0785%)	GO	924,360,000	357,861,556	0.100590	394	359,973	
TOTAL UNISSUED GENERAL OBLIGATION INDEBTEDNESS⁽³⁾							\$ 1,231,617
TOTAL OUTSTANDING AND UNISSUED GENERAL OBLIGATION INDEBTEDNESS							\$ 2,698,464
TOTAL OF ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT							\$ 5,124,704
TOTAL OF ALL OUTSTANDING AND UNISSUED DIRECT AND OVERLAPPING INDEBTEDNESS							\$ 6,356,321

IV. Ratios to Appraised Valuation

Outstanding Land Secured Bonded Debt	33.21:1*
Outstanding Direct and Overlapping Bonded Debt	23.71:1*

⁽¹⁾ Based on the aggregate assessed/appraised value set forth in the Appraisal Report as of the September 15, 2023, Date of Value.

⁽²⁾ Outstanding amount is based on the outstanding par amount of the 2020 Bonds and the Bonds. Additional Bonds may be issued for refunding purposes only.

⁽³⁾ Additional bonded debt or available bond authorization may exist but is not shown because a tax was not levied in Fiscal Year 2023-24.

⁽⁴⁾ Percentage applicable determined by Fiscal Year 2023-24 Assessed Value information.

Source: County of Riverside Assessor's Office; Webb Municipal Finance, LLC.

Table 6 below describes the estimated Fiscal Year 2024-25 effective tax burden for an individually owned home in Improvement Area 1 based on the average appraised value of homes as of the Date of Value, the estimated average Fiscal Year 2024-25 Special Tax levy and Fiscal Year 2023-24 actual levies for all other overlapping taxing jurisdictions. Based on the foregoing, the City expects that, in Fiscal Year 2024-25, the projected effective tax rate to be levied on an individually owned home in Improvement Area 1 will be approximately 2.10%.

TABLE 6
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
ESTIMATED FISCAL YEAR 2024-25 TAX OBLIGATION

Average Home Value ⁽¹⁾	\$ 330,167
<i>Ad Valorem</i> Property Taxes:	
Basic Levy (1.0000%)	\$ 3,301.67
Palm Springs Unified School District GO Bonds (0.14493%)	478.51
Desert Community College GO Bonds (0.03950%)	130.42
Desert Water AG (0.08000%)	<u>264.13</u>
Total General Property Taxes	\$ 4,174.73
Assessment, Special Taxes & Parcel Charges⁽²⁾:	
CFD 2006-1 Desert Hot Springs ⁽³⁾	\$ 924.71
Fld Cntl Stormwater/Cleanwater	3.04
CSA 152-DHSprings Stormwater	10.00
DHS Public Safety Measure Tax	120.30
DHS Pub Safety Srv Parcel Tax	341.12
City of DHS DAD No. 1 Zn 12	93.98
City of DHS LMD No. 2 Zn 13	76.52
Desert Valley Disposal Collect	494.06
MSWD Sewer Charges & UUT	644.04
Coachella Valley Mosquito & RIFA	14.38
City of Desert Hot Springs LMD	<u>40.56</u>
Total Assessment Charges	\$ 2,762.71
Average Total Property Tax	\$ 6,937.44
Average Effective Tax Rate	2.10%

⁽¹⁾ Average Home Value is based upon average value for parcels of Developed Property indicated as being closed and conveyed to individuals per the Appraisal.

⁽²⁾ Average tax rates based upon Fiscal Year 2023-24 Overlapping Taxes and Assessments.

⁽³⁾ Reflects average projected Fiscal Year 2024-25 Special Tax levy for parcels of Developed Property indicated as being individually owned per the Appraisal Report.

Source: Webb Municipal Finance, LLC.

Delinquency History

Table 7 below summarizes the Special Tax delinquencies for property within the boundaries of Improvement Area 1 for Fiscal Year 2018-19 through Fiscal Year 2022-23. Currently, there are no foreclosure actions in process for parcels within Improvement Area 1.

TABLE 7
CITY OF DESERT HOT SPRINGS
COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
SPECIAL TAX LEVIES, DELINQUENCIES, AND DELINQUENCY RATES
FISCAL YEARS 2018-19 THROUGH 2022-23

<i>Fiscal Year</i>	<i>Amount Levied</i>	<i>Parcels Levied</i>	<i>Delinquencies at Fiscal Year End</i>			<i>Delinquencies as of November 20, 2023</i>		
			<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>	<i>Parcels Delinquent</i>	<i>Amount Delinquent</i>	<i>Percent Delinquent</i>
2018-19	\$222,401.84	216	11	\$ 9,763.86	4.39%	0	\$ 0.00	0.00%
2019-20	222,401.84	216	29	20,553.25	9.24	0	0.00	0.00
2020-21	199,253.06	216	6	3,508.90	1.76	0	0.00	0.00
2021-22	199,253.06	216	4	2,343.35	1.18	0	0.00	0.00
2022-23	262,022.98	283	2	849.84	0.32	2	849.84	0.32

Source: Webb Municipal Finance, LLC.

PROPERTY OWNERSHIP AND THE DEVELOPMENT

The information about the property in Improvement Area 1 contained in this Official Statement has been provided by representatives of Skyborne Ventures, Lennar and others, and has not been independently confirmed or verified by the Underwriter or the City. The Underwriter and the City make no representation as to the accuracy or adequacy of the information contained in this caption. There may be material adverse changes in this information after the date of this Official Statement. Neither the Bonds nor the Special Taxes from which the Bonds are payable are personal obligations of Skyborne Ventures, Lennar, individual homeowners or any affiliate thereof or any other property owner and, in the event that any property owner defaults in the payment of its Special Taxes, the City may proceed with judicial foreclosure but has no direct recourse to the assets of any property owner or any affiliate thereof. See the caption "SPECIAL RISK FACTORS."

Notwithstanding the belief of Lennar that it will have sufficient funds to complete its planned development in Improvement Area 1, no assurance can be given that amounts necessary to fund the remaining planned development by Lennar in Improvement Area 1 will be available when needed. None of Lennar or any other entity or person is under any legal obligation of any kind to expend funds for the development of the property as planned by Lennar in Improvement Area 1. Any contributions by Lennar or any other entity or person to fund the costs of such developments are entirely voluntary. If and to the extent the aforementioned sources are inadequate to pay the costs to complete the planned development by Lennar within Improvement Area 1, the remaining portions of such development may not be completed. Lennar does not have any legal obligation to Bondholders to make any such funds available for construction or development, or the payment of ad valorem property taxes or the Special Taxes.

The District and Improvement Area 1

The District includes five Improvement Areas in two non-contiguous areas in the City. Improvement Areas 1 through 4 are located in the eastern portion of the City, to the southeast of Mission Lakes Boulevard and Worsley Road, and consists of approximately 608 acres. Improvement Areas 1 through 4 are included in Skyborne, a planned residential community planned to include 10 villages with approximately 2,000 homes at buildout. Improvement Area 5 is unrelated to the Skyborne project.

Development of Skyborne commenced in 2006 and the original developer of Skyborne was D.R. Horton. Development was delayed due to the severe economic recession in the late 2000's. In 2008, D.R. Horton sold substantially all of its interest in the Skyborne development to Skyborne Ventures. Skyborne Ventures is the current master developer of Skyborne.

Improvement Area 1 includes Villages I and II which are the first phases of the Skyborne development. Improvement Area 1 is located to the northwest of Karen Avenue and Pierson Boulevard. Improvement Area 1 is planned to include 394 single family homes at buildout. Prior to conveying its interests in the Skyborne project to Skyborne Ventures, D.R. Horton had completed and conveyed 178 homes within Improvement Area 1 to individual homeowners. In 2020 and 2021, Skyborne Ventures conveyed 29 lots in Improvement Area 1 to Gallery Homes and the remaining 187 lots to Lennar. Since that time, Gallery Homes has completed and conveyed 29 homes to individual homeowners. As of November 27, 2023, Lennar has completed and conveyed 155 homes to individual homeowners, for a total of 362 homes closed to individual homeowners within Improvement Area 1. Building permits have been issued for all 394 planned homes in Improvement Area 1.

The backbone infrastructure necessary to complete development in Improvement Area 1 is complete. Certain backbone infrastructure remains to be completed by Skyborne Ventures to achieve full buildout of Skyborne, however, completion of such infrastructure is not a condition to complete the development in Improvement Area 1.

Lennar Development and Financing Plan

General. As previously defined in this Official Statement, “Lennar” refers to Lennar Homes of California, LLC, a California limited liability company. Lennar is based in Irvine, California, and has been in the business of developing residential real estate communities in California since 1996. Lennar is wholly-owned by U.S. Home, LLC, a Delaware limited liability company (“U.S. Home”). U.S. Home is wholly-owned by Lennar Corporation, which is based in Miami, Florida (“Lennar Corporation”). Founded in 1954, Lennar Corporation completed its initial public offering in 1971 and listed its common stock on the New York Stock Exchange in 1972. Lennar Corporation’s Class A and Class B common stock are listed on the New York Stock Exchange under the symbols “LEN” and “LEN.B.” respectively. Lennar Corporation is one of the largest homebuilders in the United States based on home sales revenues and net earnings, and operates under a number of brand names, including Lennar and U.S. Home. Lennar Corporation primarily develops residential communities both within the Lennar Corporation family of builders and through consolidated and unconsolidated partnerships in which Lennar Corporation maintains an interest.

Lennar Corporation is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and, in accordance therewith, files reports, proxy statements, and other information, including financial statements, with the Securities and Exchange Commission (the “SEC”). Such filings, particularly Lennar Corporation’s annual report on Form 10-K and its most recent quarterly report on Form 10-Q, may be inspected and copied at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Such filings can also be accessed over the internet at the SEC’s website at www.sec.gov.

Copies of Lennar Corporation’s Annual Report and related financial statements, prepared in accordance with generally accepted accounting standards, are available from Lennar Corporation’s website at www.lennar.com.

Development Plan. In 2021, Lennar purchased 187 lots from Skyborne Ventures in Improvement Area 1 which Lennar has been developing into a project with 187 single family homes being marketed as “Vega.” The lots for the 187 homes were originally conveyed to AG Essential Housing CA 2, LP in a landbank arrangement, but as of November 15, 2023, Lennar had acquired all 187 lots from the landbank, and AG Essential Housing CA 2, LP no longer owns any of the 187 lots. Of the 187 homes that Lennar plans to build in Improvement Area 1, as of November 27, 2023, Lennar had completed and conveyed 155 homes to individual homeowners. As of such date, Lennar owned three completed model homes, one completed production home (in escrow), 21 homes under construction (four in escrow), and 7 finished lots (none in escrow). However, homes under contract may not result in closed escrows as sales contracts are subject to cancellation. Lennar expects to complete and convey all remaining homes within its project in Improvement Area 1 to individual homeowners by April 2024.

All approvals and permits required for development of property within Lennar’s project within Improvement Area 1 have been secured for residential construction except for approvals required in the normal course of development. Remaining infrastructure to be completed by Lennar consists of final finishing of certain in-tract streets and landscaping. Lennar expects to complete construction of the in-tract improvements associated with the remaining lots that it owns within Improvement Area 1 as home construction on such lots is completed.

The table below summarizes, as of November 27, 2023, the product mix and development status of Lennar's project within Improvement Area 1.

**COMMUNITY FACILITIES DISTRICT NO. 2006-1
(IMPROVEMENT AREA 1)
VEGA
(As of November 27, 2023)**

<u>Owned by Lennar</u>						
<i>Plan</i>	<i>Total Units Planned</i>	<i>Estimated Home Square Footage</i>	<i>Closings as of November 27, 2023</i>	<i>Completed Homes/Homes Under Construction⁽¹⁾</i>	<i>Finished Lots</i>	<i>Base Home Prices⁽²⁾</i>
1	18	1,547	15	2	1	\$404,055
2	43	1,792	37	5	1	411,355
3	62	1,950	51	9	2	417,715
4	64	2,091	52	9	3	427,970
Total	187		155	25	7	

⁽¹⁾ Includes three model homes, one completed production home, and 21 homes under construction.

⁽²⁾ Base home prices shown exclude lot premiums, options and extras and any incentives or price reductions. Base sales prices are subject to change.

Source: Lennar.

No assurance can be given that home construction and sales will be carried out on the schedule and according to the plans outlined herein, or that the home construction and sale plans or base prices set forth above will not change after the date of this Official Statement. Additionally, homes sold may not result in closed escrows as sales contracts are subject to cancellation. In changing market conditions, builders will often revise the product lines and prices and the rate of sales can fluctuate. Lennar continuously evaluates its product lines and prices in light of the then current market conditions. See "SPECIAL RISK FACTORS" herein for a discussion of risk factors.

Financing Plan. Through November 1, 2023, Lennar had spent approximately \$73.4 million in acquiring its land in Improvement Area 1, site development costs, permits and impact fees, home construction costs, and other development, marketing and sales costs (exclusive of internal financing repayment, corporate overhead and other carry costs) related to its development within Improvement Area 1. Lennar expects to spend approximately \$9.6 million in additional site development costs, permit and impact fees, home construction costs, and other development, marketing and sales costs (exclusive of corporate overhead and other carry costs) between November 1, 2023 and full build-out of the homes that it plans to build in Improvement Area 1. Lennar currently expects to finance remaining the costs of the Vega project from home sales revenues and internal funding.

Notwithstanding the belief of Lennar that it will have sufficient funds to complete its planned development in Improvement Area 1, no assurance can be given that amounts necessary to fund the remaining planned development by Lennar in Improvement Area 1 will be available when needed. Neither Lennar nor any other entity or person is under any legal obligation of any kind to expend funds for the proposed development of the property owned by Lennar in Improvement Area 1. Any contributions by Lennar or any other entity or person to fund the costs of such development are entirely voluntary. If and to the extent the aforementioned sources are inadequate to pay the costs to complete the planned development by Lennar within Improvement Area 1, the remaining portions of such development may not be completed. There is no legal obligation to Bondholders to make any such funds available for construction or development, or the payment of ad valorem property taxes or the Special Taxes. See "SPECIAL RISK FACTORS" herein for a discussion of risk factors.

SPECIAL RISK FACTORS

The Bonds have not been rated by any rating agency, and the purchase of the Bonds involves significant risks that are not appropriate for certain investors. The following is a discussion of certain risk factors which should be considered, in addition to other matters set forth herein, in evaluating the investment quality of the Bonds. This discussion does not purport to be comprehensive or definitive and does not purport to be a complete statement of all factors which may be considered as risks in evaluating the credit quality of the Bonds. The occurrence of one or more of the events discussed herein could adversely affect the ability or willingness of property owners in Improvement Area 1 to pay their Special Taxes when due. Such failures to pay Special Taxes could result in the inability of the City to make full and punctual payments of debt service on the Bonds. In addition, the occurrence of one or more of the events discussed herein could adversely affect the value of the property in Improvement Area 1. See “— Property Values” below.

Risks of Real Estate Secured Investments Generally

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

No assurance can be given that the property owners within Improvement Area 1 will pay Special Taxes in the future or that they will be able to pay such Special Taxes on a timely basis. See the caption “— Enforcement Delays — Bankruptcy” for a discussion of certain limitations on the City’s ability to pursue judicial proceedings with respect to delinquent parcels.

Increasing Mortgage Interest Rates

Since approximately November 2021, interest rates for mortgage loans have increased significantly. Increases in mortgage interest rates could have a negative impact on the estimated absorption rates of the remaining planned for-sale residential units in Improvement Area 1 described herein. With respect to entry-level households, increased mortgage interest rates may adversely impact the affordability of homes and may increase mortgage payment levels for owning a lower-priced home relative to renting a residence, thereby making purchasing less attractive. With respect to move-up households, higher mortgage interest rates may impact the desire of current homeowners to move from their present home due to the fact that their present home likely has a relatively low mortgage interest rate. In addition, in such instances, a new home would likely have a higher interest rate on a new mortgage loan as well as a higher purchase price and property taxes. Such considerations may decrease the desire for move-up households to purchase a new home. The foregoing factors could reduce demand for and/or the ability to achieve the sales prices of the planned homes within Improvement Area 1 as described herein.

Insufficiency of Special Tax Revenues

As discussed below, the Special Taxes may not produce revenues sufficient to pay the debt service on the Bonds either due to nonpayment of the amounts levied or because acreage within Improvement Area 1 becomes exempt from taxation due to the transfer of title to a public agency.

In order to pay debt service on the Bonds, it is generally necessary that the Special Taxes be paid in a timely manner. Should the Special Taxes not be paid on time, the City has established the 2023 Reserve

Account under the Fiscal Agent Agreement to be maintained in an amount equal to the Reserve Requirement to pay debt service on the Bonds to the extent other funds are not available. See “SOURCES OF PAYMENT FOR THE BONDS — Reserve Account of the Special Tax Fund.” The City will covenant in the Fiscal Agent Agreement to maintain in the 2023 Reserve Account an amount equal to the Reserve Requirement, subject, however, to the availability of Special Tax Revenues in amounts sufficient to do so and to the limitation that the City may not levy the Special Tax in any Fiscal Year at a rate in excess of the maximum amounts permitted under the Rate and Method. See Appendix A and Appendix E hereto. As a result, if a significant number of Special Tax delinquencies occurs within Improvement Area 1, the City could be unable to replenish the 2023 Reserve Account to the Reserve Requirement due to the limitations on the amount of the Special Tax that may be levied. If such defaults were to continue in successive years, the 2023 Reserve Account could be depleted and a default on the Bonds could occur.

The Act provides that, if any property within Improvement Area 1 not otherwise exempt from the Special Tax is acquired by a public entity through a negotiated transaction, or by gift or devise, the Special Tax will continue to be levied on and enforceable against the public entity that acquired the property. In addition, the Act provides that, if property subject to the Special Tax is acquired by a public entity through eminent domain proceedings, the obligation to pay the Special Tax with respect to that property is to be treated as if it were a special assessment and be paid from the eminent domain award. The constitutionality and operation of these provisions of the Act have not been tested in the courts, but it is doubtful that they would be upheld as to, for example, property owned by the federal government. If for any reason property within Improvement Area 1 becomes exempt from taxation by reason of ownership by a non-taxable entity such as the federal government or another public agency, subject to the limitation of the Maximum Special Tax, the Special Tax will be reallocated to the remaining taxable parcels within Improvement Area 1. This would result in the owners of such property paying a greater amount of the Special Tax and could have an adverse impact upon their willingness and/or ability to pay the Special Tax. Moreover, if a substantial portion of additional land within Improvement Area 1 became exempt from the Special Tax because of public ownership, or otherwise, the Maximum Special Tax which could be levied upon the remaining acreage might not be sufficient to pay principal of and interest on the Bonds when due and a default will occur with respect to the payment of such principal and interest.

The City will covenant in the Fiscal Agent Agreement that, under certain circumstances, it will institute foreclosure proceedings to sell any property with delinquent Special Taxes in order to obtain funds to pay debt service on the Bonds. If foreclosure proceedings were ever instituted, any mortgage or deed of trust holder could, but would not be required to, advance the amount of the delinquent Special Tax to protect its security interest. See “SOURCES OF PAYMENT FOR THE BONDS — Special Taxes — *Proceeds of Foreclosure Sales*” for provisions which apply in the event of such foreclosure and which the 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 2023 Reserve Account has been depleted) pending such sales or the prosecution of such foreclosure proceedings and receipt by the City of the proceeds of sale. The City may adjust the future Special Tax levied on taxable parcels in Improvement Area 1, subject to limitations described above under the caption “IMPROVEMENT AREA 1—Rate and Method of Apportionment,” to provide an amount required to pay interest on and principal of the Bonds, and the amount, if any, necessary to replenish the 2023 Reserve Account to an amount equal to the Reserve Requirement, and to pay all current expenses. There is, however, no assurance that the total amount of the Special Tax that could be levied and collected against taxable parcels in Improvement Area 1 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 “— Enforcement Delays – Bankruptcy.”

No assurance can be given that the real property subject to sale or foreclosure will be sold, or if sold, that the proceeds of sale will be sufficient to pay any delinquent installments of the Special Tax. The Act does not require the City to purchase or otherwise acquire any lot or parcel of property to be sold at foreclosure if

there is no other purchaser at such sale. The Act and the Fiscal Agent Agreement do specify that the Special Tax will have the same lien priority as for *ad valorem* property taxes in the case of delinquency. Section 53356.6 of the Act requires that property sold pursuant to foreclosure under the Act be sold for not less than the amount of judgment in the foreclosure action, plus post judgment interest and authorized costs, unless the consent of the owners of 75% of the Outstanding Bonds, the 2020 Bonds and any Additional Bonds is obtained.

Prior to July 1, 1983, the right of redemption from foreclosure sales was limited to a period of one year from the date of sale. Under legislation effective July 1, 1983, the statutory right of redemption from such foreclosure sales has been repealed. However, a period of 20 days must elapse after the date on which the notice of levy of the interest in real property was served on the judgment debtor before the sale of such lot or parcel can be made. Furthermore, if the purchaser at the sale is the judgment creditor (e.g., the City), an action may be commenced by the delinquent property owner within 90 days after the date of sale to set aside such sale. The constitutionality of the aforementioned legislation, which repeals the one year redemption period, has not been tested and there can be no assurance that, if tested, such legislation will be upheld. (Section 701.680 of the Code of Civil Procedure of the State.)

Property Values

The value of the property within Improvement Area 1 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 City's only remedy is to commence foreclosure proceedings against the delinquent parcel in an attempt to obtain funds to pay the Special Taxes. Reductions in property values due to a downturn in the economy, physical events such as earthquakes, fires or floods, stricter land use regulations, delays in development or other events will adversely impact the security underlying the Special Taxes. See "IMPROVEMENT AREA 1— Appraisal Report" and Appendix D — "APPRAISAL REPORT."

The Appraiser has estimated, on the basis of certain assumptions and limiting conditions contained in the Appraisal Report, that as of the Date of Value, the market value of the land and improvements within Improvement Area 1 was approximately \$121,489,293. See "IMPROVEMENT AREA 1 — Appraisal Report." The Appraisal Report indicates the Appraiser's opinion as to the market value of the properties referred to therein as of the date and under the conditions specified therein. The Appraiser's opinion reflects conditions prevailing in the applicable market as of the Date of Value. The Appraiser's opinion does not predict the future value of the subject property, and there can be no assurance that market conditions will not change adversely in the future.

Prospective purchasers of the Bonds should not assume that the taxable land within Improvement Area 1 could be sold for the appraised amount or for the assessed values at a foreclosure sale for delinquent Special Taxes. In arriving at the estimate of market value of the property in Improvement Area 1, the Appraiser assumes that any sale will be unaffected by undue stimulus and will occur following a reasonable marketing period, which is not always present in a foreclosure sale. See Appendix D for a description of other assumptions made by the Appraiser and for the definitions and limiting conditions used by the Appraiser. Any event which causes one of the Appraiser's assumptions to be untrue could result in a reduction of the value of the taxable land and improvements within Improvement Area 1 from the market value estimated by the Appraiser.

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

Natural Disasters

The District, like all California communities, may be subject to unpredictable seismic activity, fires, flood, or other natural disasters. Southern California is a seismically active area. Seismic activity represents a potential risk for damage to buildings, roads, bridges and property within Improvement Area 1. In addition, land susceptible to seismic activity may be subject to liquefaction during the occurrence of such event. The property within Improvement Area 1 is not located in an Alquist Priolo Earthquake Study Zone but is located within one-half mile of an earthquake fault zone. Additionally, the District is not located in a flood plain area.

In recent years, wildfires have caused extensive damage throughout the State, including within the County. Certain of these fires have burned thousands of acres and destroyed hundreds and in some cases thousands of homes. In some instances entire neighborhoods have been destroyed. Several fires in recent years damaged or destroyed property in areas that were not previously considered to be at risk from such events.

Improvement Area 1 is not located in an area which the Department of Forestry and Fire Protection of the State of California has designated as a high fire hazard severity zone. However, there is a risk of residential property within Improvement Area 1 being destroyed by wildfires and no assurance can be given as to the severity or frequency of wildfires within the vicinity of the District. Additionally, property located adjacent to burn areas can be subject to mudslides and flooding, which can cause significant damage and destruction to property.

In the event of a severe earthquake, fire, flood or other natural disaster, there may be significant damage to both property and infrastructure in Improvement Area 1. As a result, a substantial portion of the property owners may be unable or unwilling to pay the Special Taxes when due. In addition, the value of land in Improvement Area 1 could be diminished in the aftermath of such a natural disaster, reducing the resulting proceeds of foreclosure sales in the event of delinquencies in the payment of the Special Taxes.

Hazardous Substances

While government taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may also be relevant. One of the most serious in terms of the potential reduction in the value of a parcel is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" or the "Super Fund Act," is the most well-known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar in effect. Under many of these laws, the owner (or operator) is obligated to remedy a hazardous substance condition of a parcel whether or not the owner (or operator) had anything to do with creating or handling the hazardous substance. The effect, therefore, should any of the parcels within Improvement Area 1 be affected by a hazardous substance, is to reduce the marketability and value by the costs of remedying the condition.

The City is not aware of the presence of any federally or state classified hazardous substances in violation of any environmental laws, located on the property within Improvement Area 1. However, it is possible that such materials do currently exist and that the City is not aware of them.

It is possible that property in Improvement Area 1 may be liable for hazardous substances in the future as a result of the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or the existence, currently, on the property of a substance not presently classified as hazardous but which may in the future be so classified. Additionally, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling such substance. All of these possibilities could have the effect of reducing the value of the applicable property.

Enforcement Delays – Bankruptcy

In the event of a delinquency in the payment of the Special Taxes, the City is required to commence enforcement proceedings under the circumstances described under the heading “SECURITY FOR THE BONDS — Covenant for Superior Court Foreclosure.” However, prosecution of such proceedings could be delayed due to crowded local court calendars or by bankruptcy, insolvency and other laws generally affecting creditors’ rights (such as the Soldiers’ and Sailors’ Relief Act of 1940) and by the laws of the State relating to judicial and non-judicial foreclosure. Although bankruptcy proceedings would not cause the liens of the Special Taxes to become extinguished, bankruptcy of a person or entity with an interest in the applicable property could result in a delay in the enforcement proceedings because federal bankruptcy laws provide for an automatic stay of foreclosure and tax sale proceedings. Any such delay could increase the likelihood of delay or default in payment of the principal of and interest on the applicable Bonds. The various legal opinions to be delivered in connection with the issuance of the Bonds, including Bond Counsel’s approving legal opinion, are qualified as to the enforceability of the Bonds and the Fiscal Agent Agreement by reference to bankruptcy, reorganization, moratorium, insolvency and other laws affecting the rights of creditors generally or against public entities such as the City.

FDIC/Federal Government Interests in Parcels

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

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

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

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

In the case of Fannie Mae and Freddie Mac, in the event a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, or a private deed of trust secured by a parcel of taxable property is owned by a federal government entity or federal government sponsored entity, such as Fannie Mae or Freddie Mac, the ability to foreclose on the parcel or to

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

Moreover, unless Congress has otherwise provided, if the federal government has a mortgage interest in the parcel and the City wishes to foreclose on the parcel as a result of delinquent Special Taxes, the property cannot be sold at a foreclosure sale unless it can be sold for an amount sufficient to pay delinquent taxes and assessments on a parity with the Special Taxes and preserve the federal government’s mortgage interest. For a discussion of risks associated with taxable parcels within Improvement Area 1 becoming owned by the federal government, federal government entities or federal government sponsored entities, see “— Insufficiency of Special Tax Revenues.”

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

Direct and Overlapping Indebtedness

The ability of an owner of property within Improvement Area 1 to pay the applicable Special Taxes could be affected by the existence of other taxes and assessments imposed upon taxable parcels. See “IMPROVEMENT AREA 1 — Direct and Overlapping Debt” herein. The City and other public agencies whose boundaries overlap those of Improvement Area 1 could impose additional taxes or assessment liens on the property within Improvement Area 1 in order to finance public improvements or services to be located or provided inside of or outside of such area. The lien created on the property within Improvement Area 1 through the levy of such additional taxes may be on a parity with the lien of the Special Taxes applicable to the property within Improvement Area 1.

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

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

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

No Acceleration Provision

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

Limited Obligations

The Bonds and interest thereon are not payable from the general funds of the City. Except with respect to the Special Tax Revenues, neither the credit nor the taxing power of the City is pledged for the payment of the Bonds or the interest thereon, and, except as provided in the Fiscal Agent Agreement, no Owner of the Bonds may compel the exercise of any taxing power by 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 property or upon any of the City's income, receipts or revenues, except the Special Tax Revenues and other amounts pledged under the Fiscal Agent Agreement.

The City's legal obligations with respect to any delinquent Special Taxes are limited to: (i) payments from the 2023 Reserve Account to the extent of funds on deposit therein; and (ii) the institution of judicial foreclosure proceedings under certain circumstances with respect to any parcels for which Special Taxes are delinquent. See the caption "SOURCES OF PAYMENT FOR THE BONDS—Special Taxes—*Proceeds of Foreclosure Sales.*" The Bonds cannot be accelerated in the event of any default.

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

Failure by owners of the parcels to pay Special Tax installments when due, delay in foreclosure proceedings, or the inability of the City to sell parcels that have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of Special Taxes levied against such parcels may result in the inability of the City to make full or timely payments of debt service on the Bonds, which may in turn result in the depletion of the 2023 Reserve Account. See the caption "—Enforcement Delays – Bankruptcy."

Ballot Initiatives

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

Proposition 218

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

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

Litigation with Respect to Community Facilities Districts

Shapiro. The California Court of Appeal, Fourth Appellate District, Division One, issued its opinion in *City of San Diego v. Melvin Shapiro* (2014) 228 Cal.App.4th 756 (the “San Diego Decision”). The case involved a Convention Center Facilities District (the “CCFD”) established by the City of San Diego (“San Diego”). The CCFD is a financing district much like a community facilities district established under the provisions of the Act. The CCFD is comprised of all of the real property in San Diego. However, the special tax to be levied within the CCFD was to be levied only on hotel properties located within the CCFD.

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

Horizon. The Sacramento County Superior Court had issued a ruling in *Horizon Capital Investments, LLC v. City of Sacramento et al.* (Case No. 34-2017-80002661). As described below, this case involved an election to approve the levy of a special tax within a community facilities district (“CFD”) formed under the Act..

In 2017, the City of Sacramento initiated proceedings to form a CFD to finance certain costs to operate and maintain a streetcar line. As permitted by the Act, the proposed district included non-contiguous parcels of non-residential property. Because there were fewer than 12 registered voters residing within the territory of the proposed CFD, the City Council submitted the special tax proposed to be levied within the proposed CFD to the owners of land within the proposed CFD, as required by the Act. The proposed special tax received the requisite two-thirds vote in the landowner election.

Petitioners Horizon Capital Investments, LLC et al. filed a writ of mandate and complaint for reverse validation and declaratory relief. Petitioners argued, and the superior court agreed in its final ruling, that under section 4(a) of article XIII A of the California Constitution (which provides that “Cities, Counties and special districts, by a two-thirds vote of the qualified electors of such district [sic], may impose special taxes on such district...”) the phrase “qualified electors” means the registered voters of the entire City of Sacramento and not just the owners of the property within the boundaries of the proposed CFD. Citing the San Diego Decision, the ruling states that the phrase “qualified electors of the district” refers to the registered voters of the entity imposing the special tax, which in this case was the City of Sacramento. Because the vote within the proposed CFD was by landowners only and not by all registered voters in the City of Sacramento, the final ruling states that the special tax is invalid.

The superior court’s final ruling is not binding upon other courts within the State and does not directly apply to the District and Improvement Area 1, the Special Taxes, or the Bonds. The City of Sacramento did not appeal the superior court’s ruling.

The Special Tax Election in the District and Improvement Area 1. With respect to the San Diego Decision, the facts of such case show that there were thousands of registered voters within the CCFD (*viz.*, all of the registered voters in San Diego). The elections held in the District, including Improvement Area 1 had less than 12 registered voters at the time of the election to authorize the Special Taxes. 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 in the San Diego Decision does not apply to the Special Tax election in the District and Improvement Area 1. 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. The petitioners in *Horizon* filed the writ of mandate within 30 days of the landowner election. Landowners in Improvement Area 1 approved the issuance of bonds and the Special Tax levy in accordance with the Rate and Method on January 16, 2007. Based on Sections 53341 and 53359 of the Act and analysis of existing laws, regulations, rulings, and court decisions, the City believes that no successful challenge to the Special Taxes being levied in accordance with the Rate and Method may now be brought. In connection with the issuance of the Bonds, Bond Counsel expects to deliver its opinion in the proposed form attached hereto as Appendix C.

Loss of Tax Exemption

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

No Ratings – Limited Secondary Market

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

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

Limitations on Remedies

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

Bond Counsel has limited its opinion as to the enforceability of the Bonds and of the 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 creditor's rights, by equitable principles and by the exercise of judicial discretion and by limitations on

remedies against public agencies in the State of California. The lack of availability of certain remedies or the limitation of remedies may entail risks of delay, limitation or modification of the rights of the Owners.

Potential Early Redemption of Bonds from Prepayments or Community Facilities District Bond Proceeds

Property owners within Improvement Area 1, including Lennar and any individual property owner, are permitted to prepay their Special Taxes at any time. Such prepayments could also be made from the proceeds of bonds issued by or on behalf of an overlapping community facilities district. Such prepayments will result in a redemption of the Bonds on the Interest Payment Date for which timely notice may be given under the Fiscal Agent Agreement following the receipt of the prepayment. The resulting redemption of Bonds that were purchased at a price greater than par could reduce the otherwise expected yield on such Bonds. See the caption “THE BONDS—Redemption—*Special Mandatory Redemption from Special Tax Prepayments.*”

Cyber Security

The City, like many other public and private entities, rely on computer and other digital networks and systems to conduct their operations. The City is potentially subject to multiple cyber threats, including without limitation hacking, viruses, ransomware, malware and other attacks. No assurance can be given that the efforts of the City to manage cyber threats and attacks will be successful in all cases, or that any such attack will not materially impact the operations or finances of the City, or the administration of the Bonds. The City is also reliant on other entities and service providers in connection with the administration of the Bonds, including without limitation the County tax collector for the levy and collection of Special Taxes and the Fiscal Agent. No assurance can be given that the City and these other entities will not be affected by cyber threats and attacks in a manner that may affect the Bond owners.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate, dated as of December 1, 2023 (the “Disclosure Agreement”), to be executed and delivered by the City at the time of issuance of the Bonds, the City will covenant for the benefit of the holders and Beneficial Owners of the Bonds to provide certain financial information and operating data relating to the District and Improvement Area 1 by March 31 following the end of the City’s Fiscal Year (currently its Fiscal Year ends on June 30) (the “Annual Report”), commencing with the report for the Fiscal Year ending June 30, 2023, and to provide notices of the occurrence of certain enumerated events. The Annual Report and the notices of enumerated events will be filed by the City with EMMA. The specific nature of the information to be contained in the Annual Report and the notice of enumerated events is set forth in Appendix F—“FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with subsection (b)(5) of Rule 15c2-12.

The City has retained Webb Municipal Finance, LLC to serve as Dissemination Agent for the continuing disclosure undertaking related to the Bonds, and has adopted policies and procedures with respect to its continuing disclosure practices.

Pursuant to its continuing disclosure undertakings entered into in accordance with Rule 15c2-12, the City has been required to file certain financial information in its annual reports which are derived from its annual audited financial statements. The City’s audited financial statements for Fiscal Year 2021-22 were not available at the time the annual report for Fiscal Year 2021-22 was due. As a result, the City’s annual report for Fiscal Year 2021-22 omitted information that was required to be included therein. The City filed unaudited financial statements for Fiscal Year 2021-22 in a timely manner and filed its audited financial statements for Fiscal Year 2021-22 in October 2023.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals. However, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), generally certain corporations with more than \$1,000,000,000 of average annual adjusted financial statement income, interest (and original issue discount) with respect to the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed by Section 55 of the Code on such corporations. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax.

The excess of the stated redemption price at maturity of a Bond over the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Beneficial Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the Beneficial Owner will increase the Beneficial Owner’s basis in the applicable Bond.

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

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

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

SUBSEQUENT TO THE ISSUANCE OF THE BONDS THERE MIGHT BE FEDERAL, STATE, OR LOCAL STATUTORY CHANGES (OR JUDICIAL OR REGULATORY CHANGES TO OR INTERPRETATIONS OF FEDERAL, STATE, OR LOCAL LAW) THAT AFFECT THE FEDERAL,

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

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

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

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

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

LEGAL OPINION

The legal opinion of Bond Counsel approving the validity of the Bonds, in substantially the form set forth as Appendix C hereto, will be made available to purchasers of the Bonds at the time of original delivery of the Bonds. Certain legal matters will be passed upon for the City by Stream Kim Hicks Wrage & Alfaro, PC, Riverside, California, City Attorney, and for the City by Stradling Yocca Carlson & Rauth, a Professional Corporation, Disclosure Counsel, for the Underwriter by Kutak Rock LLP, Irvine, California, and for the Fiscal Agent by its counsel. Bond Counsel undertakes no responsibility to the purchasers of the Bonds for the accuracy, completeness or fairness of this Official Statement.

ABSENCE OF LITIGATION

In connection with the issuance of the Bonds, the City Attorney will deliver an opinion to the effect that, to their actual knowledge, after due inquiry and investigation, there is no action, suit, proceeding or investigation at law or in equity before or by any court, public board or body, pending or threatened, or any unfavorable decision, ruling or finding, against or affecting the City, which would adversely impact the City's ability to complete the transactions described in, or contemplated by, the Fiscal Agent Agreement or this

Official Statement, restrain or enjoin the collection of the Special Taxes, or in any way contest or affect the validity of the Bonds, the Fiscal Agent Agreement, the Special Taxes, or the transactions described herein.

NO RATING

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

UNDERWRITING

The Bonds are being purchased by Stifel, Nicolaus & Company, Incorporated (the “Underwriter”). The Underwriter has agreed to purchase the Bonds at a price of \$2,050,727.35 (being the \$1,970,000.00 aggregate principal amount of the Bonds, less an Underwriter’s discount of \$45,152.40 and plus original issue premium of \$125,879.75). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter’s compensation is contingent upon the successful issuance of the Bonds.

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

FINANCIAL INTERESTS

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

MUNICIPAL ADVISOR

The City has retained Urban Futures, Inc., Walnut Creek, California, as Municipal Advisor for the sale of the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume any responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

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

MISCELLANEOUS

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

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

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

CITY OF DESERT HOT SPRINGS COMMUNITY
FACILITIES DISTRICT NO. 2006-1

By: /s/ Frank Luckino
City Manager of the City of Desert Hot Springs

APPENDIX A

RATE AND METHOD OF APPORTIONMENT COMMUNITY FACILITIES DISTRICT NO. 2006-1 OF THE CITY OF DESERT HOT SPRINGS (IMPROVEMENT AREA NO. 1)

A Special Tax (as hereinafter defined) shall be levied on all Assessor's Parcels of Taxable Property in Improvement Area No. 1 ("IA No. 1") of Community Facilities District No. 2006-1 of the City of Desert Hot Springs (the "District") in each Fiscal Year, in an amount determined by the City Council of the City of Desert Hot Springs (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 in IA No. 1, 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 IA No. 1: 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, IA No. 1 or any agent thereof in complying with arbitrage rebate requirements; the costs to the City, IA No. 1 or any agent thereof to provide continuing disclosure information; the costs associated with preparing Special Tait disclosure statements and responding to public inquiries regarding the Special Taxes; the costs of the City, IA No. 1 or any agent thereof related to an appeal of the Special Tax. Administrative Expenses shall also include amounts advanced by the City or IA No. 1 for any other administrative purposes of IA No. 1, 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 that are included in a final map that was recorded prior to the January 1st preceding the Fiscal Year in which the Special Tax is being levied, and that have not been issued a building permit on or before March 1 of the Fiscal Year preceding the Fiscal Year in which Special Taxes are being levied.

"Assessor's Parcel" means a lot or parcel shown on an Assessor's Parcel Map with an assigned Assessor's Parcel number in IA No. 1.

"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 Special Tax for each Land Use Category of Developed Property, as determined in accordance with Section C.1.a below.

“Backup Special Tax” means the Special Tax amount determined for an Assessor’s Parcel pursuant to Section C.1.b.

“Backup Special Tax Per Acre” means \$9,103 per Acre.

“Bonds” means any bonds or other indebtedness (as defined in the Act), whether issued in one or more series, secured only by the levy of Special Taxes on Assessor’s Parcels in IA No. 1.

“CFD No. 2006-1” means the City of Desert Hot Springs Community Facilities District No. 2006-1.

“City” means the City of Desert Hot Springs.

“Council” means the City of Desert Hot Springs City Council.

“Developed Property” means all Assessor’s Parcels, 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 an official of the City, or an agent thereof responsible for determining the Special Tax Requirement and providing for the levy and collection of the Special Taxes.

“Dwelling Unit” or **“DU”** means a single family home or condominium unit.

“Exempt Property” means all Assessor’s Parcels within IA No. 1 designated as being exempt from the Special Tax as determined 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, as determined by the District Administrator.

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

“IA No. 1” means Improvement Area No. 1 of CFD No. 2006-1 as identified on the Boundary Maps for the District attached hereto as Exhibit A. Further details concerning the Legal Description of the Improvement Area are attached hereto as Exhibit B.

“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 in IA No. 1.

“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 or may be issued for construction of such buildings, as determined by the District Administrator.

“Proportionately” means for Developed Property that the ratio of the amount of Special Tax levied to the Assigned Special Tax is the same for all Assessor’s Parcels of Developed Property within each Land Use Category identified in Table 1. For Approved Property, Undeveloped Property, Taxable Public Property and Taxable Association Property, “Proportionately” means that the ratio of the amount of Special Tax levied per Acre to the Maximum Special Tax per Acre is the same for all Assessor’s Parcels of Approved Property, Undeveloped Property, Taxable Public Property or 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 most recent building permit(s) issued for each Assessor’s Parcel.

“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 or may be issued for purposes of constructing one or more Dwelling Units, as determined by the District Administrator.

“Special Tax” means the special tax to be levied in each Fiscal Year on each Assessor’s Parcel of Taxable Property in IA No. 1 to fund the Special Tax Requirement.

“Special Tax Requirement” means the amount required in any Fiscal Year for IA No. 1 to: (i) pay debt service on all outstanding Bonds due in the calendar year which commences in such Fiscal Year; (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) pay an amount equal to reasonably anticipated delinquencies in the collection of Special Taxes; and (v) pay any amounts required to establish or replenish the reserve fund for the outstanding Bonds; less (vi) a credit for funds which are available pursuant to the Indenture to pay debt service on the outstanding Bonds.

“Taxable Property” means all of the Assessor’s Parcels which are not Exempt Property.

“Taxable Association Property” means all Association Property which are not Exempt Property.

“Taxable Public Property” means all Public Property which are not Exempt Property.

“Undeveloped Property” means all Taxable Property not classified as Developed Property or Approved Property, exclusive of Taxable Association Property or Taxable Public Property.

B. CLASSIFICATION AND LAND USE CATE9ORIZATION

For each Fiscal Year, all Assessor's Parcels of Taxable Property within IA No. 1 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 (Square Feet of Dwelling Unit)	Assigned Special Tax per DU or Acre
1. Residential Property	DU	1,549 sq. ft. or less	\$1,086 per DU
2. Residential Property	DU	1,550-1,799 sq. ft.	\$1,104 per DU
3. Residential Property	DU	1,800-4049 sq. ft.	\$1,246 per DU
4. Residential Property	DU	2,050-2,299 sq. ft.	\$1,411 per DU
5. Residential Property	DU	2,300-2,549 sq. ft.	\$1,441 per DU
6. Residential Property	DU	2,550 sq. ft. or greater	\$1,562 per DU
7. Non Residential Property	Acre	N/A	\$9,103 per Acre

b. Backup Special Tax

The total amount of the Backup Special Tax for a Final Subdivision of property shall be determined by multiplying the Acreage of all Assessor's Parcels of Taxable Property, exclusive of the Acreage of any Taxable Association Property and/or Taxable Public Property, in the Final Subdivision by the Backup Special Tax per Acre. If a Final Subdivision includes both Assessor's Parcels of Residential Property and Assessor's Parcels of Non-Residential Property, the total amount of the Backup Special Tax for such Assessor's Parcels of Residential Property shall 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 shall be determined by dividing the total amount of the Backup Special Tax for all of the Assessor's Parcels of Residential Property in the Final Subdivision, as determined pursuant to the preceding paragraph, by the number of Dwelling Units within such Final Subdivision and multiplying the result by the number of Dwelling Units on such Assessor's Parcel.

The Backup Special Tax for each Assessor's Parcel of Non-Residential Property in a Final Subdivision shall be determined by multiplying the Acreage of the Assessor's Parcel by the Backup Special Tax per Acre.

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 shall be recalculated so that the total amount of the Backup Special Tax for such Assessor's Parcels after such change will be equal to the aggregate amount of the Backup Special Tax for such Assessor's Parcels before such change occurred.

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 \$9,103 per Acre.

D. METHOD OF APPORTIONMENT OF THE SPECIAL TAX

Commencing with Fiscal Year 2007-08 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 all Assessor's Parcels of Developed Property up to 100% of the applicable Assigned Special Tax as needed 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 all Assessor's Parcels of Approved Property up to 100% of the Maximum Special Tax for Approved Property;

Third: If additional moneys are needed to satisfy the Special Tax Requirement after the first two steps have been completed, the Special Tax shall be levied Proportionately on all 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 all Assessor's Parcels of Developed Property whose Maximum Special Tax is its Backup Special Tax shall be increased in equal percentages 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 all Assessor's Parcels 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 all Assessor's Parcels of Taxable Public Property up to 100% of its Maximum Special Tax.

Notwithstanding the above, under no circumstances will the Special Taxes levied on any Assessor's Parcel of Residential Property for which an occupancy permit for private residential use has been issued be increased by more Than ten percent (10%) in any Fiscal Year as a consequence of delinquency or default in the payment of Special Taxes by the owner of any other Assessor's Parcel.

E. EXEMPTIONS

The District Administrator shall classify as Exempt Property Assessor's Parcels of (i) Public Property or (ii) Association Property; provided that such classification shall not reduce the Acreage of all Taxable Property to less than 54.10 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 sum Acreage of all Taxable Property to less than 54.10 Acres. Such Assessor's Parcels that cannot be classified as Exempt Property because such classification would reduce the Acreage of all Taxable Property to less than 54.10 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 IA No. 1 may directly bill the Special Tax, may collect Special Taxes at a different time or in a different rummer 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

For each Fiscal Year that any Bonds are outstanding, the Special Tax shall be levied on all Assessor's Parcels of Taxable Property. 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 2047-48 Fiscal Year.

H. PREPAYMENT OF SPECIAL TAX

The following definitions apply to this Section H:

"CFD Public Facilities" means \$4,700,000 or such lower number as (i) shall be determined by the Administrator as sufficient to provide the public facilities under the authorized bonding program of the CFD, or (ii) shall be determined by the Administrator concurrently with a covenant that it will not issue any more Bonds to be supported by Special Taxes within Improvement Area No. 1 as levied under this Rate and Method of Apportionment.

"Construction Fund" means an account specifically identified in the Indenture to hold funds which are currently available for expenditure to acquire or construct public facilities eligible under the Act.

"Future Facilities Costs" means the CFD Public Facilities minus public facility costs available to be funded through existing construction or escrow accounts or funded by the Outstanding Bonds, and minus public facility costs funded by interest earnings on the Construction Fund actually earned prior to the date of prepayment.

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

1. Prepayment in Full

The Maximum Special Tax obligation within any Tax Zone may only be prepaid and permanently satisfied by a Parcel of Developed Property, Approved Property and/or Undeveloped Property for which a building permit has been issued, and Public Property and/or Property Owner’s Association Property that is not Exempt Property pursuant to Section E. The Maximum Special Tax obligation applicable to such Parcel may be fully prepaid and the obligation of the 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 such the Parcel at the time of prepayment. An owner of a Parcel intending to prepay the Maximum Special Tax obligation shall provide the Administrator with written notice of intent to prepay, and within 5 business days of receipt of such notice, the Administrator shall notify such owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the proper amount of a prepayment. Within 15 days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the prepayment amount of such Parcel. Prepayment must be made not less than 60 days prior to any redemption date for any Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

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

	Bond Redemption Amount
plus	Redemption Premium
plus	Future Facilities Amount
plus	Defeasance Amount
plus	Administrative Fees and Expenses
less	Reserve Fund Credit
Total:	equals Prepayment Amount

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

1. Confirm that no Special Tax delinquencies apply to such Parcel.
2. For Parcels of Developed Property, compute the Maximum Special Tax for the Parcel to be Prepaid. For Parcels of Approved Property or Undeveloped Property to be prepaid, compute the Maximum Special Tax for that Parcel as though it was already designated as Developed Property, based upon the building permit which has already been issued for that Parcel. For Parcels of Public Property and/or Property Owner’s Association Property to be prepaid, compute the Maximum Special Tax for that Parcel.
3. Divide the Maximum Special Tax computed pursuant to paragraph 2 by the total estimated Maximum Special Taxes based on the projected Developed Property Special Tax, or if at buildout the actual Developed Property Special Tax which could be charged, less any Parcels which have been prepaid.
4. Multiply the quotient computed pursuant to paragraph 3 by the Outstanding Bonds to compute the amount of Outstanding Bonds to be retired and prepaid (the “*Bond Redemption Amount*”).

5. Multiply the Bond Redemption Amount computed pursuant to paragraph 4 by the applicable redemption premium, if any, on the Outstanding Bonds to be redeemed (the “*Redemption Premium*”).
6. Compute the Future Facilities Costs.
7. Multiply the quotient computed pursuant to paragraph 3 by the amount determined pursuant to paragraph 6 to compute the amount of Future Facilities Costs to be prepaid (the “*Future Facilities Amount*”).
8. Compute the amount needed to pay interest on the Bond Redemption Amount from the first bond interest and/or principal payment date following the current Fiscal Year until the earliest redemption date for the Outstanding Bonds.
9. Determine the Special Taxes levied on the Parcel in the current Fiscal Year which have not yet been paid.
10. Compute the amount the Administrator reasonably expects to derive from the reinvestment of the Prepayment Amount less the Future Facilities Amount and the Administrative Fees and Expenses from the date of prepayment until the redemption date for the Outstanding Bonds to be redeemed with the prepayment.
11. Add the amounts computed pursuant to paragraphs 8 and 9 and subtract the amount computed pursuant to paragraph 10 (the “*Defeasance Amount*”).
12. Verify the administrative fees and expenses, including the costs of computation of the prepayment, the costs to invest the prepayment proceeds, the costs of redeeming the Outstanding Bonds, and the costs of recording any notices to evidence the prepayment and the redemption (the “*Administrative Fees and Expenses*”).
13. The reserve fund credit (the “*Reserve Fund Credit*”) shall equal the lesser of: (a) the expected reduction in the reserve requirement (as defined in the Indenture), if any, associated with the redemption of Outstanding Bonds as a result of the prepayment, or (b) the amount derived by subtracting the new reserve requirement (as defined in the Indenture) in effect after the redemption of Outstanding Bonds as a result of the prepayment from the balance in the reserve fund on the prepayment date, but in no event shall such amount be less than zero.
14. The Maximum Special Tax prepayment is equal to the sum of the amounts computed pursuant to paragraphs 4, 5, 7, 11 and 12, less the amount computed pursuant to paragraph 13 (the “*Prepayment Amount*”).
15. From the Prepayment Amount, the amounts computed pursuant to paragraphs 4, 5, 11, and 13 shall be deposited into the appropriate fund as established under the Indenture and be used to retire Outstanding Bonds or make debt service payments. The amount computed pursuant to paragraph 7 shall be deposited into the Construction Fund. The amount computed pursuant to paragraph 12 shall be retained by the CFD.

The Prepayment Amount may be sufficient to redeem other than a \$5,000 increment of Bonds. In such cases, the increment above \$5,000 or integral multiple thereof will be retained in the appropriate fund established under the Indenture to be used with the next prepayment of bonds or to make debt service payments.

As a result of the payment of the current Fiscal Year’s Special Tax levy as determined under paragraph 9 (above), the Administrator shall remove the current Fiscal Year’s Special Tax levy for

such Parcel from the County tax rolls. With respect to any Parcel that is prepaid, the Board shall cause a suitable notice to be recorded in compliance with the Act, to indicate the prepayment of Special Taxes and the release of the Special Tax lien on such Parcel, and the obligation of such Parcel to pay the Special Tax shall cease.

Notwithstanding the foregoing, no Special Tax prepayment shall be allowed unless the amount of Maximum Special Taxes that may be levied on Taxable Property both prior to and after the proposed prepayment is at least 1.1 times the maximum principal and interest due in any Fiscal Year of all Outstanding Bonds plus the anticipated Administrative Expenses.

Tenders of Bonds in prepayment of Maximum Special Taxes may be accepted upon the terms and conditions established by the Board pursuant to the Act. However, the use of Bond tenders shall only be allowed on a case-by-case basis as specifically approved by the Board.

2. Prepayment in Part

The Maximum Special Tax on a Parcel of Developed Property or a Parcel of Approved Property or Undeveloped Property for which a building permit has been issued may be partially prepaid in increments of \$5,000. The amount of the prepayment shall be calculated as in Section H.1; except that a partial prepayment shall be calculated according to the following formula:

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

These terms have the following meaning:

- PP = the partial prepayment
- P_E = the Prepayment Amount calculated according to Section H.1
- F = the percent by which the owner of the Parcel(s) is partially prepaying the Maximum Special Tax.
- A = the Administrative Fees and Expenses calculated according to Section H.1

The owner of a Parcel who desires to partially prepay the Maximum Special Tax shall notify the Administrator of (i) such owner's intent to partially prepay the Maximum Special Tax, (ii) the amount of partial prepayment expressed in increments of \$5,000, and (iii) the company or agency that will be acting as the escrow agent, if applicable and within 5 days of receipt of such notice, the Administrator shall notify such property owner of the amount of the non-refundable deposit determined to cover the cost to be incurred by the CFD in calculating the proper amount of a partial prepayment. Within 15 business days of receipt of such non-refundable deposit, the Administrator shall notify such owner of the partial prepayment amount of such Parcel. Partial prepayment must be made not less than 60 days prior to any redemption date for any Bonds to be redeemed with the proceeds of such prepaid Special Taxes.

With respect to any Parcel that is partially prepaid, the Administrator shall (i) distribute the funds remitted to it according to Paragraph 15 of Section H.1, and (ii) indicate in the records of the CFD that there has been a partial prepayment of the Maximum Special Tax and that a portion of the Maximum Special Tax equal to the outstanding percentage (1.00 - F) of the remaining Maximum Special Tax shall continue to be authorized to be levied on such Parcel pursuant to Section D.

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APPENDIX B

CERTAIN ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING

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

General

The City encompasses approximately 23 square miles and is located in Riverside County, California, approximately 110 miles east of the City of Los Angeles. The City was incorporated in 1963 and operates as a charter city with a council-manager form of government.

Population

The following table shows population figures for the City, the County and the State for 2019 through 2023.

<i>Area</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>	<i>2023</i>
City of Desert Hot Springs	30,019	30,036	32,351	32,389	32,608
County of Riverside	2,422,146	2,442,304	2,454,453	2,430,976	2,439,234
State of California	39,695,376	39,782,870	39,466,855	39,078,674	38,940,231

Source: California State Department of Finance, Demographic Research Unit. 2010 Census Benchmark. Population and Housing Estimates for Cities, Counties, and the State — January 1, 2022 and 2023.

Building Activity

The following tables provide summaries of the building permit valuations and the number of new dwelling units authorized in the City and County from 2018 through 2022.

BUILDING PERMIT VALUATIONS City of Desert Hot Springs 2018-2022 (Dollars in Thousands)

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
Valuation (\$000):					
Residential	\$ 9,848	\$ 6,469	\$ 30,802	\$ 32,078	\$41,814
Non-residential	<u>26,563</u>	<u>27,815</u>	<u>8,258</u>	<u>11,681</u>	<u>7,293</u>
Total*	\$36,411	\$34,284	\$ 39,060	\$ 43,759	\$49,107
Residential Units:					
Single family	44	21	98	114	146
Multiple family	<u>0</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>14</u>
Total	44	21	98	120	160

* Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

BUILDING PERMIT VALUATIONS
County of Riverside
2018-2022
(Dollars in Thousands)

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
Valuation (\$000):					
Residential	\$ 2,558,081	\$ 2,275,405	\$ 2,519,303	\$ 2,262,642	\$ 2,921,113
Non-residential	<u>1,959,681</u>	<u>1,285,856</u>	<u>1,153,778</u>	<u>1,543,998</u>	<u>1,701,617</u>
Total*	\$ 4,517,762	\$ 3,561,261	\$ 3,673,081	\$ 3,806,640	\$ 4,622,730
Residential Units:					
Single family	7,540	6,563	8,443	7,360	8,863
Multiple family	<u>1,628</u>	<u>1,798</u>	<u>723</u>	<u>1,126</u>	<u>2,861</u>
Total	9,168	8,361	9,166	8,486	11,724

* Totals may not add to sums because of rounding.

Source: Construction Industry Research Board.

Employment

The following table shows the largest employers located in the County as of June 30, 2022.

LARGEST EMPLOYERS
County of Riverside
(as of June 30, 2022)

<i>Rank</i>	<i>Name of Business</i>	<i>Employees</i>	<i>Type of Business</i>
1.	County of Riverside	25,366	County Government
2.	Amazon	14,317	E-Commerce
3.	March Air Reserve Base	9,600	Military Reserve Base
4.	Nestle UA	8,874	Grocery Wholesalers
5.	University of California-Riverside	8,623	University
6.	State of California	8,383	State Government
7.	Walmart	7,494	Retail Company
8.	Moreno Valley Unified School District	6,020	School District
9.	Kaiser Permanente Riverside Medical Center	5,817	Medical Center
10.	Corona-Norco Unified School District	5,478	School District

Source: County of Riverside Comprehensive Annual Financial Report for the year ending June 30, 2022.

Employment and Industry

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

The following table represents the Annual Average Labor Force and Industry Employment for the County for the period from 2018 through 2022.

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

	<i>2018</i>	<i>2019</i>	<i>2020</i>	<i>2021</i>	<i>2022</i>
Civilian Labor Force ⁽¹⁾	2,045,200	2,075,200	2,095,800	2,125,300	2,160,600
Employment	1,957,500	1,991,200	1,888,900	1,968,700	2,071,200
Unemployment	87,700	84,000	206,900	156,600	89,400
Unemployment Rate	4.3%	4.0%	9.9%	7.4%	4.1%
<u>Wage and Salary Employment:</u> ⁽²⁾					
Agriculture	14,500	15,400	14,100	13,700	13,900
Mining and Logging	1,200	1,200	1,300	1,400	1,600
Construction	105,200	107,200	104,900	110,100	115,200
Manufacturing	100,400	101,300	96,000	96,100	99,600
Wholesale Trade	66,100	67,700	65,600	67,400	69,700
Retail Trade	181,200	180,700	168,800	177,000	180,600
Transportation, Warehousing and Utilities	132,100	146,600	172,500	198,800	214,200
Information	11,400	11,500	9,600	9,700	10,200
Finance and Insurance	25,300	24,800	24,600	24,400	24,600
Real Estate and Rental and Leasing	19,300	20,200	19,500	20,700	22,200
Professional and Business Services	151,400	157,900	154,800	169,400	179,100
Educational and Health Services	239,500	250,300	248,800	254,300	266,400
Leisure and Hospitality	170,600	175,900	141,300	160,200	179,600
Other Services	45,800	46,200	40,200	43,600	47,900
Federal Government	20,700	21,100	22,100	21,100	20,900
State Government	30,600	31,100	31,300	30,400	28,300
Local Government	<u>205,900</u>	<u>209,000</u>	<u>194,600</u>	<u>190,500</u>	<u>200,300</u>
Total All Industries	1,521,100	1,568,100	1,509,900	1,588,800	1,674,200
Civilian Labor Force ⁽¹⁾	2,045,200	2,075,200	2,095,800	2,125,300	2,160,600
Employment	1,957,500	1,991,200	1,888,900	1,968,700	2,071,200

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

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

Source: State of California, Employment Development Department.

The following table summarizes the labor force, employment and unemployment figures for the period from 2018 through 2022 for the City, the County, the State and the nation as a whole.

**CITY OF DESERT HOT SPRINGS,
COUNTY OF RIVERSIDE,
STATE OF CALIFORNIA AND UNITED STATES
Average Annual Civilian Labor Force, Employment and Unemployment⁽¹⁾**

<i>Year and Area</i>	<i>Labor Force</i>	<i>Employment⁽²⁾</i>	<i>Unemployment⁽³⁾</i>	<i>Unemployment Rate (%)</i>
2018				
City of Desert Hot Springs	11,500	10,800	700	5.7%
County of Riverside	1,090,100	1,041,700	47,800	4.4
State of California	19,289,500	18,469,900	819,600	4.2
United States	162,075,000	155,761,000	6,314,000	3.9
2019				
City of Desert Hot Springs	11,600	10,900	700	5.7%
County of Riverside	1,108,100	1,061,500	46,600	4.2
State of California	19,413,200	18,617,900	795,300	4.1
United States	163,539,000	157,538,000	6,001,000	3.7
2020				
City of Desert Hot Springs	12,500	10,600	2,000	15.6%
County of Riverside	1,121,100	1,008,000	113,000	10.1
State of California	18,971,600	17,047,600	1,924,000	10.1
United States	160,472,000	147,795,000	12,947,000	8.1
2021				
City of Desert Hot Springs	12,300	11,000	1,300	10.4%
County of Riverside	1,133,000	1,050,000	83,000	7.3
State of California	18,973,400	17,586,300	1,387,100	7.3
United States	161,204,000	152,581,000	8,623,000	5.3
2022				
City of Desert Hot Springs	12,300	11,600	700	5.5%
County of Riverside	1,152,100	1,104,100	48,000	4.2
State of California	19,252,000	18,440,900	811,100	4.2
United States	164,287,000	158,291,000	5,916,000	3.6

Note: Data is not seasonally adjusted.

(1) Annual averages, unless otherwise specified.

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

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

Source: U.S. Department of Labor – Bureau of Labor Statistics, California Employment Development Department. 2021 Benchmark.

Personal Income

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

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

Total personal income in Riverside County increased by 35.23% between 2017 and 2021. The following tables summarize personal income for Riverside County for 2012 through 2021.

PERSONAL INCOME
Riverside County
2012-2021
(Dollars in Thousands)

<i>Year</i>	<i>Riverside County</i>	<i>Annual Percent Change</i>
2012	\$74,050,799	2.9%
2013	76,519,738	3.3
2014	80,776,153	5.6
2015	86,196,663	6.7
2016	90,713,807	5.2
2017	93,043,247	4.2
2018	97,949,023	4.8
2019	104,149,463	6.8
2020	115,570,337	11.0
2021	125,820,553	8.9

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

The following table summarizes per capita personal income for Riverside County, California and the United States for 2012-2022. This measure of income is calculated as the personal income of the residents of the area divided by the resident population of the area.

PER CAPITA PERSONAL INCOME
Riverside County, State of California and the United States
2012-2022

<i>Year</i>	<i>Riverside County</i>	<i>California</i>	<i>United States</i>
2012	\$32,748	\$48,813	\$44,605
2013	33,462	49,303	44,860
2014	34,875	52,363	47,071
2015	36,745	55,833	49,019
2016	38,114	58,048	50,015
2017	39,148	60,549	52,118
2018	40,587	63,720	54,606
2019	43,295	64,919	52,250
2020	47,702	70,647	59,765
2021	51,180	76,614	64,143
2022	-- ⁽¹⁾	77,339	65,423

⁽¹⁾ Per Capita income not available for the County as of December 2023.

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

Taxable Sales

The table below presents taxable sales for the years 2018 through 2022 for the City.

TAXABLE SALES
City of Desert Hot Springs
2018-2022
(Dollars in Thousands)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2018	420	\$153,456,382
2019	470	162,986,977
2020	535	165,668,580
2021	489	254,520,896
2022	548	206,004,322

Source: Taxable Sales in California, California Department of Tax and Fee Administration for 2018-2022

The table below presents taxable sales for the years 2018 through 2022 for the County.

TAXABLE SALES
County of Riverside
2018-2022
(Dollars in Thousands)

<i>Year</i>	<i>Permits</i>	<i>Taxable Transactions</i>
2018	61,433	\$38,919,497
2019	64,063	40,557,844
2020	69,284	42,313,474
2021	64,335	43,414,533
2022	66,738	46,908,344

Source: Taxable Sales in California, California Department of Tax and Fee Administration for 2018-2022.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

Upon issuance of the Bonds, Stradling Yocca Carlson & Rauth, a Professional Corporation, Bond Counsel, proposes to render its final approving opinion in substantially the following form:

[Closing Date]

City of Desert Hot Springs
Community Facilities District No. 2006-1
Desert Hot Springs, California

Re: *\$1,970,000 City of Desert Hot Springs Community Facilities District No. 2006-1
Improvement Area 1 Special Tax Bonds, Series 2023*

Ladies and Gentlemen:

We have examined the Constitution and the laws of the State of California, a certified record of the proceedings of the City of Desert Hot Springs (the “City”) taken in connection with the formation of City of Desert Hot Springs Community Facilities District No. 2006-1 (the “District”) and the authorization and issuance of the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Bonds, Series 2023 in the aggregate principal amount of \$1,970,000 (the “Bonds”) and such other information and documents as we consider necessary to render this opinion. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the City, the initial purchasers of the Bonds and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

The Bonds have been issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended (comprising Chapter 2.5 of Part 1 of Division 2 of Title 5 of the Government Code of the State of California), a resolution adopted by the City Council of the City, acting in its capacity as the legislative body of the District (the “City Council”) on December 5, 2023 (the “Resolution”), and a Fiscal Agent Agreement dated as of February 1, 2020 (the “Original Fiscal Agent Agreement”), as supplemented and amended by the First Supplement to Fiscal Agent Agreement, dated as of December 1, 2023 (the “First Supplement” and together with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”), each by and between the City and Wilmington Trust, National Association, as fiscal agent (the “Fiscal Agent”). All capitalized terms not defined herein shall have the meaning set forth in the Fiscal Agent Agreement.

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

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

(2) The Fiscal Agent Agreement has been duly executed and delivered by the City. The Fiscal Agent Agreement creates a valid pledge of, and the Bonds are secured by, the Special Tax Revenues and the amounts on deposit in certain funds and accounts established under the Fiscal Agent Agreement, as and to the extent provided in the Fiscal Agent Agreement. The Fiscal Agent Agreement is enforceable in accordance

with its terms; provided, however, we express no opinion as to the enforceability of the covenant of the City contained in the Fiscal Agent Agreement to levy Special Taxes for the payment of Administrative Expenses or as to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

(3) Under existing statutes, regulations, rulings and judicial decisions, interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals; however, it should be noted that for tax years beginning after December 31, 2022, with respect to applicable corporations as defined in Section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”), interest (and original issue discount) with respect to the Bonds might be taken into account in determining adjusted financial statement income for purposes of computing the alternative minimum tax imposed on such corporations.

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

(5) The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are to be sold to the public) and the stated redemption price at maturity with respect to such Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner’s basis in the applicable Bond.

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

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

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

Our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction. We

call attention to the fact that the rights and obligations under the Bonds, the Fiscal Agent Agreement and the Tax Certificate may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, by the application of equitable principles and the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against public agencies in the State of California.

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

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

Respectfully submitted,

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APPENDIX D
APPRAISAL REPORT

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Integra Realty Resources

Sacramento

Appraisal of Real Property

CFD No. 2006-1 of the City of Desert Hot Springs (Improvement Area No. 1)

Residential Subdivision

62718 N. Crescent St.

Desert Hot Springs, Riverside County, California 92240

Prepared For:

City of Desert Hot Springs

Date of the Report:

December 1, 2023

Report Format:

Appraisal Report

IRR - Sacramento

File Number: 193-2023-0412



Subject Photographs



CFD No. 2006-1 of the City of Desert Hot Springs (Improvement Area No. 1)
62718 N. Crescent St.
Desert Hot Springs, California

Aerial Photograph





December 1, 2023

Daniel Porras PE
Interim Deputy City Manager
City of Desert Hot Springs
65950 Pierson Boulevard
Desert Hot Springs, CA 92240

SUBJECT: Market Value Appraisal
CFD No. 2006-1 of the City of Desert Hot Springs (Improvement Area No. 1)
62718 N. Crescent St.
Desert Hot Springs, Riverside County, California 92240
IRR - Sacramento File No. 193-2023-0412

Dear Mr. Porras:

Integra Realty Resources – Sacramento is pleased to submit the accompanying appraisal of the referenced property. The purpose of the appraisal is to develop an opinion of the market value subject to a hypothetical condition, pertaining to the fee simple interest in the property. The client for the assignment is City of Desert Hot Springs and the intended use of the report is for bond underwriting purposes.

The subject property represents Improvement Area 1 of Community Facilities District No. 2006-1 located within the city of Desert Hot Springs. Improvement Area 1 of CFD No. 2006-1 is comprised of Villages I and II of the Skyborne community; these two Villages include a total of 394 lots in varying stages of development. Village I includes 154 lots, all of which have completed homes that have transferred to individual homeowners. Village II includes 240 lots which have been developed by three different homebuilders over the history of the project. In Village II, 53 lots reflect completed homes previously constructed by DR Horton and Gallery Homes, all of which have transferred to individual homeowners. The remaining 187 lots are actively being developed by Lennar Homes in a project known as Vega. Of these lots, 144 have transferred to individual homeowners (90 assessed homes and 54 appraised homes), 8 are completed homes (builder inventory), 21 are homes under construction, and 14 are improved lots. Lennar is offering four floor plans ranging in size from 1,547 to 2,091 square feet; the typical lot size is 6,400 square feet. According to the 2023/2024 Tax Roll, 297 of the homes within Improvement Area 1 owned by individuals have been reassessed

(all 154 homes in Village I and 143 homes within Village II). Therefore, assessed values, rather than appraised values, will be assigned to these homes. As of the effective appraisal date, minimal site development work remains for Village II; remaining site development and permit/impact fee costs are considered in the body of this report.

We have been requested to provide a market value of the appraised properties by ownership, as well as the cumulative, or aggregate, value of the appraised properties, as of the date of value. The estimate of market value accounts for the impact of the lien of the Special Taxes securing the Bonds.

The appraisal conforms to the Uniform Standards of Professional Appraisal Practice (USPAP), the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, and applicable state appraisal regulations. The Appraisal Report is also prepared in accordance with the Appraisal Standards for Land Secured Financing published by the California Debt and Investment Advisory Commission (CDIAC) (2004).

Standards Rule 2-2 (Content of a Real Property Appraisal Report) contained in the Uniform Standards of Professional Appraisal Practice (USPAP) requires each written real property appraisal report to be prepared as either an Appraisal Report or a Restricted Appraisal Report. This report is prepared as an Appraisal Report as defined by USPAP under Standards Rule 2-2(a), and incorporates practical explanation of the data, reasoning, and analysis that were used to develop the opinion of value.

Based on the valuation analysis in the accompanying report, and subject to the definitions, assumptions, and limiting conditions expressed in the report, the concluded opinions of value are as follows:

Value by Ownership, September 15, 2023						
Component	Lots/Homes/ Parcels	Lot/Home Value	Permits and Fees	Remaining Site Development Costs	Value per Component	Market Value (Rd.)
Lennar Homes of CA¹						
Completed Homes	8	\$393,750	-	-	\$393,750	\$3,150,000
Under Construction Homes	3	\$105,000	(\$16,532)	(\$18,446)	\$70,022	\$210,066
Improved Lots	2	\$105,000	(\$16,532)	(\$18,446)	\$70,022	<u>\$140,044</u>
Total	13					\$3,500,110
AG Essential Housing CA 2, LP²						
Completed Homes	0	\$393,750	-	-	\$393,750	\$0
Under Construction Homes	18	\$105,000	(\$16,532)	(\$18,446)	\$70,022	\$1,260,396
Improved Lots	12	\$105,000	(\$16,532)	(\$18,446)	\$70,022	<u>\$840,264</u>
Total	30					\$2,100,660
Individual Homeowners³						
Completed Homes	54		-	-	-	<u>\$21,640,000</u>
Total	54					\$21,640,000
Aggregate, or Cumulative, Appraised Values	97					\$27,240,770
Aggregate, or Cumulative, Assessed Values ⁴	297					<u>\$94,248,523</u>
Total Aggregate, or Cumulative, Value of CFD No. 2006-1 of the City of Desert Hot Springs (Improvement Area 1)	394					\$121,489,293

¹ Lennar Homes of CA, LLC and Lennar Homes of CA, Inc

² Land banking entity associated with Lennar

³ Homes within Vega without Assessed Values

⁴ Includes 154 homes within Village 1 and 143 Homes within Village 2 (including 24 homes constructed by DR Horton, 29 homes constructed by Gallery, and 90 homes constructed by Lennar within Vega)

Extraordinary Assumptions and Hypothetical Conditions

The value conclusions are subject to the following extraordinary assumptions that may affect the assignment results. An extraordinary assumption is uncertain information accepted as fact. If the assumption is found to be false as of the effective date of the appraisal, we reserve the right to modify our value conclusions.

None

The value conclusions are based on the following hypothetical conditions that may affect the assignment results. A hypothetical condition is a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

1. The value derived herein is based on the hypothetical condition that bond proceeds from CFD No. 2006-1 are available for reimbursement of eligible impact fees and public improvements.
-

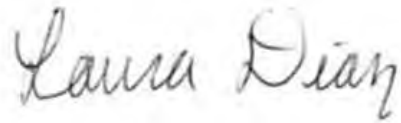
If you have any questions or comments, please contact the undersigned. Thank you for the opportunity to be of service.

Respectfully submitted,

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Executive Summary

Property Name	CFD No. 2006-1 of the City of Desert Hot Springs
Address	62718 N. Crescent St. Desert Hot Springs, Riverside County, California 92240
Property Type	Residential Subdivision
Owner of Record	Lennar Homes of CA, LLC, Lennar Homes of CA, Inc, AG Essential Housing CA 2, LP, Individual Homeowners
Tax ID	667-240-001 to 038; 667-250-001 to 038; 667-260-001 to 078; 667-270-001 to 079; 667-280-001 to 095; 667- 290-001 to 076
Land Area	60.31 acres; 2,627,104 SF
Zoning Designation	R-L (Residential Low Density)
Highest and Best Use	Single family residential development
Exposure Time; Marketing Period	6 - 9 months; 6 - 9 months
Effective Date of the Appraisal	September 15, 2023
Date of the Report	December 1, 2023
Property Interest Appraised	Fee Simple

The values reported above are subject to the definitions, assumptions, and limiting conditions set forth in the accompanying report of which this summary is a part. No party other than City of Desert Hot Springs and its associated finance team may use or rely on the information, opinions, and conclusions contained in the report. It is assumed that the users of the report have read the entire report, including all of the definitions, assumptions, and limiting conditions contained therein.

Extraordinary Assumptions and Hypothetical Conditions

The value conclusions are subject to the following extraordinary assumptions that may affect the assignment results. An extraordinary assumption is uncertain information accepted as fact. If the assumption is found to be false as of the effective date of the appraisal, we reserve the right to modify our value conclusions.

None

The value conclusions are based on the following hypothetical conditions that may affect the assignment results. A hypothetical condition is a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

1. The value derived herein is based on the hypothetical condition that bond proceeds from CFD No. 2006-1 are available for reimbursement of eligible impact fees and public improvements.

Identification of the Appraisal Problem

Subject Description

The subject property represents Improvement Area 1 of Community Facilities District No. 2006-1 located within the city of Desert Hot Springs. Improvement Area 1 of CFD No. 2006-1 is comprised of Villages I and II of the Skyborne community; these two Villages include a total of 394 lots in varying stages of development. Village I includes 154 lots, all of which have completed homes that have transferred to individual homeowners. Village II includes 240 lots which have been developed by three different homebuilders over the history of the project. In Village II, 53 lots reflect completed homes previously constructed by DR Horton and Gallery Homes, all of which have transferred to individual homeowners. The remaining 187 lots are actively being developed by Lennar Homes in a project known as Vega. Of these lots, 144 have transferred to individual homeowners (90 assessed homes and 54 appraised homes), 8 are completed homes (builder inventory), 21 are homes under construction, and 14 are improved lots. Lennar is offering four floor plans ranging in size from 1,547 to 2,091 square feet; the typical lot size is 6,400 square feet. According to the 2023/2024 Tax Roll, 297 of the homes within Improvement Area 1 owned by individuals have been reassessed (all 154 homes in Village I and 143 homes within Village II). Therefore, assessed values, rather than appraised values, will be assigned to these homes. As of the effective appraisal date, minimal site development work remains for Village II; remaining site development and permit/impact fee costs are considered in the body of this report. A legal description of the property is provided in the addenda.

Property Identification

Property Name	CFD No. 2006-1 of the City of Desert Hot Springs (Improvement Area No. 1)
Address	62718 N. Crescent St. Desert Hot Springs, California 92240
Tax ID	667-240-001 to 038; 667-250-001 to 038; 667-260-001 to 078; 667-270-001 to 079; 667-280-001 to 095; 667-290-001 to 076
Owner of Record	Lennar Homes of CA, LLC, Lennar Homes of CA, Inc, AG Essential Housing CA 2, LP, Individual Homeowners

As of the effective appraisal date, the subject property includes multiple owners of record. In addition to individual homeowners, certain parcels are also held by entities associated with Lennar Homes; this includes AG Essential Housing CA 2, LP, which is a land banking entity associated with Lennar. Further discussion of the relationship between Lennar and AG Essential Housing CA 2, LP is provided in the upcoming *Sale History* section. Please note, subsequent to the effective appraisal date, but prior to the date of the report, all of the subject lots previously owned by land banking entity AG Essential Housing CA 2, LP, have transferred to homebuilder Lennar Homes; AG Essential Housing CA 2, LP no longer has ownership of any of the subject lots.

A preliminary title report was not provided for review. The following table summarizes the appraised properties by ownership, as of the effective appraisal date, based upon a review of available public records.

Appraised Property Summary by Ownership

Owner	Improved Lots	Under Construction		Total
		Homes	Completed Homes ¹	
Individual Homeowners	--	--	54	54
Lennar Homes of CA ²	2	3	8	13
AG Essential Housing CA 2, LP ³	12	18	0	30
TOTAL	14	21	62	97

1 Completed homes without a complete assessment for structural improvements by County Assessor

2 Lennar Homes of CA, LLC and Lennar

3 Land banking entity associated with

The above information is relied upon in the upcoming valuation and is assumed to be accurate; however, if additional information regarding ownership of individual lots is provided, the appraisal report may be modified.

History of Project

The subject reflects Villages I and II within the Skyborne at Desert Hot Springs master planned community, which includes ten villages. Construction of Skyborne commenced in 2006/2007 under Developer DR Horton, who completed 178 homes in Villages I and II and some infrastructure work in the remaining villages. During the economic downturn in 2008, DR Horton sold the Skyborne project to land developer Skyborne Ventures, LLC.

The table on the following page summarizes the current construction status of the Villages I and II, which comprise Improvement Area No. 1 of CFD No. 2006-1.

Construction Status - Improvement Area 1

	No. of Lots	
Village I	154	
<u>DR Horton Project</u>		
Completed Homes	154	<i>all homes complete and owned by individual homeowners; all on assessor's roll</i>
Village II	240	
<u>Vega Project (Lennar)</u>		
Completed Homes	152	<i>90 on assessor's roll; 54 homes owned by individuals without AV; 8 homes owned by Lennar</i>
Under Construction Homes	21	
Improved Lots	14	
<u>Gallery Project (Gallery Homes)</u>		
Completed Homes	29	<i>all homes complete and owned by individual homeowners; all on assessor's roll</i>
<u>DR Horton Project</u>		
Completed Homes	24	<i>all homes complete and owned by individual homeowners; all on assessor's roll</i>

Village I includes 154 completed homes developed by DR Horton, which have transferred to individual homeowners and are on the current tax assessor's roll. Assessed values for these homes are reported in the appraisal.

Village II includes homes constructed by multiple builders. DR Horton constructed 24 homes and Builder Gallery Homes purchased 29 lots from Skyborne Ventures, LLC and subsequently constructed

and sold 29 homes; all of these are also on the current tax assessor's roll and the assessed values are recorded in the appraisal. The only active project within Improvement Area No. 1 is Lennar's Vega community. As will be discussed, Lennar purchased 187 lots over two takedowns. As of the effective appraisal date, the Vega project includes 152 completed homes, 144 of which have transferred to individual homeowners. Ninety of these homes have been reassessed on the current assessor's roll. Lennar owns eight completed homes; three of these reflect model homes, three are in-contract to individuals, and two are standing inventory available for purchase. Vega also includes 21 under-construction homes and 14 improved lots.

Sale History

In addition to individual homeowners, the current owners of record for the subject property include Lennar Homes of CA, LLC, Lennar Homes of CA, Inc, and AG Essential Housing CA 2, LP. The subject's 394 lots have not transferred in bulk within the three-year period preceding the effective appraisal date.

Portions of Improvement Area 1 have transferred in arm's length transactions to homebuilders Gallery Homes and Lennar Homes within the past three years; these transactions are summarized in the following table. The last column provides the estimate of finished lot value that was used in negotiations to arrive at the final sale prices. Further discussion of the two Lennar takedowns will be provided later in this appraisal report. Our conclusions of market value for the subject differ from the following sale prices due to strengthening market conditions and substantial site development and vertical construction that has been completed at the subject property as of the effective appraisal date.

Sale History Summary - Village II

Neighborhood	No. of Units	Builder	Sale Date	Sale Price	Price per Unit	Estimate of Finished Lot Value
Gallery	29	Gallery Homes	Jan-20	\$1,832,104	\$63,176	\$82,000
Vega (First Take)	79	Lennar Homes	Feb-21	\$5,537,347	\$70,093	\$87,500
Vega (Second Take)	108	Lennar Homes	Dec-21	\$8,380,044	\$77,593	\$95,000

In addition, on February 19, 2021, Lennar Homes of California, Inc. sold lots to AG Essential Housing CA 2, LP, a Delaware limited partnership, which is serving as the owner and landbank of the Vega lots. Lennar has the option to acquire these lots over time pursuant to a takedown schedule. This transfer of lots serves as a financing mechanism, which is relatively commonplace for transactions involving national homebuilders, especially within master planned communities such as the subject. Over the past two years, there have been multiple transfers of lots from AG Essential Housing CA 2, LP to Lennar Homes of California, LLC. Transfers between Lennar Homes of California Inc, Lennar Homes of California, LLC, and AG Essential Housing CA 2, LP are not considered arm's length transactions; thus, no further consideration is warranted.

Based on a review of available information, no other sale or transfer of ownership has taken place within a three-year period prior to the effective appraisal date.

As noted, subsequent to the effective appraisal date, but prior to the date of the report, all of the subject lots previously owned by land banking entity AG Essential Housing CA 2, LP, have transferred to homebuilder Lennar Homes; AG Essential Housing CA 2, LP no longer has ownership of any of the subject lots.

Pending Transactions

Based on discussions with the appropriate contacts, the property is not subject to an agreement of sale or an option to buy, nor is it listed for sale, as of the effective appraisal date. However, individual homes that are under construction are in contract from homebuilders to individual homeowners. In addition, Skyborne Ventures, LLC is reportedly in discussions with homebuilders for the purchase of other Villages within the Skyborne project; however, details regarding these negotiations were not disclosed.

Appraisal Purpose

The purpose of the appraisal is to develop an opinion of the market value subject to a hypothetical condition of the fee simple interest in the property as of the effective date of the appraisal, September 15, 2023. The date of the report is September 19, 2023. The appraisal is valid only as of the stated effective date. As a condition of this assignment, we have been asked to exclude any contributory value of unfinished homes.

Value Type Definitions

The definitions of the value types applicable to this assignment are summarized below.

Market Value

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 and 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 acting in what they consider their own best interests;
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

¹ Code of Federal Regulations, Title 12, Chapter I, Part 34.42[h]; also, Interagency Appraisal and Evaluation Guidelines, Federal Register, 75 FR 77449, December 10, 2010, page 77472

Property Rights Definitions

The property rights appraised which are applicable to this assignment are defined as follows.

Fee Simple Estate

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.²

Client and Intended User(s)

The client is the California Municipal Finance Authority. The intended users are the California Municipal Finance Authority and its associated finance team. No party or parties beyond the clients associated finance team may use or rely on the information, opinions, and conclusions contained in this report; however, this appraisal report may be included in the offering document provided in connection with the issuance and sale of the Bonds.

Intended Use

The intended use of the appraisal is for bond underwriting purposes. The appraisal is not intended for any other use.

Applicable Requirements

This appraisal report conforms to the following requirements and regulations:

- Uniform Standards of Professional Appraisal Practice (USPAP);
- Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute;
- Applicable state appraisal regulations;
- Interagency Appraisal and Evaluation Guidelines issued December 10, 2010;
- Appraisal Standards for Land Secured Financing published by the California Debt and Investment Advisory Commission (CDIAC) (2004).

Report Format

Standards Rule 2-2 (Content of a Real Property Appraisal Report) contained in the Uniform Standards of Professional Appraisal Practice (USPAP) requires each written real property appraisal report to be prepared as either an Appraisal Report or a Restricted Appraisal Report. This report is prepared as an Appraisal Report as defined by USPAP under Standards Rule 2-2(a), and incorporates practical explanation of the data, reasoning, and analysis used to develop the opinion of value.

Prior Services

USPAP requires appraisers to disclose to the client any other services they have provided in connection with the subject property in the prior three years, including valuation, consulting, property management, brokerage, or any other services. We have not performed any services, as an appraiser

² Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 7th ed. (Chicago: Appraisal Institute, 2022)

or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

Appraiser Competency

No steps were necessary to meet the competency provisions established under USPAP. The assignment participants have appraised several properties similar to the subject in physical, locational, and economic characteristics, and are familiar with market conditions and trends; therefore, appraiser competency provisions are satisfied for this assignment. Appraiser qualifications and state credentials are included in the addenda of this report.

Scope of Work

Introduction

The appraisal development and reporting processes require gathering and analyzing information about the assignment elements necessary to properly identify the appraisal problem. The scope of work decision includes the research and analyses necessary to develop credible assignment results, given the intended use of the appraisal. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

To determine the appropriate scope of work for the assignment, we considered the intended use of the appraisal, the needs of the user, the complexity of the property, and other pertinent factors. Our concluded scope of work is described below.

Research and Analysis

The type and extent of the research and analysis conducted are detailed in individual sections of the report. Although effort has been made to confirm the arms-length nature of each sale with a party to the transaction, it is sometimes necessary to rely on secondary verification from sources deemed reliable.

Subject Property Data Sources

The legal and physical features of the subject property, including size of the site, flood plain data, seismic zone designation, property zoning, existing easements and encumbrances, access and exposure, and condition of the improvements (as applicable) were confirmed and analyzed.

Inspection

Kevin Ziegenmeyer, MAI, conducted an on-site inspection of the property on August 17, 2023.

Valuation Methodology

Three approaches to value are typically considered when developing a market value opinion for real property. These are the cost approach, the sales comparison approach, and the income capitalization approach. Use of the approaches in this assignment is summarized as follows:

Approaches to Value		
Approach	Applicability to Subject	Use in Assignment
Cost Approach	Not Applicable	Not Utilized
Sales Comparison Approach	Applicable	Utilized
Income Capitalization Approach	Not Applicable	Not Utilized

The market value of the appraised properties was estimated by employing a several methodologies.

First, the sales comparison approach is utilized to estimate the market value of the completed single-family homes within the subject boundaries.

The market value, in bulk, of the remaining Builder-owned lots is estimated by employing the sales comparison approach to value and extraction technique. In the sales comparison approach to value, the underlying land is compared to transactions of similarly zoned single-family residential land throughout the subject's region. Then, to support the reasonableness of the sales comparison approach conclusions, we utilize an extraction analysis, a form of the cost approach. The lot values indicated by each approach are then reconciled into an opinion of market value, subject to the hypothetical condition noted. At the end of the analysis, remaining site development costs and impact fees are deducted from the reconciled improved lot value.

Our analysis excludes a typical cost approach since the subject property represents land. However, a cost analysis is completed for both the horizontal and vertical improvements and market supported costs are employed as part of the extraction analysis and determination of financial feasibility. Given the limited income producing potential of the land, an income approach is not utilized.

Economic Analysis

Area Analysis – Riverside County

Introduction

Riverside County is part of a region known as the Inland Empire of southern California, southeast of Los Angeles. The county is bordered by San Bernardino County to the north, Orange County to the west, San Diego and Imperial counties to the south, and the state of Arizona to the east. Major cities in the county include Riverside, Moreno Valley, Corona, Murrieta and Temecula. In general, Riverside County is one of California's fastest growing metropolitan areas. Many new residents locate here from the more expensive metropolitan areas of Los Angeles and San Diego.

Population

The county has a population of 2.44 million and has grown at an average rate of 0.5% per year for the past five years. The following table illustrates recent population trends for Riverside County.

Population Trends							
City	2018	2019	2020	2021	2022	2023	%/Yr (5-year)
Banning	31,014	31,068	30,621	30,592	30,856	31,250	0.2%
Beaumont	48,013	49,913	53,318	53,945	54,349	56,590	3.6%
Blythe	19,772	19,530	18,586	17,376	17,417	17,265	-2.5%
Calimesa	8,959	9,015	10,028	10,588	10,950	10,962	4.5%
Canyon Lake	10,990	11,021	11,069	11,082	11,003	10,949	-0.1%
Cathedral City	53,148	53,308	51,356	51,599	51,621	51,433	-0.6%
Coachella	46,697	47,318	41,900	41,931	41,935	42,462	-1.8%
Corona	166,299	166,937	156,637	157,182	157,139	157,005	-1.1%
Desert Hot Springs	29,823	30,019	32,415	32,351	32,389	32,608	1.9%
Eastvale	65,509	65,735	69,742	70,457	69,978	69,514	1.2%
Hemet	84,126	84,354	89,325	89,302	89,170	89,918	1.4%
Indian Wells	5,314	5,351	4,759	4,791	4,785	4,774	-2.0%
Indio	88,984	90,112	88,795	89,422	89,789	90,837	0.4%
Jurupa Valley	104,645	106,056	104,828	105,131	105,154	104,983	0.1%
Lake Elsinore	62,622	63,270	70,572	71,225	71,989	71,973	3.0%
La Quinta	40,563	40,663	37,504	37,727	37,562	37,979	-1.3%
Menifee	92,110	94,710	102,466	104,323	107,411	110,034	3.9%
Moreno Valley	205,450	207,190	208,237	208,387	208,302	208,289	0.3%
Murrieta	112,352	113,207	110,702	111,024	110,592	109,998	-0.4%
Norco	26,593	26,473	26,659	24,680	25,035	25,037	-1.2%
Palm Desert	53,554	53,695	50,696	50,683	50,626	50,615	-1.1%
Palm Springs	47,253	47,410	44,206	44,312	44,165	44,092	-1.3%
Perris	77,649	78,095	78,614	78,867	78,474	78,948	0.3%
Rancho Mirage	18,257	18,397	16,588	16,692	16,854	17,012	-1.4%
Riverside	325,916	327,076	316,307	309,598	314,818	313,676	-0.8%
San Jacinto	48,536	49,655	53,835	54,186	54,303	54,103	2.3%
Temecula	112,243	112,561	109,820	109,881	109,468	108,899	-0.6%
Wildomar	36,436	36,878	36,720	36,713	36,438	36,336	-0.1%
Unincorporated	374,835	380,040	391,880	394,680	398,404	401,693	1.4%
Total	2,397,662	2,419,057	2,418,185	2,418,727	2,430,976	2,439,234	0.3%

Source: California Department of Finance

Riverside is the fourth most populous county in California, following Los Angeles, San Diego and Orange Counties. The majority of residents live within incorporated areas, the largest of which is the city of Riverside, with a population of just over 313,000.

Employment & Economy

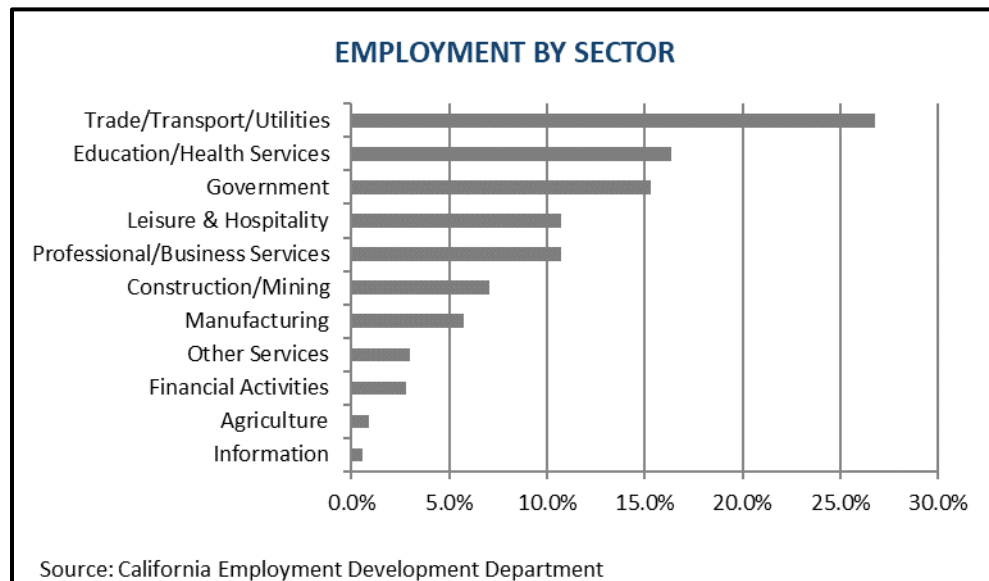
The California Employment Development Department (EDD) has reported the following employment data for Riverside County over the past five years.

Employment Trends						
	2017	2018	2019	2020	2021	2022
Labor Force	1,070,900	1,090,100	1,108,100	1,121,100	1,133,000	1,152,100
Employment	1,014,200	1,041,700	1,061,500	1,008,000	1,050,000	1,104,100
Annual Employment Change	27,000	27,500	19,800	-53,500	42,000	54,100
Unemployment Rate	5.3%	4.4%	4.2%	10.1%	7.3%	4.2%

Source: California Employment Development Department

Riverside County saw declining unemployment rates in 2004-2006, increases from 2007 to 2010, declines between 2011 and 2019, a significant increase in 2020 due to the pandemic and improvement in 2021 and 2022. The California Employment Development Department reported an unemployment rate of 4.4% in Riverside County in May 2023, up from 3.4% a year ago and compared to 4.5% for California and 3.4% for the nation.

As of May 2023, it was reported 16,600 non-farm jobs were gained in the Riverside-San Bernardino-Ontario MSA year-over-year. Annual job growth has slowed in recent quarters. The greatest job growth was in the Educational/Health Services sector with 12,400 jobs gained, followed by the Government sector with 7,700 jobs gained. The following chart indicates the percentage of total employment for each sector in the metro as of May 2023.



The region's largest employment sector, accounting for roughly 26% of total employment, is Trade/Transportation/Utilities, which includes wholesale and retail trade; followed by Education/Health Services and Government.

The region's largest employers are listed in the following table.

Top Employers - Riverside County			
Employer	Location	Description	No. of Employees
County of Riverside	Countywide	County Government	23,772
Amazon	Countywide	E-Commerce	14,500
March Air Reserve Base	March ARB	Military Reserve Base	9,600
University of California, Riverside	Riverside	University	8,593
Moreno Valley Unified School District	Moreno Valley	School District	6,020
Kaiser Permanente Riverside Medical Center	Riverside	Hospital	5,817
Corona-Norco Unified School District	Corona	School District	5,478
Riverside Unified School District	Riverside	School District	5,431
Stater Bros	Countywide	Retail Grocery	4,699
Mt. San Jacinto College	San Jacinto	Community College District	4,638
Marie Callender Wholesalers, Inc.	Corona	Wholesale Trade	4,454
313 Acquisitions LLC	Riverside	Other Services	4,208
Temecula Valley Unified School District	Temecula	School District	4,022
Eisenhower Medical Center	Rancho Mirage	Hospital	4,001
Pechanga Resort & Casino	Temecula	Resort/Casino	4,000
Hemet Unified School District	Hemet	School District	3,960
Home Depot	Countywide	Retail	3,576
Murrieta Valley Unified School District	Murrieta	School District	3,552
Starcrest of California	Perris	E-Commerce	3,450
McDonalds	Countywide	Restaurant	3,375
Palm Springs Unified School District	Palm Springs	School District	3,328
Lake Elsinore Unified School District	Lake Elsinore	School District	3,267
Jurupa Unified School District	Jurupa Valley	School District	2,749
City of Riverside	Riverside	City Government	2,700
Target	Countywide	Retail	2,631
Coachella Valley Unified School District	Thermal	School District	2,581
Walmart	Countywide	Retail	1,561
Albertsons/Sav-On	Countywide	Retail Grocery	2,231
Riverside Community College District	Riverside	Community College District	2,228
Hemet Valley Medical Center	Hemet	Hospital	2,214
Desert Regional Medical Center	Palm Springs	Hospital	2,200
Agua Caliente Band of Cahuilla Indians	Rancho Mirage	Tribal Government / Casinos	2,200
Spa Resort & Casino	Palm Springs	Resort & Spa	2,120
Beaumont Unified School District	Beaumont	School District	2,053
Kroger (Ralphs & Vons)	Countywide	Retail Grocery	2,035
Abbott Vascular, Inc.	Temecula	Medical Device Manufacturing	2,008
Alvord Unified School District	Corona	School District	1,936
Lowe's Home Improvement	Countywide	Retail	1,928
United Parcel Service	Countywide	Delivery Services	1,678
MSR Desert Resort, LP	La Quinta	Resort / Restaurant	1,500

Source: Riverside County Economic Development Agency, with source cited as "Employers Listed, Websites, and Public Records, 2022"

Household Income

Median household income represents a broad statistical measure of well-being or standard of living in a community. The median income level divides households into two equal segments with one half of households earning less than the median and the other half earning more. The median income is considered to be a better indicator than the average household income as it is not dramatically affected by unusually high or low values. According to Claritas Spotlight data reporting service, the

median household income estimated for Riverside County in 2023 is \$81,520, which is lower than the state of California's median income of \$89,113.

Transportation

Access to and through Riverside County is provided by several major routes, including Interstates 10, 15 and 215, as well as State Routes 60, 62, 74, 79, 86, 91, 111 and 243. Interstate 10 is the primary east-west connector while Interstates 15 and 215 are the primary north-south highways. The 91 Freeway provides travel from the Inland Empire to Orange County via the 55 Freeway.

Interstate 10 is a major east-west route in Southern California, connecting the Pacific coast (Santa Monica) with the Arizona state line before traveling further east through the southern portion of Arizona, New Mexico, Texas, Louisiana, Mississippi, Alabama, and terminating in Jacksonville, Florida. Interstate 10 links the major California cities of Santa Monica, Los Angeles, Ontario, Beaumont, Palm Springs, Indio and Blythe.

As a primary east-west connector, Interstate 15 connects the counties of San Bernardino, Riverside and San Diego. The route extends north through Nevada, Arizona, Utah, Idaho and Montana to the Canadian border. Interstate 15 is a major thoroughfare for traffic between San Diego and the Inland Empire, as well as between Southern California and Las Vegas, Nevada. Interstate 215 comprises approximately 55 miles of interstate highway in the Inland Empire. The southern terminus of Interstate 215 is at the junction of Interstate 15 in Murrieta in south Riverside County and travels through Perris before joining the 60 Freeway in Moreno Valley. This interstate provides an alternative to Interstate 15 for travel between Phoenix, Las Vegas, San Bernardino and the San Diego area.

Public transportation is provided by various agencies. Riverside Transit Agency serves the western third of Riverside County, SunLine Transit Agency serves Palm Springs and the Coachella Valley area, Palo Verde Valley Transit Agency serves Blythe near the Arizona border, Pass Transit serves the San Geronio Pass communities, and Corona Cruiser serves the community of Corona. In addition, Riverside County is also served by Greyhound buses and Amtrak passenger trains.

The county's main airport is the Palm Springs International Airport. This two-runway airport is located about two miles east of downtown Palm Springs and is highly seasonal, with most flights operating during the winter.

Recreation & Culture

Riverside County offers innumerable recreational and cultural opportunities, including many public parks, schools, golf courses, museums and performing arts venues. Popular attractions include the Botanical Gardens at the University of California, Riverside; the historic Mission Inn in downtown Riverside; March Field Air Museum, an aviation museum near Moreno Valley and Riverside, adjacent to the March Air Reserve Base; Temecula Valley, a tourist destination in the southern part of the county with numerous wineries, wine tasting rooms, bed and breakfast inns and wedding venues; and Castle Park, an amusement park. Annual events in the county include the Festival of Lights in Riverside, known for its display of nearly three million Christmas lights; Ghost Walk Riverside; Temecula Valley Balloon and Wine Festival; and Harvest Wine Celebration.

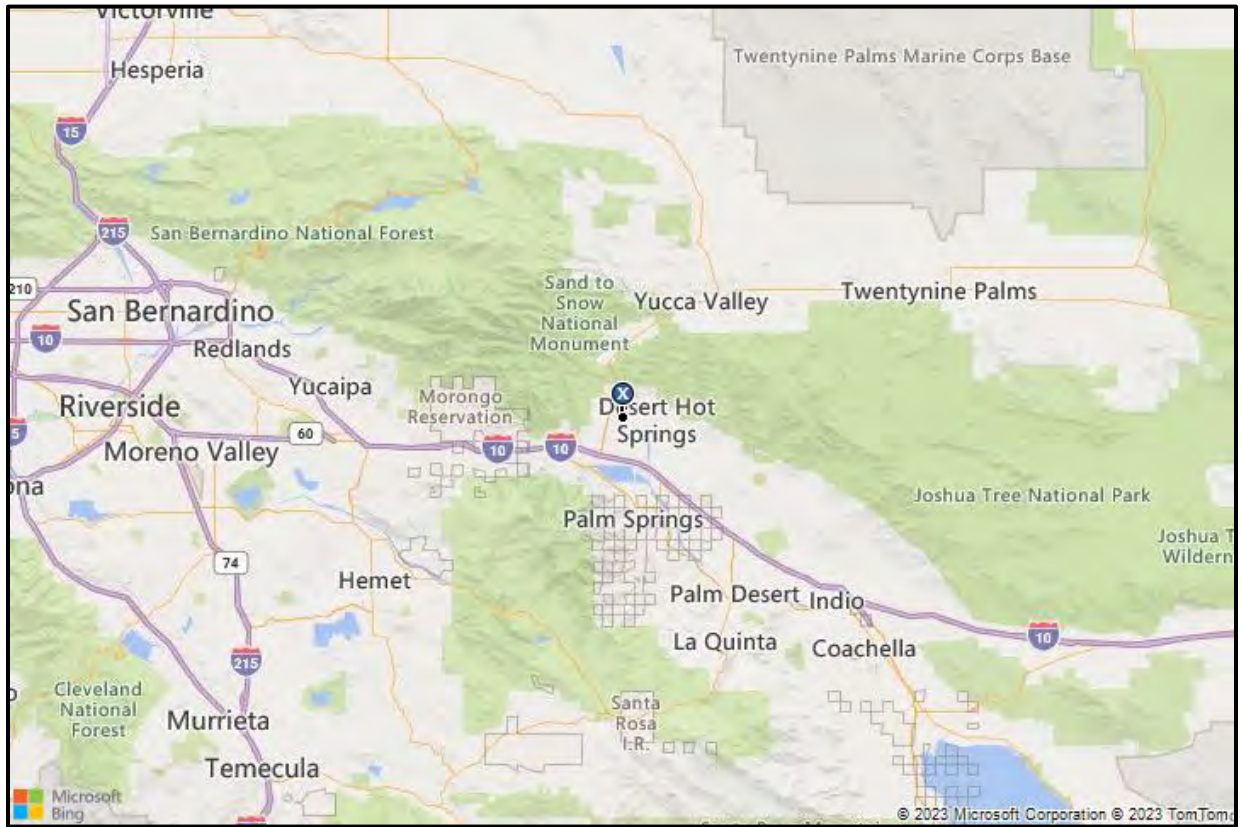
Riverside County is home to multiple higher education institutions including, but not limited to, the University of California Riverside, California Baptist University, California Southern Law School, California State University San Bernardino and Mt. San Jacinto College.

Conclusion

In general, Riverside County is one of the fastest growing areas in the state. Many new residents are relocating here from the more expensive metropolitan areas of Los Angeles and San Diego. The region offers diverse employment opportunities, numerous colleges and universities, extensive transportation routes, shopping centers, public services and recreational activities.

In recent years, market and economic conditions were strong, with unemployment rates falling to historical lows. Employment conditions declined sharply in 2020 after the onset of the pandemic and though market and economic conditions have since improved, current macroeconomic factors, specifically high inflation and rising interest rates, have reintroduced uncertainty in the market. Recovery in the market is expected to be gradual and the long-term outlook for the region is good.

Area Map



Surrounding Area Analysis

Location

The subject is located in the city of Desert Hot Springs, in the central part of Riverside County. It is the westernmost city of the Coachella Valley, which also includes Cathedral City, Coachella, Indian Wells, Indio, La Quinta, Palm Desert, Palm Springs and Rancho Mirage. Desert Hot Springs lies to the north of Interstate 10, while the other cities/communities lie to the south.

Access and Linkages

The subject neighborhood benefits from very good freeway access. Interstate 10 is a major interstate highway spanning across the nation, from Santa Monica, California on the west coast to Jacksonville, Florida on the east coast. In the subject's neighborhood, Interstate 10 provides access to the neighboring San Bernardino County to the northwest and into Los Angeles County further west. To the east, it travels through Riverside County into the state of Arizona.

The subject is also proximate to State Route 62, which intersects Interstate 10 to the south of the city limits. State Route 62 travels north through the city and then east across the Little San Bernardino Mountains, along the northern boundary of the Joshua Tree National Park and into the state of Arizona.

Just south of Desert Hot Springs and south of Interstate 10 is State Highway 111, the primary route through the Coachella Valley. It begins at Interstate 10 in the community of White Water, just east of Cabazon and extends southeast through Palm Springs, Rancho Mirage, Palm Desert, La Quinta, and Indio. It continues through the Imperial Valley and along the eastern portion of the Salton Sea, terminating south at the Mexico border. Secondary highways also south of Interstate 10 include Highway 74 which provides access to other cities and communities in Riverside County to the west, and Highway 86, providing southbound access extending near the border of Mexico.

Area thoroughfares include N. Indian Canyon Drive, which extends to the north and south of Interstate 10; Palm Drive, a north-south arterial stretching from Interstate 10 through the Desert Hot Springs downtown district; and Dillon Road, Two Bunch Palms Trail, Hacienda Avenue, Pierson Blvd, and Mission Lakes Blvd, which travel in an east-west direction.

Public transportation in the neighborhood is provided by SunLine Transit Agency. Three routes, Routes 14, 15 and 21, service the Desert Hot Springs area, with connections available to other destinations throughout the Coachella Valley, as well as to a Commuter Link route, which offers service throughout Southern California.

The nearest airport for commercial air travel is Palm Springs International Airport, located approximately fourteen miles to the south. Five additional international airports are located within an approximate two-hour drive of the subject's neighborhood. In addition, there are five Amtrak stations within 30 miles of the city center.

Demographic Factors

A demographic profile of the surrounding area, including population, households, and income data, is presented in the following table.

Surrounding Area Demographics				
	5-Minute Drive	10-Minute Drive	15-Minute Drive	Riverside County
2023 Estimates	Time	Time	Time	
Population 2020	515	2,709	29,902	2,418,185
Population 2023	505	2,734	30,802	2,488,669
Population 2028	491	2,769	32,068	2,586,031
Compound % Change 2020-2023	-0.7%	0.3%	1.0%	1.0%
Compound % Change 2023-2028	-0.6%	0.3%	0.8%	0.8%
Households 2020	162	908	10,031	763,283
Households 2023	161	923	10,321	786,429
Households 2028	159	943	10,744	818,630
Compound % Change 2020-2023	-0.2%	0.5%	1.0%	1.0%
Compound % Change 2023-2028	-0.2%	0.4%	0.8%	0.8%
Median Household Income 2023	\$41,844	\$49,384	\$45,085	\$81,520
Average Household Size	9.6	9.0	9.0	3.1
College Graduate %	19%	22%	16%	23%
Median Age	40	40	36	37
Owner Occupied %	58%	62%	51%	67%
Renter Occupied %	42%	38%	49%	33%
Median Owner Occupied Housing Value	\$182,839	\$285,497	\$295,589	\$511,440
Median Year Structure Built	1985	1988	1986	1989
Average Travel Time to Work in Minutes	102	102	91	37

Source: Claritas

As shown above, the current population within a 10-minute drive time of the subject is 2,734, and the average household size is 9.0. Population in the area has grown since the 2020 census, and this trend is projected to continue over the next five years. Compared to Riverside County overall, the population within a 10-minute drive time is projected to grow at a slower rate.

Median household income is \$49,384, which is lower than the household income for Riverside County. Residents within a 10-minute drive time have a similar level of educational attainment to those of Riverside County, while median owner occupied home values are considerably lower.

Land Use

Desert Hot Springs was named for the naturally-occurring hot mineral waters discovered here. The city is situated between the San Bernardino Mountains and the San Jacinto Mountains. The Mission Creek fault line, a branch of the San Andreas Fault, runs between the two mountain ranges and separates two underground aquifers into hot water to the northeast and cold water to the southwest. The hot

water springs contain a variety of minerals at varying degrees of heat and are accessible at numerous hotels, resorts and spas throughout the city. The cold water aquifer provides fresh water to the city.

The city of Desert Hot Springs has a mix of land uses. A large part of the city within the western and central portions, remains unimproved, while the majority of improvement lies in the eastern part of the city. Land uses here are devoted primarily to low and medium density single family residential, and commercial uses along the main thoroughfares. Resorts and spas that offer hot springs are also located in this portion of the city.

Most commercial uses are concentrated within the region north of Two Bunch Palms Trail and south of Mission Lakes Boulevard. Some of the larger concentrations of commercial uses include the area near Two Bunch Palms Trail and Palm Drive, improved with a Vons-anchored center, Walgreens, several restaurants and cafes, and a US Post Office; the intersection of Palm Drive and Hacienda Drive is improved with the Hacienda Palms Shopping Center, anchored by Stater Bros grocery, and offering various neighborhood retail and dining services; most municipal offices and services are found along Pierson Blvd at West Drive; and a large concentration of hot springs resorts and spas are found near Miracle Hill and Mountain View Roads in the far eastern part of the city.

The subject is located on the northwest end of Desert Hot Springs, northwest of the majority of the development in the neighborhood. Immediately adjacent uses to the subject include vacant land.

There are various cultural and recreational opportunities in the city. Cabot's Pueblo Museum is the adobe-style structure built by Cabot Yerxa, one of the earliest homestead settlers in Desert Hot Springs, over a period of 20 years, which is now a designated historical site and museum. The city became popular as a tourist destination in the 1940s and 50s when small spa and boutique hotels were plentiful and the city was known as the spa capital of the world. Currently, there are roughly 30 natural mineral springs lodgings and spas in Desert Hot Springs.

The cannabis industry has also become a significant source of revenue in the local economy. The city was among the first to provide structure for the legal operation of cannabis. During the 2018-2019 fiscal year, the cannabis industry provided \$3.2 million, the second highest revenue stream in the city. In addition, cannatourism, which involves traveling somewhere to consume or participate in cannabis-related activities, has been introduced in the city's cannabis strategic plan, with reports that city officials have begun drafting proposals to allow cannabis sales and use at hotels and entertainment venues.

The Coachella Valley is known for its numerous country/golf clubs, with over 100 private and semi-private courses throughout the area. Desert Dunes Golf Club and Hidden Springs Golf Course are the nearest, located to the south of the city limits. Big Morongo Canyon Preserve and Joshua Tree National Park are located to the north and east of Desert Hot Springs, offering hiking, camping, and wildlife preserve.

Along the north side of Interstate 10 are industrial areas, improved primarily with windmill farms and related uses. These windmill farms are located in the San Geronio pass, a gap created by the San Andreas fault between the San Bernardino and San Jacinto mountains. The windmills, combined with

growing use of solar power, provide ample renewable energy for the city, as well as for the Southern California energy grid.

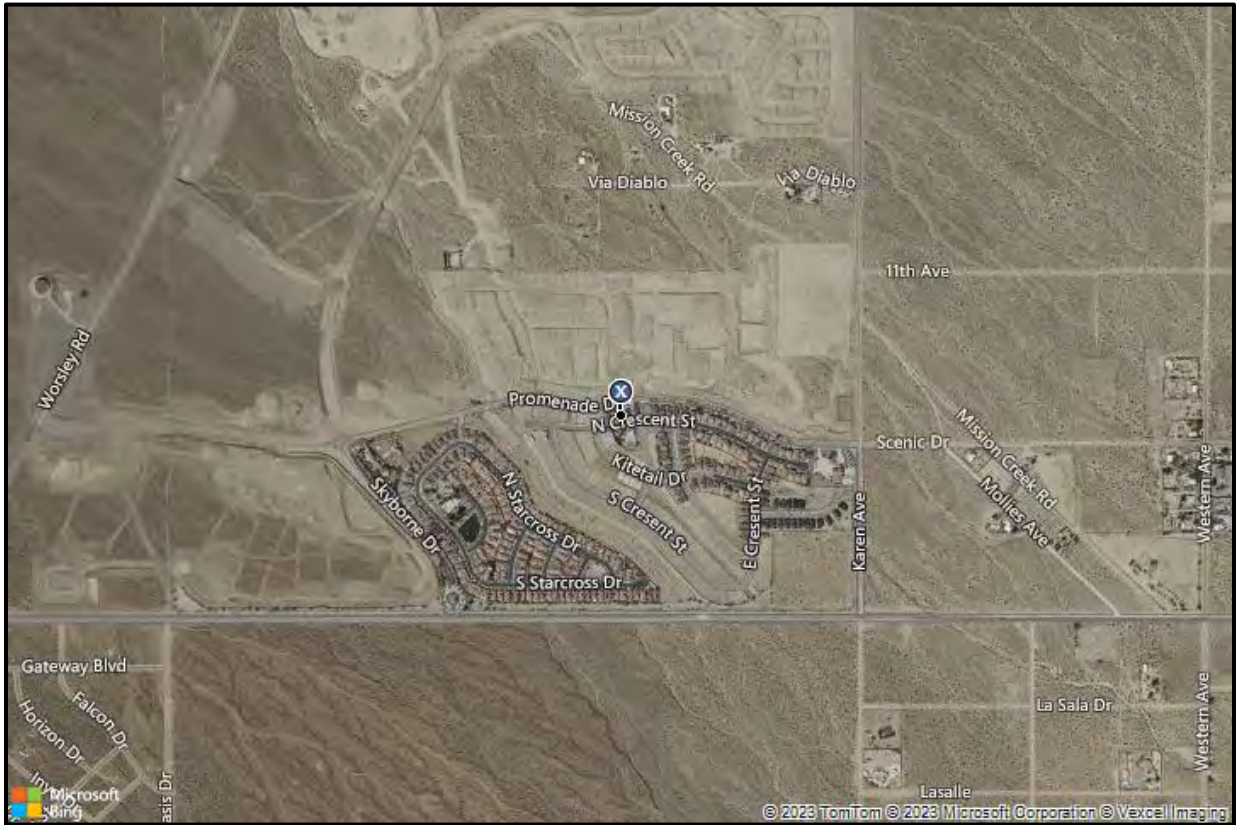
Desert Hot Springs is served by the Palm Springs Unified School District, with five elementary schools, two middle schools, one high school and one alternative school located in Desert Hot Springs. There are several vocational schools, community colleges and four-year universities within approximately 10-20 miles of the subject, including California State University San Bernardino – Palm Desert Campus; University of California Riverside, Loma Linda University – Dental Hygiene; various campuses of the College of the Desert; Mayfield College; SBB College, Brandman University and National University.

The nearest hospitals are Desert Regional Medical Center, approximately 14 miles south in Palm Springs; Eisenhower Medical Center Hospital located 20 miles southeast of the subject in Rancho Mirage, and JFK Memorial Hospital, located approximately 29 miles southeast in Indio.

Outlook and Conclusions

The subject property is located in an established neighborhood characterized by single-family residential development with supporting community uses. The area is considered to be a middle-income neighborhood with adequate support facilities. The overall condition and quality of the neighborhood is rated as average to good. The composition of residential elements and commercial related support facilities generally provides stable conditions for the neighborhood.

Surrounding Area Map



Residential Market Analysis

Given prevailing land use patterns and the subject's zoning, a likely use of the property is for residential development. In the following paragraphs, we examine supply and demand indicators for residential development in the subject's area.

Submarket Overview

The subject is located in the city of Desert Hot Springs. The subject is adjacent to mature home construction and is considered to have good transportation linkages. Based on existing surrounding homes and new projects under development, the subject characteristics best support a project designed for a combination of entry-level and/or first-time move-up home buyers.

Single-Family Building Permits

Single-family building permits for the city of Desert Hot Springs, as well as Riverside County totals are shown in the following table.

Single-Family Building Permits		
City of Desert Hot		
Year	Springs	County of Riverside
2013	9	4,432
2014	0	5,074
2015	26	4,934
2016	29	5,987
2017	35	6,703
2018	39	7,676
2019	22	7,002
2020	77	8,895
2021	180	7,835
2022	143	8,211

Source: SOCDs Building Permits Monthly Request

The bulk of the single-family building permits within Riverside County are in unincorporated areas of the county, as well as the cities of Menifee and Beaumont.

New Home Pricing and Sales

According to the Riverside County Real Estate Market Update for August 2023, within Riverside County, the median sales price has increased 1.7% year-over-year and is now at \$600,097.

According to The Ryness Report for the week ending September 10, 2023 (Week 36 of a calendar year), the Desert Riverside submarket has 25 active projects out of 251 for the entire Inland Empire (Riverside and San Bernardino Counties). The following chart and table are from the latest Ryness Report showing average sales for the Inland Empire.

THE RYNESS REPORT

A New Home Sales, Marketing & Research Company

Sponsored by:



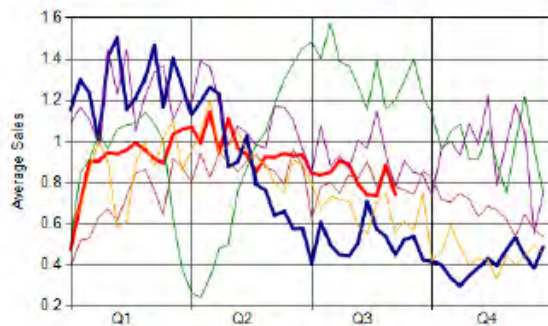
Inland Empire

Week 36

Ending: Sunday, September 10, 2023







Counties / Groups	Projects	Traffic	Sales	Cancel	Net Sales	Avg. Sales	Year to Date Avg.	Diff.	Prev. 13 Wks. Avg.	Diff.
Central-North Central Riverside	49	679	60	10	50	1.02	0.95	7%	0.96	7%
Desert Riverside	25	247	12	4	8	0.32	0.76	-58%	0.71	-55%
Murrieta - Temecula	15	428	10	2	8	0.53	0.85	-38%	0.81	-35%
Northwest Riverside	25	454	18	1	17	0.68	0.89	-23%	0.85	-20%
South Riverside	51	801	50	5	45	0.88	0.95	-7%	0.86	2%
Central-East San Bernardino	36	742	24	4	20	0.56	0.92	-39%	0.82	-32%
Desert San Bernardino	17	158	13	3	10	0.59	0.76	-23%	0.86	-31%
NW-SW San Bernardino	33	831	30	2	28	0.85	0.98	-14%	0.92	-8%
Current Week Totals	Traffic : Sales	20 : 1	251	4340	217	31	186	0.74	0.91	-18%
Per Project Average			17	0.86	0.12	0.74				
Year Ago - 09/11/2022	Traffic : Sales	26 : 1	209	3757	144	50	94	0.45	0.90	-50%
% Change			20%	16%	51%	-38%	98%	65%	0%	57%

52 Weeks Comparison



Year to Date Averages Through Week 36

Annual

Graph Legend	Year	Avg. Weekly Projects	Avg. Weekly Traffic	Avg. Weekly Sales	Avg. Weekly Cancels	Avg. Project Sales	Year End Avg. Proj. Sales
	2018	142	36	1.00	0.17	0.82	0.69
	2019	214	31	0.93	0.14	0.79	0.76
	2020	244	24	1.17	0.17	1.00	1.01
	2021	197	26	1.23	0.12	1.11	1.05
	2022	195	23	1.11	0.21	0.90	0.74
	2023	247	23	1.03	0.13	0.91	0.91
% Change:		26%	0%	-7%	-39%	0%	22%

* Averages rounded for presentation. Change % calculated on actual numbers.



WEEKLY FINANCIAL NEWS

Financing			Market Commentary
CONV	RATE	APR	Financial markets pricing in a "higher for longer" interest rate environment -as market participants see monetary policy remaining restrictive for an extended period to ensure inflation returns to 2%-has sent mortgage rates higher in recent weeks. According to Freddie Mac, the average 30-year fixed-rate mortgage rate was 7.1% during the week that ended September 7, down slightly from the previous week but about a percentage point higher than this year's low hit in February. The increase in financing costs back above 7% appears to be weighing heavily on home buying. Mortgage applications for purchase fell for the sixth time in the past seven weeks and dipped 2.1% during the week that ended September 1. The purchase index is now at the lowest level since April 1995. Overall, higher mortgage rates look to be further ending affordability for buyers already challenged by high prices and low resale inventory. As inflation recedes further next year, we look for the FOMC to cut rates starting in the first quarter of 2024. These rate cuts should set the stage for a rebound in economic activity in the second half of the year. Source: Wells Fargo Bank Weekly Economic & Financial Commentary
FHA	6.99%	7.25%	
	6.75%	6.99%	
10 Yr Yield	4.29%		

The following tables include active projects in the Desert Riverside submarket. Overall, projects in the area are averaging 0.69 sales per week (2.77 sales per month) with an average home size of 2,404 square feet and an average home price of \$759,080. However, it is noted the subject is exceeding this pace of sales with an absorption rate of 5.52 sales per month and a price point at the lower end of the range of \$415,274.

Active Projects (as of 1Q 2023)										
Project Name	Community	Developer	Average Price	Home Size (SF)	Average Price/SF	Units Planned	Units Sold	Units Unsold	Avg Sales per Week	Avg Sales per Month
Cantera at Coral Mountain	La Quinta	Beazer	\$697,490	2,547	\$273.85	85	44	41	0.56	2.24
Bellissima	Coachella	Centex	\$505,323	2,396	\$210.93	109	57	52	1.20	4.80
Crestwood at Diamante	La Quinta	Crestwood	\$976,657	3,077	\$317.44	47	7	40	0.24	0.96
Crestwood at Villa Portofino	Palm Desert	Crestwood	\$585,490	2,103	\$278.47	69	55	14	0.54	2.16
Enclave at Capistrano	La Quinta	DR Horton	\$643,985	2,701	\$238.40	115	30	85	0.45	1.80
Mariposa Pointe	Coachella	DR Horton	\$514,990	2,167	\$237.71	131	86	45	1.34	5.36
Monte Vina	Indio	DR Horton	\$523,864	2,239	\$233.97	300	227	73	1.59	6.36
Elan	Palm Springs	Far West Industries	\$1,364,900	2,399	\$569.06	81	13	68	0.36	1.44
Gallery at Miralon	Palm Springs	Gallery Homes	\$1,187,900	2,773	\$428.46	50	30	20	0.37	1.48
Aguila at Terra Lago	Indio	K Hovianian	\$561,490	2,145	\$261.74	123	29	94	0.59	2.36
Dolce Ventana	Palm Desert	Lennar	\$530,898	1,871	\$283.80	74	50	24	0.64	2.56
The Province	Indian Wells	Lennar	\$1,894,113	2,928	\$646.90	54	52	2	0.67	2.68
Siena at Paradiso	Indio	Lennar	\$612,452	2,535	\$241.60	139	136	3	1.32	5.28
University Park Centre	Palm Desert	Lennar	\$500,702	1,728	\$289.81	64	49	15	0.73	2.92
University Park District	Palm Desert	Lennar	\$636,463	2,206	\$288.56	48	48	0	0.71	2.84
University Park Village	Palm Desert	Lennar	\$500,130	1,853	\$269.90	84	63	21	0.94	3.76
Vega at Skyborne	Desert Hot Springs	Lennar	\$415,274	1,845	\$225.08	187	151	36	1.38	5.52
Sage Palm Desert	Palm Desert	Ponderosa	-	2,183	-	111	50	61	0.26	1.04
Sevilla	Coachella	Pulte	\$532,990	2,396	\$222.48	107	101	6	0.98	3.92
Bella at Piazza Serena	La Quinta	Richmond American	\$730,966	2,635	\$277.41	60	10	50	0.23	0.92
Campanile	Cathedral City	Williams	\$589,283	2,276	\$258.91	141	20	121	0.51	2.04
Palo Verde	La Quinta	Williams	\$1,094,000	3,310	\$330.48	37	1	36	0.06	0.24
Point Happy	La Quinta	Williams	\$1,100,400	2,984	\$368.83	29	10	19	0.25	1.00
Minimum			\$415,274	1,728	\$210.93					
Maximum			\$1,894,113	3,310	\$646.90					
Average			\$759,080	2,404	\$306.99					

Source: The Gregory Group

The subject is the only active new home project in Desert Hot Springs. As noted, Improvement Area 1 of CFD No. 2006-01 reflects Villages I and II of the Skyborne community, with Lennar's Vega being the only active portion of the master planned community. Community amenities include a resort-style pool and spa, as well as parks/green spaces.

Resale Pricing

The following table shows historical resale data for more recently built homes (2015 and newer) in the city of Desert Hot Springs.

Resales									
Address	Sale Date	Living Area (SF)	Sale Price	Last List Price	Sales Price/SF	Sale/List	Year Built	Days on Market	Lot Size (SF)
65267 Rolling Hills Dr	9/14/2023	2,125	\$555,000	\$539,950	\$261	102.79%	2021	73	9,148
66211 8th St	9/7/2023	780	\$249,000	\$249,000	\$319	100.00%	2012	79	6,098
65483 Via Del Sol	9/1/2023	1,811	\$449,000	\$449,000	\$248	100.00%	2017	58	9,148
9280 Vista Del Valle	8/30/2023	1,515	\$399,000	\$399,000	\$263	100.00%	2017	43	6,098
64623 Pinehurst Cir	8/28/2023	3,093	\$620,000	\$625,000	\$200	99.20%	2020	136	8,276
66053 2nd St	8/18/2023	1,400	\$375,000	\$375,000	\$268	100.00%	2020	63	6,534
65209 Rolling Hills Dr	8/18/2023	2,155	\$685,000	\$699,990	\$318	97.86%	2020	31	9,148
9690 Puesta Del Sol Pl	8/10/2023	2,155	\$533,000	\$539,000	\$247	98.89%	2021	41	9,148
15780 Via Quedo	7/28/2023	1,635	\$440,000	\$450,000	\$269	97.78%	2018	6	7,405
65478 Via Del Sol	6/19/2023	2,619	\$660,000	\$599,000	\$252	110.18%	2017	19	9,148
66061 2nd St	6/13/2023	1,400	\$375,000	\$375,000	\$268	100.00%	2020	10	6,534
65377 Salida Del Sol Pl	6/13/2023	1,314	\$408,000	\$415,000	\$311	98.31%	2016	39	9,583
13625 Quinta Waay	6/12/2023	1,356	\$393,500	\$399,900	\$290	98.40%	2021	54	9,360
18555 Sagebrush Trl	5/31/2023	1,860	\$700,000	\$739,000	\$376	94.72%	2021	65	9,583
62341 S Starcross Dr	5/4/2023	1,679	\$403,500	\$394,990	\$240	102.15%	2020	2	8,276
67740 Broken Arrow Ln	3/31/2023	1,659	\$689,000	\$689,000	\$415	100.00%	2021	49	10,019
66295 Lantana Ln	3/24/2023	2,022	\$480,000	\$480,000	\$237	100.00%	2021	14	7,405
Total Sales	17	1,799 (avg.)	\$494,941 (avg.)	\$495,166 (avg.)	\$281 (avg.)	100.02% (avg.)	2019 (avg.)	46 (avg.)	8,289 (avg.)

Source: Local Multiple Listing Service (MLS)

Home prices have averaged \$281 per square foot with an average days on market of 46.

Ability to Pay

The developer of the only active project at the subject property (Lennar Homes) is constructing four floor plans ranging in size from 1,547 to 2,091 square feet. In this section, we will examine the ability to pay among prospective buyers for a representative price point of \$400,000 based on the indicators from the competing projects. First, we will estimate the required annual household income based on typical mortgage parameters in the subject's market area. Specifically, we will employ a loan-to-value ratio of 80% (down payment of 20%), mortgage interest rate of 7.0%, 360 monthly payments, and a 40% ratio for the housing costs as a percent of monthly income (inclusive of principal, interest, all taxes and insurance). Property tax payments are accounted for in the analysis as well as homeowner's insurance. The following table shows the estimate of the annual household income that would be required to afford homes priced at the representative price point.

Income Required		
Home Price	\$400,000	
Loan % of Price (Loan to Value)	80%	
Loan Amount	\$320,000	
Interest Rate	7.00%	
Mortgage Payment	\$2,129	
Property Taxes	\$531	Based on 1.291370% and direct charges of \$1,209
CFD No. 2006-1	\$104	
Property Insurance	\$83	
Total Monthly Obligation	\$2,847	
Mortgage Payment % of Income	40%	
Monthly Income	\$7,118	
Annual Income	\$85,420	

Generally, interest rates have an inverse relationship on the affordability of a home. In short, all else being equal, higher interest rates lower the price point for buyers based on income. Over the past several years, interest rates have remained historically low, often at or below 3.0%. Current mortgage interest rates more closely resemble historic rates and for the most part the home buyer pool appears to recognize that the 3% mortgage rate environment was the anomaly and rates around the 7% level are most likely into the foreseeable future.

Conversations with sales agents in multiple new home projects noted there was a slowing in demand for new residential homes in the second half of 2022 and early 2023. The combination of historically high new home prices and rising interest rates priced some buyers out of entry-level (lower-priced) homes. While some projects were affected more than others, coastal locations and limited supply submarkets fared better than emerging submarkets with a concentration of competing projects, predominately due to inventory levels. Continued high inflation forced prospective homeowners to account for other costs (like groceries, gas, etc.) over buying a new home at a higher interest rate. Homebuilders reported turmoil from pending buyers dropping out of contract because of rising interest rates. Most homebuilders noted pace of sales slowed from the historic highs. Further, homebuilders began offering concessions in the form of buying down interest rates and discounted options, instead of decreasing their base prices. In some markets, there was enough downward pressure on the market for homebuilders to offer concessions as well as drop their base prices.

Prior to mid-2022, homebuilders were able to sell homes faster than they were able to construct them, but with the rising interest rates this has since moderated pace of sales to a level more in line with builders' ability to deliver. The recent increases in interest rates impacted the pace of sales as well as pricing in most markets. However, there are signs the residential market is beginning to stabilize. Markets in Spring 2023 have generally been stronger than expected. Homebuyers that previously were waiting on the sidelines either in anticipation of decreasing home prices, or due to interest rate volatility, are beginning to adjust their budgets to the new higher interest rates as home pricing stabilizes. In addition, low inventory and a tight resale market make new construction more attractive. According to market participants in the spring, absorption rates have remained steady or increased slightly with some homebuilders having small increases in base prices from the First Quarter 2023.

We have obtained income data from Claritas Spotlight by Environics Analytics, for a 10-mile radius surrounding the subject property, which is considered representative of typical buyers for the subject property. In the following table we show the income brackets within the noted area, along with estimates of the percentage of households able to afford homes priced at the representative price point within each income bracket.

Household Ability					
Household Income	Households	Percent of Households	Percent Able to Pay	Households	Households Able to Pay
< \$15,000	13,236	11.4%	0.0%	0	0.0%
\$15,000 - \$24,999	11,672	10.0%	0.0%	0	0.0%
\$25,000 - \$34,999	10,837	9.3%	0.0%	0	0.0%
\$35,000 - \$49,999	14,036	12.1%	0.0%	0	0.0%
\$50,000 - \$74,999	17,945	15.4%	0.0%	0	0.0%
\$75,000 - \$99,999	12,503	10.8%	73.0%	9,127	7.9%
\$100,000 - \$124,999	9,994	8.6%	100.0%	9,994	8.6%
\$125,000 - \$149,999	7,600	6.5%	100.0%	7,600	6.5%
\$150,000 - \$199,999	7,428	6.4%	100.0%	7,428	6.4%
\$200,000 - \$249,999	4,034	3.5%	100.0%	4,034	3.5%
\$250,000 - \$499,999	4,369	3.8%	100.0%	4,369	3.8%
\$500,000+	<u>2,547</u>	<u>2.2%</u>	100.0%	<u>2,547</u>	<u>2.2%</u>
	116,201	100.0%		45,099	38.8%

Conclusions

Demand for homes in the subject's market area is considered to be moderate to strong at the current time as indicated by the overall trend of building permit activity, new home sales prices and activity in recent quarters as well as the absorption rate within new home projects in the subject's area.

Property Analysis

Land Description and Analysis

Location

The property is located on the north side of Pierson Boulevard, west of Karen Avenue.

Land Area

The following table summarizes the subject's land area.

Land Area Summary		
Tax ID	SF	Acres
667-240-001 to 038; 667-250-001 to 038; 667-260-001 to 078; 667-270-001 to 079; 667-280-001 to 095; 667-290-001 to 076	2,627,104	60.31
Total	2,627,104	60.31

Shape and Dimensions

The site is irregular in shape; however, the proposed and completed individual single-family lots are generally rectangular in shape. Site utility based on shape and dimensions is average.

Topography

The site is generally level and at street grade. The topography does not result in any particular development limitations.

Off-site Improvements

Off-site improvements currently consist of concrete curb, gutters, and sidewalks.

On-site Improvements

Site development work is nearly complete at the subject, and vertical construction is well-underway. As of the effective appraisal date, Builder-owned lots consist of eight completed homes, twenty-one homes under construction, and fourteen improved lots. Remaining site development costs are estimated at \$23,057 per lot (divided over the 35-Builder-owned lots without completed homes), based on the budget provided.

Drainage

No particular drainage problems were observed or disclosed at the time of field inspection. This appraisal assumes that surface water collection, both on-site and in public streets adjacent to the subject, is adequate.

Flood Hazard Status

The following table provides flood hazard information.

Flood Hazard Status	
Community Panel Number	06065C0880G
Date	August 28, 2008
Zone	X
Description	Outside the 500-year flood plain
Insurance Required?	No

Seismic Hazards

All properties in California are subject to some degree of seismic risk. The Alquist-Priolo Earthquake Fault Zoning Act was enacted by the State of California in 1972 to regulate development near active earthquake faults. The Act required the State Geologist to delineate "Earthquake Fault Zones" (formerly known as "Special Studies Zones") along known active faults in California. Cities and counties affected by the identified zones must limit certain development projects within the zones unless geologic investigations demonstrate that the sites are not threatened by surface displacement from future faulting. According to information from the California Geological Survey (formerly known as the Division of Mines and Geology), the subject is not located within an Alquist-Priolo Special Studies Zone.

Fire Hazard Risk

The City of Desert Hot Springs is subject to both wildland and urban fires. The natural vegetation in the area is highly prone to fire and urbanized portions of the city are subject to structural fires. The vegetation and geographical landscape consist of rolling hills covered in annual grasses and chaparral. Desert Hot Springs is not immune to numerous types of grass and brush fires and any one of them may accelerate into a large urban interface wildfire. Such a situation could lead to evacuation of large portions of the population and the potential for significant loss of personal property, structures, and rangeland. However, it is ultimately each homeowner's responsibility to establish and maintain the physical characteristics of a fire-safe interface property and the City Desert Hot Springs also has a responsibility to ensure that future planning and zoning decisions for development adjacent to open space areas include sufficient provisions for the clearance required to protect new and future structures. The subject property is not located within a very high fire hazard severity zone.

Environmental Hazards

An environmental assessment report was not provided for review, and during our inspection, we did not observe any obvious signs of contamination on or near the subject. However, environmental issues are beyond our scope of expertise. It is assumed that the property is not adversely affected by environmental hazards.

Ground Stability

A soils report was not provided for our review. Based on our inspection of the subject and observation of development on nearby sites, there are no apparent ground stability problems. However, we are not experts in soils analysis. We assume that the subject's soil bearing capacity is sufficient to support the existing improvements.

Utilities

The availability of utilities to the subject is summarized in the following table.

Utilities	
Service	Provider
Water	Mission Springs Water District
Sewer	Mission Springs Water District
Electricity	Southern California Edison
Natural Gas	SoCal Gas
Local Phone	Various Providers

Zoning

The subject is zoned R-L, Residential Low Density, by City of Desert Hot Springs. The following table summarizes our understanding and interpretation of the zoning requirements that affect the subject.

Zoning Summary	
Zoning Jurisdiction	City of Desert Hot Springs
Zoning Designation	R-L
Description	Residential Low Density
Legally Conforming?	Appears to be legally conforming
Zoning Change Likely?	No
Permitted Uses	Residential uses
Category	Zoning Requirement
Minimum Lot Area	5,500 SF
Minimum Lot Width (Feet)	50 ft
Minimum Lot Depth (Feet)	105 ft
Minimum Setbacks (Feet)	Front - 20ft / Side - 5 ft
Maximum Building Height	28 ft
Parking Requirement	2 spaces per unit
Source: Desert Hot Springs Zoning Code	

According to the local planning department, there are no pending or prospective zoning changes. It appears that the current use of the site is a legally conforming use.

We are not experts in the interpretation of zoning ordinances. An appropriately qualified land use attorney should be engaged if a determination of compliance is required.

Other Land Use Regulations

We are not aware of any other land use regulations that would affect the property.

Easements, Encroachments and Restrictions

We were not provided a current title report to review. We are not aware of any easements, encroachments, or restrictions that would adversely affect value. Our valuation assumes no adverse impacts from easements, encroachments, or restrictions, and further assumes that the subject has clear and marketable title.

Permits and Fees

Based on information provided by the Builder, permits and impact fees for Vega (the only active project within Improvement Area 1 of CFD 2006-1) average \$25,422 per lot, while building permits average \$4,265 per lot. As of the effective appraisal date, approximately \$16,532 per lot in impact fees remain for the 35 Builder-owned lots without completed homes.

Bond proceeds will be used to reimburse for eligible impact fees already incurred, as well as for costs already incurred for the nearby fire station adjacent to the project.

It is important to note which fees the local market includes in the definition of an improved lot. The local market recognizes water fees, school fees, and impact fees as part of an improved lot value. Building permits are excluded from the improved lot value.

In the upcoming extraction analysis, only building permits will be deducted from the home revenue, as the remaining impact fees are included in the definition of an improved lot.

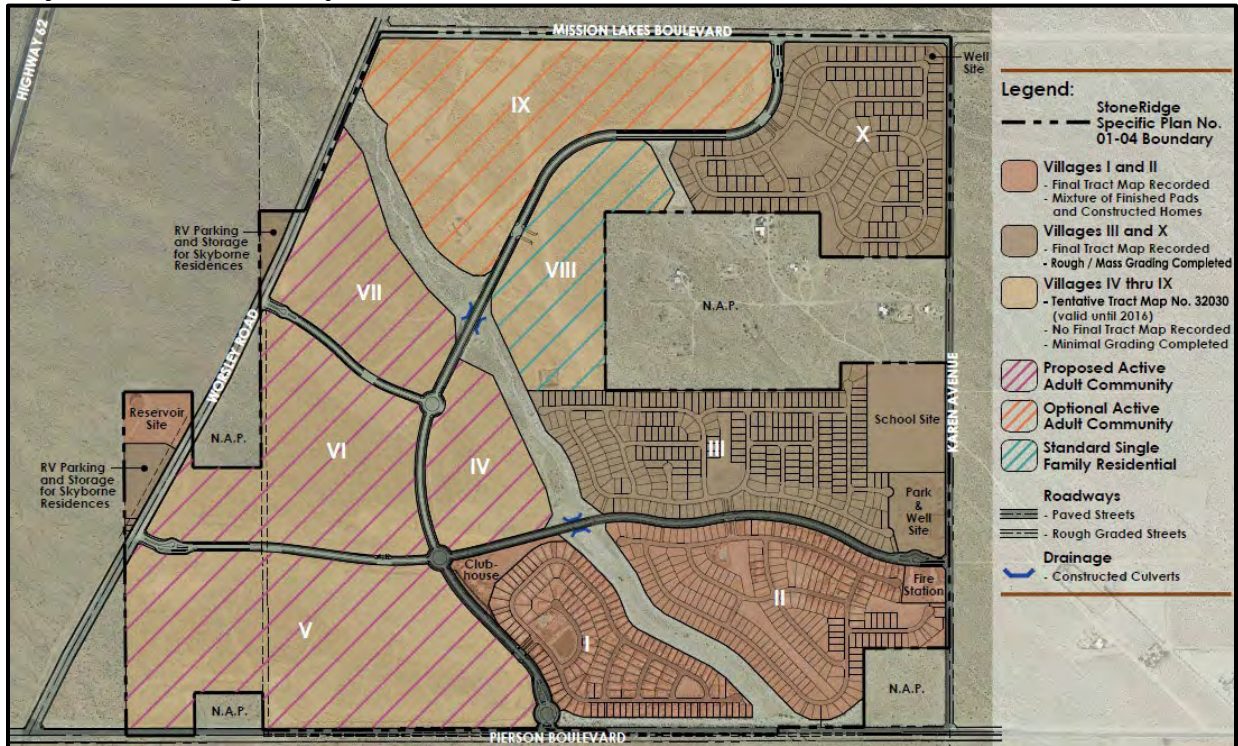
Site Development Costs

Site development at the subject is nearly complete. Per the cost budget provided, remaining site development costs are estimated at \$645,604, or approximately \$18,446 per lot when divided over the remaining 35 Builder-owned lots that do not yet have completed homes on them.

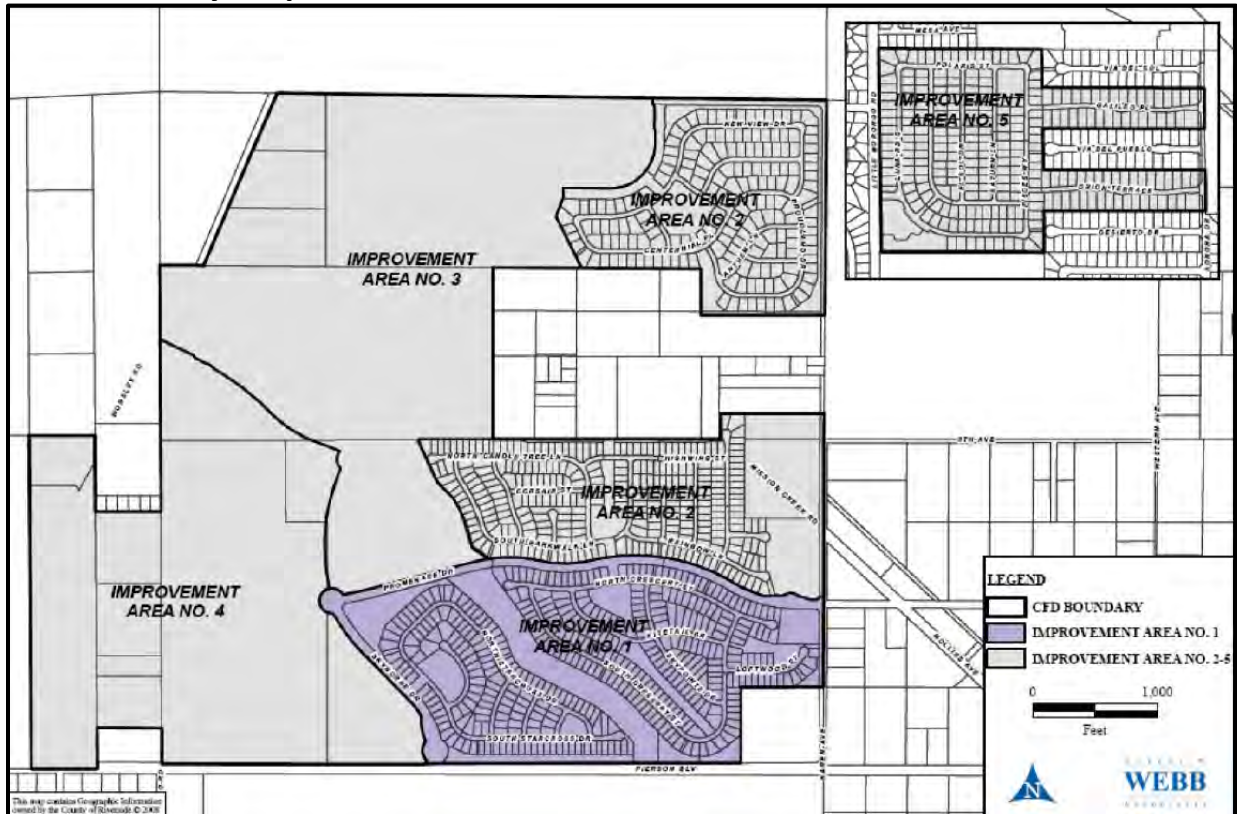
Conclusion of Site Analysis

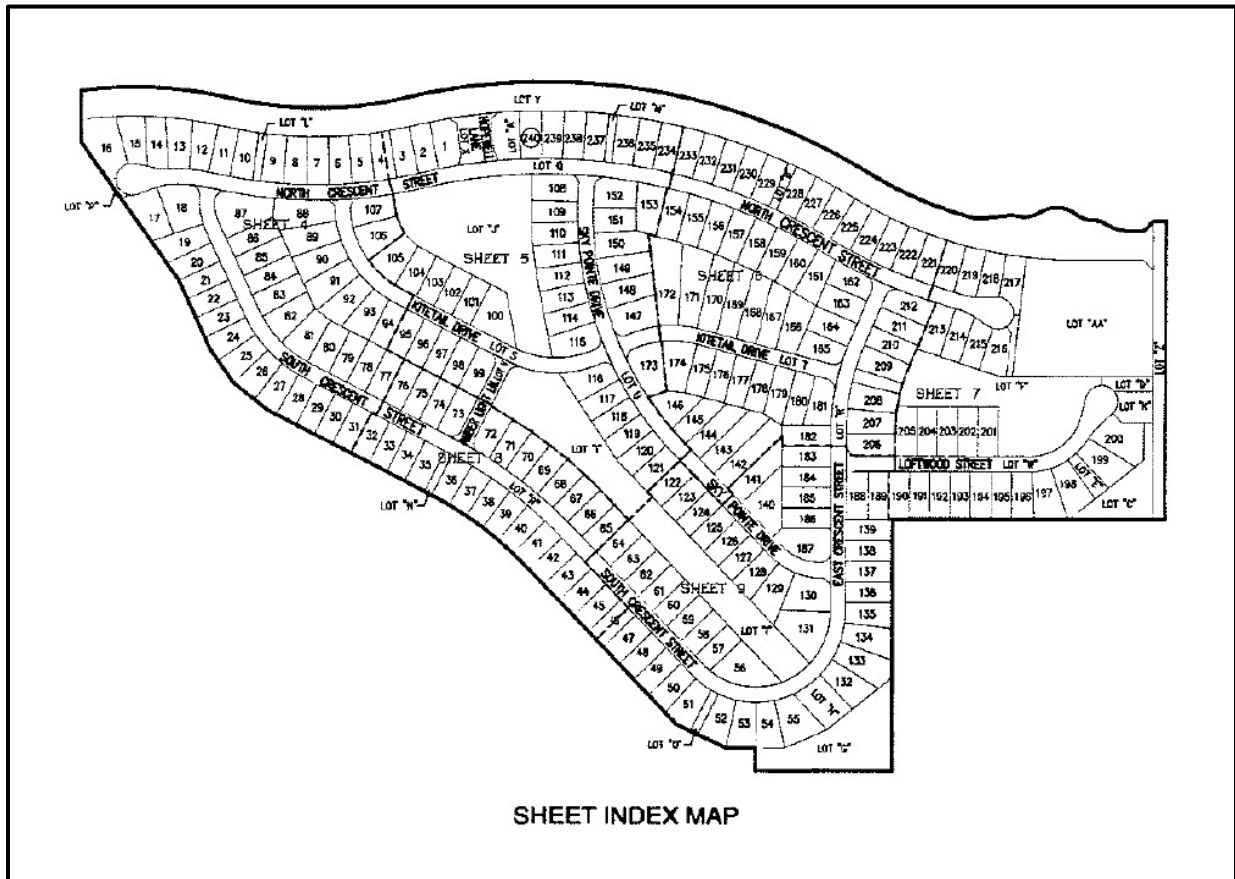
Overall, the physical characteristics of the site and the availability of utilities result in functional utility suitable for a variety of uses including those permitted by zoning. Uses permitted by zoning include residential uses. We are not aware of any other particular restrictions on development.

Skyborne Village Map

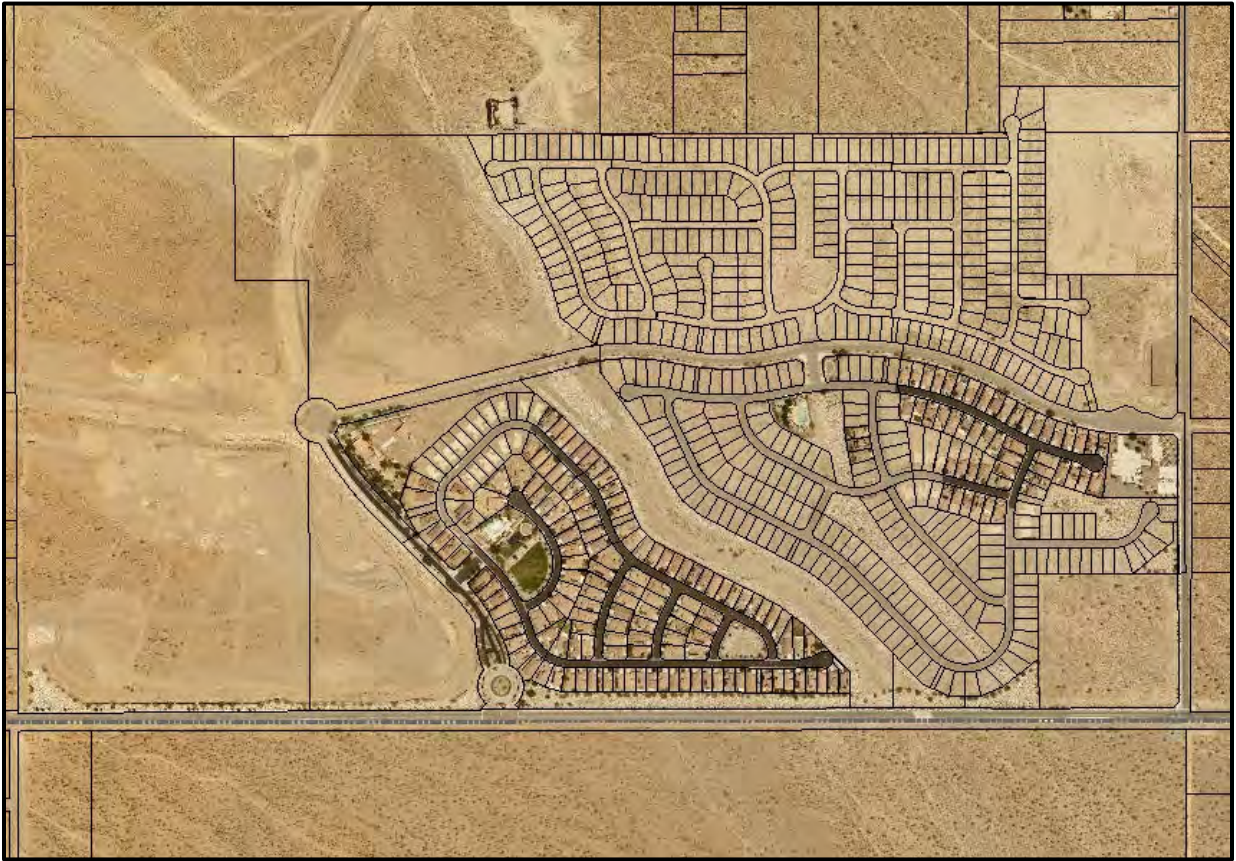


The subject includes Villages I and II, which are located within Improvement Area 1 of CFD No. 2006-1.

CFD Boundary Map

Final Map – Village 2

Assessor Aerial



Aerial with Improvement Area Boundary



Proposed Improvements Description

Overview

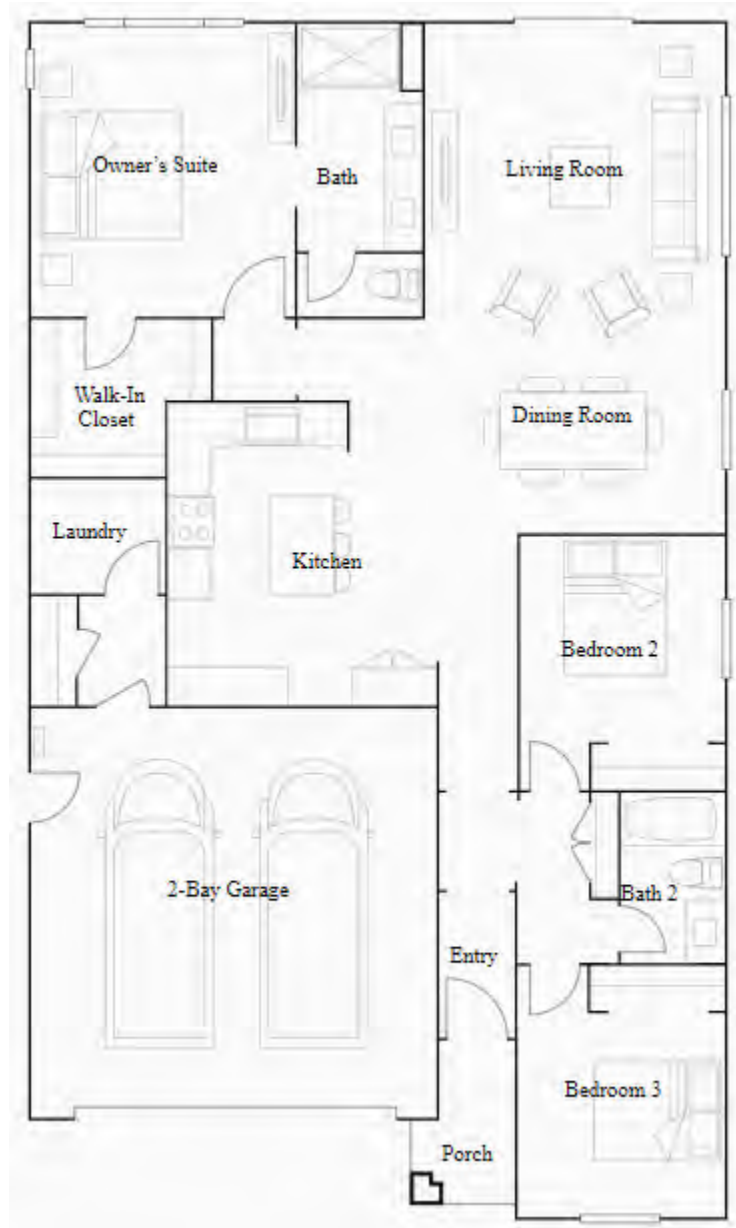
The subject properties are being developed with four floor plans, the details of which are presented in the following table.

Floor Plan Summary							
Floor Plan	Living Area (SF)	Bedroom	Bathroom	Stories	Garage	Typical Lot Size (SF)	Developer's Base Price
Plan 1	1,547	3	2.0	One	2-Car	6,400	\$404,055
Plan 2	1,792	3	2.0	One	2-Car	6,400	\$411,355
Plan 3	1,950	3	2.0	One	2-Car	6,400	\$417,715
Plan 4	2,091	4	2.0	One	2-Car	6,400	\$427,970

A complete interior finish profile was not provided and is assumed to be of a typical quality for the area, which generally average to good overall quality. Community amenities include a swimming pool, dog park, playground, and green spaces.

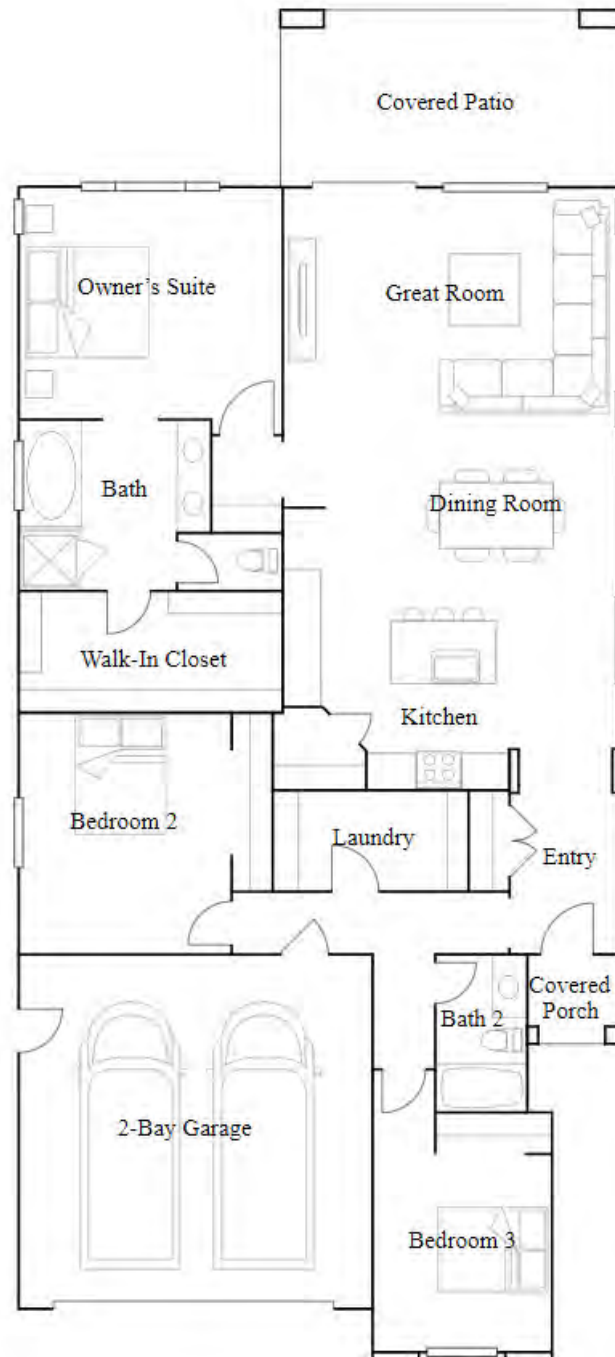
It is noted that the subject property will have a Homeowner's Association (HOA) that will be responsible for common area maintenance and community amenities/landscaping. The Developer estimates that dues will be approximately \$150 per home per month, to be paid by the future homeowners.

For the reader's reference, the subject's floor plans are shown on the following pages.

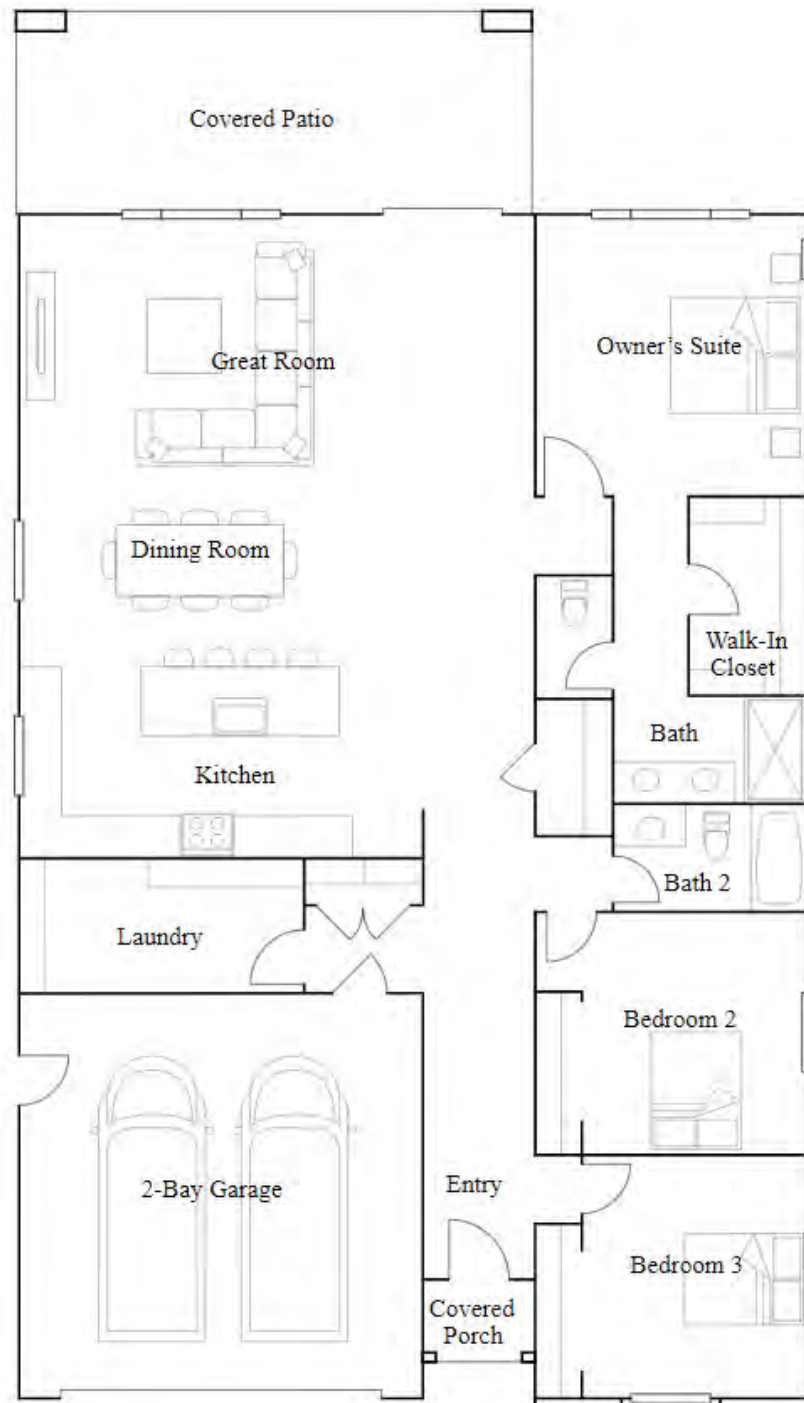
Floor Plan 1



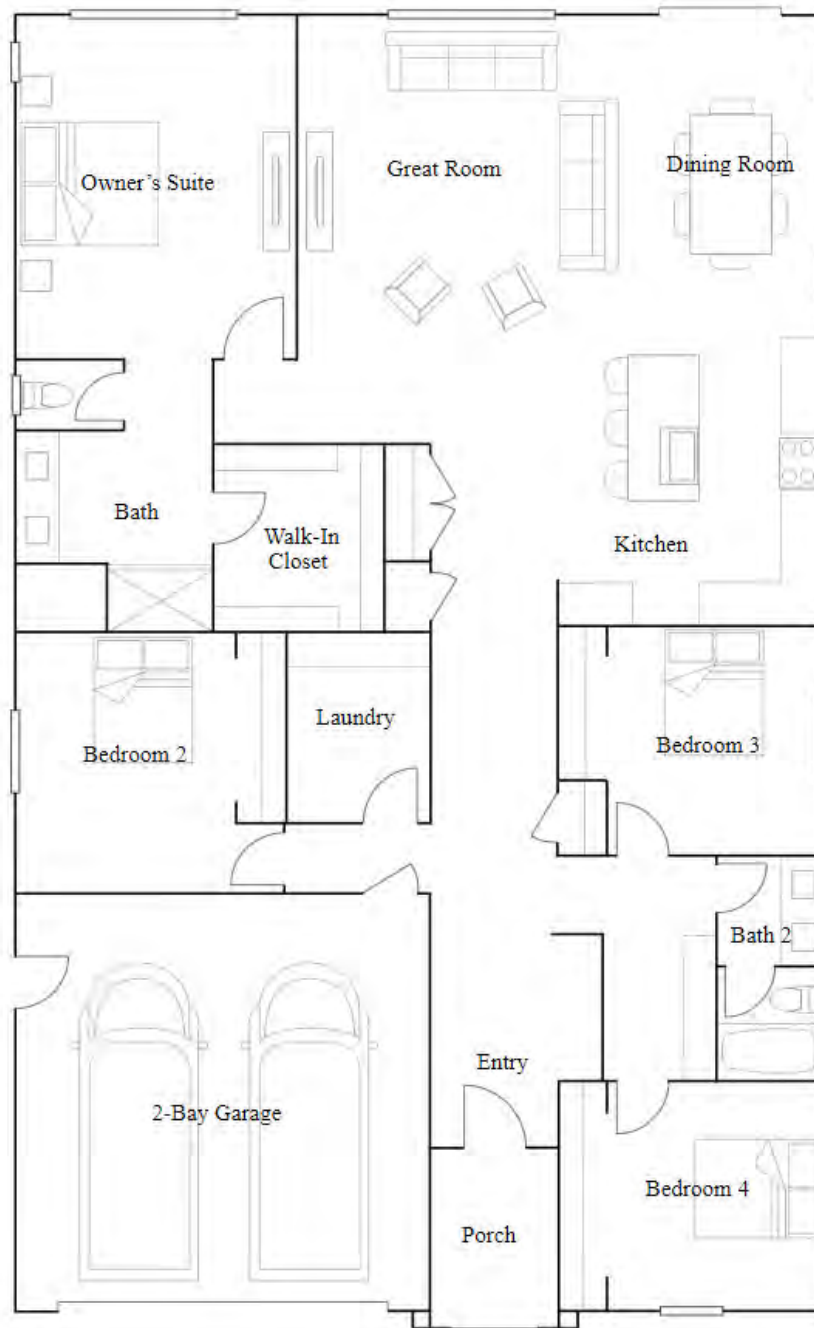
Floor Plan 2





Floor Plan 3



Floor Plan 4









Real Estate Taxes

The property tax system in California was amended in 1978 by Article XIII to the State Constitution, commonly referred to as Proposition 13. It provides for a limitation on property taxes and for a procedure to establish the current taxable value of real property by reference to a base year value, which is then modified annually to reflect inflation (if any). Annual increases cannot exceed 2% per year.

The base year was set at 1975-76 or any year thereafter in which the property is substantially improved or changes ownership. When either of these two conditions occurs, the property is to be re-appraised at market value, which becomes the new base year assessed value. Proposition 13 also limits the maximum tax rate to 1% of the value of the property, exclusive of bonds and direct charges. Bonded indebtedness approved prior to 1978, and any bonds subsequently approved by a two-thirds vote of the district in which the property is located, can be added to the 1% tax rate.

According to the Riverside County Tax Collector's Office, the subject has a tax rate of 1.291370%. Based on comparable projects in the area, direct charges are estimated at \$1,209 per lot. The existing ad valorem taxes are of nominal consequence in this appraisal, primarily due to the fact these taxes will be adjusted as the infrastructure and property improvements are completed and the property is sold off to individual homeowners.

As noted, the subject is encumbered by CFD No. 2006-1. Special taxes for the current tax year are summarized in the following table, based upon the Rate and Method of Apportionment.

TABLE 1
Assigned Special Taxes for Land Use Categories
of Developed Property

Land Use Category	Taxable Unit	Residential Floor Area (Square Feet of Dwelling Unit)	Assigned Special Tax per DU or Acre
1. Residential Property	DU	1,549 sq. ft. or less	\$1,086 per DU
2. Residential Property	DU	1,550-1,799 sq. ft.	\$1,104 per DU
3. Residential Property	DU	1,800-2,049 sq. ft.	\$1,246 per DU
4. Residential Property	DU	2,050-2,299 sq. ft.	\$1,411 per DU
5. Residential Property	DU	2,300-2,549 sq. ft.	\$1,441 per DU
6. Residential Property	DU	2,550 sq. ft. or greater	\$1,562 per DU
7. Non Residential Property	Acre	N/A	\$9,103 per Acre

Highest and Best Use

Process

Before a property can be valued, an opinion of highest and best use must be developed for the subject site, both as if vacant, and as improved or proposed. By definition, the highest and best use must be:

- Legally permissible under the zoning regulations and other restrictions that apply to the site.
- Physically possible.
- Financially feasible.
- Maximally productive, i.e., capable of producing the highest value from among the permissible, possible, and financially feasible uses.

Highest and Best Use As If Vacant

Legally Permissible

The site is zoned R-L, Residential Low Density. Permitted uses include single family residential uses. To our knowledge, there are no legal restrictions such as easements or deed restrictions that would effectively limit the use of the property. The subject property has an approved final map for 394 single-family homes on individual lots and associated improvements (154 lots in Village I and 240 in Village II). The subject's present entitlements are the result of significant planning and review, and any rezone or land use different than currently approved is unlikely. Given prevailing land use patterns in the area, only single family residential development is given further consideration in determining highest and best use of the site, as though vacant.

Physically Possible

The physical characteristics of a site that affect its possible use(s) include, but are not limited to, location, street frontage, visibility, access, size, shape, topography, availability of utilities, off-site improvements, easements and soil and subsoil conditions. The physical characteristics are examined to see if they are suited for the legally permissible use.

Locational considerations include the compatibility and position of the subject property with respect to surrounding uses. Based on our physical inspection of the subject property, we know of no reason why the property would not support development. The size, shape and topography of the subject property appear adequate for development, similar to other projects currently developing in the immediate area. The subject is not located within a floodplain. In addition, the property is not located within a Fault-Rupture Hazard Zone. All utility services are available to the parcels, and evidence of development in the immediate area provides additional support for the possibility of development.

Based on the physical characteristics of the subject property, residential development is considered physically possible and most appropriate.

Financially Feasible

Financial feasibility depends on supply and demand influences. With respect to financial feasibility of single-family residential development, consideration to the current state of the residential housing

market and its impact on the residential land market is necessary. As previously discussed in the Residential Market Analysis section, the significant rise in mortgage interest rates had an inverse relationship on the affordability of a home. Prior to the second half of 2022, interest rates remained historically low, often at or below 3.0%. Conversations with sales agents in multiple new home projects noted there was a slowing in demand for new residential homes in the second half of 2022, with some buyers priced out of entry-level (lower-priced) homes. Current mortgage interest rates more closely resemble historic rates and for the most part the home buyer pool appears to recognize that the 3% mortgage rate environment was the anomaly and rates around the 7% level are most likely into the foreseeable future.

Prior to mid-2022, homebuilders were able to sell homes faster than they were able to construct the homes, but with moderating demand due to rising interest rates and inflation factors, construction delivery is no longer a project challenge. The downward shifts in home prices in the second half of 2022 had a significant impact on underlying land/lot values, and land brokers indicated an abrupt drop in builder demand for developable lots and challenges in selling lots presently available during that time period. Recent market conditions for new homes, constraints on new home inventory, appears to have reversed this trend and early indications are builders are once again looking to increase buildable lot inventories. Lot pricing remains lower than recent peaks achieved, but the return of builder interest in bulk lot acquisitions appears to be signaling a return to steady-to-increasing demand for new homes across many submarkets, if not all.

Current market conditions once again appear to support development of partially improved and unimproved residential lots. With new, lower lot prices, land development to residential lots is again financially feasible (if the vacant land is acquired at prices commensurate with current new home pricing). This return to feasibility is driven by new home buyers beginning to adjust their budgets to the new interest rates and making purchases. Due to depleting lot inventories for many builders, additional land and lot acquisitions may be the maximally productive use of vacant land (discussed below).

Maximally Productive

Legal, physical and market conditions have been analyzed to evaluate the highest and best use of the subject property as vacant. The analysis is presented to evaluate the type of use(s) that will generate the greatest level of future benefits possible to the property. Based on the factors previously discussed, the maximally productive use of the subject (as vacant) is for near term single-family residential development. Specifically, construction of production single-family residential homes (as opposed to custom homes).

Conclusion

Development of the site for single-family residential use is the only use that meets the four tests of highest and best use. Therefore, it is concluded to be the highest and best use of the property as if vacant.

As Improved (Proposed)

As with the highest and best use as though vacant, the four tests of highest and best use must also be applied to the subject property considering the proposed improvements. Consideration must be given

to the continued as-is use of the subject, as well as alternative uses for the property. The potential alternative uses consist of demolition, expansion, conversion, or renovation.

As of the date of inspection the subject consists of subdivision land with site development and vertical construction of homes nearly complete; vertical construction is either underway or complete on all but 14 lots within Improvement Area 1. Currently, it is considered reasonable to complete construction of homes as dictated by demand. The proposed and completed improvements provide contributory value and are necessary to complete the subdivision project. Conversion is not currently possible given the planned land uses. Renovation is not warranted, as the improvements are new. The highest and best use of the subject property, as improved, is for continuation of construction of homes, as dictated by demand.

Most Probable Buyer

Taking into account the functional utility of the site and area development trends, the probable buyer of the Builder-owned lots is a regional home builder. The probable buyers of the completed homes are individual homebuyers.

Valuation

Valuation Methodology

Appraisers usually consider three approaches to estimating the market value of real property. These are the cost approach, sales comparison approach and the income capitalization approach.

The **cost approach** assumes that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility. This approach is particularly applicable when the improvements being appraised are relatively new and represent the highest and best use of the land or when the property has unique or specialized improvements for which there is little or no sales data from comparable properties.

The **sales comparison approach** assumes that an informed purchaser would pay no more for a property than the cost of acquiring another existing property with the same utility. This approach is especially appropriate when an active market provides sufficient reliable data. The sales comparison approach is less reliable in an inactive market or when estimating the value of properties for which no directly comparable sales data is available. The sales comparison approach is often relied upon for owner-user properties.

The **income capitalization approach** reflects the market's perception of a relationship between a property's potential income and its market value. This approach converts the anticipated net income from ownership of a property into a value indication through capitalization. The primary methods are direct capitalization and discounted cash flow analysis, with one or both methods applied, as appropriate. This approach is widely used in appraising income-producing properties.

Additional analyses often undertaken in the valuation of subdivisions include **extraction**, **land residual analysis**, and the **subdivision development method**.

Reconciliation of the various indications into a conclusion of value is based on an evaluation of the quantity and quality of available data in each approach and the applicability of each approach to the property type.

The methodology employed in this assignment is summarized as follows:

Approaches to Value		
Approach	Applicability to Subject	Use in Assignment
Cost Approach	Not Applicable	Not Utilized
Sales Comparison Approach	Applicable	Utilized
Income Capitalization Approach	Not Applicable	Not Utilized

The market value of the appraised properties is estimated by employing a several methodologies.

First, the sales comparison approach is utilized to estimate the market value of the completed single-family homes within the subject boundaries.

The market value, in bulk, of the remaining Builder-owned lots is estimated by employing the sales comparison approach to value and extraction technique. In the sales comparison approach to value, the underlying land is compared to transactions of similarly zoned single-family residential land throughout the subject's region. Then, to support the reasonableness of the sales comparison approach conclusions, we utilize an extraction analysis, a form of the cost approach. The lot values indicated by each approach are then reconciled into an opinion of market value, subject to the hypothetical condition noted. At the end of the analysis, remaining site development costs and impact fees are deducted from the reconciled improved lot value.

Market Valuation – Floor Plans

As of the effective appraisal date, there are 144 homes within Lennar's Vega community in Village II that have transferred to individual homeowners. Of these, 54 do not have assessed values on the current tax assessor roll. In addition, there are eight completed homes owned by homebuilder Lennar (three of these are pending sales).

The market values of the floor plans for the subject's closed homes are estimated in this section. The objective of the analyses is to estimate the base price per floor plan, net of incentives, upgrades, and lot premiums. Incentives can take the form of direct price reductions or non-price incentives such as upgrades or non-recurring closing costs. The base price pertains to the typical lot size within each product line. The sales comparison approach to value is employed in order to establish the market value for each floor plan.

This approach is based on the economic principle of substitution. According to The Appraisal of Real Estate, 15th Edition (Chicago: Appraisal Institute, 2020), *"The principle of substitution holds that the value of property tends to be set by the cost of acquiring a substitute or alternative property of similar utility and desirability within a reasonable amount of time."* The sales comparison approach is applicable when there are sufficient recent, reliable transactions to indicate value patterns or trends in the market.

The proper application of this approach requires obtaining recent sales data for comparison with the appraised properties. In order to assemble the comparable sales, we searched public records and other data sources for leads, then confirmed the raw data obtained with parties directly related to the transactions.

A summary of the floor plans valued within this section is provided below. A benchmark lot size of 6,400 square feet is utilized.

Floor Plan Summary							
Floor Plan	Living Area (SF)	Bedroom	Bathroom	Stories	Garage	Typical Lot Size (SF)	Developer's Base Price
Plan 1	1,547	3	2.0	One	2-Car	6,400	\$404,055
Plan 2	1,792	3	2.0	One	2-Car	6,400	\$411,355
Plan 3	1,950	3	2.0	One	2-Car	6,400	\$417,715
Plan 4	2,091	4	2.0	One	2-Car	6,400	\$427,970

There are multiple recent transactions and pending sales within Lennar's Vega, which reflect the best comparables for the subject. The following table summarizes the comparables utilized in the upcoming analyses. The following analysis includes a mix of closed sales and pending/in-contract sales that have not yet closed escrow.

Comparable Home Sale Summary

No.	Address	Contract Date	Sale Price	Close of Escrow	Living Area (SF)	Bedroom	Bathroom	Garage	Year Built	Lot Size (SF)
1	Lot 72	5/31/2023	\$386,270	8/11/2023	1,547	3	2.0	2-Car	2023	6,098
2	Lot 63	4/2/2023	\$410,270	6/5/2023	1,547	3	2.0	2-Car	2023	5,663
3	Lot 56	12/4/2022	\$367,275	2/24/2023	1,547	3	2.0	2-Car	2022	10,454
4	Lot 146	11/13/2022	\$400,835	11/30/2022	1,547	3	2.0	2-Car	2022	7,405
5	Lot 28	9/13/2023	\$411,355	Pending	1,792	3	2.0	2-Car	2023	5,663
6	Lot 33	8/27/2023	\$418,281	Pending	1,792	3	2.0	2-Car	2023	5,663
7	Lot 76	6/24/2023	\$380,736	9/6/2023	1,792	3	2.0	2-Car	2023	5,663
8	Lot 31	8/6/2023	\$383,322	8/31/2023	1,792	3	2.0	2-Car	2023	5,663
9	Lot 27	9/3/2023	\$417,715	Pending	1,950	3	2.0	2-Car	2023	6,098
10	Lot 75	8/16/2023	\$427,536	8/31/2023	1,950	3	2.0	2-Car	2023	5,663
11	Lot 68	7/2/2023	\$412,440	8/25/2023	1,950	3	2.0	2-Car	2023	5,663
12	Lot 37	7/16/2023	\$418,760	8/17/2023	1,950	3	2.0	2-Car	2023	5,663
13	Lot 79	9/5/2023	\$427,970	Pending	2,091	4	2.0	2-Car	2023	5,663
14	Lot 30	6/22/2023	\$437,420	9/14/2023	2,091	4	2.0	2-Car	2023	5,663
15	Lot 77	8/3/2023	\$439,270	8/31/2023	2,091	4	2.0	2-Car	2023	5,663
16	Lot 32	7/10/2023	\$439,420	8/30/2023	2,091	4	2.0	2-Car	2023	5,663

Discussion of Adjustments

The sales are compared to the subject and adjusted to account for material differences that affect value. Adjustments are considered for the following factors, in the sequence shown below.

Adjustment Factor	Accounts For	Comments
Total Consideration	The appraised properties are analyzed based on the total consideration of home price and the assumption of bonds, if any. Bond debt has a direct impact on the amount for which the end product will sell.	All of the comparables are encumbered by bonds within Skyborne. Therefore, no adjustments are necessary.
Upgrades and Incentives	The objective of the analysis is to estimate the base value per floor plan, net of incentives. Incentives can take the form of direct price reductions or non-price incentives such as upgrades or non-recurring closing costs.	Incentives and upgrades included in the sales have been considered and adjusted for in this analysis.
Real Property Rights	Fee simple, leased fee, leasehold, partial interest, etc.	All the comparables represent fee simple estate transactions. Therefore, adjustments for property rights are not necessary.
Financing Terms	Seller financing, or assumption of existing financing, at non-market terms.	The comparable sales were cash to the seller transactions and do not require adjustments.
Conditions of Sale	Extraordinary motivation of buyer or seller, assemblage, forced sale.	The comparables did not involve any non-market or atypical conditions of sale. Adjustments for this factor do not apply.

Market Conditions (Date of Sale, Phase Adjustment)	<p>The market conditions vary over time, but the date of this appraisal is for a specific point in time. In a dynamic economy – one that is undergoing changes in the value of the dollar, interest rates and economic growth or decline – extra attention needs to be paid to assess changing market conditions. Significant monthly changes in price levels can occur in several areas of a neighborhood, while prices in other areas remain relatively stable. Although the adjustment for market conditions is often referred to as a time adjustment, time is not the cause of the adjustment.</p>	<p>The comparable sales went into contract between November 2022 through September 2023. Base pricing at the subject has been consistent over this time, and paired sales analysis does not support an adjustment for market conditions.</p>
Location	<p>Location is a very important factor to consider when making comparisons. The comparables need not be in the same neighborhood but should be in neighborhoods that offer the same advantage and have, in general, the same overall desirability to the most probable buyer or user.</p>	<p>All of the comparables are located within Desert Hot Springs and no adjustments are warranted.</p>
Community Appeal	<p>In addition to market location adjustments, we consider community appeal adjustments. Even within a specific market location, often specific community characteristics influence sale prices. Often, prices on one street may be significantly higher or lower than the next, despite similar home characteristics. Community characteristics that may influence sale prices include a gated amenity or the condition of surrounding development.</p>	<p>All of the comparables are located within Vega at Skyborne; no adjustments are required.</p>

Lot Size	The lot size adjustment pertains to the differences between the subject's average lot size and comparables with either larger or smaller lots. It does not include any lot premium adjustments, which are adjusted for separately. The amount of the adjustment used in the comparison of the base lot sizes comes from a survey of premiums paid for larger lots.	Considering the average lot size adjustment factors indicated by the comparable sales utilized in this analysis, a lot size adjustment factor of \$7.00/SF is considered reasonable for the subject's residential lots. This figure is supported by our observations of sales in the subject's market area.
Lot Premiums/ Discounts	Properties sometimes achieve premiums for corner or cul-de-sac positioning, or proximity to open space or views. Adjustments for lot position premiums would be in addition to lot size adjustments previously considered.	Sales with lot premiums beyond lot size, which has already been considered, are adjusted as necessary.
Design and Appeal	Design and appeal of a floor plan is consumer specific. One exterior may appeal to one buyer, while another appeals to a different buyer. These types of features for new homes with similar functional utility are not typically noted in the base sales prices.	All of the comparables are similar to the subject in regard to design and appeal. Thus, no adjustments are warranted for this element of comparison.
Quality of Construction	Construction quality can differ from slightly to substantially between projects and is noted in the exterior and interior materials and design features of a standard unit. In terms of quality of construction, the subject represents good construction quality.	The comparable sales feature similar construction quality and do not require adjustments.
Age/Condition	When comparing resale to resale, the market generally reflects a difference of 1% per year of difference in effective age.	All of the comparables represent new construction and adjustments for this element of comparison do not apply.
Functional Utility	Ability to adequately provide for its intended purpose.	The subject and comparables reflect single family detached homes. No adjustments are necessary.

Room Count	For similar size units the differences between room count is a buyer preference. One buyer might prefer two bedrooms and a den versus a three-bedroom unit. Extra rooms typically result in additional building area and are accounted for in the size adjustment. Therefore, no adjustments are made for number of total rooms or bedrooms.	Because bathrooms are a functional item for each floor plan and add substantial cost due to the number of plumbing fixtures, adjustments are necessary for the differences in the number of fixtures between the subject and the comparable sales. However, the comparables and subject floor plans include the same number of bathrooms, so no adjustments have been made.
Unit Size/Living Area	Units similar (in the same development), except for size, were compared to derive the applicable adjustment for unit size. Those used for comparison purposes are units within similar projects. Units within the same project were used since they have a high degree of similarity in quality, workmanship, design and appeal. Other items such as a single level or two-story designs, number of bathrooms and number of garage spaces were generally similar in these comparisons, in order to avoid other influences in price per square foot. Where differences exist, they are minor and do not impact the overall range or average concluded.	Based on a paired sale analysis, a factor of \$90 per square foot is concluded to be reasonable for the differences in living area.
Number of Stories	For similar size units, the differences between the number of stories is a buyer preference. One buyer might prefer a single-story versus a two-story unit.	In current market conditions, single story floor plans typically demand a slight premium. However, all of the comparables reflect single story plans and no adjustments are necessary.
Parking/Garage	Number of garage spaces	The subject's floor plans and all of the comparables offer two-car garages.
Landscaping	Included landscaping	The subject and all of the comparables include similar landscaping; as such, no adjustments are warranted.

Adjustment Grids

The following grids reflect the aforementioned adjustments.

Plan 1											
Project Information		Subject Property		Comparable 1		Comparable 2		Comparable 3		Comparable 4	
Project Name		Skyborne		Vega		Vega		Vega		Vega	
Plan		Plan 1		Plan 1		Plan 1		Plan 1		Plan 1	
Address/Lot Number		Lot 72		Lot 63		Lot 56		Lot 146			
City/Area		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs	
Price		N/Ap		\$386,270		\$410,270		\$367,275		\$400,835	
Price Per SF		N/Ap		\$249.69		\$265.20		\$237.41		\$259.10	
Special Taxes (7-year hold at 7.0%)		\$5,853		\$5,853		\$5,853		\$5,853		\$5,853	
Adjustment				\$0		\$0		\$0		\$0	
Adjusted Price (Including Bonds)				\$386,270		\$410,270		\$367,275		\$400,835	
Total Consideration per SF				\$249.69		\$265.20		\$237.41		\$259.10	
Data Source				Project sales agent		Project sales agent		Project sales agent		Project sales agent	
Incentives		N/Ap		Yes		(\$24,963) Yes		(\$18,580) Yes		(\$29,500) Yes	
Upgrades		Base		No		\$0 Yes		(\$8,000) Yes		(\$2,000) No	
Effective Base Sales Price				\$361,307		\$383,690		\$335,775		\$338,862	
Adjustments:		Factor		Description		+ / (-)		Description		+ / (-)	
Property Rights				Fee Simple		Similar		Similar		Similar	
Financing Terms				Cash Equivalent		Similar		Similar		Similar	
Conditions of Sale				Market		Market		Market		Market	
Market Conditions											
Contract Date				9/15/2023		5/31/2023		4/2/2023		12/4/2022	
Project Location				Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs	
Community Appeal				Average		Similar		Similar		Similar	
Lot Size		\$7.00		6,400		6,098		\$2,114		5,663	
Lot Premium				N/Ap		Similar		Similar		Similar	
Design and Appeal				Average		Similar		Similar		Similar	
Quality of Construction				Good		Similar		Similar		Similar	
Age (Total/Effective)				New		Similar		Similar		Similar	
Condition				Good/New		Similar		Similar		Similar	
Functional Utility				Average		Similar		Similar		Similar	
Room Count											
Bedrooms				3		3		3		3	
Baths		\$25,000		2.0		2.0		\$0		2.0	
Living Area (SF)		\$85.00		1,547		1,547		\$0		1,547	
Number of Stories				One		One		One		One	
Heating/Cooling				Central/Forced		Similar		Similar		Similar	
Garage		\$15,000		2-Car		2-Car		2-Car		2-Car	
Landscaping				Front		Similar		Similar		Similar	
Pool/Spa				None		Similar		Similar		Similar	
Patios/Decks				Patio		Similar		Similar		Similar	
Fencing				Rear		Similar		Similar		Similar	
Fireplace(s)		\$8,000		None		None		None		None	
Kitchen Equipment				Average		Similar		Similar		Similar	
Other				None		Similar		Similar		Similar	
Gross Adjustments						\$2,114		\$5,159		\$28,378	
Net Adjustments						\$2,114		\$5,159		(\$28,378)	
Adjusted Retail Value						\$363,421		\$388,849		\$307,397	
Concluded Retail Value				\$370,000							
Indicated Value Per SF				\$239.17							

Plan 2									
Project Information	Subject Property	Comparable 5		Comparable 6		Comparable 7		Comparable 8	
Project Name	Skyborne	Vega		Vega		Vega		Vega	
Plan	Plan 2	Plan 2		Plan 2		Plan 2		Plan 2	
Address/Lot Number		Lot 28		Lot 33		Lot 76		Lot 31	
City/Area	Desert Hot Springs	Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs	
Price	N/Ap	\$411,355		\$418,281		\$380,736		\$383,322	
Price Per SF	N/Ap	\$229.55		\$233.42		\$212.46		\$213.91	
Special Taxes (7-year hold at 7.0%)	\$5,950	\$5,950		\$5,950		\$5,950		\$5,950	
Adjustment		\$0		\$0		\$0		\$0	
Adjusted Price (Including Bonds)		\$411,355		\$418,281		\$380,736		\$383,322	
Total Consideration per SF		\$229.55		\$233.42		\$212.46		\$213.91	
Data Source		Project sales agent		Project sales agent		Project sales agent		Project sales agent	
Incentives	N/Ap	Yes	(\$26,738)	Yes	(\$51,803)	Yes	(\$23,364)	Yes	(\$33,758)
Upgrades	Base	Yes	(\$3,000)	Yes	(\$8,201)	Yes	(\$3,000)	Yes	(\$7,000)
Effective Base Sales Price		\$381,617		\$358,277		\$354,372		\$342,564	
Adjustments:	Factor	Description	+ / (-)	Description	+ / (-)	Description	+ / (-)	Description	+ / (-)
Property Rights		Fee Simple	Similar	Similar		Similar		Similar	
Financing Terms		Cash Equivalent	Similar	Similar		Similar		Similar	
Conditions of Sale		Market	Market	Market		Market		Market	
Market Conditions									
Contract Date	9/15/2023	9/13/2023		8/27/2023		6/24/2023		8/6/2023	
Project Location	Desert Hot Springs	Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs	
Community Appeal	Average	Similar		Similar		Similar		Similar	
Lot Size	\$7.00	6,400	\$5,159	5,663	\$5,159	5,663	\$5,159	5,663	\$5,159
Lot Premium	N/Ap	Similar		Similar		Similar		Similar	
Design and Appeal	Average	Similar		Similar		Similar		Similar	
Quality of Construction	Good	Similar		Similar		Similar		Similar	
Age (Total/Effective)	New	Similar		Similar		Similar		Similar	
Condition	Good/New	Similar		Similar		Similar		Similar	
Functional Utility	Average	Similar		Similar		Similar		Similar	
Room Count									
Bedrooms	3	3		3		3		3	
Baths	\$25,000	2.0	\$0	2.0	\$0	2.0	\$0	2.0	\$0
Living Area (SF)	\$85.00	1,792	\$0	1,792	\$0	1,792	\$0	1,792	\$0
Number of Stories	One	One		One		One		One	
Heating/Cooling	Central/Forced	Similar		Similar		Similar		Similar	
Garage	\$15,000	2-Car		2-Car		2-Car		2-Car	
Landscaping	Front	Similar		Similar		Similar		Similar	
Pool/Spa	None	Similar		Similar		Similar		Similar	
Patios/Decks	Patio	Similar		Similar		Similar		Similar	
Fencing	Rear	Similar		Similar		Similar		Similar	
Fireplace(s)	\$8,000	None		None		None		None	
Kitchen Equipment	Average	Similar		Similar		Similar		Similar	
Other	None	Similar		Similar		Similar		Similar	
Gross Adjustments			\$5,159		\$5,159		\$5,159		\$5,159
Net Adjustments			\$5,159		\$5,159		\$5,159		\$5,159
Adjusted Retail Value			\$386,776		\$363,436		\$359,531		\$347,723
Concluded Retail Value	\$385,000								
Indicated Value Per SF	\$214.84								

Plan 3									
Project Information		Subject Property		Comparable 9		Comparable 10		Comparable 11	
Project Name		Skyborne		Vega		Vega		Vega	
Plan		Plan 3		Plan 3		Plan 3		Plan 3	
Address/Lot Number		Lot 27		Lot 27		Lot 75		Lot 68	
City/Area		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs	
Price		\$417,715		\$417,715		\$427,536		\$412,440	
Price Per SF		\$214.21		\$214.21		\$219.25		\$211.51	
Special Taxes (7-year hold at 7.0%)		\$6,715		\$6,715		\$6,715		\$6,715	
Adjustment		\$0		\$0		\$0		\$0	
Adjusted Price (Including Bonds)		\$417,715		\$417,715		\$427,536		\$412,440	
Total Consideration per SF		\$214.21		\$214.21		\$219.25		\$211.51	
Data Source		Project sales agent		Project sales agent		Project sales agent		Project sales agent	
Incentives		N/Ap		Yes		Yes		Yes	
Upgrades		Base		No		\$0		No	
Effective Base Sales Price		\$382,210		\$382,210		\$395,263		\$395,520	
Adjusted Base Sales Price		\$418,760		\$418,760		\$418,760		\$418,760	
Adjustments:		Factor	Description	+ / (-)	Description	+ / (-)	Description	+ / (-)	Description
Property Rights			Fee Simple	Similar	Similar		Similar		Similar
Financing Terms			Cash Equivalent	Similar	Similar		Similar		Similar
Conditions of Sale			Market	Market	Market		Market		Market
Market Conditions									
Contract Date			9/15/2023	9/3/2023	8/16/2023		7/2/2023		7/16/2023
Project Location			Desert Hot Springs	Desert Hot Springs	Desert Hot Springs		Desert Hot Springs		Desert Hot Springs
Community Appeal			Average	Similar	Similar		Similar		Similar
Lot Size		\$7.00	6,400	6,098	\$2,114		5,663	\$5,159	5,663
Lot Premium			N/Ap	Similar	Similar		Similar		Similar
Design and Appeal			Average	Similar	Similar		Similar		Similar
Quality of Construction			Good	Similar	Similar		Similar		Similar
Age (Total/Effective)			New	Similar	Similar		Similar		Similar
Condition			Good/New	Similar	Similar		Similar		Similar
Functional Utility			Average	Similar	Similar		Similar		Similar
Room Count									
Bedrooms			3	3	3		3		3
Baths		\$25,000	2.0	2.0	\$0		2.0	\$0	2.0
Living Area (SF)		\$85.00	1,950	1,950	\$0		1,950	\$0	1,950
Number of Stories			One	One	One		One		One
Heating/Cooling			Central/Forced	Similar	Similar		Similar		Similar
Garage		\$15,000	2-Car	2-Car			2-Car		2-Car
Landscaping			Front	Similar	Similar		Similar		Similar
Pool/Spa			None	Similar	Similar		Similar		Similar
Patios/Decks			Patio	Similar	Similar		Similar		Similar
Fencing			Rear	Similar	Similar		Similar		Similar
Fireplace(s)		\$8,000	None	None	None		None		None
Kitchen Equipment			Average	Similar	Similar		Similar		Similar
Other			None	Similar	Similar		Similar		Similar
Gross Adjustments				\$2,114		\$5,159		\$5,159	
Net Adjustments				\$2,114		\$5,159		\$5,159	
Adjusted Retail Value				\$384,324		\$400,422		\$400,679	
Concluded Retail Value				\$400,000					
Indicated Value Per SF				\$205.13					

Plan 4									
Project Information	Subject Property	Comparable 13		Comparable 14		Comparable 15		Comparable 16	
Project Name	Skyborne	Vega		Vega		Vega		Vega	
Plan	Plan 4	Plan 4		Plan 4		Plan 4		Plan 4	
Address/Lot Number		Lot 79		Lot 30		Lot 77		Lot 32	
City/Area	Desert Hot Springs	Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs	
Price	N/Ap	\$427,970		\$437,420		\$439,270		\$439,420	
Price Per SF	N/Ap	\$204.67		\$209.19		\$210.08		\$210.15	
Special Taxes (7-year hold at 7.0%)	\$7,604	\$7,604		\$7,604		\$7,604		\$7,604	
Adjustment		\$0		\$0		\$0		\$0	
Adjusted Price (Including Bonds)		\$427,970		\$437,420		\$439,270		\$439,420	
Total Consideration per SF		\$204.67		\$209.19		\$210.08		\$210.15	
Data Source		Project sales agent		Project sales agent		Project sales agent		Project sales agent	
Incentives	N/Ap	Yes (\$36,412)		Yes (\$6,839)		Yes (\$36,779)		Yes (\$30,310)	
Upgrades	Base	Yes (\$2,000)		No \$0		Yes (\$11,000)		Yes (\$2,000)	
Effective Base Sales Price		\$389,558		\$430,581		\$391,491		\$407,110	
Adjustments:	Factor	Description	+/(-)	Description	+/(-)	Description	+/(-)	Description	+/(-)
Property Rights		Fee Simple	Similar	Similar		Similar		Similar	
Financing Terms		Cash Equivalent	Similar	Similar		Similar		Similar	
Conditions of Sale		Market	Market	Market		Market		Market	
Market Conditions									
Contract Date	9/15/2023	9/5/2023		6/22/2023		8/3/2023		7/10/2023	
Project Location	Desert Hot Springs	Desert Hot Springs		Desert Hot Springs		Desert Hot Springs		Desert Hot Springs	
Community Appeal	Average	Similar		Similar		Similar		Similar	
Lot Size	\$7.00	6,400	\$5,159	5,663	\$5,159	5,663	\$5,159	5,663	\$5,159
Lot Premium	N/Ap	Similar		Similar		Similar		Similar	
Design and Appeal	Average	Similar		Similar		Similar		Similar	
Quality of Construction	Good	Similar		Similar		Similar		Similar	
Age (Total/Effective)	New	Similar		Similar		Similar		Similar	
Condition	Good/New	Similar		Similar		Similar		Similar	
Functional Utility	Average	Similar		Similar		Similar		Similar	
Room Count									
Bedrooms	4	4		4		4		4	
Baths	\$25,000	2.0	\$0	2.0	\$0	2.0	\$0	2.0	\$0
Living Area (SF)	\$85.00	2,091	\$0	2,091	\$0	2,091	\$0	2,091	\$0
Number of Stories	One	One		One		One		One	
Heating/Cooling	Central/Forced	Similar		Similar		Similar		Similar	
Garage	\$15,000	2-Car		2-Car		2-Car		2-Car	
Landscaping	Front	Similar		Similar		Similar		Similar	
Pool/Spa	None	Similar		Similar		Similar		Similar	
Patios/Decks	Patio	Similar		Similar		Similar		Similar	
Fencing	Rear	Similar		Similar		Similar		Similar	
Fireplace(s)	\$8,000	None		None		None		None	
Kitchen Equipment	Average	Similar		Similar		Similar		Similar	
Other	None	Similar		Similar		Similar		Similar	
Gross Adjustments			\$5,159		\$5,159		\$5,159		\$5,159
Net Adjustments			\$5,159		\$5,159		\$5,159		\$5,159
Adjusted Retail Value			\$394,717		\$435,740		\$396,650		\$412,269
Concluded Retail Value	\$410,000								
Indicated Value Per SF	\$196.08								

Conclusion of Home Values

Based on the analysis herein, the market value conclusions for the subject's completed homes are summarized in the following table.

Floor Plan Value Conclusions							
Floor Plan	Living Area (SF)	Bedroom	Bathroom	Stories	Garage	Typical Lot Size (SF)	Concluded Base Retail Value
Plan 1	1,547	3	2.0	One	2-Car	6,400	\$370,000
Plan 2	1,792	3	2.0	One	2-Car	6,400	\$385,000
Plan 3	1,950	3	2.0	One	2-Car	6,400	\$400,000
Plan 4	2,091	4	2.0	One	2-Car	6,400	\$410,000

Our floor plan value conclusions are slightly lower (between 4% and 6%) than the Builder's proposed pricing; however, the Builder is routinely offering incentives for homes and our value conclusions are generally consistent with the Builder's pricing after considering incentives.

The table on the following page provides the aggregate retail proceeds for each of the subject's completed homes (without assessed values), by ownership.

Aggregate Retail Value of Completed Homes			
Developer Owned	No. of Units	Concluded Base Retail Value	Extension
Plan 1	0	\$370,000	\$0
Plan 2	4	\$385,000	\$1,540,000
Plan 3	3	\$400,000	\$1,200,000
Plan 4	1	\$410,000	\$410,000
	8		\$3,150,000
Homeowner Owned	No. of Units	Concluded Base Retail Value	Extension
Plan 1	3	\$370,000	\$1,110,000
Plan 2	8	\$385,000	\$3,080,000
Plan 3	18	\$400,000	\$7,200,000
Plan 4	25	\$410,000	\$10,250,000
	54		\$21,640,000

Sales Comparison Approach - Lot Valuation

In this section of the report, we will utilize the sales comparison approach to estimate the market value of the subject lots. This value estimate assumes the subject property would sell on a bulk, or wholesale, basis. That is, it would transfer in one transaction to a single buyer. This approach develops an indication of value by researching, verifying, and analyzing sales of similar properties. Our sales research focused on transactions within the following parameters:

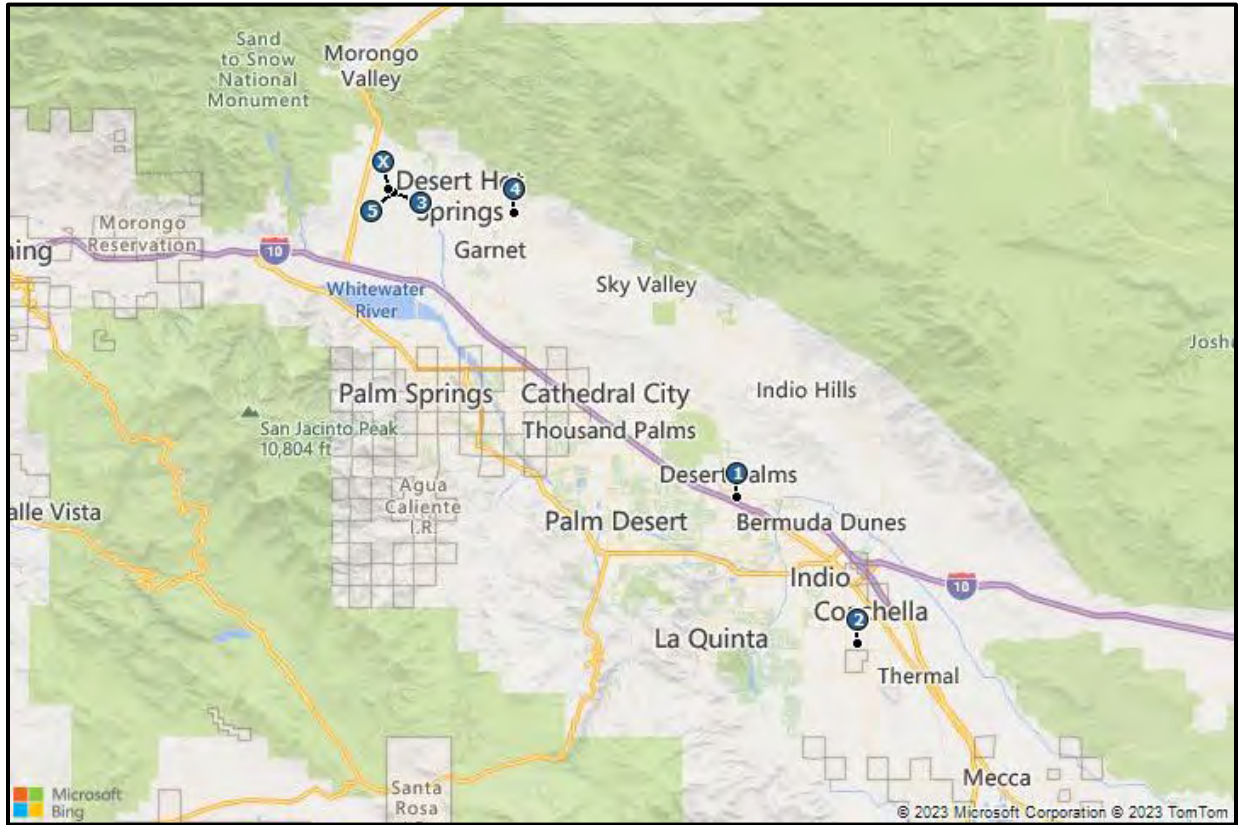
- Location: Desert Hot Springs and surrounding communities
- Typical Lot Size: 3,000 square feet or greater
- Number of Lots: 200 lots or less
- Transaction Date: 2021 or later

The sales are analyzed on an improved lot basis (sometimes known as a finished lot, or loaded lot, depending on the market) which is the equivalent of underlying land, any remaining site development costs, and impact fees. It excludes building fees due at building permit.

The most relevant sales are summarized in table on the following page; Sales 3 and 5 reflect the 2021 sales of Skyborne Village II lots to Lennar. A benchmark lot size of 6,400 square feet will be utilized in this analysis.

Summary of Comparable Land Sales							
No.	Name/Address	Sale Date; Status	Sale Price; PV of Spec. Tax/Lot	Typical Lot Size	Number of Lots	\$/Lot	Remaining Finishing Costs
1	Renata at Domani 39906 Felicita Pky. Palm Desert Grantor: Encore Homes, LLC Grantee: Pulte <i>Comments: Sale of 132 lots to Pulte, who is developing a 55+ age-restricted community known as Renata at Domani. The typical lot size is 4,500 SF and homes range in size from 1,579 to 1,865 SF with prices starting at \$428,990. The lots were final mapped at the time of sale and finishing costs are estimated at \$87,830 per lot.</i>	Jun-22 Closed	\$3,586,500 \$0	4,500	132	\$27,170	\$87,830
2	Bellissima 53-039 Modena Ter. Coachella Grantor: Coachella Investments, LLC Grantee: Pulte <i>Comments: Sale of 111 tentatively mapped lots to Pulte, who is developing a project known as Bellissima. Floor plans range from 1,959 to 2,824 SF with sale prices between \$471,990 and \$541,990. The typical lot size is 6,000 SF. Finishing costs are estimated at \$98,536 per lot.</i>	May-22 Closed	\$2,382,500 \$0	6,000	111	\$21,464	\$98,536
3	Skyborne - Village 2 (Second Take) Crescent St. Desert Hot Springs Grantor: Skyborne Ventures, LLC Grantee: Lennar Homes <i>Comments: Takedown of 108 lots within Village 2 of the Skyborne at Desert Hot Springs subdivision. Remaining site development costs were \$8,539 per lot and permits and fees were \$20,737 per lot. The property was encumbered with a CFD at the time of sale, and net permits and fees after bond proceeds were \$8,868 per lot. Special taxes are approximately \$1,212 per lot and the typical lot size is 6,400 SF. This takedown completes Lennar's purchase of 187 lots for the remainder of Village 2; the project is known as Vega.</i>	Dec-21 Closed	\$8,380,044 \$2,191	6,400	108	\$77,593	\$17,407
4	Palari Villas Sky Ridge Way Desert Hot Springs Grantor: Hacienda Ventures LLC Grantee: Palari Villas DHS LLC <i>Comments: The property encompasses a total of 17.23 acres of developable, residentially zoned land. It is proposed and entitled for the development of a 77-lot subdivision (9,000 square foot lots). A final map was recorded in December 2005. Site development commenced in April 2022 and was anticipated to be completed in March 2023. The project will feature a 1,176 square foot modular homes (2-bedroom/2-bathroom), each with a 667 square foot ADU (2-bedroom/1-bath, accessory dwelling unit). Permits and fees are \$24,500 per lot; site development costs are \$51,616 per lot.</i>	Aug-21 Closed	\$1,800,000 \$0	9,000	77	\$23,377	\$76,116
5	Skyborne - Village 2 (First Take) Crescent St. Desert Hot Springs Grantor: Skyborne Ventures, LLC Grantee: Lennar Homes <i>Comments: Takedown of 79 lots within Village 2 of the Skyborne at Desert Hot Springs subdivision. Remaining site development costs were \$8,539 per lot and permits and fees were \$20,737 per lot. The property was encumbered with a CFD at the time of sale, and net permits and fees after bond proceeds were \$8,868 per lot. Special taxes are approximately \$1,212 per lot and the typical lot size is 6,400 SF. Homebuilder Lennar plans to purchase a total of 187 lots over two takedowns for the Vega project.</i>	Feb-21 Closed	\$5,537,347 \$2,191	6,400	79	\$70,093	\$17,407
Subject Property				6,400	35		
Skyborne Desert Hot Springs, CA							

Comparable Land Sales Map





Sale 1
Renata at Domani



Sale 2
Bellissima



Sale 3
Skyborne - Village 2 (Second Take)



Sale 4
Palari Villas



Sale 5
Skyborne - Village 2 (First Take)

Loaded Lot Analysis

Prior to the application of adjustments, the following items are added to the per lot sale price.

Improved Lot Analysis

Remaining Site Dev. Cost	We apply adjustments for remaining site development costs (if any).
Permits and Fees	Permits and fees due are included on a dollar-for-dollar basis. Building permits are excluded, as the local market does not include them in the definition of an improved (loaded) lot.
Bond Encumbrance	If applicable, we consider the annual special tax and typical holding time for a developer (2 years) with a market supported rate to estimate the present bond amount for each comparable (if bond debt exists).

Loaded Lot Adjustments

	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Lot Price	\$27,170	\$21,464	\$77,593	\$23,377	\$70,093
Remaining Finishing Costs	\$87,830	\$98,536	\$17,407	\$76,116	\$17,407
Special Taxes/Assessment Lien	\$0	\$0	\$1,212	\$0	\$1,212
Years (Approx)	0	0	2	0	2
Present Value	\$0	\$0	\$2,191	\$0	\$2,191
Special Taxes/Assessment Lien	-\$2,191	-\$2,191	\$0	-\$2,191	\$0

The above table includes remaining site development costs and permits/impact fees; bond encumbrances are handled as a separate line item in the upcoming analysis.

Adjustment Factors

The sales are compared to the subject and adjusted to account for material differences that affect value. Adjustments are considered for the following factors, in the sequence shown below.

Adjustment Factor	Accounts For	Comments
Real Property Rights	Fee simple, leased fee, leasehold, partial interest, etc.	All the comparables represent fee simple estate transactions. Therefore, adjustments for property rights are not necessary.
Financing Terms	Seller financing, or assumption of existing financing, at non-market terms.	All of the remaining comparables are all cash or cash to seller transactions and do not warrant an adjustment.

Adjustment Factor	Accounts For	Comments
Conditions of Sale	Extraordinary motivation of buyer or seller, assemblage, forced sale.	All of the comparables are market transactions and do not warrant an adjustment for conditions of sale.
Market Conditions	Changes in the economic environment over time that affect the appreciation and depreciation of real estate.	Home values increased significantly from the first quarter of 2020 to the first quarter of 2022; though, some price appreciation was offset by rising construction costs (materials) and labor shortages during the pandemic. Construction costs have since moderated. Market participants have noted they believe that peak land values occurred in the first quarter of 2022 and have since moderated. However, there are some early signs bulk lot prices may be increasing again. Sales 3 through 5, which transacted in 2021, are adjusted upward.
Location/Community Appeal	Market or submarket area influences on sale price; surrounding land use influences.	The subject is located within the community of Desert Hot Springs. Comparables 1 and 2 are located in Palm Desert and Coachella, respectively, and are adjusted downward.
Number of Lots	Generally, there is an inverse relationship between the number of lots and price per lot such that larger projects (with a greater number of lots) achieve a lower price per lot.	Typically, variances in per lot prices, all else being equal, are not observed in transactions between 40 and 250 lots. The subject property currently has 35 improved lots remaining (21 with homes under construction and 14 for which vertical construction has not yet commenced). Because the comparables range from 77 to 132 lots, all are adjusted upward slightly.
Lot Size	Adjustments for differences in lot size between the comparables and subject are considered.	The subject has a typical lot size of 6,400 square feet. Sale 1 has a typical lot size of 4,500 square feet and is adjusted upward, while Sale 4

Adjustment Factor	Accounts For	Comments
Site Utility	Primary physical factors that affect desirability of lots.	has a typical lot size of 9,000 square feet and is adjusted downward. The subject property is considered to have average utility. Each of the comparables are considered to offer similar site utility as the subject and no additional adjustment for this characteristic are required.
Lot Premiums/ Discounts	Primary physical factors that affect desirability of lots.	The comparables offer similar lot premiums and no adjustments are necessary.

The table below summarizes the adjustments we make to the comparable sales.

Land Sales Adjustment Grid						
	Subject	Comparable 1	Comparable 2	Comparable 3	Comparable 4	Comparable 5
Name	Skyborne	Renata at Domani	Bellissima	Skyborne - Village 2 (Second Take)	Palari Villas	Skyborne - Village 2 (First Take)
City	Desert Hot Springs	Palm Desert	Coachella	Desert Hot Springs	Desert Hot Springs	Desert Hot Springs
Sale Date		Jun-22	May-22	Dec-21	Aug-21	Feb-21
Sale Status		Closed	Closed	Closed	Closed	Closed
Sale Price		\$3,586,500	\$2,382,500	\$8,380,044	\$1,800,000	\$5,537,347
Other Adjustment		\$0	\$0	\$0	\$0	\$0
Description of Adjustment						
Effective Sale Price		\$3,586,500	\$2,382,500	\$8,380,044	\$1,800,000	\$5,537,347
Number of Lots	15	132	111	108	77	79
Price per Lot	-	\$27,170	\$21,464	\$77,593	\$23,377	\$70,093
Expenditures after Purchase	-	\$87,830	\$98,536	\$17,407	\$76,116	\$17,407
Bond Consideration	\$2,191	-\$2,191	-\$2,191	\$0	-\$2,191	\$0
Price per Lot		\$112,809	\$117,809	\$95,000	\$97,301	\$87,500
Property Rights		Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Adjustment		=	=	=	=	=
Financing Terms		Cash to seller	Cash to seller	Cash to seller	Cash to seller	Cash to seller
Adjustment		=	=	=	=	=
Conditions of Sale		Market	Market	Market	Market	Market
Adjustment		=	=	=	=	=
Market Conditions	9/15/2023	Jun-22	May-22	Dec-21	Aug-21	Feb-21
Adjustment		=	=	+	+	+
Location/Community	Desert Hot Springs	Palm Desert	Coachella	Desert Hot Springs	Desert Hot Springs	Desert Hot Springs
Adjustment		--	--	=	=	=
Number of Lots	35	132	111	108	77	79
Adjustment		+	+	+	+	+
Lot Size (Typical)	6,400	4,500	6,000	6,400	9,000	6,400
Adjustment		+	=	=	-	=
Site Utility	Average	Average	Average	Average	Average	Average
Adjustment		=	=	=	=	=
Lot Premiums/Discounts	Average	Average	Average	Average	Average	Average
Adjustment		=	=	=	=	=
Overall Adjustment		=	-	++	+	++

Land Value Conclusion

The comparables reflect a range of sales prices of \$21,464 to \$77,593 per lot. The wide disparity in the unadjusted range is largely attributable to lot condition at time of sale (unimproved lots, partially improved lots and improved lots), as well as differences in permits and fees, remaining site costs and bonds encumbrances. After accounting for remaining site development costs, permits and fees and bond encumbrances, the comparables exhibit a loaded lot range of \$87,500 - \$117,809 per lot per improved (or loaded) lot. The following table summarizes the improved lot values (unadjusted) and our conclusion of improved lot value for the subject property.

Bulk Lot Ranking Summary			
Property	Sale Date	\$/ Loaded Lot (Unadjusted)	Net Adjustment
Comparable 2	May-22	\$117,809	-
Comparable 1	Jun-22	\$112,809	=
Subject Property		\$110,000	
Comparable 4	Aug-21	\$97,301	+
Comparable 3	Dec-21	\$95,000	++
Comparable 5	Feb-21	\$87,500	++

As shown, the improved lot value indicator for the subject property is estimated to be lower than Comparables 1 and 2 and higher than the balance of the data set. Sales 3 and 5 reflect the 2021 transactions of the subject property; as noted, market conditions have strengthened since this time.

An improved lot indicator of \$110,000 per lot appears reasonable. Building permits are also deducted from the improved lot value. Our conclusion of lot value is as follows.

Lot Value Conclusion - Representative Lot	
Concluded Improved Lot Value	\$110,000
Less: Permits & Fees	<u>(\$4,265)</u>
Indicated Value	\$105,735
	(Rd.) \$106,000

Extraction Analysis

As support for the estimate of lot value concluded in the sales comparison approach, we utilize an extraction (residual) analysis that takes into account home prices, direct and indirect construction costs, accrued depreciation and developer's incentive in order to arrive at an estimate of improved lot value. The elements of the extraction technique are discussed below.

Revenue

Based on the *Residential Market* section of this report, and considering the developer's home sizes and pricing, as well as typical home prices of nearby projects, we will utilize a typical home size of 1,950 square feet (consistent with the subject's Plan 3) and corresponding base price of \$400,000.

Expense Projections

As part of an ongoing effort to assemble market information, the table below reflects survey responses and developer budget information for numerous single-family residential subdivisions throughout the California.

Developer Classification	Budget Date	No. of Units	Quality	Avg. Home Size (SF)	Typical Lot Size	G & A % of Revenue	Mkt & Sales % of Revenue	Direct Costs/SF	Indirect Costs/SF	Indirect % of Direct Costs	Site Costs/Lot	Permits & Fees/Unit	Profit % of Revenue
National	2023	85	Average	1,844	3,000	N/Av	N/Av	\$96.00	N/Av	N/Av	\$65,855	\$48,588	N/Av
National	2023	202	Average	2,342	7,250	N/Av	N/Av	\$72.06	\$11.06	15.3%	\$76,242	\$73,000	N/Av
National	2023	276	Average	2,220	7,200	N/Av	N/Av	\$74.96	\$11.09	14.8%	\$83,185	\$32,800	N/Av
Regional	2023	52	Average	2,607	6,200	N/Av	5.8%	\$101.86	\$6.86	6.7%	\$164,076	\$73,595	10.06%
National	2023	177	Average	2,112	7,200	N/Av	N/Av	\$77.91	\$9.73	12.5%	\$110,669	\$61,700	N/Av
National	2023	85	Average	2,118	4,800	2.3%	2.3%	\$96.79	\$9.92	10.2%	N/Av	\$88,700	N/Av
National	2023	573	Average	2,327	5,232	N/Av	N/Av	\$99.86	N/Av	2.5%	\$126,003	\$98,422	20.00%
National	2022	150	Average	2,092	5,500	N/Av	N/Av	\$92.11	N/Av	N/Av	\$72,875	\$51,700	20.5%
National	2022	96	Average	2,346	7,350	N/Av	N/Av	\$79.46	N/Av	N/Av	\$124,544	\$68,647	N/Av
Regional	2022	27	Good	3,179	10,100	3.0%	1.1%	\$115.00	\$13.13	11.0%	\$200,111	\$70,470	15.7%
Local	2022	91	Average	2,160	5,475	5.0%	1.0%	\$117.00	N/Av	N/Av	N/Av	\$52,790	10.0%
National	2022	159	Average	1,575	2,275	N/Av	N/Av	\$145.64	N/Av	N/Av	\$41,811	\$54,100	28.0%
National	2022	65	Average	3,447	5,200	N/Av	N/Av	\$110.00	N/Av	N/Av	N/Av	\$71,290	N/Av
National	2022	862	Average	2,176	5,306	N/Av	N/Av	\$112.00	N/Av	N/Av	\$161,203	\$52,801	N/Av
National	2022	387	Average	1,771	5,000	6.0%	3.0%	\$105.39	N/Av	N/Av	N/Av	\$43,000	28.0%
Regional	2022	30	Average	2,090	5,200	3.0%	2.0%	\$150.00	\$9.00	6.0%	\$103,967	\$55,800	16.4%
National	2022	187	Average	2,420	6,698	N/Av	N/Av	\$95.00	N/Av	N/Av	\$255,045	\$77,870	N/Av
Regional	2021	87	Average	1,978	6,500	N/Av	N/Av	\$98.00	N/Av	N/Av	\$96,759	\$63,947	N/Av
Regional	2021	145	Average	2,109	5,775	4.2%	4.3%	\$79.86	\$13.01	16.4%	\$94,951	\$37,659	6.8%
Regional	2021	128	Average	2,009	2,565	3.0%	3.5%	\$87.42	\$16.63	19.0%	N/Av	\$54,371	14.0%
Local	2021	36	Good	2,533	3,450	5.5%	6.6%	\$112.26	\$5.53	4.9%	N/Av	\$55,497	15.0%
National	2021	124	Average	1,753	6,723	N/Av	N/Av	\$102.12	N/Av	N/Av	\$41,505	\$51,458	N/Av
Local	2021	21	Average	2,010	6,050	N/Av	N/Av	\$102.50	N/Av	N/Av	\$78,415	\$44,500	N/Av
Regional	2021	147	Average	2,200	3,825	N/Av	N/Av	\$76.00	N/Av	7.0%	\$43,972	\$48,197	N/Av
Regional	2021	99	Average	2,187	8,005	4.4%	5.7%	\$72.68	\$6.35	9.0%	\$89,461	\$35,931	9.6%
Regional	2020	233	Good	2,300	7,500	3.0%	4.2%	\$91.00	N/Av	11.0%	\$100,000	\$40,600	10.0%
Regional	2020	81	Average	1,974	5,775	N/Av	2.5%	\$80.00	\$16.00	20.0%	\$83,788	\$81,336	N/Av
Regional	2020	112	Average	2,060	6,300	4.6%	4.1%	\$80.23	N/Av	9.9%	\$86,830	\$63,400	13.20%
Local	2020	27	Average	1,834	9,148	N/Av	N/Av	\$80.00	N/Av	16.0%	N/Av	\$24,627	N/Av
National	2020	70	Average	1,948	7,817	N/Av	N/Av	\$87.02	N/Av	12.0%	N/Av	\$38,080	N/Av
Regional	2020	30	Average	2,672	5,000	9.8%	6.3%	\$88.79	N/Av	10.0%	\$91,600	\$62,730	12.2%
Regional	2020	145	Average	1,834	5,500	N/Av	N/Av	\$60.00	N/Av	N/Av	N/Av	\$62,500	8.0%
National	2020	148	Average	2,253	7,000	N/Av	N/Av	\$57.21	N/Av	N/Av	\$39,000	\$40,000	N/Av
Regional	2020	46	Average	2,289	6,600	N/Av	N/Av	\$66.49	N/Av	N/Av	N/Av	\$31,200	N/Av
Minimum		21		1,575	2,275	2.3%	1.0%	\$57.21	\$5.53	2.5%	\$39,000	\$24,627	6.8%
Maximum		862		3,447	10,100	9.8%	6.6%	\$150.00	\$16.63	20.0%	\$255,045	\$98,422	28.0%
Average		152		2,199	5,956	4.5%	3.7%	\$93.02	\$10.69	11.3%	\$101,328	\$56,215	14.8%

Information from the survey above will contribute to the estimate of development expenses classified as follows.

General and Administrative

These expenses consist of management fees, liability and fire insurance, inspection fees, appraisal fees, legal and accounting fees and copying or publication costs. This expense category typically ranges from 2.5% to 4.0%, depending on length of project and if all of the categories are included in a builder's budget. We have used 3.0% for general and administrative expenses.

Marketing and Sale

These expenses typically consist of advertising and promotion, closing costs, sales operations, and sales commissions. The expenses are expressed as a percentage of the gross sales revenue. The range of marketing and sales expenses typically found in projects within the subject's market area is 5.0% to 6.5%. A figure of 5.0%, 2.5% for marketing and 2.5% for sales, is estimated in the marketing and sales expense category.

Direct and Indirect Construction Costs

Construction costs are generally classified into direct and indirect costs. Direct costs reflect the cost of labor and materials to build the project. Direct costs generally are lower per square foot for larger floor plans, all else being equal, due to economies of scale. Indirect items are the carrying costs and fees incurred in developing the project and during the construction cycle. Construction quality and market-segment are significant factors that affect direct construction costs. In addition, national/public builders, which are able to achieve lower costs due to the larger scale in which orders are placed, routinely achieve lower direct costs.

Based on the cost comparables, and considering the product line under development, a direct cost estimate of \$95 per square foot is applied for the subject's benchmark home.

Regarding indirect costs, the following list itemizes some of the typical components that generally comprise indirect costs:

- Architectural and engineering fees for plans, plan checks, surveys and environmental studies
- Appraisal, consulting, accounting and legal fees
- The cost of carrying the investment in land and contract payments during construction. If the property is financed, the points, fees or service charges and interest on construction loans are considered
- All-risk insurance
- The cost of carrying the investment in the property after construction is complete, but before sell-out is achieved
- Developer fee earned by the project coordinator
- Interest reserve

Conversations with homebuilders indicate the indirect costs generally range anywhere from 10% to 15% of the direct costs (excluding marketing, sales, general and administrative expenses, taxes, which are accounted for separately). Because we are utilizing a static extraction analysis, we estimate

indirect costs at 18% for the subject in order to also consider the additional holding costs referenced above (property taxes, including special taxes).

Permits and Fees

As noted, building permits are approximately \$4,265 per lot. Building permits are deducted in the upcoming analysis to arrive at an improved lot value. As noted, the local market recognizes impact fees and other (non-building) permits as part of an improved lot value. Therefore, these fees are not deducted in the upcoming extraction.

Accrued Depreciation

For new construction on the subject, an allocation for depreciation (physical, functional, or economic) is not applicable.

Developer's Incentive

According to industry sources, developer's incentive (profit) historically has ranged anywhere from 5% to 25%, with a predominate range of 5% to 15%. This is consistent with our survey presented earlier in this section, which ranged from 8.0% to 16.6%. Profit is based on the perceived risk associated with the development. Low profit expectations are typical for projects focused on more affordable product with faster sales rates. Higher profit expectations are common in projects with more risk such as developments where sales rates are slower, project size produces an extended holding period or the product type is considered weak or untested.

Elements affecting profit include location, supply/demand, anticipated risk, construction time frame and project type. Another element considered in profit expectations is for the development stage of a project. First phases typically generate a lower profit margin due to cautious or conservative pricing, as new subdivisions in competitive areas must become established to generate a fair market share. Additionally, up front development costs on first phases can produce lower profit margins.

Positive attributes of the subject property include:

- Approved entitlements
- Construction of horizontal improvements are nearly complete, with minimal site development work remaining
- Steady pricing and steady absorption in the area, and in the Vega at Skyborne project in particular.

There are generally few "negative" attributes associated with the subject property, other than the potential for deterioration in market conditions in the residential sector that would result from a change in macroeconomic factors (e.g., unemployment rates, interest rates, etc.). The prior table at the beginning of the Expense Projections discussion includes survey results for profit expectations of active home builders in the region.

Based on the preceding discussion and developer surveys, and considering the amount of remaining development costs yet to be completed, we have concluded an estimate of 10% for developer's incentive.

Conclusion

Our estimates of finished lot value for the subject's lots via the extraction analysis is presented on the as follows:

Extraction				
Revenue				
Average Floor Plan Size	1,950	SF		
Typical Home Price				\$400,000
Expense Projections				
G & A Cost @	3.0%	of Retail Value	\$12,000	
Marketing/Sales @	5.0%	of Retail Value	\$20,000	
Average Direct Costs @	\$95.00	/SF	\$185,250	
Indirect Cost @	18.0%	of Direct Cost	\$33,345	
Permits and Fees Due at BP	\$4,265	/Lot	\$4,265	
Developer's Incentive	10%	of Home Price	\$40,000	
				<u>\$294,860</u>
			Residual Lot Value:	\$105,140
			Rounded:	\$105,000

Reconciliation of Lot Value

For a benchmark lot of 6,400 square feet, the sales comparison approach indicated \$106,000 per improved lot, while the extraction technique yielded an indicator of \$105,000 per lot, a difference of less than 1.0%. In our opinion the extraction analysis is primarily a supportive indicator for the results of sales comparison approach. We have concluded to **\$105,000 per lot** for a benchmark improved lot.

Reconciliation of Improved Lot Value	
Sales Comparison Approach	\$106,000 per finished lot
Extraction Analysis	\$105,000 per finished lot
% Difference	0.95%
Average	\$105,500
Concluded Improved Lot Value	\$105,000 per finished lot

Final Opinion of Value

Based on the preceding valuation analysis and subject to the definitions, assumptions, and limiting conditions expressed in the report, our opinion of value is provided in the following table. Remaining impact fees and site development costs are deducted from the improved lot value for the 35 Builder-owned lots. In addition, the appraised value conclusions for the 54 completed homes owned by individual homeowners in Village II, as well as the assessed values for the 297 homes in Villages I and II, are reported.

Value by Ownership, September 15, 2023						
Component	Lots/Homes/ Parcels	Lot/Home Value	Permits and Fees	Remaining Site Development Costs	Value per Component	Market Value (Rd.)
Lennar Homes of CA¹						
Completed Homes	8	\$393,750	-	-	\$393,750	\$3,150,000
Under Construction Homes	3	\$105,000	(\$16,532)	(\$18,446)	\$70,022	\$210,066
Improved Lots	2	\$105,000	(\$16,532)	(\$18,446)	\$70,022	\$140,044
Total	13					\$3,500,110
AG Essential Housing CA 2, LP²						
Completed Homes	0	\$393,750	-	-	\$393,750	\$0
Under Construction Homes	18	\$105,000	(\$16,532)	(\$18,446)	\$70,022	\$1,260,396
Improved Lots	12	\$105,000	(\$16,532)	(\$18,446)	\$70,022	\$840,264
Total	30					\$2,100,660
Individual Homeowners³						
Completed Homes	54		-	-	-	\$21,640,000
Total	54					\$21,640,000
Aggregate, or Cumulative, Appraised Values	97					\$27,240,770
Aggregate, or Cumulative, Assessed Values ⁴	297					\$94,248,523
Total Aggregate, or Cumulative, Value of CFD No. 2006-1 of the City of Desert Hot Springs (Improvement Area 1)	394					\$121,489,293
<small>1 Lennar Homes of CA, LLC and Lennar Homes of CA, Inc</small>						
<small>2 Land banking entity associated with Lennar</small>						
<small>3 Homes within Vega without Assessed Values</small>						
<small>4 Includes 154 homes within Village 1 and 143 Homes within Village 2 (including 24 homes constructed by DR Horton, 29 homes constructed by Gallery, and 90 homes constructed by Lennar within Vega)</small>						

Extraordinary Assumptions and Hypothetical Conditions

The value conclusions are subject to the following extraordinary assumptions that may affect the assignment results. An extraordinary assumption is uncertain information accepted as fact. If the assumption is found to be false as of the effective date of the appraisal, we reserve the right to modify our value conclusions.

None

The value conclusions are based on the following hypothetical conditions that may affect the assignment results. A hypothetical condition is a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

1. The value derived herein is based on the hypothetical condition that bond proceeds from CFD No. 2006-1 are available for reimbursement of eligible impact fees and public improvements.

Exposure Time

Exposure time is the length of time the subject property would have been exposed for sale in the market had it sold on the effective valuation date at the concluded market value. Exposure time is always presumed to precede the effective date of the appraisal. Based on our review of recent sales transactions for similar properties and our analysis of supply and demand in the local residential

subdivision market, it is our opinion that the probable exposure time for the subject at the concluded market values stated previously is 6 - 9 months.

Marketing Time

Marketing time is an estimate of the amount of time it might take to sell a property at the concluded market value immediately following the effective date of value. As we foresee no significant changes in market conditions in the near term, it is our opinion that a reasonable marketing period for the subject in bulk is likely to be the same as the exposure time. Accordingly, we estimate the subject's marketing period at 6 - 9 months.

Certification

We certify that, to the best of our 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 our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. We have not performed any services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
5. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
6. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
7. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. Our analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice as well as applicable state appraisal regulations.
9. The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
10. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
11. Kevin Ziegenmeyer, MAI, made a personal inspection of the property that is the subject of this report. Laura Diaz, MAI, has not personally inspected the subject.
12. No one provided significant real property appraisal assistance to the person(s) signing this certification.
13. We have experience in appraising properties similar to the subject and are in compliance with the Competency Rule of USPAP.
14. As of the date of this report, Kevin Ziegenmeyer, MAI, and Laura Diaz, MAI, have completed the continuing education program for Designated Members of the Appraisal Institute.

15.



Kevin Ziegenmeyer, MAI
Certified General Real Estate Appraiser
California Certificate # AG013567



Laura Diaz, MAI
Certified General Real Estate Appraiser
California Certificate # 3005037

Assumptions and Limiting Conditions

This appraisal and any other work product related to this engagement are limited by the following standard assumptions, except as otherwise noted in the report:

1. The title is marketable and free and clear of all liens, encumbrances, encroachments, easements and restrictions. The property is under responsible ownership and competent management and is available for its highest and best use.
2. There are no existing judgments or pending or threatened litigation that could affect the value of the property.
3. There are no hidden or undisclosed conditions of the land or of the improvements that would render the property more or less valuable. Furthermore, there is no asbestos in the property.
4. The revenue stamps placed on any deed referenced herein to indicate the sale price are in correct relation to the actual dollar amount of the transaction.
5. The property is in compliance with all applicable building, environmental, zoning, and other federal, state and local laws, regulations and codes.
6. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

This appraisal and any other work product related to this engagement are subject to the following limiting conditions, except as otherwise noted in the report:

1. An appraisal is inherently subjective and represents our opinion as to the value of the property appraised.
2. The conclusions stated in our appraisal apply only as of the effective date of the appraisal, and no representation is made as to the effect of subsequent events.
3. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated.
4. No environmental impact studies were either requested or made in conjunction with this appraisal, and we reserve the right to revise or rescind any of the value opinions based upon any subsequent environmental impact studies. If any environmental impact statement is required by law, the appraisal assumes that such statement will be favorable and will be approved by the appropriate regulatory bodies.
5. Unless otherwise agreed to in writing, we are not required to give testimony, respond to any subpoena or attend any court, governmental or other hearing with reference to the property without compensation relative to such additional employment.
6. We have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or survey of the property included in this report is for illustrative purposes only and should not be considered to be scaled accurately for size. The appraisal

- covers the property as described in this report, and the areas and dimensions set forth are assumed to be correct.
7. No opinion is expressed as to the value of subsurface oil, gas or mineral rights, if any, and we have assumed that the property is not subject to surface entry for the exploration or removal of such materials, unless otherwise noted in our appraisal.
 8. We accept no responsibility for considerations requiring expertise in other fields. Such considerations include, but are not limited to, legal descriptions and other legal matters such as legal title, geologic considerations such as soils and seismic stability; and civil, mechanical, electrical, structural and other engineering and environmental matters. Such considerations may also include determinations of compliance with zoning and other federal, state, and local laws, regulations and codes.
 9. The distribution of the total valuation in the report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used. The appraisal report shall be considered only in its entirety. No part of the appraisal report shall be utilized separately or out of context.
 10. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers, or any reference to the Appraisal Institute) shall be disseminated through advertising media, public relations media, news media or any other means of communication (including without limitation prospectuses, private offering memoranda and other offering material provided to prospective investors) without the prior written consent of the persons signing the report.
 11. Information, estimates and opinions contained in the report and obtained from third-party sources are assumed to be reliable and have not been independently verified.
 12. Any income and expense estimates contained in the appraisal report are used only for the purpose of estimating value and do not constitute predictions of future operating results.
 13. If the property is subject to one or more leases, any estimate of residual value contained in the appraisal may be particularly affected by significant changes in the condition of the economy, of the real estate industry, or of the appraised property at the time these leases expire or otherwise terminate.
 14. Unless otherwise stated in the report, no consideration has been given to personal property located on the premises or to the cost of moving or relocating such personal property; only the real property has been considered.
 15. The current purchasing power of the dollar is the basis for the values stated in the appraisal; we have assumed that no extreme fluctuations in economic cycles will occur.
 16. The values found herein are subject to these and to any other assumptions or conditions set forth in the body of this report but which may have been omitted from this list of Assumptions and Limiting Conditions.
 17. The analyses contained in the report necessarily incorporate numerous estimates and assumptions regarding property performance, general and local business and economic

- conditions, the absence of material changes in the competitive environment and other matters. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our estimates, and the variations may be material.
18. The Americans with Disabilities Act (ADA) became effective January 26, 1992. We have not made a specific survey or analysis of the property to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines. We claim no expertise in ADA issues, and render no opinion regarding compliance of the subject with ADA regulations. Inasmuch as compliance matches each owner's financial ability with the cost to cure the non-conforming physical characteristics of a property, a specific study of both the owner's financial ability and the cost to cure any deficiencies would be needed for the Department of Justice to determine compliance.
 19. The appraisal report is prepared for the exclusive benefit of the Client, its subsidiaries and/or affiliates. It may not be used or relied upon by any other party. All parties who use or rely upon any information in the report without our written consent do so at their own risk.
 20. No studies have been provided to us indicating the presence or absence of hazardous materials on the subject property or in the improvements, and our valuation is predicated upon the assumption that the subject property is free and clear of any environment hazards including, without limitation, hazardous wastes, toxic substances and mold. No representations or warranties are made regarding the environmental condition of the subject property. Integra Realty Resources – Sacramento, Integra Realty Resources, Inc., Integra Strategic Ventures, Inc. and/or any of their respective officers, owners, managers, directors, agents, subcontractors or employees (the "Integra Parties"), shall not be responsible for any such environmental conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because we are not experts in the field of environmental conditions, the appraisal report cannot be considered as an environmental assessment of the subject property.
 21. The persons signing the report may have reviewed available flood maps and may have noted in the appraisal report whether the subject property is located in an identified Special Flood Hazard Area. We are not qualified to detect such areas and therefore do not guarantee such determinations. The presence of flood plain areas and/or wetlands may affect the value of the property, and the value conclusion is predicated on the assumption that wetlands are non-existent or minimal.
 22. Integra Realty Resources – Sacramento is not a building or environmental inspector. Integra Sacramento does not guarantee that the subject property is free of defects or environmental problems. Mold may be present in the subject property and a professional inspection is recommended.
 23. The appraisal report and value conclusions for an appraisal assume the satisfactory completion of construction, repairs or alterations in a workmanlike manner.
 24. It is expressly acknowledged that in any action which may be brought against any of the Integra Parties, arising out of, relating to, or in any way pertaining to this engagement, the

- appraisal reports, and/or any other related work product, the Integra Parties shall not be responsible or liable for any incidental or consequential damages or losses, unless the appraisal was fraudulent or prepared with intentional misconduct. It is further acknowledged that the collective liability of the Integra Parties in any such action shall not exceed the fees paid for the preparation of the appraisal report unless the appraisal was fraudulent or prepared with intentional misconduct. Finally, it is acknowledged that the fees charged herein are in reliance upon the foregoing limitations of liability.
25. Integra Realty Resources – Sacramento, an independently owned and operated company, has prepared the appraisal for the specific intended use stated elsewhere in the report. The use of the appraisal report by anyone other than the Client is prohibited except as otherwise provided. Accordingly, the appraisal report is addressed to and shall be solely for the Client's use and benefit unless we provide our prior written consent. We expressly reserve the unrestricted right to withhold our consent to your disclosure of the appraisal report or any other work product related to the engagement (or any part thereof including, without limitation, conclusions of value and our identity), to any third parties. Stated again for clarification, unless our prior written consent is obtained, no third party may rely on the appraisal report (even if their reliance was foreseeable).
26. The conclusions of this report are estimates based on known current trends and reasonably foreseeable future occurrences. These estimates are based partly on property information, data obtained in public records, interviews, existing trends, buyer-seller decision criteria in the current market, and research conducted by third parties, and such data are not always completely reliable. The Integra Parties are not responsible for these and other future occurrences that could not have reasonably been foreseen on the effective date of this assignment. Furthermore, it is inevitable that some assumptions will not materialize and that unanticipated events may occur that will likely affect actual performance. While we are of the opinion that our findings are reasonable based on current market conditions, we do not represent that these estimates will actually be achieved, as they are subject to considerable risk and uncertainty. Moreover, we assume competent and effective management and marketing for the duration of the projected holding period of this property.
27. All prospective value opinions presented in this report are estimates and forecasts which are prospective in nature and are subject to considerable risk and uncertainty. In addition to the contingencies noted in the preceding paragraph, several events may occur that could substantially alter the outcome of our estimates such as, but not limited to changes in the economy, interest rates, and capitalization rates, behavior of consumers, investors and lenders, fire and other physical destruction, changes in title or conveyances of easements and deed restrictions, etc. It is assumed that conditions reasonably foreseeable at the present time are consistent or similar with the future.
28. The appraisal is also subject to the following:

Extraordinary Assumptions and Hypothetical Conditions

The value conclusions are subject to the following extraordinary assumptions that may affect the assignment results. An extraordinary assumption is uncertain information accepted as fact. If the assumption is found to be false as of the effective date of the appraisal, we reserve the right to modify our value conclusions.

None

The value conclusions are based on the following hypothetical conditions that may affect the assignment results. A hypothetical condition is a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

1. The value derived herein is based on the hypothetical condition that bond proceeds from CFD No. 2006-1 are available for reimbursement of eligible impact fees and public improvements.
-

Addendum A

Appraiser Qualifications

Laura Diaz, MAI

Experience

Ms. Diaz is a licensed certified general real estate appraiser. She began her career in real estate in 2013 as a research analyst with Integra - Kentucky-Southern Indiana as she pursued her Master of Urban Planning degree. In 2017, Ms. Diaz relocated to the San Francisco Bay Area and joined the Integra - San Francisco office. She has experience writing narrative appraisal reports for a variety of property types, including office, retail, industrial, multifamily housing, and commercial and agricultural land. She has also worked with special-purpose properties, including self-storage facilities, religious facilities, student housing projects, data centers, hotels, and airport properties. In addition, Ms. Diaz has experience in multifamily market analysis, including development and analysis of survey techniques and models of demand for proposed multifamily projects. She specializes in the appraisal of residential subdivisions and master planned communities, as well as Mello Roos and Assessment Districts for land-secured municipal financings.

Licenses

California, Certified General Real Estate Appraiser, 3005037, Expires January 2024
Kentucky, Certified General Real Estate Appraiser, 5233, Expires June 2023

Education

Academic:

Bachelor of Arts in English, University of Louisville

Master of Urban Planning, University of Louisville

Graduate Certificate in Real Estate Development, University of Louisville

Appraisal and Real Estate Courses:

Uniform Standards of Professional Appraisal Practice

Basic Appraisal Principles

Basic Appraisal Procedures

Real Estate Finance Statistics and Valuation Modeling

Site Valuation and Cost Approach

General Market Analysis and Highest and Best Use

Sales Comparison Approach

Basics Income Capitalization

General Appraiser Report Writing and Case Studies

Expert Witness for Commercial Appraisers

Quantitative Analysis

Advanced Market Analysis and Highest and Best Use

Advanced Income Capitalization

Advanced Concepts and Case Studies

Business Practice and Ethics

Integra Realty Resources
San Francisco

555 Meridian Avenue
Suite C
San Jose, CA 95126

T 408.299.0444
F 408.299.0449

irr.com





Business, Consumer Services & Housing Agency
BUREAU OF REAL ESTATE APPRAISERS
REAL ESTATE APPRAISER LICENSE

Laura B. Diaz

has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: 3005037

Effective Date: January 3, 2022

Date Expires: January 2, 2024

Loretta Dillon, Deputy Bureau Chief, BREA

3061654

Kevin Ziegenmeyer, MAI

Experience

Mr. Ziegenmeyer is a Certified General real estate appraiser and holds the Appraisal Institute's MAI designation. In 1989, Mr. Ziegenmeyer began his career in real estate as a controller for a commercial and residential real estate development corporation. In 1991 he began appraising and continued to be involved in appraisal assignments covering a wide variety of properties, including office, retail, industrial, residential income and subdivisions throughout the state of California, and Northern Nevada. Mr. Ziegenmeyer handles many of the firm's master-planned property appraisals and over the past two decades has developed expertise in the valuation of Community Facilities Districts and Assessment Districts. In fact, Mr. Ziegenmeyer was one of five appraisers to collaborate with other professionals in developing the appraisal guidelines for the California Debt and Investment Advisory Commission (Recommended Practices in the Appraisal of Real Estate for Land-Secured Financing - 2004). He has developed the experience and background necessary to deal with complex assignments covering an array of property types, with a particular focus on urban redevelopment in the cities and counties of San Francisco, Dublin, Monterey, Newport Beach, Alameda, Napa and San Mateo. In early 2015, Mr. Ziegenmeyer obtained the Appraisal Institute's MAI designation.

Licenses

California, California Certified General Real Estate Appraiser, AG013567, Expires June 2025

Education

Academic:

Bachelor of Science in Accounting, Azusa Pacific University, California

Appraisal and Real Estate Courses:

Standards of Professional Practice, Parts A, B & C

Basic Valuation Procedures

Real Estate Appraisal Principles

Capitalization Theory and Techniques, Part A

Advanced Income Capitalization

Report Writing and Valuation Analysis

Advanced Applications

IRS Valuation Summit I & II

2008, 2009, 2010 & 2011 Economic Forecast

Business Practices and Ethics

Contemporary Appraisal Issues with Small Business Administration Financing

General Demonstration Appraisal Report Writing Seminar

7-Hour National USPAP Update Course

Valuation of Easements and Other Partial Interests

2009 Summer Conference

Uniform Appraisal Standards for Federal Land Acquisitions (Yellowbook)

2008 Economic Update

Valuation of Conservation Easements

Subdivision Valuation

2005 Annual Fall Conference

General Comprehensive Exam Module I, II, III & IV

Advanced Income Capitalization

Integra Realty Resources - Sacramento

590 Menlo Drive
Suite 1
Rocklin, CA 95765

T 916.435.3883
F 916.435.4774

irr.com

kziegenmeyer@irr.com - 916.435.3883 x224



Kevin Ziegenmeyer, MAI

Education (Cont'd)

Advanced Sales Comparison & Cost Approaches
2004 Central CA Market Update
Computer-Enhanced Cash Flow Modeling
Forecast 2000, 2001, 2002, 2003 & 2004
Land Valuation Assignments
Land Valuation Adjustment Procedures
Highest & Best Use and Market Analysis
Entitlements, Land Subdivision & Valuation
Real Estate Value Cycles
El Dorado Hills Housing Symposium
Federal Land Exchanges
M & S Computer Cost-Estimating, Nonresidential

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590 Menlo Drive
Suite 1
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F 916.435.4774

irr.com





Business, Consumer Services & Housing Agency
BUREAU OF REAL ESTATE APPRAISERS
REAL ESTATE APPRAISER LICENSE

Kevin K. Ziegenmeyer

has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

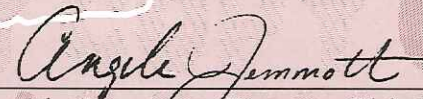
“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 013567

Effective Date: June 5, 2023

Date Expires: June 4, 2025


Angela Jemmott, Bureau Chief, BREA

3070756

About IRR

Integra Realty Resources, Inc. (IRR) provides world-class commercial real estate valuation, counseling, and advisory services. Routinely ranked among leading property valuation and consulting firms, we are now the largest independent firm in our industry in the United States, with local offices coast to coast and in the Caribbean.

IRR offices are led by MAI-designated Senior Managing Directors, industry leaders who have over 25 years, on average, of commercial real estate experience in their local markets. This experience, coupled with our understanding of how national trends affect the local markets, empowers our clients with the unique knowledge, access, and historical perspective they need to make the most informed decisions.

Many of the nation's top financial institutions, developers, corporations, law firms, and government agencies rely on our professional real estate opinions to best understand the value, use, and feasibility of real estate in their market.

Local Expertise...Nationally!

irr.com



Addendum B

Definitions

Definitions

The source of the following definitions is the Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 7th ed. (Chicago: Appraisal Institute, 2022), unless otherwise noted.

As Is Market Value

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.

Disposition Value

The most probable price that a specified interest in property should bring under the following conditions:

1. Consummation of a sale within a specified time, which is shorter than the typical exposure time for such a property in that market.
2. The property is subjected to market conditions prevailing as of the date of valuation.
3. Both the buyer and seller are acting prudently and knowledgeably.
4. The seller is under compulsion to sell.
5. The buyer is typically motivated.
6. Both parties are acting in what they consider to be their best interests.
7. An adequate marketing effort will be made during the exposure time.
8. Payment will be made in cash in U.S. dollars (or the local currency) or in terms of financial arrangements comparable thereto.
9. 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.

This definition can also be modified to provide for valuation with specified financing terms.

Effective Date

1. The date on which the appraisal opinion applies. (SVP)
2. The date to which an appraiser's analysis, opinions, and conclusions apply; also referred to as *date of value*. (USPAP, 2020-2021 ed.)
3. The date that a lease goes into effect.

Entitlement

In the context of ownership, use, or development of real estate, governmental approval for annexation, zoning, utility extensions, number of lots, total floor area, construction permits, and occupancy or use permits.

Entrepreneurial Incentive

The amount an entrepreneur expects or wants to receive as compensation for providing coordination and expertise and assuming the risks associated with the development of a project. Entrepreneurial incentive is the expectation of future reward as opposed to the profit actually earned on the project.

Entrepreneurial Profit

1. A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a past project to compensate for his or her time, effort, knowledge, and risk; the difference between the total cost of a property (cost of development) and its market value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development. An entrepreneur is motivated by the prospect of future value enhancement (i.e., the entrepreneurial incentive). An entrepreneur who successfully creates value through new development, expansion, renovation, or an innovation change of use is rewarded by entrepreneurial profit. Entrepreneurs may also fail and suffer losses.
2. In economics, the actual return on successful management practices, often identified with coordination, the fourth factor of production following land, labor, and capital; also called entrepreneurial return or entrepreneurial reward.

Exposure Time

1. The time a property remains on the market.
2. An opinion, based on supporting market data, of the length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Fee Simple Estate

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.

Floor Area Ratio (FAR)

The relationship between the above-ground floor area of a building, as described by the zoning or building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area.

Highest and Best Use

1. The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.
2. The use of an asset that maximizes its potential and that is possible, legally permissible, and financially feasible. The highest and best use may be for continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid. (ISV)

3. [The] highest and most profitable use for which the property is adaptable and needed or likely to be needed in the reasonably near future. (Uniform Appraisal Standards for Federal Land Acquisitions)

Investment Value

1. The value of a property to a particular investor or class of investors based on the investor's specific requirements. Investment value may be different from market value because it depends on a set of investment criteria that are not necessarily typical of the market.
2. The value of an asset to the owner or a prospective owner given individual investment or operational objectives (may also be known as worth). (IVS)

Lease

A contract in which rights to use and occupy land, space, or structures are transferred by the owner to another for a specified period of time in return for a specified rent.

Leased Fee Interest

The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires.

Leasehold Estate

The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease.

Liquidation Value

The most probable price that a specified interest in real property should bring under the following conditions:

1. Consummation of a sale within a short time period.
2. The property is subjected to market conditions prevailing as of the date of valuation.
3. Both the buyer and seller are acting prudently and knowledgeably.
4. The seller is under extreme compulsion to sell.
5. The buyer is typically motivated.
6. Both parties are acting in what they consider to be their best interests.
7. A normal marketing effort is not possible due to the brief exposure time.
8. Payment will be made in cash in U.S. dollars (or the local currency) or in terms of financial arrangements comparable thereto.
9. 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.

This definition can also be modified to provide for valuation with specified financing terms.

Marketing Time

An opinion of the amount of time to sell a property interest at the concluded market value or at a benchmark price during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which precedes the effective date of an appraisal.

Market Value

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 and 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:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and acting in what they consider their own best interests;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 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.

(Source: Code of Federal Regulations, Title 12, Chapter I, Part 34.42[h]; also Interagency Appraisal and Evaluation Guidelines, Federal Register, 75 FR 77449, December 10, 2010, page 77472)

Prospective Opinion of Value

A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy.

Retrospective Value Opinion

A value opinion effective as of a specified historical date. The term *retrospective* does not define a type of value. Instead, it identifies a value opinion as being effective at some specific prior date. Value as of a historical date is frequently sought in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g., “retrospective market value opinion.”

Addendum C

Property Information

LEGAL DESCRIPTION

A PORTION OF SECTION 28, TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN.

ASSESSORS PARCEL NUMBERS:

667-100-029, 031 AND 038, 667-080-003, 004 AND 006
667-120-015, 024, 025-027, 051

OWNER/DEVELOPER

SKYBORNE VENTURES LLC
12671 HIGH BLUFF DRIVE, SUITE 150
SAN DIEGO, CALIFORNIA 92130
TELEPHONE: (858)699-7440
FAX: (858)523-0828

ENGINEER

ALLARD ENGINEERING
10888 SOLLIE AVENUE
FONTANA, CALIFORNIA 92335
FAX: (951)551-1795

GENERAL NOTES

EXISTING ZONING: STONERIDGE - SPECIFIC PLAN
EXISTING LAND USE: SINGLE FAMILY RESIDENTIAL
PROPOSED LAND USE: SINGLE FAMILY RESIDENTIAL
EXISTING GENERAL PLAN: STONERIDGE - SPECIFIC PLAN
PROPOSED GENERAL PLAN: STONERIDGE - SPECIFIC PLAN
RESIDENTIAL LOTS: LOTS 1 THRU 6 (234.70 ACRES)
OPENSPACE / RETENTION / DRAINAGE / RECREATION:
LOTS "A" THRU "C" (21.73 ACRES)
PUBLIC STREETS: LOTS "D" AND "F"
(7.44 ACRES)
PRIVATE STREETS: LOTS "E", "G" AND "H"
(14.83 ACRES)

UTILITIES

WATER/SEWER MISSION SPRINGS WATER DISTRICT
(760) 329-6448
COUNTY ROADS RIVERSIDE COUNTY TRANSPORTATION DEPT.
(760) 963-8267
CITY STREETS CITY OF DESERT HOT SPRINGS
(760) 329-6411
ELECTRICITY EDISON INTERNATIONAL
(800) 455-4555
GAS SOUTHERN CALIFORNIA GAS
(909) 335-7729
TELEPHONE VERIZON
(760) 864-1715
CABLE TV TIME WARNER CABLE
(760) 329-6436
FLOOD CONTROL RIVERSIDE COUNTY FLOOD CONTROL
AND WATER CONSERVATION DISTRICT
(909) 955-1200
UNDERGROUND UNDERGROUND SERVICE ALERT
UTILITIES (800) 227-2600

NOTES:

- 2003 THOMAS BROS. QUAD, RIVERSIDE COUNTY, PAGE 696 COORDINATES A3.
- THE PROJECT SITE IS LOCATED WITHIN ZONE X PER FEMA AREA MAP NO. DR065008UC, DATED AUGUST 26, 2006.
- THE PROJECT MAY BE RECORDED AND DEVELOPED IN PHASES AS APPROVED BY THE CITY ENGINEER.
- ADDITIONAL LETTERED LOTS MAY BE NECESSARY AT TIME OF FINAL MAP.
- STREETS WITHIN THE TRACT WILL BE OFFERED UP TO THE CITY & UTILITY COMPANIES FOR EASEMENT PURPOSES.

LEGEND

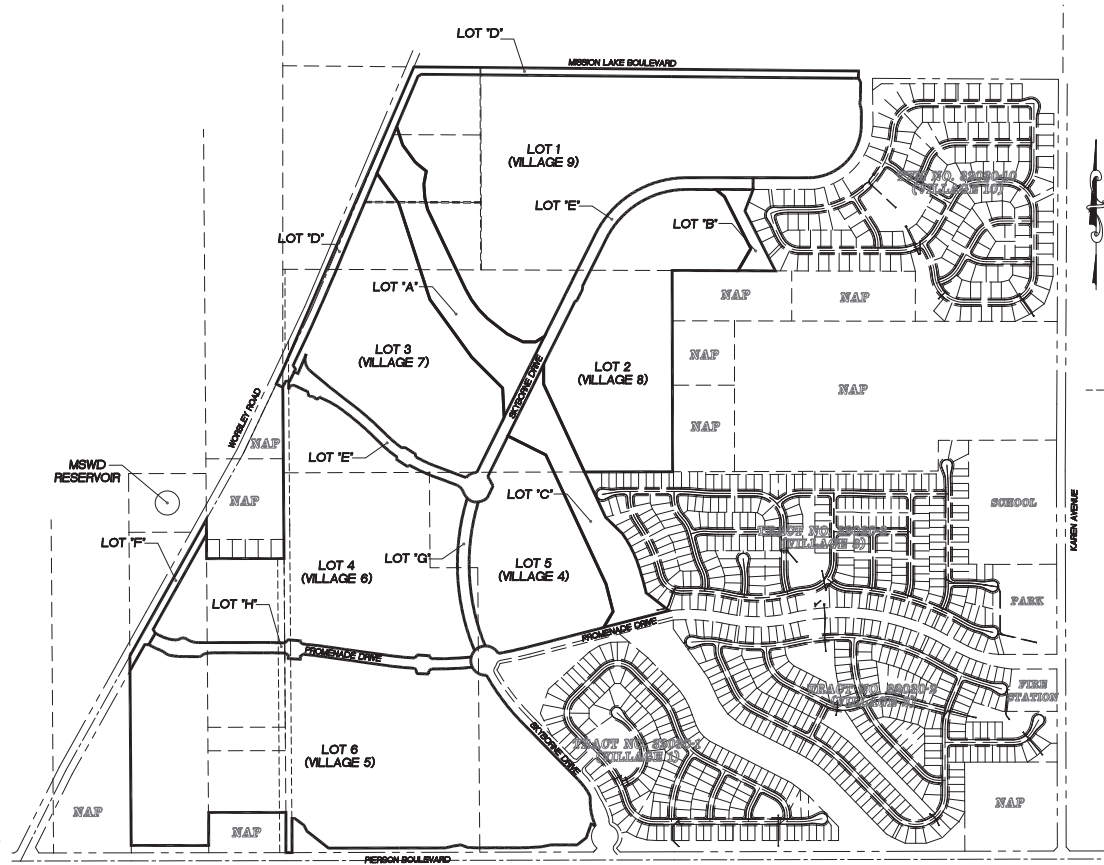
10 LOT NUMBER
A.P.A. ASSESSORS PARCEL NUMBERS

EASEMENT NOTES:

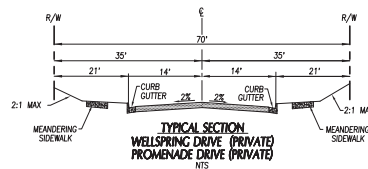
20' ROAD EASEMENT PER R/S 27/65

- 5 AN EASEMENT IN FAVOR OF SOUTHERN CALIFORNIA EDISON COMPANY, 15.00' IN WIDTH, FOR POLE LINES, CONDUITS, UNDERGROUND FACILITIES AND INCIDENTAL PURPOSES PER INSTRUMENT NO. 83904, RECORDED 7/21/65, O.R. - TO BE OUTCLAIMED
- 15 AN EASEMENT IN FAVOR OF SOUTHERN CALIFORNIA EDISON COMPANY, 40.00' IN WIDTH, FOR THE PURPOSE OF POLE LINES, CONDUITS OR UNDERGROUND FACILITIES AND INCIDENTAL PURPOSES PER INSTRUMENT NO. 99053, RECORDED 8/30/65, O.R. - TO BE RELOCATED
- 14 AN EASEMENT, 44.00' IN WIDTH, FOR PUBLIC ROAD AND PUBLIC UTILITY PURPOSES PER INSTRUMENT NO. 116863, RECORDED 5/20/86, O.R. - TO BE OUTCLAIMED
- 15 AN EASEMENT, 44.00' IN WIDTH, FOR PUBLIC ROAD AND PUBLIC UTILITY PURPOSES PER INSTRUMENT NO. 116864, RECORDED 5/20/86, O.R. - TO BE OUTCLAIMED

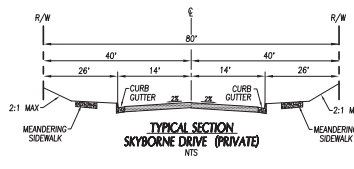
- 16 AN EASEMENT, 44.00' IN WIDTH, FOR PUBLIC ROAD AND PUBLIC UTILITY PURPOSES PER INSTRUMENT NO. 134027, RECORDED 6/10/86, O.R. - TO BE OUTCLAIMED
- 17 AN EASEMENT, 44.00' IN WIDTH, FOR PUBLIC ROAD AND PUBLIC UTILITY PURPOSES PER INSTRUMENT NO. 134028, RECORDED 6/10/86, O.R. - TO BE OUTCLAIMED
- 18 AN EASEMENT IN FAVOR OF BEAUFORT E. HANSEN AND MYRTLE L. HANSEN, 30.00' IN WIDTH, FOR ROAD PURPOSES PER INSTRUMENT NO. 59111, RECORDED 6/9/86.
- 23 AN EASEMENT FOR POLE LINES, CONDUITS AND INCIDENTAL PURPOSES IN FAVOR OF CALIFORNIA ELECTRIC POWER COMPANY AND CALIFORNIA WATER AND TELEPHONE COMPANY, IN INSTRUMENT RECORDED APRIL 2, 1959 IN BOOK 2248 PAGE 369 OF OFFICIAL RECORDS OF RIVERSIDE COUNTY, CALIFORNIA, SAID EASEMENT IS DESCRIBED AS BEING OVER, ALONG, ACROSS OR BENEATH ALL STREETS, ALLEYS, HIGHWAYS, PUBLIC PLACES AND WITHIN 5 FEET OF ALL DIVISION PROPERTY LINES (EXCEPT SUCH LINES AS COINCIDE WITH BOUNDARY LINES OF STREETS AND ALLEYS), AS SHOWN ON THE MAP OF RS 27/65. - TO BE OUTCLAIMED



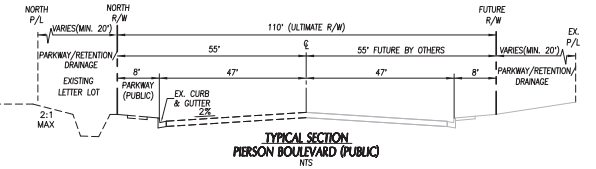
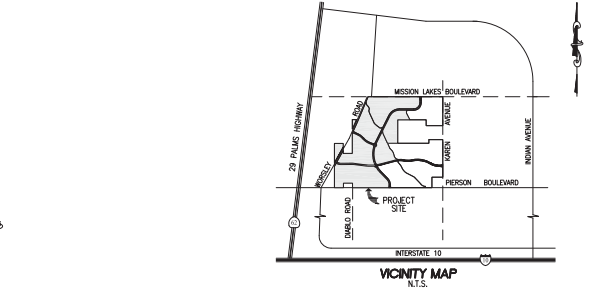
INDEX MAP
SCALE=400'



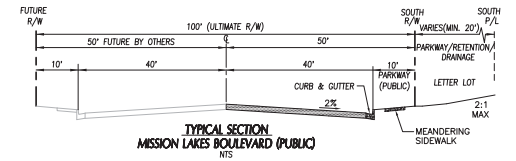
TYPICAL SECTION
WELLSPRING DRIVE (PRIVATE)
PROMENADE DRIVE (PRIVATE)
NTS



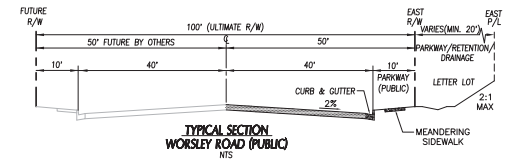
TYPICAL SECTION
SKYBORNE DRIVE (PRIVATE)
NTS



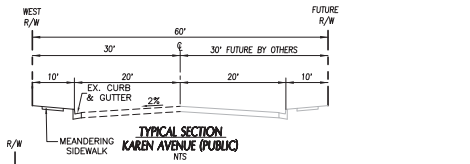
TYPICAL SECTION
PERSON BOULEVARD (PUBLIC)
NTS



TYPICAL SECTION
MISSION LAKES BOULEVARD (PUBLIC)
NTS



TYPICAL SECTION
WOKSLEY ROAD (PUBLIC)
NTS



TYPICAL SECTION
KAREN AVENUE (PUBLIC)
NTS

"THIS TENTATIVE MAP IS FOR"
"FINANCING PURPOSES ONLY"

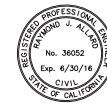
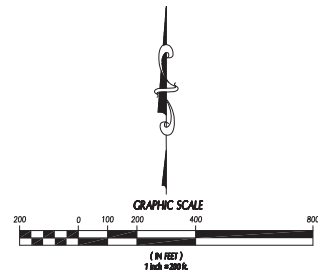
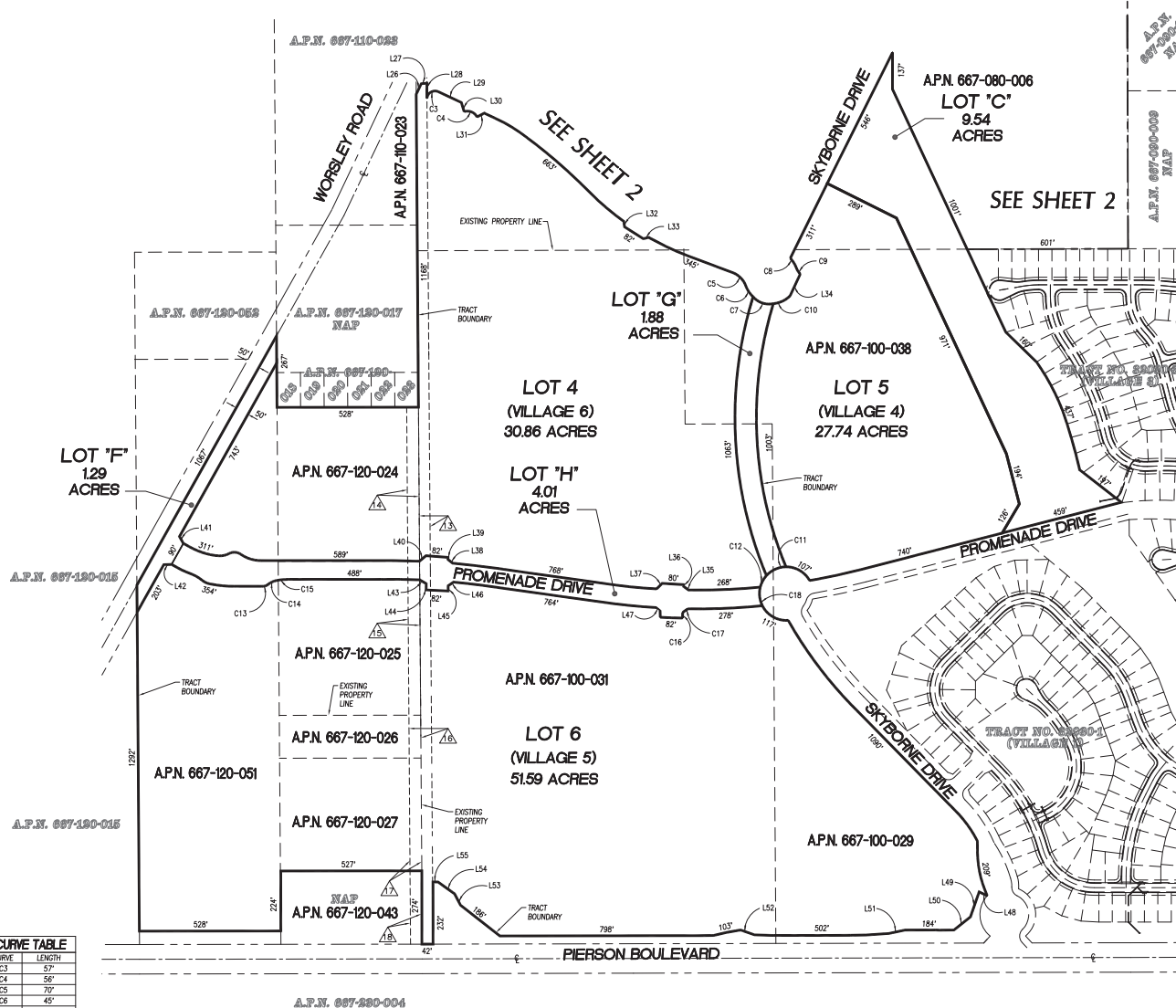
CITY OF DESERT HOT SPRINGS
TENTATIVE TRACT MAP
NO. 36904
(SKYBORNE)
SEPTEMBER, 2015

1
3

LINE	LENGTH
L26	44'
L27	21'
L28	56'
L29	94'
L30	36'
L31	30'
L32	21'
L33	21'
L34	89'
L35	23'
L36	7'
L37	29'
L38	23'
L39	8'
L40	32'

LINE	LENGTH
L41	29'
L42	30'
L43	28'
L44	24'
L45	19'
L46	25'
L47	36'
L48	33'
L49	98'
L50	79'
L51	60'
L52	55'
L53	49'
L54	76'
L55	19'

CURVE	LENGTH
C3	57'
C4	56'
C5	70'
C6	45'
C7	84'
C8	49'
C9	30'
C10	70'
C11	82'
C12	49'
C13	27'
C14	32'
C15	49'
C16	21'
C17	29'
C18	71'



Prepared By:
ALLARD ENGINEERING
 Civil Engineering - Land Surveying - Land Planning
 18888 Serrilla Avenue
 Fremont, California 94538
 (925) 356-1815 Fax: (925) 356-1795

**CITY OF DESERT HOT SPRINGS
 TENTATIVE TRACT MAP
 NO. 36904
 (SKYBORNE)
 FEBRUARY, 2015**

404
710
2006-0441837
ORIGINAL

TRACT No. 32030-2

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005

RECORDER'S STATEMENT

FILED THIS 14th DAY OF June 2006,
AT 8:44 AM
IN BOOK 564 OF MAPS, AT PAGES 16-17
AT THE REQUEST OF THE CITY CLERK,
CITY OF DESERT HOT SPRINGS
NO. 2006-0441837
FEE \$ 23.50
Linda H. County Assessor-Clerk-Recorder
BY: [Signature] DEPUTY
SUBDIVISION GUARANTEE: FIRST AMERICAN TITLE CO.

OWNER'S STATEMENT

WE HEREBY STATE THAT WE ARE THE OWNERS OF THE LAND INCLUDED WITHIN THE SUBDIVISION SHOWN HEREON; THAT WE ARE THE ONLY PERSONS WHOSE CONSENT IS NECESSARY TO PASS A CLEAR TITLE TO SAID LAND; THAT WE CONSENT TO THE MAKING AND RECORDING OF THIS SUBDIVISION MAP AS SHOWN WITHIN THE DISTINCTIVE BORDER LINE.

WE HEREBY DEDICATE KAREN AVENUE, LOT "Z", TO THE PUBLIC FOR PUBLIC USE FOR STREET, AND PUBLIC UTILITY PURPOSES.

WE HEREBY RETAIN LOT "AA" AND LOTS "A" THROUGH "P", INCLUSIVE, AS SHOWN HEREON FOR RECREATION PURPOSES, OPEN SPACE, LANDSCAPING AND PUBLIC UTILITY PURPOSES, AS SHOWN HEREON FOR PRIVATE USE FOR THE SOLE BENEFIT OF OURSELVES, OUR SUCCESSORS, ASSIGNS AND RESIDENTIAL LOT OWNERS WITHIN THIS MAP.

WE HEREBY RETAIN LOTS "Q" THROUGH "Y", INCLUSIVE, INDICATED AS "PRIVATE STREETS", AS SHOWN HEREON FOR PRIVATE USE FOR THE SOLE BENEFIT OF OURSELVES, OUR SUCCESSORS, ASSIGNS AND RESIDENTIAL LOT OWNERS WITHIN THIS MAP.

WE HEREBY DEDICATE TO PUBLIC USE, EASEMENTS FOR PUBLIC UTILITY PURPOSES TOGETHER WITH THE RIGHT OF INGRESS AND EGRESS FOR EMERGENCY VEHICLES WITHIN LOTS "Q" THROUGH "Y", INCLUSIVE.

WE HEREBY DEDICATE ABUTTER'S RIGHTS OF ACCESS ALONG PROMENADE DRIVE, THE OWNERS OF LOTS 1 THROUGH 16 AND 217 THROUGH 240 ABUTTING THIS HIGHWAY AND DURING SUCH TIME WILL HAVE NO RIGHTS OF ACCESS EXCEPT THE GENERAL EASEMENT OF TRAVEL, ANY CHANGE OF ALIGNMENT OR WIDTH THAT RESULTS IN THE VACATION THEREOF SHALL TERMINATE CONDITION OF ACCESS RIGHTS AS TO THE PART VACATED.

WE ALSO HEREBY DEDICATE FOR PUBLIC UTILITY AND PUBLIC SERVICES PURPOSES THOSE EASEMENTS SHOWN AS "P.U.E."

SURVEYOR'S STATEMENT

I HEREBY STATE THAT I AM A LICENSED LAND SURVEYOR OF THE STATE OF CALIFORNIA AND THAT THIS MAP CONSISTING OF NINE (9) SHEETS CORRECTLY REPRESENTS A SURVEY MADE UNDER MY SUPERVISION DURING DECEMBER 2003, THAT ALL MONUMENTS SHOWN HEREON ACTUALLY EXIST AND THEIR POSITIONS ARE CORRECTLY SHOWN, OR WILL BE IN ACCORDANCE WITH THE TERMS OF THE MONUMENT AGREEMENT FOR THE MAP. THE MONUMENTS WILL BE SUFFICIENT TO ENABLE THE SURVEY TO BE RETRACED. THE SURVEY IS TRUE AND COMPLETE AS SHOWN.

DATED: June 1, 2006
[Signature]
JOHN E. DIERKSEN L.S. 6935
MY LICENSE EXPIRES: SEPT. 30, 2007



CITY ENGINEER'S STATEMENT

I HEREBY STATE THAT I HAVE EXAMINED THIS MAP AND HAVE FOUND IT TO BE SUBSTANTIALLY IN CONFORMANCE WITH THE TENTATIVE MAP, IF REQUIRED, AS FILED WITH, AMENDED AND APPROVED BY THE CITY COUNCIL; THAT ALL PROVISIONS OF THE SUBDIVISION MAP ACT AND CITY SUBDIVISION REGULATIONS HAVE BEEN COMPLIED WITH AND I AM SATISFIED SAID MAP IS TECHNICALLY CORRECT.

[Signature]
GENE T. GINTHER, CITY ENGINEER
R.C.E. 40429, EXP. 3/31/07
P.L.S. 5639, EXP. 3/31/07

6/07/06
DATE



WESTERN PACIFIC HOUSING, INC., A DELAWARE CORPORATION.

BY: [Signature] JIMMY LUKER, VICE PRESIDENT
BY: [Signature] TODD PUNK, VICE PRESIDENT

NOTARY ACKNOWLEDGMENT

STATE OF CALIFORNIA
COUNTY OF Orange

ON 6/8/06 BEFORE ME Denise Sobrio, A
NOTARY PUBLIC IN AND FOR SAID STATE, PERSONALLY APPEARED
Jimmy Luker and Todd Punk
(PERSONALLY KNOWN TO ME/PROVED TO ME ON THE BASIS OF SATISFACTORY EVIDENCE) TO BE THE PERSON (S) WHOSE NAME(S) (IS/ARE) SUBSCRIBED TO THE WITHIN INSTRUMENT AND ACKNOWLEDGED THAT (HE/SHE/HEY) EXECUTED THE SAME IN HIS/HER/THEIR AUTHORIZED CAPACITY(IES), AND THAT BY HIS/HER/THEIR SIGNATURE(S) ON THE INSTRUMENT THE PERSON(S), OR THE ENTITY UPON BEHALF OF WHICH THE PERSON(S) ACTED, EXECUTED THE INSTRUMENT.

WITNESS MY HAND AND OFFICIAL SEAL

MY COMMISSION EXPIRES 8/9/2008
[Signature]
SIGNATURE

SIGNATURE OMISSIONS

THERE ARE NO EXISTING EASEMENTS WITHIN THE BOUNDARY OF THIS MAP.

CITY CLERK'S STATEMENT

I HEREBY STATE THAT THE CITY COUNCIL OF THE CITY OF DESERT HOT SPRINGS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA, ACCEPTS THE PUBLIC UTILITY EASEMENTS (P.U.E.); EASEMENTS FOR PUBLIC UTILITY PURPOSES TOGETHER WITH THE RIGHT OF INGRESS AND EGRESS FOR EMERGENCY VEHICLES WITHIN LOTS "Q" THROUGH "Y", INCLUSIVE; KAREN AVENUE, LOT "Z", TO THE PUBLIC FOR PUBLIC USE FOR STREET, AND PUBLIC UTILITY PURPOSES; ABUTTER'S RIGHTS OF ACCESS ALONG PROMENADE DRIVE, AS DEDICATED; AND DULY APPROVED THIS TRACT MAP.

DATED: June 5, 2006
[Signature]
CITY CLERK, CITY OF DESERT HOT SPRINGS

TAX COLLECTOR'S CERTIFICATE

I HEREBY CERTIFY THAT ACCORDING TO THE RECORDS OF THIS OFFICE, AS OF THIS DATE, THERE ARE NO LIENS AGAINST THE PROPERTY SHOWN ON THE WITHIN MAP FOR UNPAID STATE, COUNTY, MUNICIPAL, OR LOCAL TAXES OR SPECIAL ASSESSMENTS COLLECTED AS TAXES, EXCEPT TAXES OR SPECIAL ASSESSMENTS COLLECTED AS TAXES NOW A LIEN BUT NOT YET PAYABLE, WHICH ARE ESTIMATED TO BE \$ 163,200.

DATED: June 14, 2006

PAUL MCDONNELL, COUNTY TAX COLLECTOR

BY: [Signature] DEPUTY

TAX BOND CERTIFICATE

I HEREBY CERTIFY THAT A BOND IN THE SUM OF \$ 163,200 HAS BEEN EXECUTED AND FILED WITH THE BOARD OF SUPERVISORS OF THE COUNTY OF RIVERSIDE, CALIFORNIA, CONDITIONED UPON THE PAYMENT OF ALL TAXES, STATE, COUNTY, MUNICIPAL OR LOCAL, AND ALL SPECIAL ASSESSMENTS COLLECTED AS TAXES, WHICH AT THE TIME OF FILING OF THIS MAP WITH THE COUNTY RECORDER ARE A LIEN AGAINST SAID PROPERTY BUT NOT YET PAYABLE AND SAID BOND HAS BEEN DULY APPROVED BY SAID BOARD OF SUPERVISORS.

DATED: June 14, 2006

NANCY ROMERO,
CLERK OF THE BOARD OF SUPERVISORS

BY: _____, DEPUTY

CASH TAX BOND
PAUL MCDONNELL,
COUNTY TAX COLLECTOR

BY: [Signature] DEPUTY

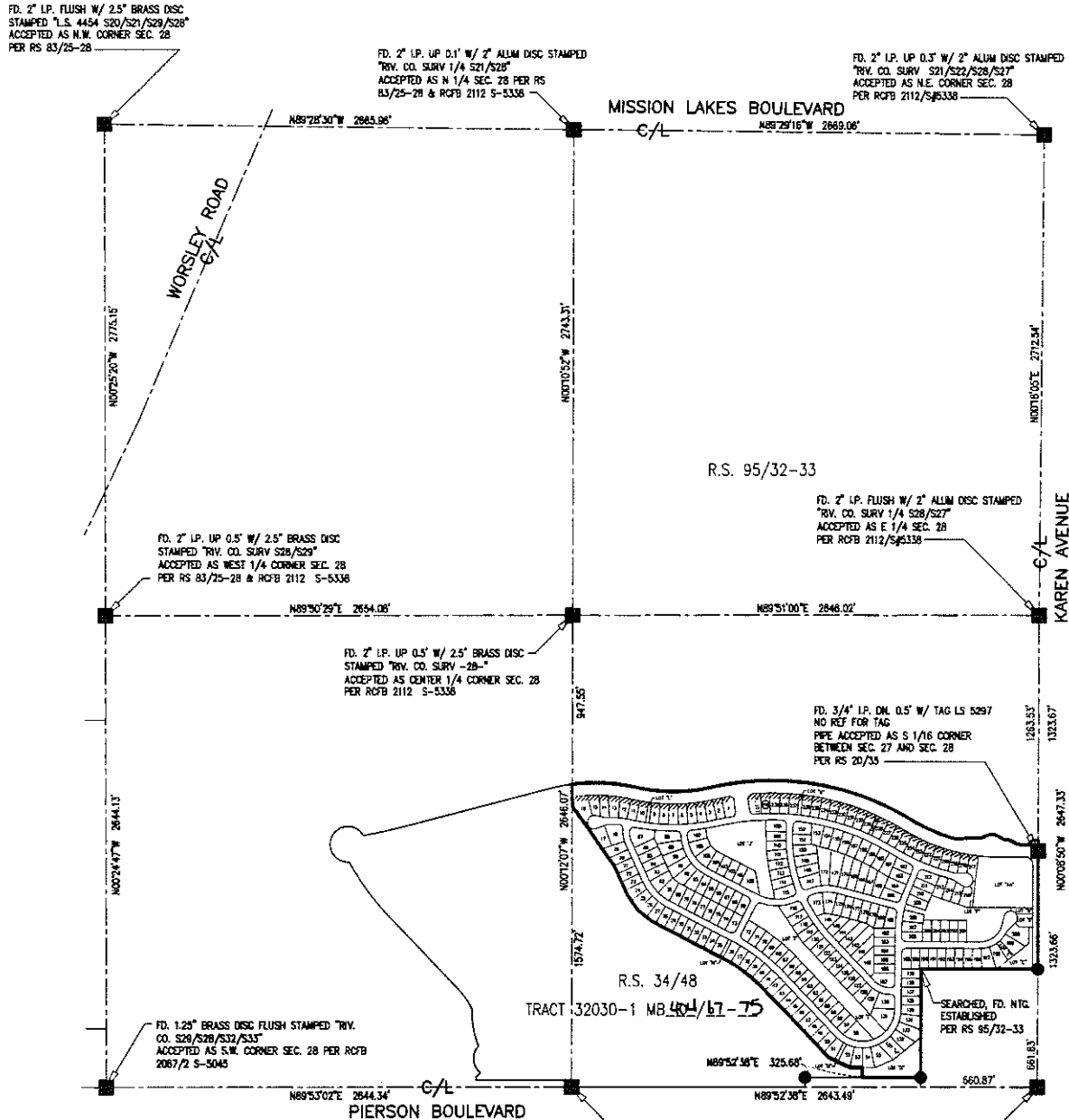
407
17
2006-04-18-37
ORIGINAL

TRACT No. 32030-2

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005

BOUNDARY MAP

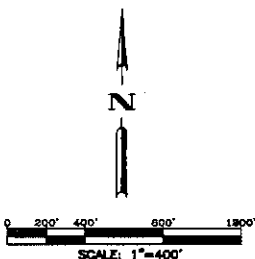


SURVEYOR'S NOTES:

1. ALL MONUMENTS SHOWN "SET" SHALL BE SET IN ACCORDANCE WITH THE MONUMENTATION AGREEMENT FOR THIS MAP, UNLESS OTHERWISE NOTED.
2. SET 2" I.P. TAGGED L.S. 6935, FLUSH AT ALL REAR CORNERS AND TRACT BOUNDARY OR PK NAIL TAGGED L.S. 6935 ON CONCRETE WALL FOOTING.
3. SET LEAD & TAG L.S. 6935 IN TOP OF CURB AT ALL SIDE LOT LINES PROJECTED, EXCEPT AT INTERSECTION CORNER CUTBACKS. (OFFSET = 0.25')
4. ALL MONUMENTS TO BE SET ARE PLACED IN ACCORDANCE WITH ORDINANCE 481.9 OF RIVERSIDE COUNTY.
5. (R)-RADIAL BEARING
6. // INDICATES ACCESS RIGHTS DEDICATED & ACCEPTED HEREON
7. P.U.E. INDICATES PUBLIC UTILITY EASEMENT DEDICATED & ACCEPTED HEREON.

BASIS OF BEARING

THE BEARINGS FOR THIS MAP ARE BASED ON THE SOUTHERLY LINE OF THE SOUTHEAST 1/4 OF SECTION 28, T2S, R4E, S28M, ALSO BEING THE CENTERLINE OF PIERSON BOULEVARD, AS SHOWN ON RS 95/32-33, RECORDS OF RIVERSIDE COUNTY, BEING NORTH 89°32'36" EAST.



2006-0441837
404
ORIGINAL
78

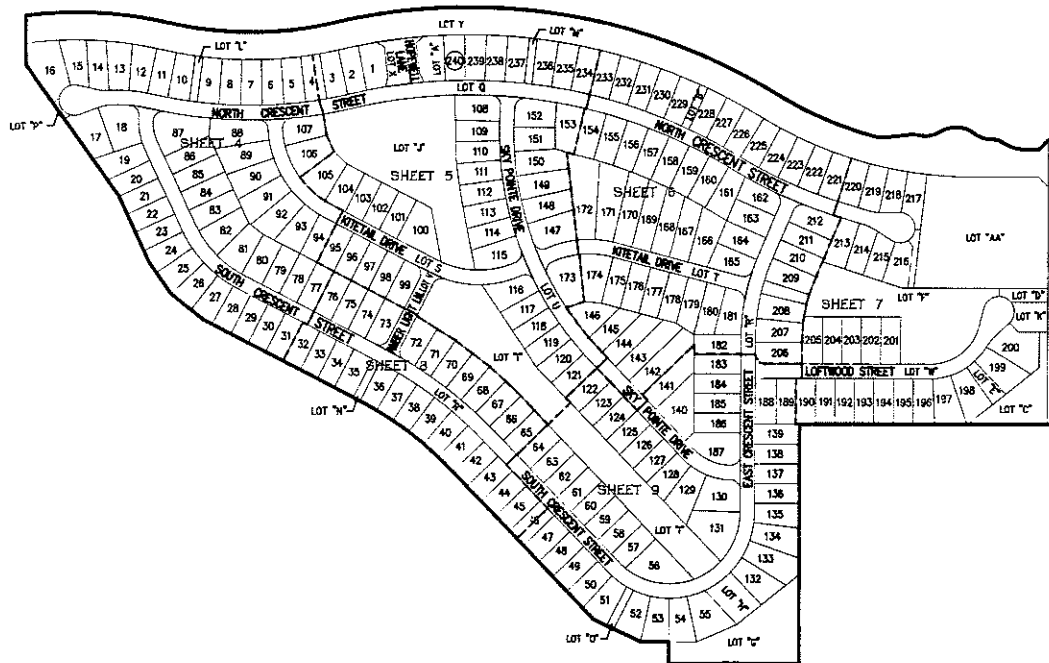
IN THE CITY OF DESERT HOT SPRINGS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

SHEET 3 OF 9 SHEETS

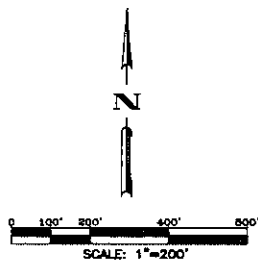
TRACT No. 32030-2

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005



SHEET INDEX MAP



NOTE:
SEE SHEET 2 FOR SURVEYOR'S NOTES,
BASIS OF BEARINGS AND EASEMENT
NOTES.

404
79
2006-044637
ORIGINAL

IN THE CITY OF DESERT HOT SPRINGS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

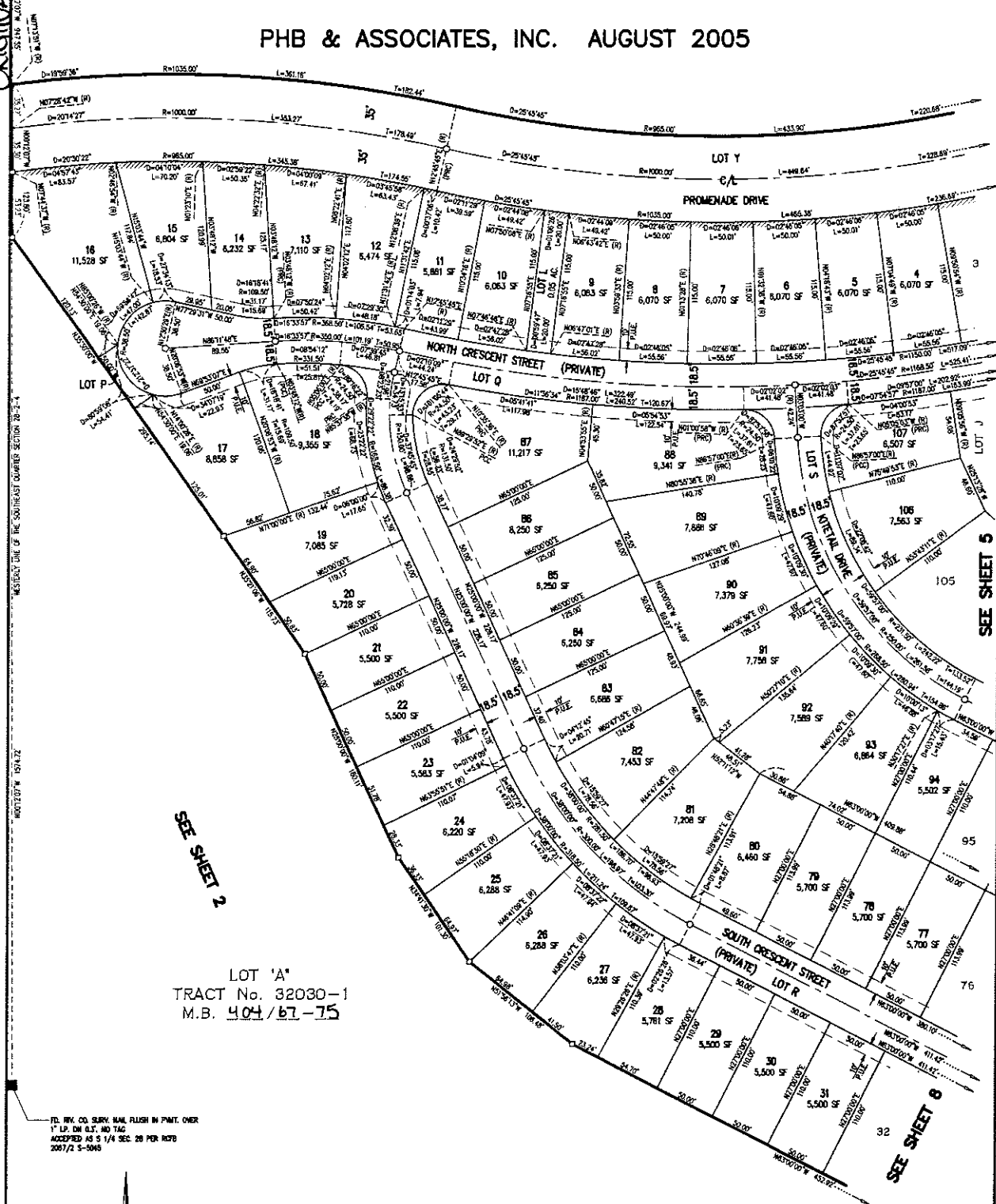
SHEET 4 OF 9 SHEETS

TRACT No. 32030-2

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005

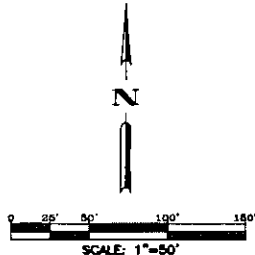
FD. 2" UP, 0.5" W/ 2.5" BRASS DISC
STAMPED TWP. CO. SURV. - 78-4
ACCEPTED AS CORNER 1/4 CORNER SEC. 28
PER NOTE 212 3-5339



SEE SHEET 2

LOT 'A'
TRACT No. 32030-1
M.B. 404/67-75

FD. 2" UP, 0.5" W/ 2.5" BRASS DISC
STAMPED TWP. CO. SURV. - 78-4
ACCEPTED AS CORNER 1/4 CORNER SEC. 28
PER NOTE 212 3-5339



NOTE:
SEE SHEET 2 FOR SURVEYOR'S NOTES,
BASIS OF BEARINGS AND EASEMENT
NOTES.

SHEET 5 OF 9 SHEETS

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

LOT Y (PRIVATE)
PROMENADE DRIVE

NORTH CRESCENT STREET

KITETAILED DRIVE (PRIVATE)

LOT A 0.17 ACRES

LOT J 1.92 ACRES

LOT I 2.14 ACRES

SEE SHEET 8

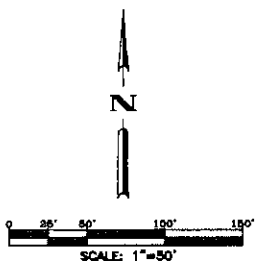
SEE SHEET 6

SEE SHEET 9

SEE SHEET 8

122
SEE SHEET 9

NOTE:
SEE SHEET 2 FOR SURVEYOR'S NOTES,
BASIS OF BEARINGS AND EASEMENT
NOTES.



407/81

2006-04-1837
ORIGINAL

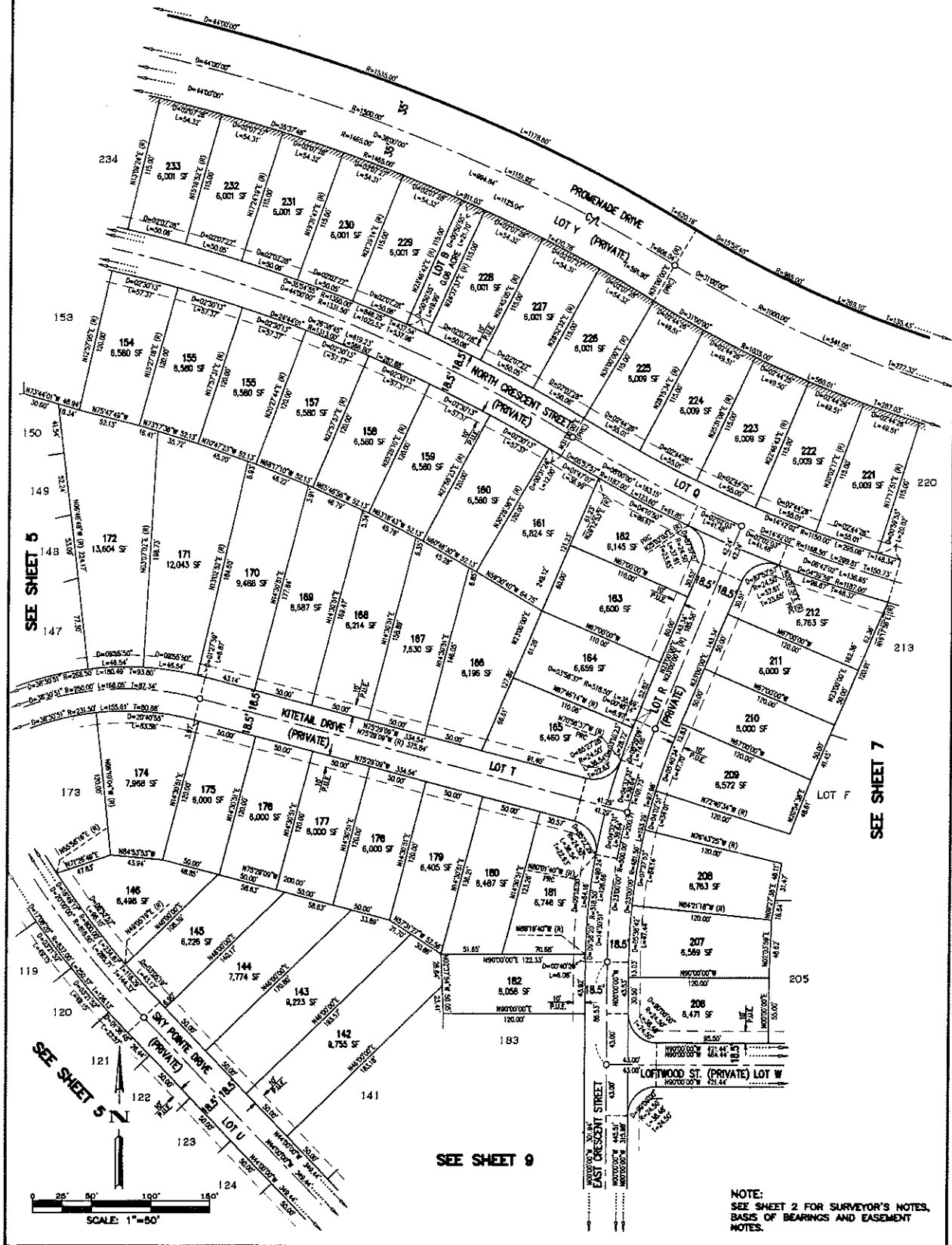
IN THE CITY OF DESERT HOT SPRINGS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

SHEET 6 OF 9 SHEETS

TRACT No. 32030-2

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005



2006-0441837
CR161N/A

IN THE CITY OF DESERT HOT SPRINGS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

SHEET 7 OF 9 SHEETS

TRACT No. 32030-2

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005

70. 2" LP. FILM W/ 2" ALUM DISC STAMPED
TRV. CO. SURV 1/4 528/527
ACCEPTED AS E 1/4 SEC. 28
PER ROFS 2112/545318

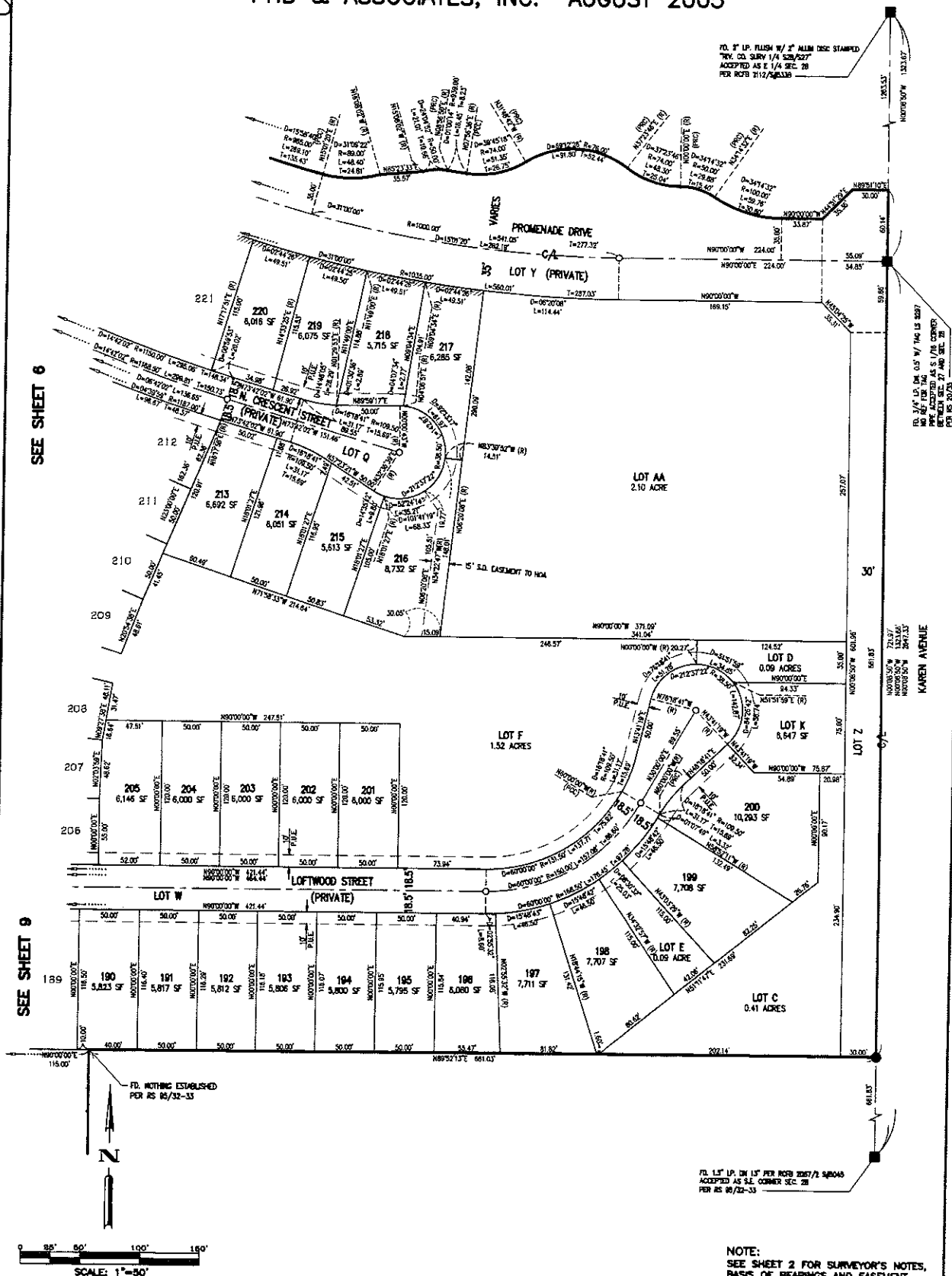
FD. 3/4" LP. DM. 0.5" W/ TAG LS \$287
AND REF FOR TAG
PIPE ACCEPTED AS S 1/16 CORNER
BETWEEN SEC. 27 AND SEC. 28
FOR RS 20/25

100°08'50"W 2047.33'

KAREN AVENUE

FD-157 LP. DN 15" PER ROFS ZMS7/2 S4B045
ACCEPTED AS S.E. CORNER SEC. 28
FEB 25 08/72-13

NOTE:
SEE SHEET 2 FOR SURVEYOR'S NOTES,
BASIS OF BEARINGS AND EASEMENT
NOTES.



2006-04-1837 404/83
ORIGINAL

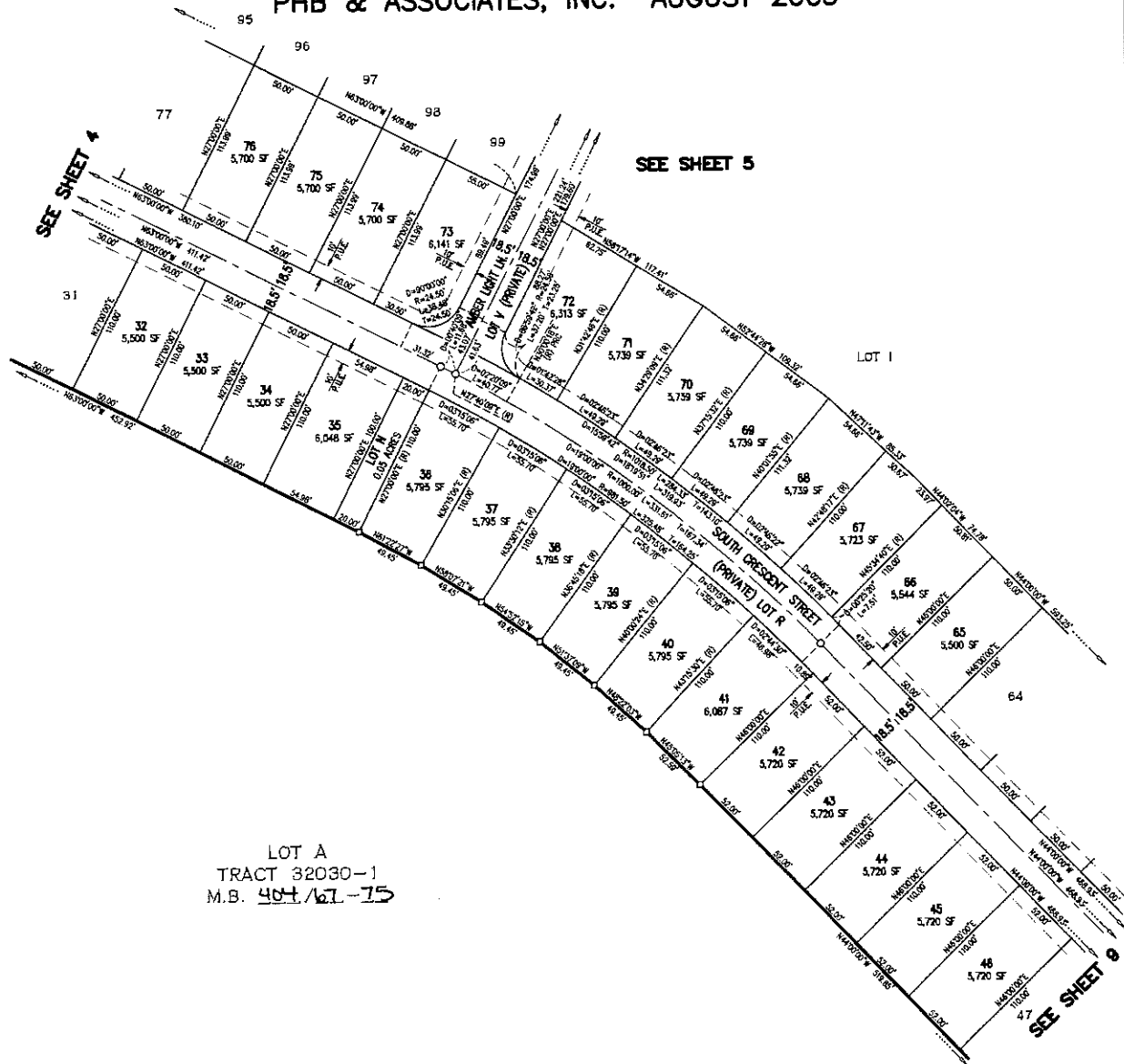
IN THE CITY OF DESERT HOT SPRINGS, COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

SHEET 8 OF 9 SHEETS

TRACT No. 32030-2

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005



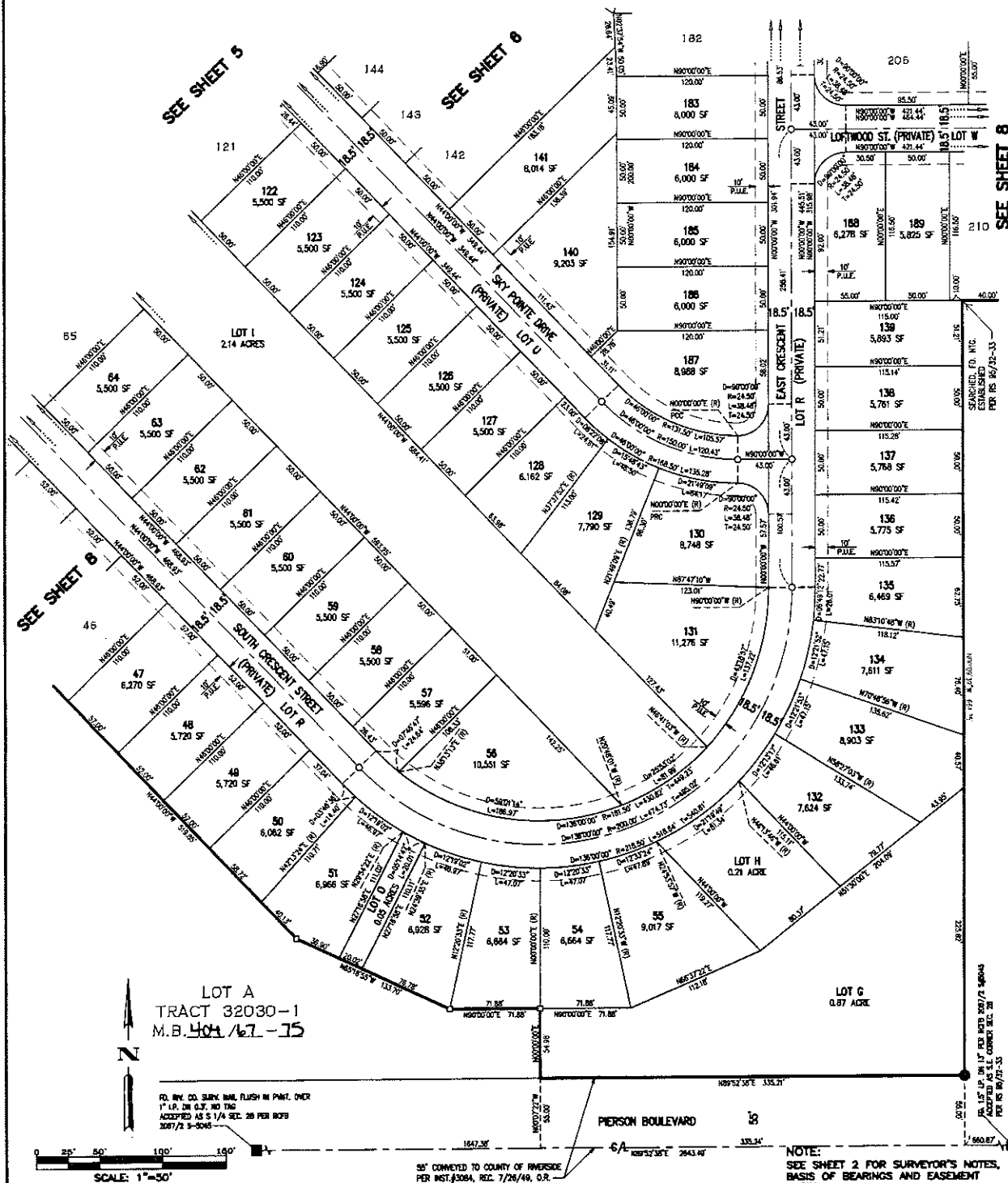
LOT A
TRACT 32030-1
M.B. 404/61-15

NOTE:
SEE SHEET 2 FOR SURVEYOR'S NOTES,
BASIS OF BEARINGS AND EASEMENT
NOTES.

SHEET 9 OF 9 SHEETS

BEING A SUBDIVISION OF A PORTION OF THE SOUTHEAST QUARTER OF SECTION 28,
TOWNSHIP 2 SOUTH, RANGE 4 EAST, SAN BERNARDINO BASE AND MERIDIAN

PHB & ASSOCIATES, INC. AUGUST 2005



Addendum D

Comparable Data

Location & Property Identification

Property Name:	Renata at Domani
Sub-Property Type:	Residential, Single Family Development Land
Address:	39906 Felicita Pky.
City/State/Zip:	Palm Desert, CA 92211
County:	Riverside
Market Orientation:	Suburban
IRR Event ID:	3050274



Sale Information

Sale Price:	\$3,586,500
Effective Sale Price:	\$3,586,500
Sale Date:	06/01/2022
Sale Status:	Closed
\$/Acre(Gross):	\$3,586,500
\$/Land SF(Gross):	\$82.33
\$/Acre(Usable):	\$3,586,500
\$/Land SF(Usable):	\$82.33
\$/Unit (Potential):	\$27,170 /Approved Lot
Grantor/Seller:	Encore Homes, LLC
Grantee/Buyer:	Pulte
Property Rights:	Fee Simple
% of Interest Conveyed:	100.00
Financing:	Cash to seller
Document Type:	Deed
Verified By:	Laura Diaz
Verification Type:	Secondary Verification
Secondary Verific. Source:	Tellus Land & Capital

Zoning Desc.:	Residential
Source of Land Info.:	Public Records

Comments

Sale of 132 lots to Pulte, who is developing a 55+ age-restricted community known as Renata at Domani. The typical lot size is 4,500 SF and homes range in size from 1,579 to 1,865 SF with prices starting at \$428,990. The lots were final mapped at the time of sale and finishing costs are estimated at \$87,830 per lot.

Improvement and Site Data

MSA:	Riverside-San Bernardino-Ontario, CA
Acres(Usable/Gross):	1.00/1.00
Land-SF(Usable/Gross):	43,560/43,560
Usable/Gross Ratio:	1.00
No. of Units (Potential):	132

Location & Property Identification

Property Name:	Bellissima
Sub-Property Type:	Residential, Single Family Development Land
Address:	53-039 Modena Ter.
City/State/Zip:	Coachella, CA 92236
County:	Riverside
Market Orientation:	Suburban
IRR Event ID:	3050279



Sale Information

Sale Price:	\$2,382,500
Effective Sale Price:	\$2,382,500
Sale Date:	05/01/2022
Sale Status:	Closed
\$/Acre(Gross):	\$2,382,500
\$/Land SF(Gross):	\$54.69
\$/Acre(Usable):	\$2,382,500
\$/Land SF(Usable):	\$54.69
\$/Unit (Potential):	\$21,464 /Approved Lot
Grantor/Seller:	Coachella Investments, LLC
Grantee/Buyer:	Pulte
Property Rights:	Fee Simple
% of Interest Conveyed:	100.00
Financing:	Cash to seller
Document Type:	Deed
Verified By:	Laura Diaz
Verification Type:	Secondary Verification
Secondary Verific. Source:	Tellus Land & Capital

Improvement and Site Data

MSA:	Riverside-San Bernardino-Ontario, CA
Acres(Usable/Gross):	1.00/1.00
Land-SF(Usable/Gross):	43,560/43,560
Usable/Gross Ratio:	1.00
No. of Units (Potential):	111

Zoning Desc.:	Residential
Source of Land Info.:	Other

Comments

Sale of 111 tentatively mapped lots to Pulte, who is developing a project known as Bellissima. Floor plans range from 1,959 to 2,824 SF with sale prices between \$471,990 and \$541,990. The typical lot size is 6,000 SF. Finishing costs are estimated at \$98,536 per lot.

Location & Property Identification

Property Name: Skyborne - Village 2 (Second Take)

Sub-Property Type: Residential, Finished SFR Lots

Address: Crescent St.

City/State/Zip: Desert Hot Springs, CA 92240

County: Riverside

Market Orientation: Suburban

IRR Event ID: 3050273



Sale Information

Sale Price: \$8,380,044

Effective Sale Price: \$8,380,044

Sale Date: 12/20/2021

Sale Status: Closed

\$/Acre(Gross): \$497,037

\$/Land SF(Gross): \$11.41

\$/Acre(Usable): \$497,037

\$/Land SF(Usable): \$11.41

\$/Unit (Potential): \$77,593 /Approved Lot

Grantor/Seller: Skyborne Ventures, LLC

Grantee/Buyer: Lennar Homes

Property Rights: Fee Simple

% of Interest Conveyed: 100.00

Financing: Cash to seller

Document Type: Deed

Verified By: Laura Diaz

Verification Date: 09/15/2023

Verification Type: Confirmed-Seller

Usable/Gross Ratio: 1.00

No. of Units (Potential): 108

Zoning Code: R-1

Zoning Desc.: Residential

Source of Land Info.: Public Records

Comments

Takedown of 108 lots within Village 2 of the Skyborne at Desert Hot Springs subdivision. Remaining site development costs were \$8,539 per lot and permits and fees were \$20,737 per lot. The property was encumbered with a CFD at the time of sale, and net permits and fees after bond proceeds were \$8,868 per lot. Special taxes are approximately \$1,212 per lot and the typical lot size is 6,400 SF. This takedown completes Lennar's purchase of 187 lots for the remainder of Village 2; the project is known at Vega.

Improvement and Site Data

MSA: Riverside-San Bernardino-Ontario, CA

Acres(Usable/Gross): 16.86/16.86

Land-SF(Usable/Gross): 734,422/734,422

Location & Property Identification

Property Name:	Palari Villas
Sub-Property Type:	Residential, Single Family Development Land
Address:	Sky Ridge Way
City/State/Zip:	Desert Hot Springs, CA 92240
County:	Riverside
Market Orientation:	Suburban
IRR Event ID:	2972035



Sale Information

Sale Price:	\$1,800,000
Effective Sale Price:	\$1,800,000
Sale Date:	08/12/2021
Sale Status:	Closed
\$/Acre(Gross):	\$80,357
\$/Land SF(Gross):	\$1.84
\$/Unit (Potential):	\$23,377 /Unit
Grantor/Seller:	Hacienda Ventures LLC
Grantee/Buyer:	Palari Villas DHS LLC
Assets Sold:	Real estate only
Property Rights:	Fee Simple
Financing:	Cash to seller
Conditions of Sale:	Arm's-length
Document Type:	Deed
Recording No.:	2021-614731
Verified By:	Sara Gilbertson, MAI
Verification Date:	02/01/2023
Confirmation Source:	Mel Wyatt
Verification Type:	Confirmed-Buyer

Comments

The property encompasses a total of 17.23 acres of developable, residentially zoned land. It is proposed and entitled for the development of a 77-lot subdivision (9,000 square foot lots). A final map was recorded in December 2005. Site development commenced in April 2022 and is anticipated to be completed in March 2023. The project will feature a 1,176 square foot modular homes (2-bedroom/2-bathroom), each with a 667 square foot ADU (2-bedroom/1-bath, accessory dwelling unit). Permits and fees are \$24,500 per lot; site development costs are \$51,616 per lot.

Improvement and Site Data

Acres(Gross):	22.40
Land-SF(Gross):	975,744
No. of Units (Potential):	77
Source of Land Info.:	Engineering Report

Location & Property Identification

Property Name:	Skyborne - Village 2 (First Take)
Sub-Property Type:	Residential, Finished SFR Lots
Address:	Crescent St.
City/State/Zip:	Desert Hot Springs, CA 92240
County:	Riverside
Market Orientation:	Suburban
IRR Event ID:	3050239



Sale Information

Sale Price:	\$5,537,347
Effective Sale Price:	\$5,537,347
Sale Date:	02/19/2021
Sale Status:	Closed
\$/Acre(Gross):	\$449,460
\$/Land SF(Gross):	\$10.32
\$/Acre(Usable):	\$449,460
\$/Land SF(Usable):	\$10.32
\$/Unit (Potential):	\$70,093 /Approved Lot
Grantor/Seller:	Skyborne Ventures, LLC
Grantee/Buyer:	Lennar Homes
Property Rights:	Fee Simple
% of Interest Conveyed:	100.00
Financing:	Cash to seller
Document Type:	Deed
Recording No.:	109571
Verified By:	Laura Diaz
Verification Date:	09/15/2023
Verification Type:	Confirmed-Seller

Land-SF(Usable/Gross):	536,659/536,659
Usable/Gross Ratio:	1.00
No. of Units (Potential):	79
Zoning Code:	R-1
Zoning Desc.:	Residential
Source of Land Info.:	Public Records

Comments

Takedown of 79 lots within Village 2 of the Skyborne at Desert Hot Springs subdivision. Remaining site development costs were \$8,539 per lot and permits and fees were \$20,737 per lot. The property was encumbered with a CFD at the time of sale, and net permits and fees after bond proceeds were \$8,868 per lot. Special taxes are approximately \$1,212 per lot and the typical lot size is 6,400 SF. Homebuilder Lennar plans to purchase a total of 187 lots over two takedowns for the Vega project.

Improvement and Site Data

MSA:	Riverside-San Bernardino-Ontario, CA
Acres(Usable/Gross):	12.32/12.32

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APPENDIX E

SUMMARY OF THE FISCAL AGENT AGREEMENT

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

DEFINITIONS

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

“Additional Bonds” means any Series of bonds, other than the 2020 Bonds and the 2023 Bonds issued pursuant to the Agreement.

“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 levying and collection of the Special Taxes, and the foreclosure of the liens of delinquent 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 fund pursuant to the Agreement, and all other costs and expenses of the City or the Fiscal Agent incurred in connection with the issuance and administration of the Bonds and/or the discharge of their respective duties under the Agreement (including, but not limited to, the calculation of the levy of the Special Taxes, foreclosures with respect to delinquent taxes, and the calculation of amounts subject to rebate to the United States) and, in the case of the City, in any way related to the administration of the District. Administrative Expenses shall include any such expenses incurred in prior years but not yet paid, and any advances of funds by the City under the Agreement.

“Agreement” means the Fiscal Agent Agreement, as it may be amended or supplemented from time to time by any Supplemental Agreement.

“Annual Debt Service” means, for each Bond Year and each Series of Outstanding Bonds, the sum of (i) the interest due on the respective Series of Outstanding Bonds in such Bond Year, assuming that such Outstanding Bonds are retired as scheduled, and (ii) the principal amount of the respective Series of Outstanding Bonds, including any mandatory sinking payments, if any, due in such Bond Year.

“Authorized Officer” means the City Manager, Finance Director, Administrative Services Director or any other officer or employee authorized by the City Council of the City or by an Authorized Officer to undertake the action referenced in the Agreement as required to be undertaken by an Authorized Officer.

“Authorized Representative of the City” means the Mayor, City Manager, the Administrative Services Director, or City Clerk of the City, or any other officer or employee authorized by the City Council of the City or by an Authorized Representative of the City to undertake the action referenced in the Agreement as required to be undertaken by an Authorized Representative of the City.

“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 pursuant to the Agreement.

“Bond Year” means each twelve-month period beginning on September 2 in any year and extending to the next succeeding September 1, both dates inclusive; except that the first Bond Year with respect to the 2023 Bonds shall begin on the Closing Date and end on September 1, 2024.

“Bonds” means the 2020 Bonds, the 2023 Bonds and any Additional Bonds.

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

“CDIAC” means the California Debt and Investment Advisory Commission of the office of the State Treasurer of the State of California or any successor agency or bureau thereto.

“City” means the City of Desert Hot Springs, California, and any successor thereto.

“Closing Date” means, with respect to the 2023 Bonds, December 21, 2023.

“Code” means the Internal Revenue Code of 1986 as in effect on the date of issuance of the Bonds or (except as otherwise referenced in the Agreement) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

“Continuing Disclosure Certificate” means that certain Continuing Disclosure Certificate dated as of December 1, 2023, executed and delivered by the City together with any amendments thereto.

“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, closing costs, filing and recording fees, initial fees, expenses and charges of the Fiscal Agent, including its first annual administration fee, and expenses and fees of counsel to the Fiscal Agent, expenses incurred by the City in connection with the issuance of the Bonds, financial advisor fees, Bond (underwriter’s) discount, placement or underwriting fee, CDIAC fees, legal fees and charges, including bond counsel, charges for execution, 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 pursuant to the Agreement.

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

“Depository” means The Depository Trust Company, New York, New York, and its successors and assigns as securities depository for the 2023 Bonds, or any other securities depository acting as Depository under the Agreement.

“District” means the City of Desert Hot Springs Community Facilities District No. 2006-1 formed pursuant to the Resolution of Formation.

“Fair Market Value” means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Code) and, otherwise, the term “Fair Market Value” means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with

specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security—State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California, but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States.

“Federal Securities” means any of the following which are non-callable and which at the time of investment are legal investments under the laws of the State of California for funds held by the Fiscal Agent (the Fiscal Agent entitled to rely upon investment direction from the City as a certification that such investment constitutes a legal investment).

(i) Direct general obligations of the United States of America (including obligations issued or held in book-entry form on the books of the United States Department of the Treasury) and obligations, the payment of principal of and interest on which are directly or indirectly guaranteed by the United States of America, including, without limitation, such of the foregoing which are commonly referred to as “stripped” obligations and coupons; or

(ii) Any of the following obligations of the following agencies of the United States of America: (a) direct obligations of the Export-Import Bank, (b) certificates of beneficial ownership issued by the Farmers Home Administration, (c) participation certificates issued by the General Services Administration, (d) mortgage-backed bonds or passthrough obligations issued and guaranteed by the Government National Mortgage Association, (e) project notes issued by the United States Department of Housing and Urban Development, and (f) public housing notes and bonds guaranteed by the United States of America.

“Finance Director” means the duly acting Finance Director of the City, or if the City has no Finance Director, the Treasurer or other officer of the City serving a similar role.

“Fiscal Agent” means the Fiscal Agent appointed by the City and acting as an independent fiscal agent with the duties and powers in the Agreement provided, 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 Area 1” means Improvement Area 1 of the District, designated in the Resolution of Formation.

“Independent Financial Consultant” means a financial consultant or firm of such consultants generally recognized to be well qualified in the financial consulting field, appointed and paid by the City, who, or each of whom: (1) is in fact independent and not under the domination of the City; (2) does not have any substantial interest, direct or indirect, in the District or the City; and (3) is not connected with the District or the City as a member, officer or employee of the District or the City, but who may be regularly retained to make annual or other reports to the District or the City.

“Interest Payment Date” means, with respect to the 2023 Bonds, each March 1 and September 1, commencing March 1, 2024.

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

“Nominee” means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Agreement.

“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 levying the Special Taxes.

“Outstanding,” when used as of any particular time with reference to 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 paid or deemed to have been paid within the meaning of the Agreement; and (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authorized, executed, issued and delivered by the City pursuant to the Agreement or any Supplemental Agreement.

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

“Participants” means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds 2023 Bonds or Additional Bonds as securities depository.

“Participating Underwriter” means Stifel, Nicolaus & Company, Incorporated with respect to the 2023 Bonds.

“Permitted Investments” means any of the following, to the extent that they are lawful investments for City funds at the time of investment, and are acquired at Fair Market Value (the Fiscal Agent is entitled to rely upon investment direction from the City as a certification that such investment constitutes a legal investment):

(i) Federal Securities;

(ii) any of following obligations of federal agencies not guaranteed by the United States of America: (a) debentures issued by the Federal Housing Administration; (b) participation certificates or senior debt obligations of the Federal Home Loan Mortgage Corporation or Farm Credit Banks (consisting of Federal Land Banks, Federal Intermediate Credit Banks or Banks for Cooperatives); (c) bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, bonds of any federal home loan bank established under said act and stocks, bonds, debentures, participations and other obligations of or issued by the Federal National Mortgage Association, the Student Loan Marketing Association, the Government National Mortgage Association and the Federal Home Loan Mortgage Corporation; and (d) bonds, notes or other obligations issued or assumed by the International Bank for Reconstruction and Development;

(iii) interest-bearing demand or time deposits (including certificates of deposit) in federal or State of California chartered banks (including the Fiscal Agent and its affiliates), provided that (a) in the case of a savings and loan association, such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation, or the unsecured obligations of such savings and loan association shall be rated in one of the top two rating categories by a nationally recognized rating service, and (b) in the case of a bank, such demand or time deposits shall be fully insured by the Federal Deposit Insurance Corporation, or the unsecured obligations of such bank (or the unsecured obligations of the parent bank holding company of which such bank is the lead bank) shall be rated in one of the top two rating categories by a nationally recognized rating service;

(iv) repurchase agreements with a registered broker/dealer subject to the Securities Investors Protection Corporation Liquidation in the event of insolvency, or any commercial bank

provided that: (a) the unsecured obligations of such bank shall be rated in one of the top two rating categories by a nationally recognized rating service, or such bank shall be the lead bank of a banking holding company whose unsecured obligations are rated in one of the top two rating categories by a nationally recognized rating service; (b) the most recent reported combined capital, surplus and undivided profits of such bank shall be not less than \$100 million; (c) the repurchase obligation under any such repurchase obligation shall be required to be performed in not more than thirty (30) days; (d) the entity holding such securities as described in clause (c) shall have a pledged first security interest therein for the benefit of the Fiscal Agent under the California Commercial Code or pursuant to the book-entry procedures described by 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. and are rated in one of the top two rating categories by a nationally recognized rating service;

(v) bankers acceptances endorsed and guaranteed by banks described in clause (iv) above;

(vi) obligations, the interest on which is exempt from federal income taxation under Section 103 of the Code and which are rated in one of the top two rating categories by a nationally recognized rating service;

(vii) money market funds which invest solely in Federal Securities or in obligations described in the preceding clause (ii) of this definition, or money market funds which are rated in the highest rating category by Standard & Poor's Ratings Services or Moody's Investor Service, including such funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services or for which the Fiscal Agent or an affiliate of the Fiscal Agent serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (a) the Fiscal Agent or an affiliate of the Fiscal Agent receives and retains a fee for services provided to the fund, (b) the Fiscal Agent collects fees for services rendered pursuant to the Agreement, which fees are separate from the fees received from such funds, and (c) services performed for such funds and pursuant to the Agreement may at times duplicate those provided to such funds by the Fiscal Agent or an affiliate of the Fiscal Agent;

(viii) units of a taxable government money market portfolio comprised solely of obligations listed in (i) and (iv) above, such funds for which the Fiscal Agent, its affiliates or subsidiaries provide investment advisory or other management services or for which the Fiscal Agent or an affiliate of the Fiscal Agent serves as investment administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (a) the Fiscal Agent or an affiliate of the Fiscal Agent receives and retains a fee for services provided to the fund, (b) the Fiscal Agent collects fees for services rendered pursuant to the Agreement, which fees are separate from the fees received from such funds, and (c) services performed for such funds and pursuant to the Agreement may at times duplicate those provided to such funds by the Fiscal Agent or an affiliate of the Fiscal Agent;

(ix) any investment which is a legal investment for proceeds of the Bonds at the time of the execution of such agreement, and which investment is made pursuant to an agreement between the City or the Fiscal Agent or any successor Fiscal Agent and a financial institution or governmental body whose long term debt obligations are rated in one of the top two rating categories by a nationally recognized rating service;

(x) commercial paper which at the time of purchase is of "prime" quality of the highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, or Standard and Poor's Corporation, of issuing corporations that are organized and operating within the United States and having total assets in excess of five hundred million dollars (\$500,000,000) and having an "AA" or higher rating for the issuer's debentures, other than commercial paper, as provided for by Moody's Investors Service or Standard and Poor's Corporation, and provided that purchases of

eligible commercial paper may not exceed 180 days maturity nor represent more than 10 percent of the outstanding paper of an issuing corporation;

(xi) any general obligation of a bank or insurance company whose long term debt obligations are rated in one of the two highest rating categories of a national rating service;

(xii) shares in a common law trust established pursuant to Title 1, Division 7, Charter 5 of the Government Code of the State which invests exclusively in investments permitted by Section 53635 of Title 5, Division 2, Chapter 4 of the Government Code of the State, as it may be amended;

(xiii) shares in the California Asset Management Program;

(xiv) the Local Agency Investment Fund established pursuant to Section 16429.1 of the Government Code of the State of California, provided, however, that the Fiscal Agent shall be permitted to make investments and withdrawals in its own name and the Fiscal Agent may restrict investments in the such fund if necessary to keep moneys available for the purposes of the Agreement; or

(xv) any other lawful investment for City funds.

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

“Prepayment” means moneys received by the City from the prepayment of Special Taxes as provided in the Rate and Method.

“Prepayment Account” means the account within the Bond Fund by that name established pursuant to the Agreement.

“Principal Office” means the corporate trust office of the Fiscal Agent set forth in the Agreement, or such other or additional offices as may be designated by the Fiscal Agent.

“Project” means the acquisitions and improvements described in the Resolution of Intention.

“Qualified Reserve Fund Credit Instrument” means an irrevocable standby or direct-pay letter of credit or surety bond issued by a commercial bank or insurance company and deposited with the Fiscal Agent, provided that all of the following requirements are met: (a) the long-term credit rating of such bank or insurance company is rated in the top two categories (without regard to modifier) by S&P or Moody’s at the time of issuance; (b) such letter of credit or surety bond has a term of at least 12 months; (c) such letter of credit or surety bond has a stated amount at least equal to the portion of the Reserve Requirement being met by such instrument or with respect to which funds are proposed to be released pursuant to the Agreement; and (d) the Fiscal Agent is authorized pursuant to the terms of such letter of credit or surety bond to draw thereunder an amount equal to any deficiencies which may exist from time to time in the Bond Fund for the purpose of making payments required pursuant to the Agreement.

“Rate and Method” means Rate and Method of Apportionment of Special Tax applicable to Improvement Area 1.

“Record Date” means the 15th day of the month next preceding the month of the applicable Interest Payment Date whether or not such day is a Business Day.

“Regulations” means temporary and permanent regulations promulgated under the Code.

“Representation Letter” means the Blanket Letter of Representations from the City to the Depository as described in the Agreement.

“Reserve Fund” means the fund by that name established pursuant to the Agreement.

“Reserve Requirement” means, with respect to the 2023 Bonds, the amount as of any date of calculation that is equal to the sum of the least of (i) 10% of the initial principal amount of the 2023 Bonds, (ii) Maximum Annual Debt Service on the then Outstanding 2023 Bonds, or (iii) 125% of average Annual Debt Service on the then Outstanding 2023 Bonds; provided, however, that the Reserve Requirement shall not exceed \$194,500.00, the Reserve Requirement calculated at the time of delivery of the 2023 Bonds.

“Resolution of Intention” means Resolution No. 2006-107, adopted by the City Council of the City on November 21, 2006.

“Resolution of Formation” means Resolution No. 2007-13, adopted by the City Council of the City on January 16, 2007, establishing the District for the purpose of providing for the financing of certain public facilities in and for such District.

“Securities Depositories” means The Depository Trust Company, New York, New York; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the City may designate in an Officer’s Certificate delivered to the Fiscal Agent.

“Series” means a series of Bonds issued under the Agreement.

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

“Special Tax Revenues” means the proceeds of the Special Taxes received by the City, including all scheduled payments and delinquent payments thereof, 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, net of the administration charge of the County (currently 1%).

“Special Taxes” means the aggregate annual “Special Tax” (as defined in the Rate and Method) levied within Improvement Area 1 pursuant to the Act, the Ordinance and the Agreement.

“Supplemental Agreement” means an agreement the execution of which is authorized by a resolution which has been duly adopted by the City under the Act and which agreement is amendatory of or supplemental to the Agreement, but only if and to the extent that such agreement is specifically authorized under the Agreement.

“Tax Certificate” means the certificate by that name to be executed by the City on the Closing Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code with respect to the 2023 Bonds.

“Term Bonds” means, with respect to the 2023 Bonds, the 2023 Bonds maturing on September 1, 2038.

“2020 Bonds” means the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Refunding Bonds, Series 2020.

“2023 Bonds” means the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Bonds, Series 2023.

“2023 Reserve Account” means the account by that name established in the Reserve Fund pursuant to the Agreement.

THE 2023 BONDS

Book Entry System. The 2023 Bonds shall be initially delivered in the form of a separate single fully registered 2023 Bond (which may be typewritten) for each maturity of the 2023 Bonds. Upon initial delivery, the ownership of each such 2023 Bond shall be registered in the registration books kept by the Fiscal Agent in the name of the Nominee as nominee of the Depository. Except as provided in the Agreement, all of the Outstanding 2023 Bonds shall be registered in the registration books kept by the Fiscal Agent in the name of the Nominee. At the election of the City, subject to the provisions of the Agreement, any Additional Bonds may also be issued as book-entry bonds registered in the name of the Nominee as provided in the Agreement, in which case the provisions relating to the book-entry system shall be applicable to such Additional Bonds.

With respect to 2023 Bonds registered in the registration books kept by the Fiscal Agent in the name of the Nominee, the City and the Fiscal Agent shall have no responsibility or obligation to any such Participant or to any Person on behalf of which such a Participant holds an interest in the 2023 Bonds. Without limiting the immediately preceding sentence, the City and the Fiscal Agent shall have no responsibility or obligation with respect to: (i) the accuracy of the records of the Depository, the Nominee, or any Participant with respect to any ownership interest in the 2023 Bonds; (ii) the delivery to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Fiscal Agent, of any notice with respect to the 2023 Bonds, including any notice of redemption; (iii) the selection by the Depository and its Participants of the beneficial interests in the 2023 Bonds to be redeemed in the event that the 2023 Bonds are redeemed in part; or (iv) the payment to any Participant or any other Person, other than an Owner as shown in the registration books kept by the Fiscal Agent, of any amount with respect to principal of, premium, if any, or interest due with respect to the 2023 Bonds. The City and the Fiscal Agent may treat and consider the Person in whose name each 2023 Bond is registered in the registration books kept by the Fiscal Agent as the holder and absolute owner of such 2023 Bond for the purpose of payment of the principal of, premium, if any, and interest on such 2023 Bond, for the purpose of giving notices of redemption and other matters with respect to such 2023 Bond, for the purpose of registering transfers with respect to such 2023 Bond and for all other purposes whatsoever. The Fiscal Agent shall pay all principal of, premium, if any, and interest due on the 2023 Bonds only to or upon the order of the respective Owner, as shown in the registration books kept by the Fiscal Agent, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to satisfy and discharge fully the City’s obligations with respect to payment of the principal, premium, if any, and interest due on the 2023 Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the registration books kept by the Fiscal Agent, shall receive a 2023 Bond evidencing the obligation of the City to make payments of principal, premium, if any, and interest pursuant to the Agreement. Upon delivery by the Depository to the Fiscal Agent and the City of written notice to the effect that the Depository has determined to substitute a new nominee in place of the Nominee, and subject to the provisions in the Agreement with respect to Record Dates, the word Nominee in the Agreement shall refer to such new nominee of the Depository.

Representation Letter. In order to qualify the 2023 Bonds and any Additional Bonds which the City elects to register in the name of the Nominee for the Depository’s book entry system, an Authorized Representative of the City is authorized to execute from time to time and deliver to such Depository the Representation Letter. The execution and delivery of the Representation Letter shall not in any way limit the provisions of the Agreement or in any other way impose upon the City or the Fiscal Agent any obligation whatsoever with respect to persons having interests in the 2023 Bonds other than the Owners, as shown on the registration books kept by the Fiscal Agent. The City agrees to take all action necessary to continuously comply with all representations made by it in the Representation Letter. In addition to the execution and delivery of the Representation Letter, the Authorized Representatives of the City are authorized to take any other actions, not inconsistent with the Agreement, to qualify the 2023 Bonds for the Depository’s book entry program.

Transfers Outside Book Entry System. In the event that: (i) the Depository determines not to continue to act as securities depository for the 2023 Bonds; or (ii) the City determines that the Depository shall no longer so act, then the City will discontinue the book entry system with the Depository. If the City fails to identify another qualified securities depository to replace the Depository then the 2023 Bonds so designated shall no longer be restricted to being registered in the registration books kept by the Fiscal Agent in the name of the Nominee, but shall be registered in whatever name or names Persons transferring or exchanging 2023 Bonds shall designate, in accordance with the Agreement.

Payments to the Nominee. Notwithstanding any other provisions of the Agreement to the contrary, so long as any 2023 Bond is registered in the name of the Nominee, all payments with respect to principal, premium, if any, and interest due with respect to such 2023 Bond and all notices with respect to such 2023 Bond shall be made and given, respectively, as provided in the Representation Letter or as otherwise instructed.

Initial Depository and Nominee. The initial Depository under the Agreement with respect to the 2023 Bonds shall be The Depository Trust Company, New York, New York. The initial Nominee shall be Cede & Co., as Nominee of The Depository Trust Company, New York, New York.

Limited Obligation. All obligations of the City under the Agreement and the Bonds shall be special obligations of the City, payable solely from the Special Tax Revenues and the funds pledged therefor under the Agreement. Neither the full faith and credit nor the taxing power of the City (except to the limited extent set forth in the Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the Bonds.

ISSUANCE OF BONDS

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 amount set forth in the Agreement. The 2023 Bonds in the aggregate principal amount of \$1,970,000 shall be issued as Additional Bonds governed by the terms of the Agreement for the purpose of financing additional public facilities benefiting the District, funding a deposit to the 2023 Reserve Account of the Reserve Fund and paying the costs of issuance of the 2023 Bonds.

Special Tax Fund.

(A) Establishment of Special Tax Fund. There is established under the Agreement as a separate fund to be held by the Finance Director, the Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Refunding Bonds Special Tax Fund, to the credit of which the City shall deposit, immediately upon receipt, all Special Tax Revenues received by the City (other than as a result of Prepayments), and within such fund, a Surplus Account, to the credit of which the City shall deposit surplus Special Tax Revenues described in the Agreement. Moneys in the Special Tax Fund shall be held in trust by the City for the benefit of the City and the Owners of the Bonds, shall be disbursed as provided below and, pending any disbursement, shall be subject to a lien in favor of the Owners of the Bonds.

(B) Disbursements. As soon as practicable after the receipt by the City of any Special Tax Revenues, other than as a result of Prepayments, or the transfer of amounts to the Special Tax Fund pursuant to the terms of the Agreement, but no later than ten (10) Business Days after such receipt or transfer, the Finance Director shall withdraw from the Special Tax Fund and transfer to the Fiscal Agent for deposit: (i) in the Bond Fund, an amount, taking into account any amounts then on deposit in the Bond Fund, such that the amount in the Bond Fund equals the principal, premium, if any, and interest due on the Bonds during the then-current Bond Year; (ii) in the Reserve Fund, an amount, taking into account amounts then on deposit in each reserve account within the Reserve Fund, so that the amount in the reserve accounts of the Reserve Fund equals the Reserve Requirement with respect to each Series of Bonds. In the event of any shortfall in disbursement amounts needed for multiple Series of Bonds, allocations of available moneys shall be made to each Series on

a pro rata basis according to principal amounts outstanding. After the transfers under subsections (i) and (ii) have been made, the City may, on or after September 2nd of each year transfer to the Surplus Account the amount remaining in the Special Tax Fund, whereupon such moneys transferred shall be free of the pledge for payment of the Bonds.

From time to time, the City may withdraw from the Surplus Account of the Special Tax Fund amounts needed to pay Administrative Expenses or the costs of the Project or incidental expenses of the District authorized under the Act. Moneys in the Surplus Account may, at the City's discretion, also be used to pay the principal of, premium, if any, and interest on the Bonds or to replenish any reserve account to the amount of the applicable Reserve Requirement.

(C) Investment. Moneys in the Special Tax Fund shall be invested and deposited in accordance with the Agreement. Interest earnings and profits resulting from such investment and deposit shall be retained in the Special Tax Fund to be used for the purposes thereof.

Costs of Issuance Fund.

(A) Establishment of Costs of Issuance Fund. There is established under the Agreement as a separate fund to be held by the Fiscal Agent, the Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Refunding 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 in trust by the Fiscal Agent and shall be disbursed as provided in subsection (B) below for the payment or reimbursement of Costs of Issuance of the 2023 Bonds.

(B) Disbursement. Amounts in the Costs of Issuance Fund shall be disbursed from time to time to pay Costs of Issuance, as set forth in an Officer's Certificate containing respective amounts to be paid to the designated payees, signed by an Authorized Officer or a designee thereof and delivered to the Fiscal Agent. The Fiscal Agent shall pay all Costs of Issuance of the Bonds 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 Officer's Certificate, or upon receipt of an Officer's Certificate requesting payment of a Cost of Issuance not listed on the initial Officer's Certificate delivered to the Fiscal Agent on the Closing Date of the Bonds. Each such Officer's Certificate shall be sufficient evidence to the Fiscal Agent of the facts stated therein and the Fiscal Agent shall have no duty to confirm the accuracy of such facts. The Fiscal Agent shall maintain the Costs of Issuance Fund for a period of 3 months, from the Closing Date of the Bonds and then shall transfer any moneys remaining therein, including any investment earnings thereon, to the Finance Director for deposit by the Finance Director in the Special Tax Fund. Thereafter, every invoice received by the Fiscal Agent shall be submitted to the Finance Director for payment from amounts on deposit in the Special Tax Fund.

(C) Investment. Moneys in the Costs of Issuance Fund shall be invested and deposited in accordance with the Agreement. Interest earnings and profits resulting from said investment 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 AND RESERVE FUND

Pledge of Special Tax Revenues and Other Amounts. All of the Special Tax Revenues and all moneys deposited in the Bond Fund and, until disbursed as provided in the Agreement, the Special Tax Fund are pledged under the Agreement to secure the repayment of the Bonds. In addition, the 2020 Bonds shall be secured by a pledge and lien on the 2020 Reserve Account of the Reserve Fund, the 2023 Bonds shall be secured by a pledge and lien on the 2023 Reserve Account of the Reserve Fund and each Series of Additional Bonds shall be secured by a separate reserve account established within the Reserve Fund as set forth in a Supplemental Agreement. Such pledge shall constitute a first lien on the Special Tax Revenues and said amounts. The Special Tax Revenues and all moneys deposited into such funds (except as otherwise provided in

the Agreement) are dedicated under the Agreement in their entirety to the payment of the principal of, including any mandatory sinking payments, 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 Federal Securities have been set aside irrevocably for that purpose in accordance with the Agreement.

Pursuant to Section 5451 of the Government Code of the State of California, the pledge of the Special Tax Revenues for the repayment of the principal of, premium, if any, and interest on the 2020 Bonds and the 2023 Bonds constitutes a first lien and security interest which immediately attaches to such Special Tax Revenues, and is effective and binding against the City, the District, their successors, creditors and all others asserting rights therein irrespective of whether those parties have notice of the pledge, irrespective of whether such amounts are or may be deemed to be a fixture and without the need for physical delivery, recordation, filing or further act.

In addition, the 2020 Bonds shall be secured by a pledge and lien on the 2020 Reserve Account and the 2023 Bonds shall be secured by a pledge and lien on the 2023 Reserve Account. Each Series of Additional Bonds, if any, shall be secured by a separate reserve account of the Reserve Fund as set forth in a Supplemental Agreement.

Amounts in the Costs of Issuance Fund for any Series of Bonds are not pledged to the repayment of the Bonds. The facilities acquired with the proceeds of the Bonds are not in any way pledged to pay the Debt Service on the Bonds. Any proceeds of condemnation, destruction or other disposition of any facilities financed with the proceeds of the Bonds are not pledged to pay the Debt Service on the Bonds and are free and clear of any lien or obligation imposed under the Agreement.

Bond Fund.

(A) Establishment of Bond Fund. There is established under the Agreement as a separate fund to be held by the Fiscal Agent, the Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Refunding Bonds Bond Fund, to the credit of which deposits shall be made as required by the Agreement and any other amounts required to be deposited therein by the Agreement or the Act. Moneys in the Bond Fund shall be held in trust 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.

Within the Bond Fund there is established under the Agreement the Prepayment Account, which shall be used exclusively for the administration of any prepayments of Special Taxes to assure the timely redemption of Bonds. Monies in the Prepayment Account shall be used to redeem Bonds on the redemption date specified in the notice to the Fiscal Agent given pursuant to the Agreement. In the event all of the Special Taxes are prepaid in full, the Prepayment Account shall be closed.

(B) Disbursements. On each Interest Payment Date, the Fiscal Agent shall withdraw from the Bond Fund and pay to the Owners of the Bonds the principal of, and interest and any premium, then due and payable on the Bonds, including any amounts due on the Bonds by reason of any redemption of the Bonds under the Agreement.

In the event that amounts in the Bond Fund are insufficient to pay regularly scheduled payments of principal of and interest on any Series of Bonds, the Fiscal Agent shall withdraw from the respective reserve accounts within the Reserve Fund established for such Series of Bonds on a pro rata basis to the extent of any funds therein, the amount of such insufficiency, and the Fiscal Agent shall provide written notice to the Finance Director of the amounts so withdrawn from the Reserve Fund. Amounts so withdrawn from the Reserve Fund shall be deposited in the Bond Fund.

If, after the foregoing transfer, there are insufficient funds in the Bond Fund to make the payments provided for to pay regularly scheduled payments of principal of and interest on the Bonds, the Fiscal Agent shall apply the available funds first to the payment of interest on the Bonds, then to the payment of principal due on the Bonds other than by reason of sinking payments, and then to payment of principal due on the Bonds by reason of sinking payments. Any sinking payment not made as scheduled shall be added to the sinking payment to be made on the next sinking payment date.

(C) Investment. Moneys in the Bond Fund shall be invested and deposited in accordance with the Agreement. Interest earnings and profits resulting from such investment and deposit shall be retained in the Bond Fund to be used for the purposes of such fund.

(D) Deficiency. If ten days before any Interest Payment Date it appears to the Fiscal Agent that there is a danger of deficiency in the Bond Fund and that the Fiscal Agent may be unable to pay regularly scheduled debt service on the Bonds in a timely manner, the Fiscal Agent shall report to the Finance Director such fact. The City covenants to increase the levy of the Special Taxes in the next Fiscal Year (subject to the maximum amount authorized by the Resolution of Formation) in accordance with the procedures set forth in the Act for the purpose of curing Bond Fund deficiencies.

If on any Interest Payment Date the Fiscal Agent is unable to pay principal, interest and premium, if any, due on any Interest Payment Date for the Bonds due to insufficient funds in the Bond Fund, or if funds are withdrawn from the Reserve Fund to pay principal and/or interest on the Bonds the Fiscal Agent shall notify the Finance Director in writing of such fact, and the Finance Director shall notify CDIAC of such fact within 10 days of such Interest Payment Date. The Fiscal Agent has no obligation under the Agreement to provide notice or disclosure to the Bondowners of insufficient funds or anticipation of deficiency in the Bond Fund.

Reserve Fund.

(A) Establishment of Fund. There is established under the Agreement as a separate fund to be held by the Fiscal Agent, the Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Refunding Bonds Reserve Fund, and within the Reserve Fund shall be established a “2020 Reserve Account” and a “2023 Reserve Account” to the credit of deposits shall be made as provided in the Agreement. For each respective Series of Additional Bonds, if any, the Fiscal Agent shall establish a separate reserve account for each such Series. Moneys in each reserve account shall be held in trust by the Fiscal Agent for the benefit of the Owners of the respective Series of Bonds as a reserve for the payment of principal of, and interest on, the respective Series of Bonds and shall be subject to a lien in favor of the Owners of such Series.

The City has the right to either meet the Reserve Requirement at the time of issuance of a Series of Bonds or at any time thereafter to cause the Fiscal Agent to release cash from the Reserve Fund, in whole or in part, by tendering to the Fiscal Agent: (1) a Qualified Reserve Fund Credit Instrument, and (2) in the case of a release, an opinion of Bond Counsel stating that such release will not, of itself, cause the portion of the interest on the Bonds secured thereby to become includable in gross income for purposes of federal income taxation. Upon tender of such items to the Fiscal Agent in connection with a release of cash, the Fiscal Agent will transfer such funds to the City. Prior to the expiration of any Qualified Reserve Fund Credit Instrument, if applicable, the City is obligated either to replace such Qualified Reserve Fund Credit Instrument with a new Qualified Reserve Fund Credit Instrument, or to deposit or cause to be deposited with the Fiscal Agent an amount of funds such that the funds on deposit in the reserve account together with all Qualified Reserve Fund Credit Instruments held by the Fiscal Agent is at least equal to the Reserve Requirement (which funds may come from a draw by the Fiscal Agent on the Qualified Reserve Fund Credit Instrument prior to its expiration).

(B) Use of Fund. Except as otherwise provided in the Agreement, all amounts deposited in a reserve account of the Reserve Fund shall be used and withdrawn by the Fiscal Agent solely for the purpose of making transfers to the Bond Fund in the event of any deficiency within five days prior to any Interest Payment Date in the Bond Fund of the amount required for payment of the principal of, and interest on, the

respective Series of Bonds on such Interest Payment Date. Whenever transfer is made from any reserve account to the Bond Fund due to a deficiency in the Bond Fund, the Fiscal Agent shall provide written notice thereof to the Finance Director.

(C) Transfer of Excess of Reserve Requirement. Whenever, on the Business Day prior to any Interest Payment Date, the amount in any reserve account within the Reserve Fund exceeds the Reserve Requirement for the applicable Series of Bonds covered by such reserve account (it being understood the City calculates the Reserve Requirement in accordance with the definition thereof), the Fiscal Agent shall provide written notice to the Finance Director of the amount of the excess. The Finance Director shall advise the Fiscal Agent in writing of the amount, if any, of any transfer required pursuant to the Agreement, and otherwise direct the Fiscal Agent to transfer an amount equal to the excess such the reserve account to the Bond Fund to be used for the payment of the principal of and interest on the Outstanding Bonds covered by the applicable reserve account in accordance with the Agreement; provided, however, that to the extent that such excess results from the prepayment of Special Taxes and redemption of Bonds as provided in an Officer's Certificate in accordance with the Agreement, such amount shall be transferred to the Prepayment Account and applied to the corresponding redemption of Bonds.

(D) Transfer for Rebate Purposes. Investment earnings on amounts in the Reserve Fund may be withdrawn from the Reserve Fund for purposes of making payment to the federal government to comply with the Agreement.

(E) Transfer When Balance Exceeds Outstanding Bonds. Whenever the balance in a reserve account of the Reserve Fund exceeds the amount required to redeem or pay the Outstanding Bonds covered by such reserve account, including interest accrued to the date of payment or redemption and premium, if any, due upon redemption, and after making any transfer required under the Agreement and upon receipt of an Officer's Certificate directing it to do so, the Fiscal Agent shall transfer the amount in the applicable reserve account of the Reserve Fund to the Bond Fund to be applied, on the next succeeding Interest Payment Date to the payment and redemption, in accordance with the Agreement, of all such Outstanding Bonds. In the event that the amount so transferred to the Bond Fund exceeds the amount required to pay and redeem the Outstanding Bonds covered by the applicable reserve account, the balance in such reserve account shall be transferred to the City, after payment of any amounts due the Fiscal Agent under the Agreement, to be used for any lawful purpose of the City.

Notwithstanding the foregoing, no amounts shall be transferred from a reserve account of the Reserve Fund pursuant to the Agreement until after the calculation of any amounts due to the federal government following payment of the respective series of Bonds and withdrawal of any such amount under the Agreement for purposes of making such payment to the federal government, and payment of any fees and expenses due to the Fiscal Agent.

Investment. Moneys in each reserve account of the Reserve Fund shall be invested and deposited in accordance with the Agreement. Interest earnings and profits resulting from such investment and deposit shall be retained in the applicable reserve account of the Reserve Fund to be used and disbursed as provided in the Agreement.

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 it will faithfully observe and perform all of the conditions covenants and requirements of the Agreement and all Supplemental Agreements and of the Bonds.

Limited Obligation. The Bonds are limited obligations of the City on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in certain funds created under the Agreement as, and to the extent, set forth in the Agreement.

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 under the Agreement, 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 will 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 in the Agreement created for the benefit of the Bonds, except as permitted by the Agreement.

Books and Accounts. The City will 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 Special Tax Fund and to the Special Tax Revenues. Such books of record and accounts shall at all times during business hours be subject to the inspection of the Fiscal Agent and the Owners of not less than 10% of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

The Fiscal Agent will 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 relating to the expenditure of amounts disbursed from the Bond Fund, the Reserve Fund and the Costs of Issuance Fund. Such books of record and accounts shall at all times during business hours and upon reasonable prior notice, be subject to the inspection of the City and the Owners of not less than 10% of the principal amount of the Bonds then Outstanding, or their representatives duly authorized in writing.

The Fiscal Agent may establish and maintain for so long as is necessary one or more temporary funds and accounts under the Agreement.

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.

Private Activity Bond Limitation. The City shall assure that the proceeds of the Bonds are not so used as to cause the Bonds to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

Federal Guarantee Prohibition. The City shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Bonds to be “federally guaranteed” within the meaning of Section 149(b) of the Code.

Collection of Special Tax Revenues. The City shall comply with all requirements of the Act so as to assure the timely collection of Special Tax Revenues, including without limitation, the enforcement of delinquent Special Taxes.

On or within five (5) Business Days of each June 1, the Fiscal Agent shall provide the Finance Director with a notice stating the amount then on deposit in the Bond Fund and the reserve accounts of the

Reserve Fund. The receipt of such notice by the Finance Director shall in no way affect the obligations of the Finance Director under the following two paragraphs. Upon receipt of such notice, the Finance Director shall ascertain the relevant parcels on which the Special Taxes are to be levied, taking into account any parcel splits during the preceding and then current year.

The City shall effect the levy of the Special Taxes each Fiscal Year in accordance with the Ordinance such that the computation of the levy is complete before the final date on which the County Auditor will accept the transmission of the Special Tax amounts for the parcels within Improvement Area 1 for inclusion on the next secured real property tax roll. Upon the completion of the computation of the amounts of the levy, the City shall prepare or cause to be prepared, and shall transmit to the Finance Director, such data as the County Auditor requires to include the levy of the Special Taxes on the next secured real property tax roll.

The City shall fix and levy the amount of Special Taxes within Improvement Area 1 required for the payment of principal of and interest on any outstanding Bonds of Improvement Area 1 of the District becoming due and payable during the ensuing Bond Year, including any necessary replenishment or expenditure of the Reserve Fund for the Bonds and an amount estimated to be sufficient to pay the Administrative Expenses during such year, all in accordance with the Rate and Method and the Ordinance. In any event, the Special Taxes so levied shall not exceed the authorized amounts as provided in the proceedings pursuant to the Resolution of Formation.

The Special Taxes shall be payable and be collected in the same manner and at the same time and in the same installment as the general taxes on real property are payable, and have the same priority, become delinquent at the same 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. Notwithstanding the foregoing, the Special Taxes may be collected in such other manner as the City shall prescribe, if necessary to pay the debt service on the Bonds.

Further Assurances. The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Agreement, and for the better assuring and confirming unto the Owners of the rights and benefits provided in the Agreement.

No Arbitrage. The City shall not take, or permit or suffer to be taken by the Fiscal Agent or otherwise, any action with respect to the gross proceeds of the Bonds which if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and Regulations.

Maintenance of Tax-Exemption. The City shall take all actions necessary to assure the exclusion of interest on the Bonds from the gross income of the Owners of the Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the date of issuance of the Bonds.

Reports to Bondowners. The Finance Director shall provide copies of any reports required by this Section and/or the City’s annual financial statements to any Owner of the 2020 Bonds upon request of such Owner. Additionally, the Finance Director shall give or cause to provide notice to the Owner of the 2020 Bonds the occurrence of any “Event” (as defined under 17 CFR 240.15c2-12(b)(5)(C) - the continuing disclosure undertaking for publicly offered bonds) with respect to the 2020 Bonds in timely manner but not in excess of 10 Business Days after the occurrence of the Event. None of the City and its officers, agents and employees, the Finance Director or the Fiscal Agent shall be liable for any inadvertent error in reporting the information required by this Section.

Covenant to Foreclose. The City covenants with and for the benefit of the Owners of the Bonds that it will annually on or before September 1 of each year review the public records of the County of Riverside relating to the collection of the Special Tax in order to determine the amount of the Special Tax collected in the

prior Fiscal Year, and if the City determines on the basis of such review that the amount so collected is deficient by more than five percent (5%) of the total amount of the Special Tax levied in such Fiscal Year, it will within thirty (30) days thereafter institute foreclosure proceedings as authorized by the Act in order to enforce the lien of the delinquent installment of the Special Tax against each separate lot or parcel of land in Improvement Area 1 for which such installment of the Special Tax is delinquent, and will diligently prosecute and pursue such foreclosure proceedings to judgment and sale; *provided*, that if the City determines on the basis of such review that (a) the amount so collected is deficient by less than 5% of the total amount of the Special Tax levied in the Improvement Area 1 in such Fiscal Year, but that property owned by any single property owner in the Improvement Area 1 is delinquent by more than \$5,000 with respect to the Special Tax due and payable by such property owner in such Fiscal Year, or (b) that property owned by any single property owner in the Improvement Area 1 (i) is delinquent cumulatively by more than \$3,000 with respect to the current and past Special Tax due (irrespective of the total delinquencies in the Improvement Area 1) or (ii) delinquent for 3 years or more, then the City will institute, prosecute and pursue such foreclosure proceedings in the time and manner provided in the Agreement against each such property owner. The Finance Director shall notify the City Attorney of any such delinquency of which it is aware, and the City Attorney shall commence, or cause to be commenced, such proceedings.

Additional Bonds. The City may at any time issue Additional Bonds payable from the Special Taxes and secured by the Special Tax Revenues and other amounts pledged to the Outstanding Bonds (other than in the Administrative Expense Account therein) and secured by a lien and charge upon such amounts equal to the lien and charge securing any then Outstanding Bonds; provided, however, that Additional Bonds may only be issued for the purpose of refunding all or a portion of the Bonds or Additional Bonds then Outstanding subject to the following specific conditions, which are made conditions precedent to the issuance of any such Additional Bonds:

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

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

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

(2) the authorized principal amount of such Additional Bonds;

(3) the date and the maturity date or dates of such Additional Bonds; provided that: (i) each maturity date shall fall on a September 1; (ii) all such Additional Bonds of like maturity shall be identical in all respects, except as to number; (iii) fixed serial maturities or sinking fund payments, or any combination thereof, shall be established to provide for the retirement of all such Additional Bonds on or before their respective maturity dates; and (iv) the maturity of such Additional Bonds shall not exceed the maturity of the Bonds being refunded;

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

(5) the denominations and method of numbering of such Additional Bonds;

(6) the amount and due date of each mandatory sinking fund payment, if any, for such Additional Bonds;

(7) the amount, if any, to be deposited from the proceeds of such Additional Bonds in a Reserve Account of the Reserve Fund;

(8) the form of such Additional Bonds; and

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

(c) The City shall have received the following documents or money or securities, all of such documents dated or certified, as the case may be, as of the date of delivery of such Additional Bonds by the Fiscal Agent (unless the Fiscal Agent shall be directed by the City to accept any of such documents bearing a prior date):

(1) a certified resolution of the City Council, acting as the legislative body of the City, authorizing the issuance of such Additional Bonds;

(2) a written request of the City as to the delivery of such Additional Bonds;

(3) an opinion of Bond Counsel and/or general counsel to the City to the effect that:
(i) the City has the right and power under the Act to execute and deliver the Supplemental Agreement relating to such Additional Bonds, and such Supplemental Agreement has been duly and lawfully executed by the City, and the Agreement and such Supplemental Agreement are in full force and effect and are valid and binding upon the City and enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights);
(ii) the Agreement creates the valid pledge which it purports to create of the Special Tax Revenues and other amounts as provided in the Agreement, subject to the application thereof to the purposes and on the conditions permitted by the Agreement; and (iii) such Additional Bonds are valid and binding limited obligations of the City, enforceable in accordance with their terms (except as enforcement may be limited by bankruptcy, insolvency, reorganization and other similar laws relating to the enforcement of creditors' rights) and the terms of the Agreement and the Supplemental Agreement executed and delivered in connection with such Additional Bonds and are entitled to the benefits of the Agreement and such Supplemental Agreement, and such Additional Bonds have been duly and validly authorized and issued in accordance with the Act (or other applicable laws) and the Agreement and such Supplemental Agreement;

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

(5) a certificate of an Independent Financial Consultant certifying that in each Bond Year the Annual Debt Service on the Bonds and Additional Bonds to remain Outstanding following the issuance of the Additional Bonds proposed to be issued is less than the Annual Debt Service on the Bonds and Additional Bonds Outstanding prior to the issuance of such Additional Bonds; and

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

Yield of the Bonds. In determining the yield of the Bonds to comply with the Agreement, the City will take into account redemption (including premium, if any) in advance of maturity based on the reasonable expectations of the City, as of the closing date of the Bonds, without regard to whether or not redemption moneys are received or Bonds are redeemed.

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 hold such moneys uninvested and notify the Finance Director that it is doing so until further direction is received from the Finance Director. 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 Finance Director shall be invested by the Finance Director in any lawful investments that the City may make, which by their terms mature prior to the date on which such moneys are required to be paid out under the Agreement. Obligations purchased as an investment of moneys in any fund shall be deemed to be part of such fund or account, subject, however, to the requirements of the Agreement for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts.

The Fiscal Agent or Finance Director may act as principal or agent in the acquisition or disposition of any investment. Neither the Fiscal Agent nor the Finance Director shall incur any liability for losses arising from any investments made pursuant to the Agreement. Any losses arising from any investments made pursuant to the Agreement shall be offset against interest earnings and profits retained in the same fund.

Except as otherwise provided in the next sentence, all investments of amounts deposited in any fund or account created by or pursuant to the Agreement, or otherwise containing gross proceeds of the Bonds (within the meaning of Section 148 of the Code), shall be acquired, disposed of, and valued (as of the date that valuation is required by the Agreement or the Code) at Fair Market Value. Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the Reserve Fund shall be valued by the City at their present value (within the meaning of Section 148 of the Code). For purposes of any Fair Market Value determination under the Agreement, the Fiscal Agent shall be entitled to conclusively rely on an Officer's Certificate of the City and shall be fully protected in relying thereon.

Investments in any and all funds and accounts may be commingled in a separate fund or funds 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 or the Finance Director under the Agreement, provided that the Fiscal Agent or the Finance Director, as applicable, 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 or the Finance Director, as applicable, 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 neither the Fiscal Agent nor the Finance Director shall be liable or responsible for any loss resulting from the acquisition or disposition of 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 the right to receive brokerage confirmations of security transactions as they occur, the City specifically waives receipt of such confirmations to the extent permitted by law. The Fiscal Agent will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Fiscal Agent under the Agreement.

Rebate of Excess Investment Earnings to the United States. The City covenants to calculate and rebate to the federal government, in accordance with the Regulations, excess investment earnings to the extent required by Section 148(f) of the Code.

The City shall notify the Fiscal Agent of any amounts determined to be due to the federal government, and the Fiscal Agent shall, upon receipt of an Officer's Certificate of the City, withdraw such amounts from the Reserve Fund pursuant to the Agreement, and pay such amounts to the federal government as directed by the Officer's Certificate which shall comply with the requirements of the Code and the Regulations. In the event of any shortfall in amounts available to make such payments under the Agreement, the Fiscal Agent shall notify the Finance Director in writing of the amount of the shortfall and the Finance Director shall make such payment from any amounts available in the Special Tax Fund. Any fees or expenses incurred by the Fiscal Agent or the City under or pursuant to the Agreement shall be Administrative Expenses. 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 under the Agreement.

In order to provide for the administration of the Agreement, the City may provide for the employment of independent attorneys, accountants and consultants compensated on such reasonable basis as the City may deem appropriate.

Rebate Fund. All money at any time deposited in the Rebate Account of the Rebate Fund shall be held by the Fiscal Agent in trust, for payment to the United States Treasury. All amounts on deposit in the Rebate Fund with respect to the 2023 Bonds shall be governed by the Agreement and the Tax Certificate, unless the City delivers to the Fiscal Agent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest payments on the 2023 Bonds will not be adversely affected if such requirements are not satisfied. The Fiscal Agent shall not be responsible for calculating rebatable arbitrage or for the adequacy or correctness or any rebate report or rebate calculations. The Fiscal Agent shall be deemed conclusively to have complied with the provisions of this Fiscal Agent Agreement regarding calculation and payment of the rebatable arbitrage if the Fiscal Agent follows the directions of the City and the Fiscal Agent shall have no independent duty to review such calculations or enforce the compliance with such rebate requirements.

(a) **Rebate Account.** The following requirements shall be satisfied with respect to each subaccount of the Rebate Account:

(i) **Annual Computation.** Within 55 days of the end of each Bond Year, the City shall calculate or cause to be calculated the amount of rebatable arbitrage for the 2023 Bonds in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Rebate Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage described in the Tax Certificate for each issue (e.g., the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Rebate Regulations (the "Rebatable Arbitrage"). The City shall obtain expert advice as to the amount of the Rebatable Arbitrage to comply with this Section.

(ii) **Annual Transfer.** Within 55 days of the end of each Bond Year for which Rebatable Arbitrage must be calculated as required by the Tax Certificate the City shall transfer to the Fiscal Agent an amount to be deposited in the Rebate Account if and to the extent required, so that the balance in the Rebate Account shall equal the amount of Rebatable Arbitrage so calculated by or on behalf of the City in accordance with (i) of this Subsection (a)(1) with respect to the 2023 Bonds. In the event that immediately following any transfer required by the previous sentence, or the date on which the City determines that no transfer is required for such Bond Year, the amount then on deposit in the Rebate Account exceeds the amount required to be on deposit therein, the Fiscal Agent shall withdraw the excess from the Rebate Account and then credit the excess to the Administrative Expense Fund.

(iii) **Payment to the Treasury.** The City shall direct the Fiscal Agent to pay to the United States Treasury out of amounts in the Rebate Account,

(X) Not later than 60 days after the end of (A) the fifth Bond Year for the 2023 Bonds, and (B) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatale Arbitrage calculated as of the end of such Bond Year for the 2023 Bonds; and

(Y) Not later than 60 days after the payment or redemption of all of the 2023 Bonds, an amount equal to 100% of the Rebatale Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to the Rebatale Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Account, the amount in the Rebate Account is not sufficient to make such payment when such payment is due, the City shall calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to this Subsection (a)(1) shall be made to the Internal Revenue Service Center, Ogden, Utah 84201 on or before the date on which such payment is due, and shall be accompanied by Internal Revenue Service Form 8038-T, or shall be made in such other manner as provided under the Code.

(b) Disposition of Unexpended Funds. Any funds remaining in the accounts of the Rebate Fund after redemption and payment of the 2023 Bonds and after making the payments described in Subsection (a)(1)(iii) may be withdrawn by the City and utilized in any manner by the City.

(c) Survival of Defeasance and Final Payment. Notwithstanding anything in this Section or the Agreement to the contrary, the obligation to comply with the requirements of this Section shall survive the defeasance and final payment of the 2023 Bonds with respect to which an account has been created in the Rebate Fund.

(d) Amendment Without Consent of Owners. This Section of the Agreement may be deleted or amended in any manner without the consent of the Owners, provided that prior to such event there is delivered to the City an opinion of Bond Counsel to the effect that such deletion or amendment will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2023 Bonds.

Limited Obligation. The City's obligations under the Agreement are limited obligations of the City on behalf of the District and are payable solely from and secured solely by the Special Tax Revenues and the amounts in the Special Tax Fund, the Bond Fund and the Reserve Fund created under the Agreement.

THE FISCAL AGENT

Appointment of Fiscal Agent. Wilmington Trust, National Association, at its Principal Office, is appointed Fiscal Agent for the Bonds. 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 this Section, shall be the successor to such 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, with 30 days' prior notice, and may appoint a successor or successors thereto, but any such successor shall be a bank, national banking association or trust company having a combined capital (exclusive of borrowed capital) and surplus of at least Fifty Million Dollars (\$50,000,000) including, for such purpose, the combined capital and surplus of any parent holding company, and subject to supervision or examination by federal or state authority. If such

bank, national banking association 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, national banking association 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 this Section within thirty (30) 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 or any Bondowner 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 Fiscal Agent assumes no responsibility for the correctness of the same, or makes any representations as to the validity or sufficiency of the Agreement or of the Bonds, or shall 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 under the Agreement, except for its own negligence or willful default. 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. The Fiscal Agent has no liability regarding the use of the proceeds from the purchase of the Bonds deposited in funds held by the City.

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, including all Officer's Certificates of the City meeting such requirements; but in the case of any such certificates or opinions by which any provision of the Agreement are specifically required to be furnished to the Fiscal Agent, the Fiscal Agent shall be under a duty to examine the same to determine whether or not they conform 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 a responsible officer 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 under the Agreement, or in the exercise of any 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 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 shall not be considered in breach of or in default in its obligations under the Agreement or progress in respect thereto in the event of unavoidable delay in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God or of the public enemy or terrorists, acts of a government, acts of the other party, fires, floods, epidemics, quarantine restrictions, strikes, freight embargoes, earthquakes, explosion, mob violence, riot, inability to procure or general sabotage or rationing of labor, equipment, facilities, sources of energy, material or supplies in the open market, litigation or arbitration involving a party or others relating to zoning or other governmental action or inaction pertaining to the project, malicious mischief, condemnation, and unusually severe weather or delays of suppliers or subcontractors due to such causes or any similar event and/or occurrences beyond the control of the Fiscal Agent.

The Fiscal Agent may become the owner of the Bonds with the same rights it would have if it were not the Fiscal Agent.

The Fiscal Agent shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys which shall be released or withdrawn in accordance with the provisions of the Agreement.

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

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 under the Agreement 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 Officer's Certificate, notice, resolution, request, consent, order, certificate, report, facsimile transmission, electronic mail, 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 and given in accordance with the requirements of the Agreement. The Fiscal Agent may execute any of the powers under the Agreement or perform any duties under the Agreement either directly or by or through agents or attorneys and the Fiscal Agent shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it under the Agreement. The Fiscal Agent 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 under the Agreement in good faith and in accordance therewith.

The Fiscal Agent shall have the right to accept and act upon instructions, including funds transfer instructions ("Instructions") given pursuant to the Agreement and delivered using Electronic Means by an Authorized Officer (or his or her designee) ("Electronic Means" shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys issued by the Fiscal Agent, or another method or system specified by the Fiscal Agent as available for use in connection with its services under the Agreement); provided, however, that the City shall provide to the Fiscal Agent an incumbency certificate for each person with the authority to provide such Instructions and containing specimen signatures of such persons, which incumbency certificate shall be amended by the City whenever a person is to be added or deleted from the listing. If the City elects to give the Fiscal Agent Instructions using Electronic Means and the Fiscal Agent in its discretion elects to act upon such Instructions, the Fiscal Agent's understanding of such Instructions shall be deemed controlling. The City understands and agrees that the Fiscal Agent cannot determine the identity of the actual

sender of such Instructions and that the Fiscal Agent shall conclusively presume that directions that purport to have been sent by an Authorized Officer (or designee) listed on the incumbency certificate provided to the Fiscal Agent have been sent by such Authorized Officer (or designee). The City shall be responsible for ensuring that only Authorized Officers (or their designees) transmit such Instructions to the Fiscal Agent and that the City is solely responsible to safeguard the use and confidentiality of applicable user and authorization codes, passwords and/or authentication keys upon receipt by the City. The Fiscal Agent shall not be liable for any losses, costs or expenses arising directly or indirectly from the Fiscal Agent's reliance upon and compliance with such Instructions notwithstanding such directions conflict or are inconsistent with a subsequent written instruction. The City agrees: (i) to assume all risks arising out of the use of Electronic Means to submit Instructions to the Fiscal Agent, including without limitation the risk of the Fiscal Agent acting on unauthorized Instructions, and the risk of interception and misuse by third parties; (ii) that it is fully informed of the protections and risks associated with the various methods of transmitting Instructions to the Fiscal Agent and that there may be more secure methods of transmitting Instructions than the method(s) selected by the City; (iii) that the security procedures (if any) to be followed in connection with its transmission of Instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances; and (iv) to notify the Fiscal Agent immediately upon learning of any compromise or unauthorized use of the security procedures.

The Fiscal Agent shall not be bound to recognize any person as the Owner of a Bond unless and until such Bond is submitted for inspection, if required, and his title thereto satisfactorily established, if disputed.

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 under the Agreement, such matter (unless other evidence in respect thereof be in the Agreement specifically prescribed) 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 warrant 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, counsel fees and other disbursements, including those of their attorneys, agents and employees, incurred in and about the performance of their powers and duties under the Agreement, but the Fiscal Agent shall not have a lien therefor on any funds at any time held by it under the Agreement. 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 costs, claims, expenses or liabilities, including, without limitation, fees and expenses of its attorneys which it may incur in the exercise and performance of its powers and duties under the Agreement which are not due to its negligence or willful misconduct. The obligation of the City under this Section shall survive resignation or removal of the Fiscal Agent under the Agreement and payment of the Bonds and discharge of the Agreement.

MODIFICATION OR AMENDMENT OF THIS AGREEMENT

Amendments Permitted. The Agreement and the rights and obligations of 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 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 reduce the interest rate thereon, or otherwise alter or impair the obligation of the City 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 by the City of any pledge or lien upon the Special Taxes 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), or reduce the percentage of Bonds required for the amendment of the Agreement. No such amendment may modify any of the rights or obligations of the Fiscal Agent without its written consent.

The Agreement and the rights and obligations of the City and of 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:

(A) 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 in the Agreement reserved to or conferred upon the City;

(B) to make modifications not adversely affecting any outstanding series of Bonds of the City in any material respect;

(C) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in the Agreement, or in regard to questions arising under the Agreement, as the City and the Fiscal Agent may deem necessary or desirable, and which shall not adversely affect the rights of the Owners of the Bonds;

(D) 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 excess investment earnings 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.

No such amendment may modify any of the rights or obligations of the Fiscal Agent without its written consent.

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 said meeting and to provide for the giving of notice thereof and to fix and adopt rules and regulations for the conduct of said 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 this Section. A copy of such Supplemental Agreement, together with a request to Owners for their consent thereto, if such consent is required under the Agreement, shall be mailed by first class mail, by the Fiscal Agent to each Owner of Bonds Outstanding, but failure to mail copies of such Supplemental Agreement and request shall not affect the validity of the Supplemental Agreement when assented to as in the Agreement provided.

If consent of the Owners is required under the Agreement, such 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 provided in the Agreement. 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 provided for in the Agreement 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 provided in the Agreement 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 the Agreement (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 papers required by the Agreement 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 specifically provided in the Agreement) upon the City and the Owners of all Bonds 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-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 take any other action provided for in the Agreement. Upon request, the City shall provide an Officer's Certificate to the Fiscal Agent listing those Bonds which are disqualified pursuant to the Agreement.

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, 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 under the Agreement 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 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 Owners' 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 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.

Opinion of Counsel Regarding Supplemental Agreement. The Fiscal Agent shall be furnished, upon request, an opinion of counsel that any 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 upon such opinion.

MISCELLANEOUS

Benefits of Agreement Limited to Parties. Nothing in the Agreement expressed or implied, is intended to give to any person other than the City, the Fiscal Agent and the Owners, any right, remedy, claim under or by reason of the Agreement. Any covenants, stipulations, promises or agreements in the Agreement contained by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Fiscal Agent.

Successor is Deemed Included in All References to Predecessor. Whenever in the Agreement or any Supplemental Agreement either the City or the Fiscal Agent is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in the Agreement contained by or on behalf of the City or the Fiscal Agent shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

Discharge of Agreement. If the City shall pay and discharge the entire indebtedness on all or any portion of the Bonds Outstanding 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 Outstanding, as and when the same become due and payable;

(B) by depositing with the Fiscal Agent or other fiduciary, at or before maturity, money which, together with (in the event that all of the Bonds are to be defeased) the amounts then on deposit in the funds and accounts provided for in the Agreement, is fully sufficient to pay such Bonds Outstanding, including all principal, interest and redemption premiums; or

(C) by irrevocably depositing with the Fiscal Agent or other fiduciary, cash and Federal Securities in such amount as the City shall determine as confirmed by an independent certified public accountant will, together with the interest to accrue thereon and (in the event that all of the Bonds are to be defeased) moneys then on deposit in the fund and accounts provided for in the Agreement, be fully sufficient to pay and discharge the indebtedness on such Bonds (including all principal, interest and redemption premiums, if any) 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 Bonds shall not have been surrendered for payment, the pledge of the Special Taxes and other funds provided for in the Agreement and all other obligations of the City under the Agreement with respect to such Bonds Outstanding shall cease and terminate, except only the obligations of the City (i) under the Section captioned "Maintenance of Tax-Exemption" and (ii) to pay or cause to be paid to the Owners of the Bonds not so surrendered and paid all sums due thereon and all amounts owing to the Fiscal Agent pursuant to 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.

Any funds thereafter held by the Fiscal Agent upon payments of all fees and expenses of the Fiscal Agent, which are not required for said purpose, shall be paid over to the City.

Execution of Documents and Proof of Ownership by Owners. Any request, declaration or other instrument which the Agreement may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and shall be executed by Owners in person or by their attorneys appointed in writing.

Except as otherwise expressly provided in the Agreement, the fact and date of the execution by any Owner or his attorney of such request, consent, declaration or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the person signing such request, declaration or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise expressly provided in the Agreement, the ownership of registered Bonds and the amount, maturity, number and date of holding the same shall be proved by the registry books.

Any request, consent, declaration or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Fiscal Agent in good faith and in accordance therewith.

Waiver of Personal Liability. No member, officer, agent or employee of the City shall be individually or personally liable for the payment of the principal of, or interest or any premium on, the Bonds; but nothing contained in the Agreement shall relieve any such member, officer, agent or employee from the performance of any official duty provided by law.

Partial Invalidity. If any Section, paragraph, sentence, clause or phrase of the Agreement shall for any reason be held illegal or unenforceable, such holding shall not affect the validity of the remaining portions of the Agreement. The City declares that it would have adopted the Agreement and each and every other Section, paragraph, sentence, clause or phrase of the Agreement and authorized the issue of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of the Agreement may be held illegal, invalid or unenforceable.

Unclaimed Moneys. Anything contained in the Agreement to the contrary notwithstanding, any moneys held by the Fiscal Agent in trust for the payment and discharge of the principal of, and the interest and any premium on, the Bonds which remains unclaimed for two (2) years after the date when the payments of such principal, interest and premium have become payable, if such moneys was held by the Fiscal Agent at such date, shall be repaid by the Fiscal Agent to the City as its absolute property free from any trust, and the Fiscal Agent shall thereupon be released and discharged with respect thereto and the Bond Owners shall look only to the City for the payment of the principal of, and interest and any premium on, such Bonds.

Applicable Law. The Agreement shall be governed by and enforced in accordance with the laws of the State of California applicable to contracts made and performed in the State of California.

Conflict with Act. In the event of a conflict between any provision of the Agreement with any provision of the Act as in effect on the Closing Date, the provision of the Act shall prevail over the conflicting provision of the Agreement.

Conclusive Evidence of Regularity. Bonds issued pursuant to the Agreement shall constitute conclusive evidence of the regularity of all proceedings under the Act relative to their issuance and the levy of the Special Taxes.

Payment on Business Day. In any case where the date of the maturity of interest or of principal (and premium, if any) of the Bonds or the date fixed for redemption of any Bonds or the date any action is to be taken pursuant to the Agreement is other than a Business Day, the payment of interest or principal (and premium, if any) or the action need not be made on such date but may be made on the next succeeding day which is a Business Day with the same force and effect as if made on the date required and no interest shall accrue for the period from and after such date.

EVENTS OF DEFAULT

2020 Bonds.

(a) The following events shall be “Events of Default” with respect to the 2020 Bonds:

(i) Failure to pay any installment of principal of any 2020 Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise.

(ii) Failure to pay any installment of interest on any 2020 Bonds when and as the same shall become due and payable.

(iii) Failure by the City to observe and perform any of the other covenants, agreements or conditions on its part in the Agreement or the 2020 Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the City by the Fiscal Agent, or to the City and the Fiscal Agent by the Owners of not less than 5% in aggregate principal amount of the 2020 Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the City within such 30 day period and the City shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(iv) The District Improvement Area 1 shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

(b) If the City fails to comply with its covenant to foreclose contained in the Agreement, and if any Event of Default shall occur under (a)(i) or (ii) above then, and in each and every such case during the continuance of such Event of Default, the Fiscal Agent may, or at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2020 Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in Improvement Area 1 with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

(c) If an Event of Default shall have occurred, the Fiscal Agent shall have the right:

(i) by mandamus, suit, action or proceeding, to compel the City and its officers, agents or employees to perform each and every term, provision and covenant contained in the Agreement and in the 2020 Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it by the Agreement and the Act;

(ii) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Fiscal Agent's or 2020 Bond Owner's rights; or

(iii) by suit, action or proceeding in any court of competent jurisdiction, to require the City and its officers and employees to account as if it and they were the trustees of an express trust.

(d) To the fullest extent permitted by law, the City waives its right to trial by jury in any action, proceeding and/or hearing on any matter whatsoever arising out of, or in any way connected with, the 2020 Bonds, the Agreement, or any documents relating to the 2020 Bonds or the Agreement, or the enforcement of any remedy under any law, statute, or regulation. To the extent such waiver is not enforceable, the City consents to the adjudication of any and all such matters pursuant to Judicial Reference as provided in Section 638 of the California Code of Civil Procedure, and the judicial referee shall be empowered to hear and determine any and all issues in such Reference whether fact or law. The City shall be solely responsible to pay all fees and expense of any referee appointed in such action or proceeding.

(e) Nothing contained in the Agreement or in the 2020 Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the 2020 Bonds to the respective Owners of the 2020 Bonds at their respective dates of maturity, or upon call for redemption, as in the Agreement provided, but only out of the Special Tax Revenues and other assets in the Agreement pledged therefor and received by the City on behalf of the District or the Fiscal Agent, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2020 Bonds.

(f) In case any proceedings taken by the Fiscal Agent or any one or more 2020 Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Fiscal Agent or the 2020 Bond Owner, then in every such case the City, the Fiscal Agent and the 2020 Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Agreement, severally and respectively, and all rights, remedies, powers and duties of the City, the Fiscal Agent and the 2020 Bond Owners shall continue as though no such proceedings had been taken.

(g) No remedy in the Agreement conferred upon or reserved to the Fiscal Agent or to the Owners of the 2020 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Agreement or now or hereafter existing at law or in equity or otherwise.

(h) No delay or omission of the Fiscal Agent or of any Owner of the 2020 Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Agreement to the Fiscal Agent or to the Owners of the 2020 Bonds may be exercised from time to time and as often as may be deemed expedient.

2023 Bonds.

(a) The following events shall be “Events of Default” with respect to the 2023 Bonds:

(i) Failure to pay any installment of principal of any 2023 Bonds when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption or otherwise.

(ii) Failure to pay any installment of interest on any 2023 Bonds when and as the same shall become due and payable.

(iii) Failure by the City to observe and perform any of the other covenants, agreements or conditions on its part in the Agreement or the 2023 Bonds contained, if such failure shall have continued for a period of 30 days after written notice thereof, specifying such failure and requiring the same to be remedied, shall have been given to the City by the Fiscal Agent, or to the City and the Fiscal Agent by the Owners of not less than 5% in aggregate principal amount of the 2023 Bonds at the time Outstanding; provided, however, if in the reasonable opinion of the City the failure stated in the notice can be corrected, but not within such 30 day period, such failure shall not constitute an Event of Default if corrective action is instituted by the City within such 30 day period and the City shall thereafter diligently and in good faith cure such failure in a reasonable period of time.

(iv) The District Improvement Area 1 shall commence a voluntary case under Title 11 of the United States Code or any substitute or successor statute.

(b) If the City fails to comply with its covenant to foreclose contained in the Agreement, and if any Event of Default shall occur under (a)(i) or (ii) above then, and in each and every such case during the continuance of such Event of Default, the Fiscal Agent may, or at the written direction of the Owners of not less than a majority in aggregate principal amount of the 2023 Bonds at the time Outstanding, and upon being indemnified to its satisfaction therefor, shall, commence foreclosure against any parcels of land in Improvement Area 1 with delinquent Special Taxes, as provided in Section 53356.1 of the Act.

(c) If an Event of Default shall have occurred, the Fiscal Agent shall have the right:

(i) by mandamus, suit, action or proceeding, to compel the City and its officers, agents or employees to perform each and every term, provision and covenant contained in the Agreement and in the 2023 Bonds, and to require the carrying out of any or all such covenants and agreements of the City and the fulfillment of all duties imposed upon it by the Agreement and the Act;

(ii) by suit, action or proceeding in equity, to enjoin any acts or things which are unlawful, or the violation of any of the Fiscal Agent's or 2023 Bond Owner's rights; or

(iii) by suit, action or proceeding in any court of competent jurisdiction, to require the City and its officers and employees to account as if it and they were the trustees of an express trust.

(d) To the fullest extent permitted by law, the City waives its right to trial by jury in any action, proceeding and/or hearing on any matter whatsoever arising out of, or in any way connected with, the 2023 Bonds, the Agreement, or any documents relating to the 2023 Bonds or the Agreement, or the enforcement of any remedy under any law, statute, or regulation. To the extent such waiver is not enforceable, the City consents to the adjudication of any and all such matters pursuant to Judicial Reference as provided in Section 638 of the California Code of Civil Procedure, and the judicial referee shall be empowered to hear and determine any and all issues in such Reference whether fact or law. The City shall be solely responsible to pay all fees and expense of any referee appointed in such action or proceeding.

(e) Nothing contained in the Agreement or in the 2023 Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the principal of and interest on the 2023 Bonds to the respective Owners of the 2023 Bonds at their respective dates of maturity, or upon call for redemption, as in the Agreement provided, but only out of the Special Tax Revenues and other assets in the Agreement pledged therefor and received by the City on behalf of the District or the Fiscal Agent, or affect or impair the right of such Owners, which is also absolute and unconditional, to enforce such payment by virtue of the contract embodied in the 2023 Bonds.

(f) In case any proceedings taken by the Fiscal Agent or any one or more 2023 Bond Owners on account of any Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Fiscal Agent or the 2023 Bond Owner, then in every such case the City, the Fiscal Agent and the 2023 Bond Owners, subject to any determination in such proceedings, shall be restored to their former positions and rights under the Agreement, severally and respectively, and all rights, remedies, powers and duties of the City, the Fiscal Agent and the 2023 Bond Owners shall continue as though no such proceedings had been taken.

(g) No remedy in the Agreement conferred upon or reserved to the Fiscal Agent or to the Owners of the 2023 Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy, to the extent permitted by law, shall be cumulative and in addition to any other remedy given under the Agreement or now or hereafter existing at law or in equity or otherwise.

(h) No delay or omission of the Fiscal Agent or of any Owner of the 2023 Bonds to exercise any right or power arising upon the occurrence of any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Agreement to the Fiscal Agent or to the Owners of the 2023 Bonds may be exercised from time to time and as often as may be deemed expedient.

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

THIS CONTINUING DISCLOSURE CERTIFICATE (this “Disclosure Certificate”), dated as of December 1, 2023, is executed and delivered by the City of Desert Hot Springs (the “City”) in connection with the issuance of the City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement Area 1 Special Tax Bonds, Series 2023 (the “Bonds”). The Bonds are being issued pursuant to a Resolution of Issuance adopted by the City Council of the City, acting as the legislative body of City of Desert Hot Springs Community Facilities District No. 2006-1 Improvement (the “District”) on December 5, 2023 and a Fiscal Agent Agreement dated as of February 1, 2020 (the “Original Fiscal Agent Agreement”), as supplemented and amended by the First Supplement to Fiscal Agent Agreement, dated as of December 1, 2023 (the “First Supplement” and together with the Original Fiscal Agent Agreement, the “Fiscal Agent Agreement”), each by and between the City and Wilmington Trust, National Association, as fiscal agent.

The City covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered, 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.

SECTION 2. Definitions. In addition to the definitions set forth in the Fiscal Agent Agreement and the Rate and Method of Apportionment, 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 City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” shall mean any person who (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bond (including a person holding Bond through a nominee, depository or other intermediary), or (b) is treated as the owner of any Bond for federal income purposes.

“Disclosure Representative” shall mean the Administrative Services Director of the City, or such other officer or employee as the City shall designate in writing to the Dissemination Agent from time to time.

“Dissemination Agent” shall mean, initially, Webb Municipal Finance, LLC, or any successor Dissemination Agent designed in writing by the City.

“EMMA” shall mean the Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board, which can be found at www.emma.msrb.org, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission in the future.

“Financial Obligation” means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term financial obligation shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

“Improvement Area” means Improvement Area 1 of the District.

“Listed Events” shall mean any of the events listed in Section 5 of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until 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>.

“Official Statement” shall mean the City’s official statement with respect to the Bonds.

“Participating Underwriter” shall mean Stifel, Nicolaus & Company, Incorporated.

“Rate and Method of Apportionment” means that certain Rate and Method of Apportionment of Special Tax for the Improvement Area approved pursuant to the Resolution of Formation.

“Resolution of Formation” means the resolutions adopted by the City Council pursuant to which the City Council formed the District.

“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) Not later than March 31 of each year commencing March 31, 2024, the City shall, or shall cause the Dissemination Agent to, provide to EMMA and the Participating Underwriter an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. If the Dissemination Agent is other than the City, then not later than 15 business days prior to the date referred to in the prior sentence hereof, the City shall provide the Annual Report (in a form suitable for filing with EMMA) to the Dissemination Agent. The Annual Report may be submitted as a single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from 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.

(b) In the event that the Dissemination Agent is an entity other than the City, 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 City 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 City to determine if the City will be filing the Annual Report in compliance with subsection (a). The City shall provide a written certification with each Annual Report furnished to the Dissemination Agent to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent may conclusively rely upon such certification of the City and shall have no duty or obligation to review such Annual Report.

(c) If the Dissemination Agent is other than the City and if the Dissemination Agent is unable to verify that an Annual Report has been provided to EMMA by the date required in subsection (a), the Dissemination Agent shall send a notice in a timely manner to EMMA, in the form required by EMMA. If the City acts as its own Dissemination Agent, it shall file a notice with EMMA no later than the date specified in subsection (a) for filing an Annual Report if the City fails to file the Annual Report by that date.

(d) If the Dissemination Agent is other than the City, 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 through EMMA; and

(ii) promptly after receipt of the Annual Report, file a report with the City certifying that the Annual Report has been provided to EMMA 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. The City's Annual Report shall contain or include by reference:

(a) Financial Statements. The audited financial statements of the City, if any, for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the City's audited financial statements, if any are prepared, are not available by the time the Annual Report is required to be filed pursuant to Section 3, the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they come available.

(b) Financial and Operating Data. The first Annual Report due on March 31, 2024 shall consist of the Official Statement. Thereafter, 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) the aggregate assessed valuation of the Taxable Property within the Improvement Area;

(iv) any changes to the Rate and Method of Apportionment of the Special Tax approved or submitted to the qualified electors for approval prior to the filing of the Annual Report;

(v) a table setting forth the annual Special Tax delinquency rate within the Improvement Area at June 30 for each fiscal year on which a delinquency exists, listing for each fiscal year the total Special Tax levy, the amount delinquent and the percent delinquent;

(vi) the status of any foreclosure actions being pursued by the City with respect to delinquent Special Taxes within the Improvement Area; and

(vii) an update of the value-to-lien of the property within the Improvement Area based on the assessed value and the Special Tax levy for then current fiscal year, which update may be provided in a form similar to Table 3 in the Official Statement; provided that such update need not include overlapping special tax, assessment or general obligation indebtedness.

(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 City or related public entities, which have been submitted to EMMA or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the MSRB through EMMA. The City 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 City shall give, or cause the Dissemination Agent to give, notice to EMMA in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds:

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, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds;
6. defeasances;
7. tender offers;
8. bankruptcy, insolvency, receivership or similar proceedings;
9. ratings changes; and
10. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

(b) Additionally, the City shall give or cause the Dissemination Agent to give notice to EMMA in a timely manner not in excess of ten (10) business days after the occurrence of any of the following events with respect to the Bonds, if material:

1. mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the obligated persons or their termination;
2. appointment of a successor or additional fiscal agent or the change of the name of a fiscal agent;
3. nonpayment related defaults;
4. modifications to the rights of Bondholders;
5. bond calls;
6. release, substitution or sale of property securing repayment of the Bonds; and
7. incurrence of a Financial Obligation of the obligated person, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the obligated person, any of which affect security holders.

(c) In the event that the City's fiscal year changes, the City shall report or shall instruct the Dissemination Agent to report such change in the same manner and to the same parties as Listed Events would be reported pursuant to this Section.

(d) The City hereby agrees that the undertaking set forth in this Disclosure Certificate is the responsibility of the City, and the Dissemination Agent, if other than the City, shall not be responsible for determining whether the City's instructions to the Dissemination Agent under this Section comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations of the City 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 City shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be Webb Municipal Finance, LLC. The Dissemination Agent may resign by providing (i) thirty days written notice to the City, 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, and any provision of this Disclosure Certificate may be waived, if all of the following conditions are satisfied: (1) such amendment or waiver 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 City or the type of business conducted thereby, (2) the undertakings in this Disclosure Certificate as so amended or waived would, in the opinion of a nationally recognized bond counsel, 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, and (3) the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Fiscal Agent Agreement for amendments to the Fiscal Agent Agreement with the consent of Owners or (ii) does not, in the determination of the City, materially impair the interests of the Owners or Beneficial Owners of the Bonds.

(b) 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.

(c) 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 City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a

Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Agreement 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 City 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 City 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 City 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 City 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 City 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 attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Any Dissemination Agent shall be paid (i) compensation by the City 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 City pursuant to this Disclosure Certificate. The obligations of the City 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 City, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds; and it shall create no rights in any other person or entity.

SECTION 13. Merger. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor Dissemination Agent without the filing of any paper or any further act.

This Disclosure Certificate is executed as of the date and year first set forth above.

CITY OF DESERT HOT SPRINGS

By: _____
Disclosure Representative

APPENDIX G

BOOK-ENTRY ONLY SYSTEM

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede

& Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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 City or the Fiscal Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Fiscal Agent, or the City, 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 City or the Fiscal Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Bond Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Fiscal Agent, 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 Fiscal Agent. 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 Fiscal Agent'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 City or the Fiscal Agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered.

The City 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.

